Dimensional

"The best way to invest is to structure a portfolio along the dimensions of expected returns."

— David Booth

Founder, Chairman, and co-CEO
Dimensional Fund Advisors

Dimensions of Returns

- Financial capital plays a vital role in wealth creation
- The capital markets have rewarded long-term investors
- Markets compensate non-diversifiable risk
- Dimensions point to differences in expected returns
- Portfolios can be structured to pursue dimensions

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Financial Capital Plays a Vital Role in Wealth Creation

Using financial capital and other resources, a business produces goods or services that can be sold for a profit.

As providers of financial capital, investors expect a return on their money.

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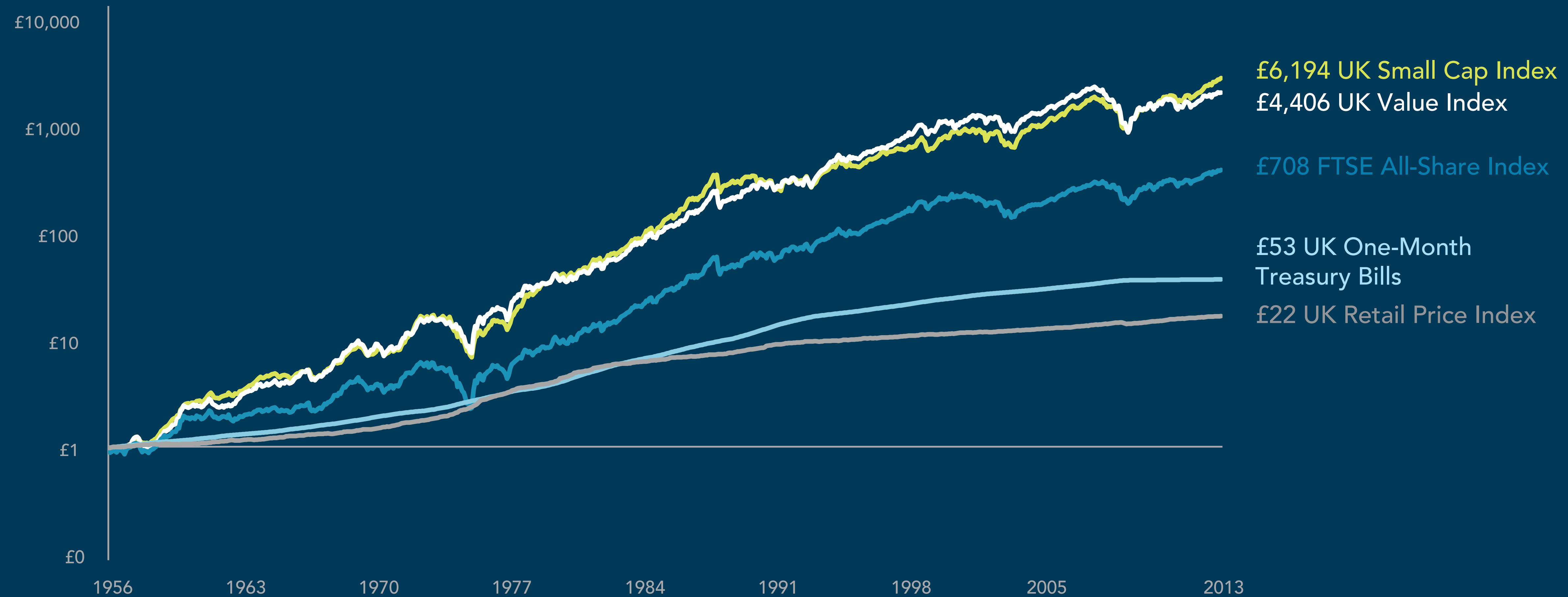
Stocks and Bonds Are Vehicles for Capital

Bondholders are lenders to a company.
Stockholders are equity owners in the business.
Both expect an adequate return for the terms and risk of their investment.

The Capital Markets Have Rewarded Long-Term Investors

Monthly growth of wealth (£1), 1956-2013



For the 57 years from 1956 to 2013, the compound annual growth rate of return was 15.48% for the Value Index, 15.88% for the Small Cap Index, 11.98% for the Broad Market Index, 7.10% for T-bills, and 5.51% for Inflation (RPI). Value Index,1955–December 1993: data provided by the London Business School; 1994–present simulated by Dimensional from Bloomberg securities data. Small Cap Index,1970–June 1981: Hoare Govett Smaller Companies Index; July 1981–December 1993 simulated by Dimensional from StyleResearch securities data; 1994–present simulated by Dimensional from Bloomberg securities data. FTSE All-Share Index published with the permission of FTSE. T-bills, 1955–1974: UK Three-Month T-bills provided by the London Share Price Database; 1975–present: UK One-Month T-bills provided by the Financial Times. Inflation is the UK Retail Price Index provided by the Office for National Statistics. This material has been distributed by Dimensional Fund Advisors Ltd., which is authorised and regulated by the Financial Conduct Authority. Past performance is not a guarantee of future results. This material is directed exclusively at professional customers as defined by the Financial Conduct Authority. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

Dimensional

Markets Compensate Unavoidable Risk

Risk is a complex concept—it is always present, even if it has not been realised, and it cannot be directly observed until it occurs.

