

Portfolio Advisory Services

Quarterly Newsletter

October 2021

Welcome

When Mac McQuown and David Booth founded Dimensional in 1981, it was clear they weren't interested 'timing' the market. Even though the notion was a foreign thought in the investing world at the time. They were focused on turning academic research into a new way of investing and bettering the lives of investors. Read about how Dimensional and the creation of small cap strategies came to be.

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The 50-Year Battle for a Better Way to Invest

Mac McQuown recruited me to help create the very first indexed portfolio in 1971. I was 24 years old and living in San Francisco, where more people my age were following the Grateful Dead than the stock market. The think tank Mac set up felt like a start-up, although it was long before anyone used that term. We were excited by the opportunity to turn academic research into a new way of investing. Many people thought we would fail. Some even called what we were trying to do "un-American."

But we didn't worry about the attacks; we focused on how indexing could improve the lives of investors. The fund offerings available at the time were actively managed portfolios that tried to outguess the market and were expensive, lacked diversification, and performed poorly. So-called star managers sold investors on their ability to win against the market; they sold products as opposed to solutions. Problem was, there was no compelling evidence they could reliably beat the market. We were confident that indexing—a highly diversified, low-cost investment solution that relied not on a manager's ability to pick winners but on the human ingenuity of hundreds or thousands of companies—would change lives for the better.

Fifty years later, \$9.1 trillion is invested in index mutual funds and exchange-traded funds (ETFs).¹ This represents 51% of the total \$17.9 trillion in equity ETFs and mutual funds. Six of the original academic consultants Mac hired to work on that first index fund went on to win Nobel Prizes. I have worked with four of them at Dimensional.

When we started Dimensional in 1981, indexing was beginning to catch on. But the primary index used was the S&P 500, made up of 500 of the largest companies in America. My colleague Rex Sinquefeld and I thought investors could be better served by adding small capitalization stocks to the mix, since they were underrepresented in portfolios and offered diversification and expected return benefits. We were the first to treat small cap companies as a separate asset category. It was an exciting idea, but it made many people nervous. An academic paper circulated that said the performance of small cap stocks couldn't be captured because of trading costs. Many academics, even those who worked with us, were skeptical that we could deliver on our big idea of creating a small cap strategy. (After 40 years of results, the skepticism about our ability to deliver has subsided.)

There was perceived risk in trading against professional investors who might take advantage of us with all their knowledge and experience. But we found a way to turn trading to our advantage: flexibility.

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Flexibility is one of the key differences between index investing and Dimensional Investing and where so much of our innovation has taken place. Because we weren't beholden to tracking any particular index, we could harness the power of markets, even beat the indices. The protocols, systems, and teams we've developed—as well as the experience we've accumulated—have shown to be applicable to a wide range of strategies, from fixed income to value to international investing.

So what happens next? Where will we be in 50 years? I've built a career in finance without making predictions, but I do believe that technological innovation is lowering barriers to entry for everyday investors and enabling greater personalization. In 1971, there was one index fund. In 1981, there was one small cap strategy. Today, investors have more access to customized portfolios than ever before.

Sitting down with a trusted advisor, investors can develop a plan and build a portfolio solution that gives them the best chance of having a good investment experience. For example, many people are interested in environmental, social, and governance (ESG) strategies, but ESG can mean different things to different people. So rather than choosing from what exists, new technology allows you to get exactly what you want.

For me, working in finance has always been about improving people's lives. We created indexing to improve upon stock picking. We created Dimensional to improve upon indexing. Each day we strive to help our clients in new and better ways. That's why I thought 1971 was the most exciting time to be in this business. Then, I thought 1981 was the most exciting time to be in this business. But the truth is, it's every day, as long as we're able to keep helping people in innovative ways.

1. Data obtained from Morningstar on July 6, 2021. The sample includes US-domiciled equity mutual funds and ETFs. Funds of funds and money market funds are excluded.

Risks include loss of principal and fluctuating value. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Small and micro cap securities are subject to greater volatility than those in other asset categories.

John "Mac" McQuown is a member of the Board of Directors of the general partner of Dimensional Fund Advisors LP.

