Dimensional

Strategy Spotlight

Dimensional's US Core Equity Strategies: A Decade of Performance

November 2015

Dimensional recently marked the 10-year anniversary of its Core Equity strategies.[1] The first decade of performance for the two US Core Equity portfolios highlights the importance of Dimensional's approach to design and implementation and shows how the integration of these functions has benefited our strategies in various market conditions.

APPLYING RESEARCH TO MEET INVESTOR NEEDS

For more than 34 years, Dimensional has designed and managed diversified portfolios that seek to capture the dimensions of higher expected returns. Our portfolios are informed by leading academic research, and we have consistently demonstrated expertise in applying the research in real-world solutions that can benefit investors.

In 1981, Dimensional created its first strategy, a US small cap portfolio, to help institutional investors diversify beyond large cap stocks. The launch corresponded to research documenting the stronger performance of US small company stocks. In 1992, Dimensional launched its first value strategies based on leading research from Eugene Fama and Ken French. In the early 2000s, advancements in portfolio design led to the development of Dimensional's Core Equity strategies, which offer investors the ability to efficiently target the dimensions of higher expected returns through a total market solution.

CORE EQUITY TECHNOLOGY

Dimensional's Core Equity portfolios are structured to provide broad diversification across their respective markets while offering a consistent focus on the dimensions of higher expected returns and applying efficient, cost-effective execution. By spreading investment across the entire market, these portfolios are managed to systematically emphasize securities with higher expected returns while reducing unnecessary turnover and lowering transaction costs.

Today, Dimensional's Core Equity strategies are used to meet a variety of investor needs. These strategies—the US Core Equity 1 and US Core Equity 2 Portfolios, International Core Equity Portfolio, and Emerging Markets Core Equity Portfolio—represent approximately $53 billion[2] in assets under management.

Diversification does not eliminate the risk of market loss.

1. The inception date for the US Core Equity 1 Portfolio, US Core Equity 2 Portfolio, and International Core Equity Portfolio is September 15, 2005. The inception date for the Emerging Markets Core Equity Portfolio is April 5, 2005.
2. As of September 30, 2015.

10-YEAR RESULTS

The US Core Equity portfolios now have a 10-year track record of performance. Since the portfolios are designed to provide broad coverage of the US market, but with a higher-than-market weighting to small cap, low relative price, and higher profitability firms, one would expect returns to deviate from the market, either positively or negatively, depending on the performance of the size, relative price, and profitability dimensions.[3] When considering the relative performance of both small cap and value in the US in recent years, the US Core Equity portfolios' 10-year results offer a lesson in the value of Dimensional's approach to implementation.

As shown in **Exhibit 1**, during the past 10 years, the value premium in the US, as measured by the return difference between the Russell 3000 Value Index and Russell 3000 Growth Index, was –2.37% (annualized). However, there were a number of years during this period when the Russell 3000 Value Index posted higher returns than the Russell 3000 Growth Index, including 2006, when the value index outperformed the growth index by almost 13% (22.34% vs. 9.46%). This underscores the importance of maintaining a consistent focus on the premiums, which may experience large returns in individual years.

Exhibit 1: Value vs. Growth (US Market)
10-Year Period Ending September 30, 2015

Index	Annualized Return
Russell 3000 Value	5.68%
Russell 3000 Growth	8.05%
Difference	–2.37%

Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Russell data © Russell Investment Group 1995–2015, all rights reserved.

Exhibit 2 documents the relative performance of small caps using the return difference between the Russell 2000 Index (small cap) and the Russell 1000 Index (large cap). The difference was –0.40% (annualized) over the past 10 years. While the Russell 2000 Index underperformed the Russell 1000 Index, the annualized return for the DFA US Small Cap Portfolio was 7.68%, net of fees and expenses, outperforming the Russell 2000 Index and the Russell 1000 Index over the same period by 1.13% and 0.73%, respectively (annualized).

Exhibit 2: Small Cap vs. Large Cap (US Market)
10-Year Period Ending September 30, 2015

Index	Annualized Return
Russell 2000 (Small Cap)	6.55%
Russell 1000 (Large Cap)	6.95%
Difference	–0.40%

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The Russell 2000 Index is rebalanced annually in June while the Dimensional US Small Cap Portfolio is rebalanced gradually throughout the year. Thus, the fund maintains a more consistent focus on small cap stocks. It also excludes a subset of small cap stocks with high relative prices and low profitability. These stocks have low expected returns and have not delivered the small cap premium historically. This example highlights the importance of implementation when pursuing premiums. Similarly, the Core Equity portfolios' consistent emphasis on small cap securities and recognition that not all small cap securities have the same expected returns were crucial in effectively capturing the size premium during the period.