The sources of return are directly observable, and decades of academic research have advanced our understanding of them.

Investors balance risk and return by incorporating their expectations and preferences into securities prices.

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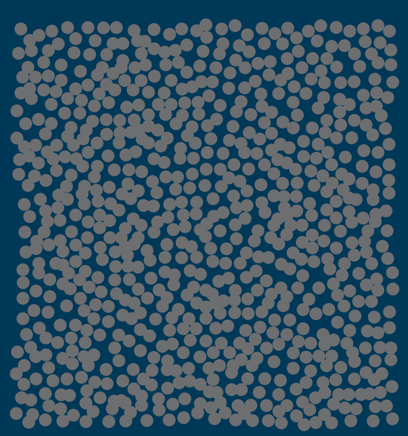
Portfolios Can Be Structured to Pursue Dimensions

● Company ●●●● Higher Expected Return

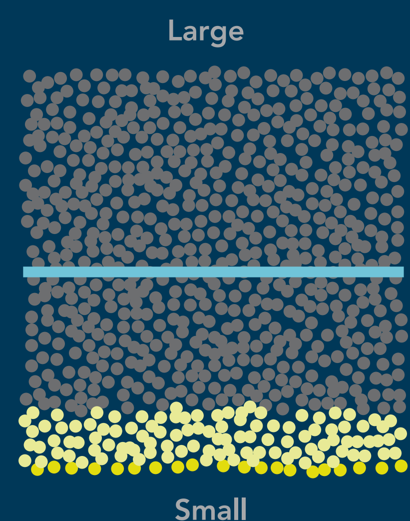
MARKET

Beta[1]
(Equity Premium)



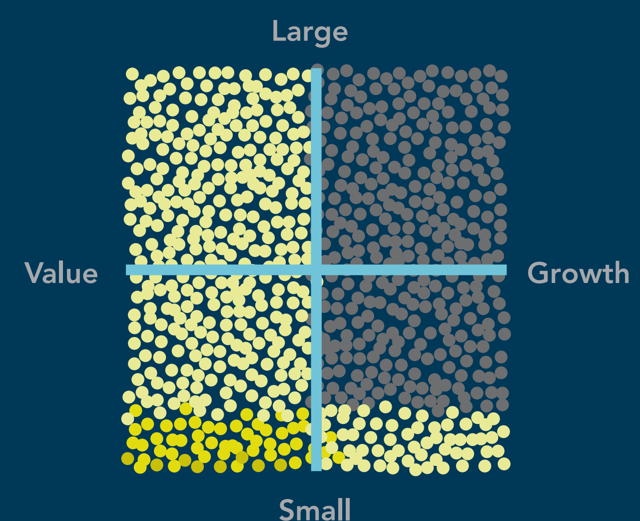
COMPANY SIZE

Market Cap
(Small Cap Premium)



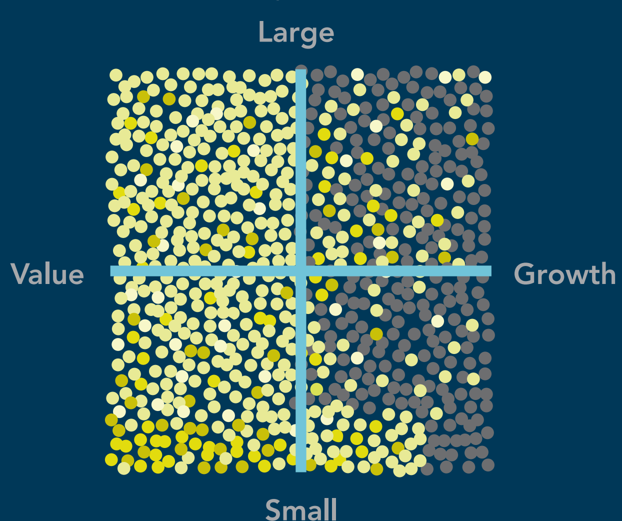
RELATIVE PRICE

Price-to-Book[2]
(Value Premium)



EXPECTED PROFITABILITY

Direct Profitability[3]
(Profitability Premium)



Investors can pursue higher expected returns through a low-cost, well-diversified portfolio that targets these dimensions.

1. **Beta:** A quantitative measure of the co-movement of a given stock, mutual fund, or portfolio with the overall market.
2. **Price-to-Book Ratio:** A company's capitalisation divided by its book value. It compares the market's valuation of a company to the value of that company as indicated on its financial statements.
3. **Direct Profitability:** A measure of a company's current profits. We define this as operating income before depreciation and amortisation minus interest expense, scaled by book equity.