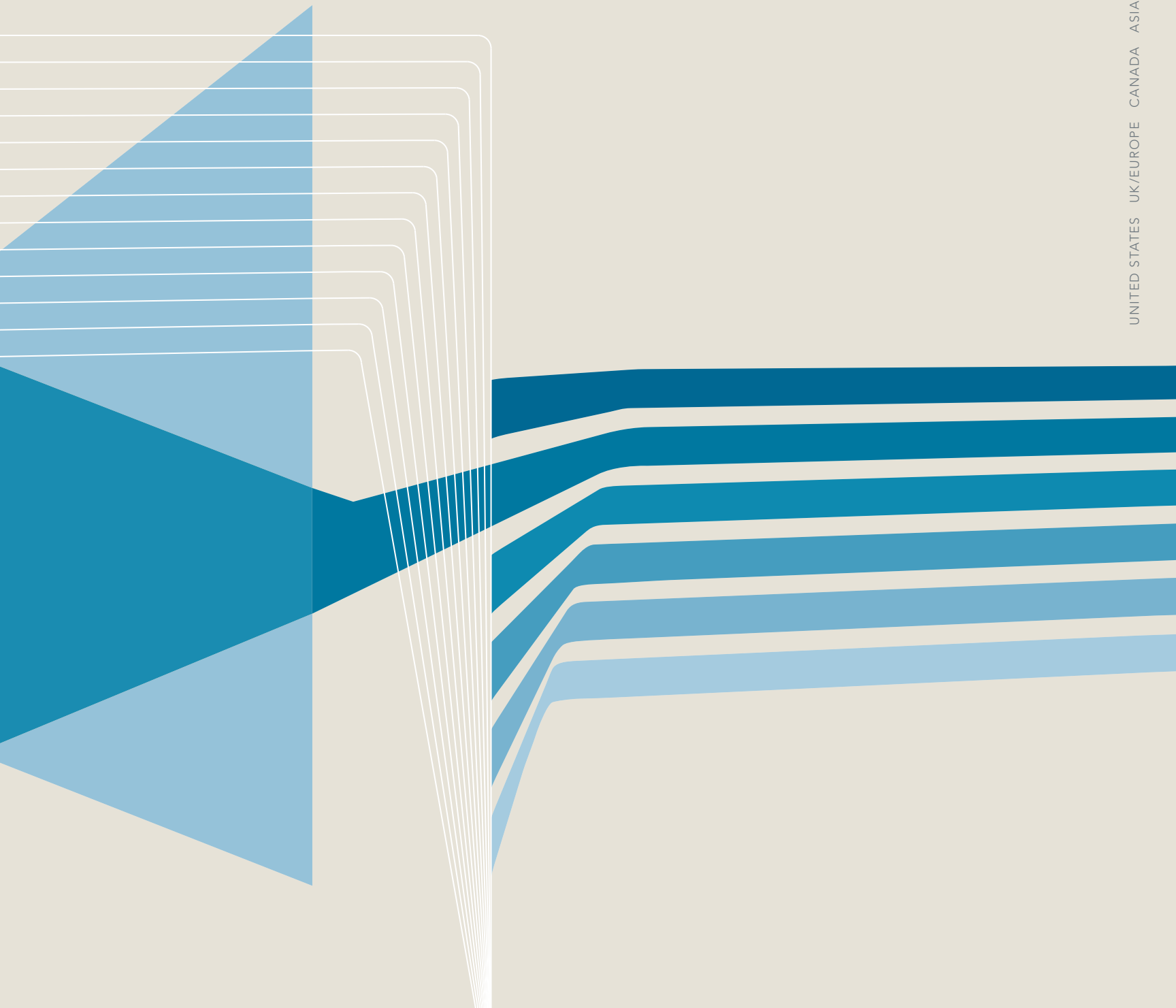


DIMENSIONAL FUND ADVISORS

# The Science of Investing





There is a **new model of investing:**  
a model based not on speculation but on the science  
of capital markets. Decades of research guide the way.

The mission of Dimensional Fund Advisors is to deliver  
the performance of capital markets and increase returns  
through state-of-the-art portfolio design and trading.

Discover how to become a Dimensional investor and  
capture what markets have to offer.

# Capital markets build wealth.

Rather than try to outguess  
the market, let it work for you.