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Focus and Strategy

The Portfolio Advisory Services advisory program is based on Nobel Prize-winning economic theory. Your financial advisor knows the value of a long-term strategy will complement your broader portfolio objectives—not a game of darts. Our Oversight Committee understands the sources of risk and expected return, pays close attention to fees, and looks globally to capture opportunities. You can have confidence that you are receiving cost-effective advice from an investment adviser representative who understands your financial goals and risk profile. Please contact your financial advisor for additional personalized guidance on investing.

Past performance is no guarantee of future results. There is no guarantee an investing strategy will be successful. Diversification does not eliminate the risk of market loss.

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Periodic Performance

As of 10/2021; Default Currency: USD

	Expense Ratio	Quarter 2021	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Dimensional U.S. Large Company I	0.08%	0.55	15.85	29.96	15.94	16.83	16.56	7.73	9/23/1999
Dimensional U.S. Large Cap Value I	0.26%	-1.47	18.93	40.96	8.14	11.11	14.39	10.30	2/19/1993
Dimensional Tax-Managed U.S. Marketwide Value	0.36%	-0.97	17.53	38.94	9.00	11.60	14.60	8.24	12/14/1998
Dimensional U.S. Core Equity 2 I	0.19%	-0.52	17.13	37.93	13.61	15.06	15.74	9.93	9/15/2005
Dimensional T.A. U.S. Core Equity 2 I	0.19%	-1.24	15.85	37.15	13.49	15.03	15.73	7.73	10/4/2007
Dimensional U.S. Small Cap I	0.35%	-1.42	21.60	56.50	9.53	12.19	14.49	10.85	3/19/1992
Dimensional U.S. Small Cap Value I	0.39%	-0.77	30.57	73.21	7.92	10.55	13.46	11.56	3/2/1993
Dimensional U.S. Targeted Value I	0.33%	-0.55	29.64	72.12	9.34	11.35	14.02	11.50	2/23/2000
DFA US Micro Cap I	0.51%	-1.91	24.45	62.52	8.33	12.32	14.55	12.00	12/23/1981
DFA U.S. Small-Cap ETF	0.34%	-1.31	N/A	55.47	9.30	12.18	14.49	N/A	12/15/1998
DFA U.S. Targeted Value ETF	0.34%	-0.65	N/A	64.38	8.01	10.61	13.98	N/A	12/11/1998
Dimensional Large Cap International I	0.22%	-1.11	9.19	26.59	7.70	8.99	8.13	6.07	7/17/1991
Dimensional International Value I	0.39%	-0.49	15.83	41.54	3.83	7.47	6.67	6.20	2/15/1994
Dimensional International Small Company I	0.52%	0.28	12.38	32.58	8.37	9.41	9.93	7.46	9/30/1996
Dimensional International Small Cap Value I	0.49%	0.60	13.67	36.18	4.41	6.72	9.07	7.35	12/29/1994
Dimensional International Core Equity I	0.25%	-0.81	10.87	30.18	7.25	8.90	8.67	5.92	9/15/2005
Dimensional Emerging Markets Core Equity I	0.39%	-6.27	4.92	27.21	9.07	8.77	6.43	8.47	4/5/2005
Dimensional Emerging Markets I	0.43%	-6.81	2.44	23.17	8.14	8.69	6.06	7.35	4/25/1994
Dimensional Real Estate Securities I	0.18%	0.38	22.22	32.45	12.14	8.09	11.86	10.18	1/5/1993
Dimensional International Real Estate Sec I	0.27%	-2.01	7.27	23.92	4.73	3.41	7.12	1.76	3/1/2007
Dimensional One-Year Fixed-Income I	0.17%	0.00	0.00	0.03	1.28	1.18	0.85	4.32	7/25/1983
Dimensional Five-Year Global Fixed-Income I	0.26%	-0.18	0.00	0.21	2.26	1.49	1.92	4.88	11/6/1990
Dimensional Two-Year Global Fixed-Income I	0.17%	-0.10	0.00	0.07	1.56	1.30	0.96	2.89	2/9/1996
Dimensional Short Term Municipal Bond I	0.22%	-0.08	-0.01	-0.06	1.01	0.77	0.80	1.59	8/20/2002
Dimensional CA Short-Term Municipal Bond I	0.22%	-0.14	-0.08	-0.12	0.91	0.70	0.83	1.51	4/2/2007
Dimensional Inflation-Protected Securities I	0.11%	2.04	3.51	5.22	7.81	4.39	3.19	4.60	9/18/2006
Dimensional Investment Grade I	0.22%	0.00	-1.69	-0.91	6.24	3.31	3.36	3.96	3/7/2011
Dimensional Short-Term Extended Quality I	0.22%	-0.04	0.05	0.59	2.56	1.79	1.91	2.81	3/4/2009
Dimensional Short-Duration Real Return Instl	0.22%	1.45	4.26	5.64	3.83	2.90	0.85	1.99	11/5/2013
Dow Jones U.S. Total Stock Market TR USD	N/A	-0.12	15.13	32.13	15.95	16.82	16.56	11.04	1/2/1987
Russell 2000 TR USD	N/A	-4.36	12.41	47.68	10.54	13.45	14.63	11.90	12/31/1978
MSCI EAFE GR USD	N/A	-0.35	8.79	26.29	8.13	9.33	8.60	7.22	3/31/1986
MSCI EM GR USD	N/A	-7.97	-0.99	18.58	8.96	9.62	6.46	10.11	6/30/1988