Despite headwinds for value stocks over this period, both US Core Equity portfolios delivered returns close to their benchmark, the Russell 3000 Index. As shown in **Exhibit 3**, the US Core Equity 1 Portfolio outperformed the benchmark by approximately 0.13% (annualized), while the US Core Equity 2 Portfolio, which has an even greater emphasis on small cap and value stocks, slightly underperformed the Russell 3000 by 0.14%. It is important to note the portfolio returns are net of management fees and trading costs, while Russell 3000 Index returns do not reflect these or other costs.

See page 4 for standardized performance information about the Core Equity strategies.

3. Size is measured by a company's market capitalization (price times shares outstanding). Relative price is measured by the price-to-book ratio; value stocks are those with lower price-to-book ratios. Profitability is a measure of current profitability, based on information from individual companies' income statements.

Exhibit 3: Dimensional US Core Equity Portfolios vs. Benchmark
10-Year Period Ending September 30, 2015

Index	Annualized Return
US Core Equity 1 Portfolio*	7.05%
US Core Equity 2 Portfolio*	6.78%
Russell 3000 Index	6.92%

**Portfolio returns are net of management fees and trading costs.*

Performance data shown represents past performance and is no guarantee of future results. Current performance may be higher or lower than the performance shown. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain performance data current to the most recent month end, visit us.dimensional.com. *Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Russell data © Russell Investment Group 1995–2015, all rights reserved.*

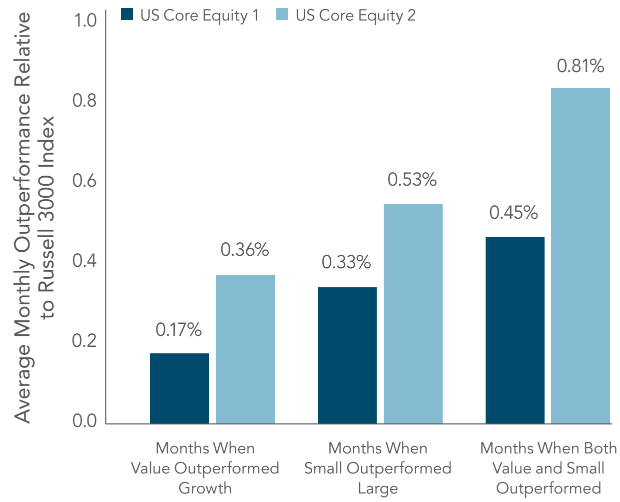
IMPLEMENTATION MATTERS

Dimensional emphasizes the importance of implementation in building investment solutions. We design robust strategies that target sources of higher expected returns while managing the tradeoffs associated with pursuing these premiums. While we know that premiums are not positive every day, targeting multiple dimensions and maintaining a consistent focus on the premiums help increase the potential for outperformance.

The US Core Equity portfolios seek to maintain a consistent focus on small cap and value stocks, which enabled the portfolios to capture the size and relative price premiums when they were positive. For example, as shown in **Exhibit 4**, in months when value (as represented by the Russell 3000 Value Index) outperformed growth (Russell 3000 Growth Index), the US Core Equity 1 and US Core Equity 2 portfolios outperformed the total market (Russell 3000 Index) by an average of 0.17% and 0.36%, respectively, net of fees and expenses. In months when small cap (Russell 2000 Index) outperformed large cap (Russell 1000 Index), the US Core Equity 1 and US Core Equity 2 portfolios outperformed the total market (Russell 3000 Index) by an average of 0.33% and 0.53%, respectively. Outperformance for both portfolios was further boosted in months when both the value and small cap indices outperformed their growth and large cap counterparts.

See page 4 for standardized performance information about the Core Equity strategies.

Exhibit 4: Dimensional US Core Equity Outperformance Based On Relative Monthly Index Returns
10-Year Period Ending September 30, 2015



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The US Core Equity portfolios' 10-year returns demonstrate the importance of implementation in designing robust equity solutions. When building portfolios that deviate from the market, it is important to minimize the opportunity costs associated with targeting premiums. Efficient portfolio design, conscious management of turnover, and flexible trading can incrementally benefit these strategies even when targeted premiums are not realized. These decisions, and many others, can help contribute to a better investment experience over time.

RISK CONSIDERATIONS

There is no guarantee the strategies will be successful. Risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. These risks are described in the Principal Risks section of the prospectus.

Standardized Performance Data, Average Annual Total Returns (%) as of September 30, 2015							
	1-Year	5-Year	10-Year	Since Inception	Inception Date	Net Expense Ratio[1]	Gross Expense Ratio
US Core Equity 1 Portfolio[1]	−1.50	13.23	7.05	7.07	9/15/05	0.19	0.19
US Core Equity 2 Portfolio[1]	−2.69	12.98	6.78	6.81	9/15/05	0.22	0.22
US Small Cap Portfolio	2.41	13.44	7.68	10.25	3/19/92	0.37	0.37

1. Operating Expense ratio as of 10/31/2014. The net expense ratio takes into account contractual management fee waivers/caps and expense assumption agreements that are in effect through 2/28/2016. The fund's prospectus contains more information on fees and expenses.

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