## MARKETS WORK

Markets throughout the world have a history of rewarding investors for the capital they supply. Companies compete with each other for investment capital, and millions of investors compete with each other to find the most attractive returns. This competition quickly drives prices to *fair value*, ensuring that no investor can expect greater returns without bearing greater risk.

Traditional investment managers strive to beat the market by taking advantage of pricing “mistakes” and attempting to predict the future. Too often, this proves costly and futile. Predictions go awry and managers miss the strong returns that markets provide by holding the wrong stocks at the wrong time. Meanwhile, capital economies thrive—not because markets fail but because they succeed.

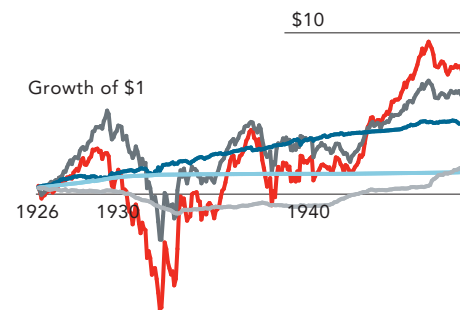
## INVESTING VERSUS SPECULATING

The futility of speculation is good news for the *investor*. It means that prices for public securities are fair and that persistent differences in average portfolio returns are explained by differences in average risk. It is certainly possible to outperform markets, but not without accepting increased risk.

When you reject costly speculation and guesswork, investing becomes a matter of identifying the risks that bear compensation and choosing how much of these risks to take. Financial research identifies the sources of investment returns. Dimensional provides the tools and experience to achieve them.

## A Picture of Growth

Investors need look no further than historical performance to see how markets have compensated higher-risk investments with greater return.

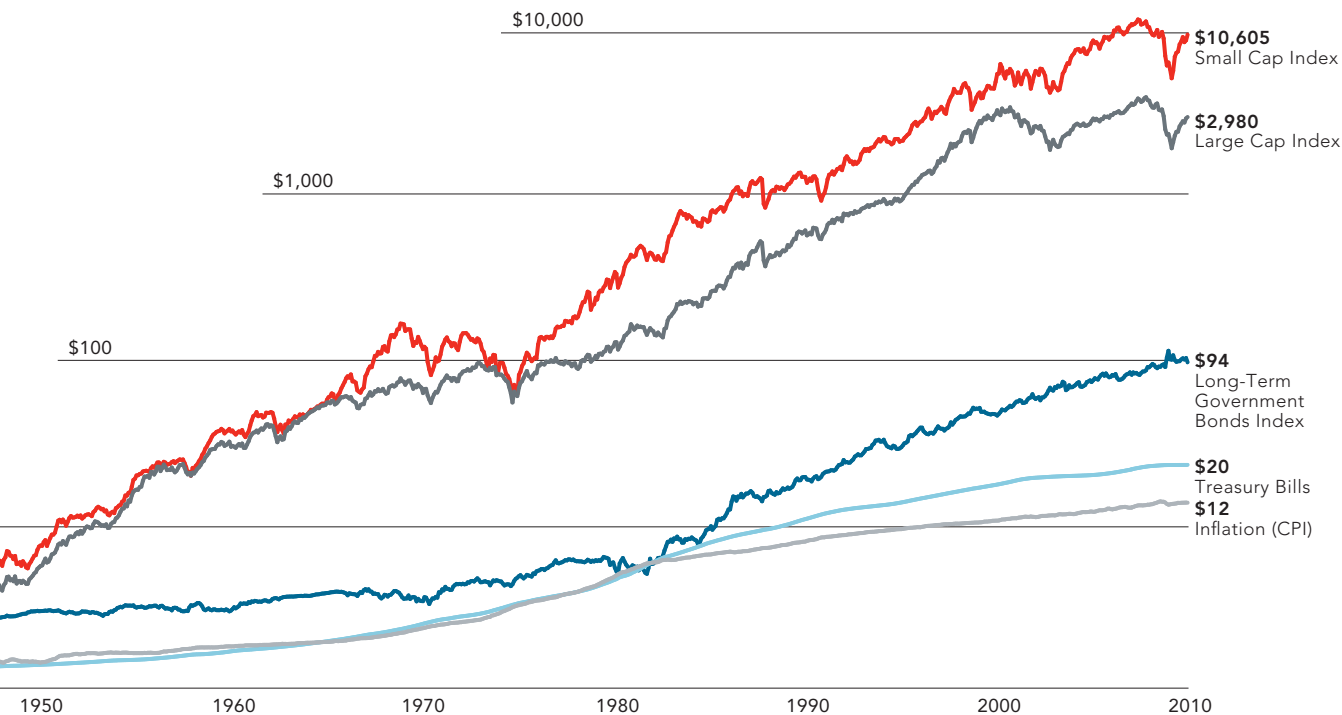


**GAINING CLARITY**

Dimensional introduced a new way to invest in 1981. Applying research into the stronger performance of small cap stocks, the firm created its first strategy offering broadly diversified access to this risk dimension. Later, a comprehensive analysis of stock prices worldwide deepened the strategy repertoire and set a new standard for portfolio design. This evolution reflects an abiding belief in the principles of modern finance and efficacy of capital markets.

At Dimensional, we see markets as an ally, not an adversary. Rather than try to take advantage of the ways markets are mistaken, we take advantage of the ways markets are right—the ways they compensate investors. The firm’s portfolios are designed to capture what the market offers in all its dimensions.

Relieve the stress and confusion of investing with a clear and empirical approach to wealth management.



In US dollars. For the 83 years from 1926 to 2010, the compound annual growth rate of return was 11.52% for the Small Cap Index, 9.87% for the Large Cap Index, 5.49% for the Long-Term Government Bonds Index, 3.62% for Treasury Bills and 2.99% for Inflation (CPI). Small Cap Index provided by the Center for Research in Security Prices, University of Chicago. Large Cap Index is the S&P 500 Index®, provided by Standard & Poor’s Index Services Group. Long-Term Government Bonds Index (twenty-year), Treasury Bills (one-month), and Inflation (Consumer Price Index) are © Stocks, Bonds, Bills and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work of Roger G. Ibbotson and Rex A. Sinquefeld).

Indexes are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Securities of small companies are often less liquid than those of large companies; as a result, small company stocks may fluctuate relatively more in price. Compound returns have an assumed rate of return, are hypothetical, and are not representative of any specific type of investment. Standard deviation is one method of measuring risk and performance and is presented as an approximation. Past performance is not a guarantee of future results.

## TAKE RISKS WORTH TAKING

Evidence from practicing investors and academics alike points to an undeniable conclusion: Returns come from risk. Gain is rarely accomplished without taking a chance, but not all risks carry a reliable reward. Capital market research over the last fifty years has brought us to a powerful understanding of the risks that are worth taking and the risks that are not.

Everything we have learned about expected returns in the equity markets can be summarized in three dimensions. The first is that stocks are riskier than bonds and have greater expected returns. Relative performance among stocks is largely driven by the two other dimensions: small vs. large and value vs. growth. Many economists believe small cap and value stocks outperform because the market rationally discounts their prices to reflect underlying risk. The lower prices result in higher returns to investors as compensation for bearing this risk.

Relative performance in fixed income is largely driven by two dimensions: bond maturity and credit quality. Bonds that mature farther in the future are subject to the risk of unexpected changes in interest rates. Bonds with lower credit quality are subject to the risk of default. Extending bond maturities and reducing credit quality increases potential returns.

With this understanding, investors can plan the total risk/return profile of their portfolios, considering how much exposure they need to target their performance goals. For example, investors seeking greater expected returns may increase their equity exposure while keeping their bond portfolio short and high-quality. Alternatively, they may choose to hold bonds with slightly longer maturities and slightly lower credit quality while maintaining their equity allocation. Whatever approach you choose, academic research has clarified the investment process by identifying the relevant dimensions of performance.

# A powerful way to invest.

Dimensional identifies what matters,  
and gives you the tools to succeed.

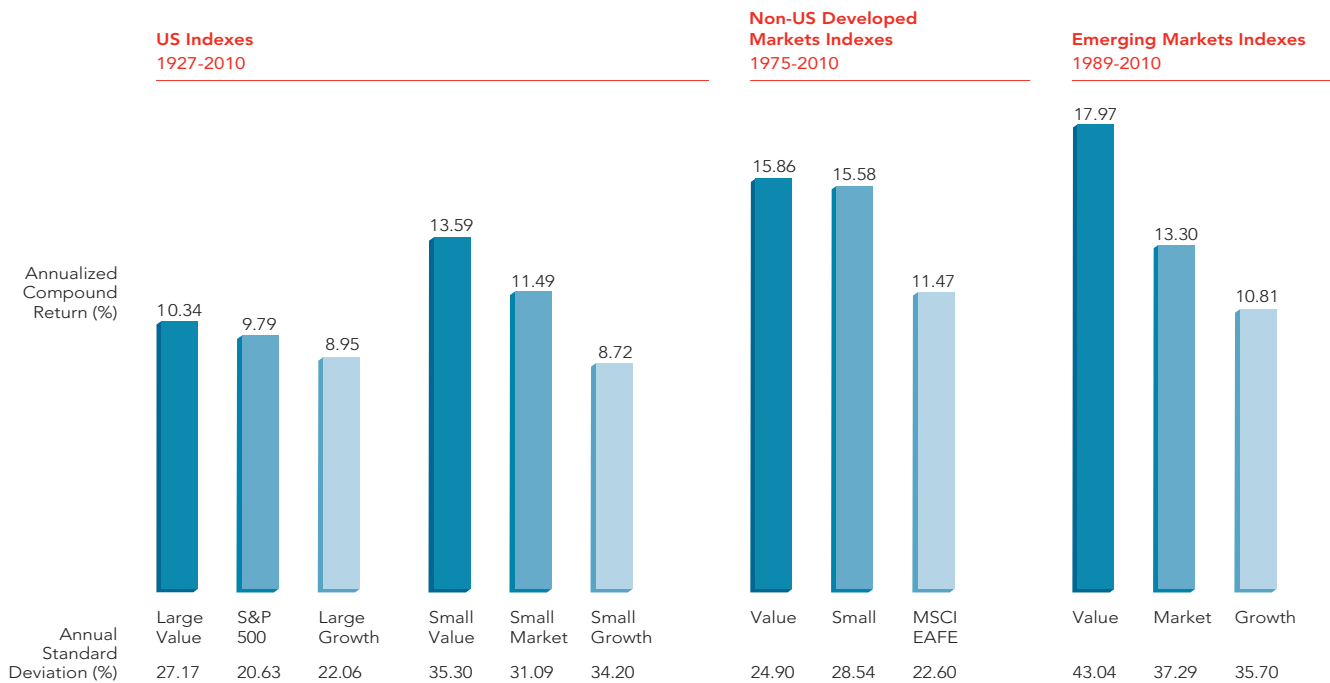
## STRUCTURE IS THE STRATEGY

Successful investing means not only capturing risks that generate expected return but reducing risks that do not. Avoidable risks include holding too few securities, betting on countries or industries, following market predictions, and speculating on “information” from rating services. To all these, diversification is the antidote.<sup>1</sup> It washes away the random fortunes of individual stocks and positions your portfolio to capture the returns of broad economic forces.

Traditional managers do one of two things: Active managers focus on picking individual stocks, the antithesis of diversification; index managers hold many securities but mimic arbitrary benchmarks.

Dimensional chooses a different path. It structures strategies based on research rather than on speculation or commercial indexes. The firm diversifies not only in the amount of securities it holds (thousands) but in the range of capital market strategies it explores and develops. Small cap strategies target smaller stocks more consistently. Value strategies target value returns with greater focus. As a result, investors achieve more consistent portfolio structure.

1. Diversification does not ensure a profit or protect against a loss in declining markets.



**Size and Value Matter**  
 Small cap and value effects are strong around the world. Smaller and lower-priced value stocks have higher risk and greater expected returns than larger and higher-priced growth stocks.

In US dollars. US value and growth index data (ex utilities) provided by Fama/French. The S&P data are provided by Standard & Poor's Index Services Group. US Small Market index data provided by the Center for Research in Security Prices, University of Chicago. International Value data provided by Fama/French from Bloomberg and MSCI securities data. International Small data compiled by Dimensional from Bloomberg, StyleResearch, London Business School, and Nomura Securities data. MSCI EAFE Index is gross of foreign withholding taxes on dividends; copyright MSCI 2010, all rights reserved. Emerging Markets index data simulated by Fama/French from countries in the IFC Investable Universe; simulations are free-float weighted both within each country and across all countries.

Indexes are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Compound returns have an assumed rate of return, are hypothetical, and are not representative of any specific type of investment. Standard deviation is one method of measuring risk and performance and is presented as an approximation. Past performance is not a guarantee of future results.

### SMART TRADING CAN INCREASE RETURNS

Trading stocks—especially small cap stocks—is expensive. Most managers are only too willing to pay these costs to meet a forecast or follow an index. The costs they generate are buried in financial statements and corporate ledgers, but the investor always pays in the form of lowered returns. Careful trading can reduce or even reverse the costs borne by traditional managers. The savings accrue directly to the investor's return.

Dimensional focuses on trading. Our refusal to forecast or follow indexes gives us negotiating strength. Where others feel compelled to buy and sell, the firm can take its time. Dimensional trades more than 12,000 equity securities per year. It is more important that we capture the systematic performance of broad market dimensions than the random fluctuations of any single security. It is more important that we keep costs low—patiently and expertly.

For nearly three decades, Dimensional has developed its trading infrastructure to make this possible. Our state-of-the-art desks around the world ensure a formidable presence in financial markets. Such a large scale brings opportunity for cost-effective and lucrative trades. A vast universe of illiquid stocks is transacted in a coordinated way. The result: performance driven by a potent combination of investment philosophy and trading power.

A Dimensional investor is not satisfied with traditional definitions of returns. By being patient when others are pushing to transact and by being thrifty when others pay a premium, the firm works daily to improve your results.

# Meeting real-world investment challenges.

At Dimensional, a system of research and practice generates financial progress.

## PIONEERS IN FINANCIAL ENGINEERING

Dimensional is always researching tomorrow's solutions today. We do this through deep working relationships with leading financial economists. By acting as a conduit between scientists and practicing investors, Dimensional has created investment strategies and consulting technologies to meet the evolving needs of investors.

The firm started with a single micro cap portfolio that helped pioneer small cap investing. Since then, the fund family has grown to include more than a hundred portfolios worldwide. This would seem to be a perplexing number of choices were it not for the consulting technology and investment philosophy that evolved alongside the strategy line. Dimensional's funds are coordinated by elegant models of risk and return, trial-tested in academic labs, and time-tested in actual portfolios.

The result is increased flexibility. A client's portfolio can target its goals with a wide range of highly engineered vehicles — a range that continues to grow for tomorrow's needs.



### Idea Growth Engine

Clients benefit when research and experience combine to solve new investment challenges. As often as a research innovation generates a new technology, a client need or investment problem drives a new solution.

## THE NEXT FRONTIER

The latest and perhaps most complete manifestation of Dimensional's investing paradigm is its core equity strategies. Each core strategy targets stocks across the multiple asset classes of a market. But unlike conventional approaches, the securities are not held in their market-value proportions. The portfolios increase the relative weight of small cap and value stocks where expected returns are greater. Because the architecture is seamlessly integrated and includes a full range of securities, the costs normally associated with maintaining multiple vehicles are greatly reduced.

Frictions caused by risks and costs are continually managed in a fully diversified portfolio designed to increase client wealth. Dimensional's core equity strategies can form the ideal foundation for any modern investment plan.



**Small Cap Factor**

**Fixed Income**

**Value Factor**

**Tax Management**

**Core Equity**

1981

1983

1992

1999

Dimensional pioneers the industry's first passively managed small cap fund.

Dimensional pioneers a shifting maturity strategy to add value in our fixed income strategies.

Dimensional's multifactor approach expands flexibility across stock market dimensions.

Dimensional engineers portfolios tailored to client goals and tax costs.

The result of decades of experience, integrated portfolios deliver broad diversification and low-friction factor exposures—the synthesis of Dimensional's investment philosophy.

**Small Cap Strategies:**

- US Micro Cap
- US Small Cap
- International Small Cap
- Emerging Markets Small Cap

**Fixed Income Strategies:**

- One-Year
- Two-Year Global
- Five-Year Government
- Five-Year Global
- Intermediate Government
- Short-Term Municipal
- Selectively Hedged Global
- Short-Term Extended Quality

**Value Strategies:**

- US Small Cap Value
- US Targeted Value
- US Large Cap Value
- International Small Cap Value
- International Value
- Emerging Markets Value

**Tax-Managed Strategies:**

- US Small Cap
- US Small Cap Value
- US Equity
- US Marketwide Value
- International Value

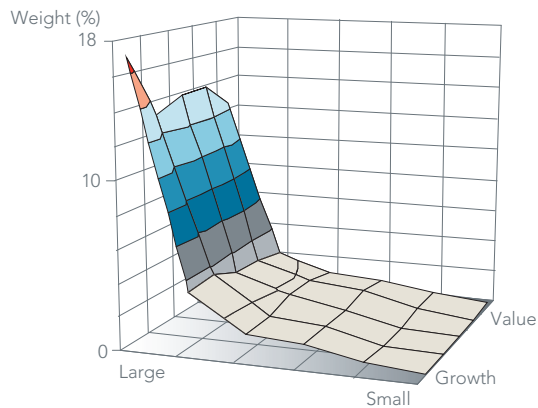
**Core Equity Strategies:**

- US Core Equity
- US Vector Equity
- International Core Equity
- International Vector Equity
- Emerging Markets Core Equity

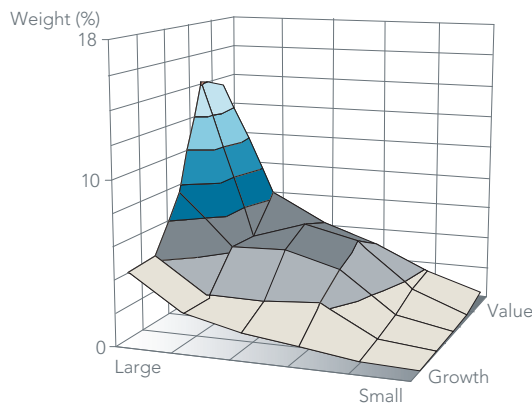
**Integration across the Market**

Surface maps of the equity weights in the total stock market and Dimensional's US Core Equity portfolio give a sense of the breadth and complexity of the core structure. Each core strategy covers most stocks in the market, with increased weighting in small cap and value.

**Total US Stock Market**



**US Core Equity Portfolio**



**A PLAN FOR THE FUTURE**

The work is never complete. The final chapter will never be written. But a process grounded in academic research can improve your financial plan. The consistency and clarity of such an approach would be reward enough were it not for its long history of documented performance.

By applying modern financial principles to wealth management, Dimensional has developed many innovative investment solutions and stands ready to address your future needs.

Get involved today. Become a Dimensional investor and bring financial science to the life of your wealth.

Total US Stock Market data provided by the Center for Research in Security Prices, University of Chicago. Simulations are not available for investment.

An approach that targets the expected returns of capital market dimensions complements your investment program.

For more on how you can become a Dimensional investor, visit us online.

[www.dimensional.com](http://www.dimensional.com)

“Dimensional” refers to the Dimensional worldwide group of companies, rather than to one particular entity. These companies are Dimensional Fund Advisors, Dimensional Fund Advisors Ltd., DFA Australia Limited, and Dimensional Fund Advisors Canada ULC.

**Dimensional Fund Advisors is an investment advisor registered with the Securities and Exchange Commission. Consider the investment objectives, risks, and charges and expenses of the Dimensional funds carefully before investing. For this and other information about the Dimensional funds, please read the prospectus carefully before investing. Prospectuses are available by calling Dimensional Fund Advisors collect at (310) 395-8005 or at [www.dimensional.com](http://www.dimensional.com).**

#### **Principal Risks of Investing**

The principal risks associated with an investment are fully described in the prospectus in the section called “Principal Risks.” The value of an investment will fluctuate based on economic, political, and stock-specific events, and there is a chance you will lose money. Small company stocks may fluctuate more in price than those of large companies. Stocks of non-US companies may also fluctuate due to these factors and expose investors to fluctuations in currency exchange rates. The stocks of companies in emerging markets are subject to additional risks due to the unstable nature of some governments and the small and illiquid nature of their securities markets. The use of derivatives to hedge specific risks may increase expenses, and there is no guarantee that a hedging strategy will work. Past performance is no guarantee of future results. Bonds are subject to market and interest rate risks, and availability.

There is no guarantee that the investment strategies presented will succeed. This information is intended to illustrate products and services available at Dimensional Fund Advisors, and that the strategies do not necessarily represent the experience of other clients, nor do they indicate future performance. Investment results may vary. The investment strategies presented are not appropriate for every investor. Individual clients should review with their financial advisors the terms and conditions and risk involved with specific products or services. Diversification does not eliminate the risk of market loss.

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