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Updated performance information and fund documents can be obtained by visiting us.dimensional.com. The above data is current as of October 5, 2021

Returns obtained from Dimensional and Interactive Data-Financial Times. Numbers are rounded to the nearest one hundredth of a percent. Because each client's portfolio is customized and includes multiple funds, the returns within an individual portfolio will generally differ from the returns of the actual Dimensional funds listed above. The performance information for the equity indices/measures shown above includes the reinvestment of dividends. It does not reflect the actual cost of investing in the instruments that comprise each index. It is not possible to invest directly in an index. The investment return of all funds listed will fluctuate and the returns and the principal value of an investment in stock and bond funds will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. The total returns shown above do not take into account the effects of income taxes on an individual's investment. In most cases, taxes may reduce your actual investment returns on income or gains paid by the fund or any gains you may realize if you sell your shares. Because of ongoing market volatility, the funds' current performance may be better or worse than the results shown above. Total returns include changes in share price and reinvestment of dividends and capital gains distributions. The returns for the Dimensional Funds do not reflect the fees charged by the Portfolio Advisory Services program, which would have the effect of lowering the returns of investors in accounts in the program. Past performance does not guarantee future results; that 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; and that current performance may be lower or higher than the performance data quoted.

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An investor should carefully consider the investment objectives, risks, charges and expenses of any mentioned mutual fund before investing. This information and more complete information, including potential risks, is included in mutual fund prospectus, which can be obtained from the investment firm, or contacting your investment professional directly. Read prospectus carefully before investing. Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost.

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Barclays Municipal: The U.S. Municipal Bond component of the Barclays U.S. Aggregate/Bond Indices.

Barclays U.S. Corporate High Yield: The U.S. Corporate High Yield Bond component of the Barclays U.S. Aggregate/Bond Indices.

Barclays U.S. Aggregate Bond: Covers the U.S. dollar denominated, investment-grade, fixed-rate, taxable bond market of SEC registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS sectors.

Barclays U.S. Government Index: The U.S. Government component of the Barclays U.S. Aggregate/Bond Indices.

MSCI EAFE (Europe, Australasia, Far East): A free float-adjusted market-capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI EAFE Index currently consists of 21 developed-market country indices.

MSCI Emerging Markets: A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Russell 1000 Growth Index: Measures the performance of those Russell 1000 Index companies (the 1,000 largest publicly traded U.S. companies, based on total market capitalization) with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index: Measures the performance of the large-cap-value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. It is constructed to provide a comprehensive and unbiased barometer for the large-cap-value segment and is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

Russell 2000 Index: Market-capitalization-weighted total-return index that measures the performance of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization.

Russell 3000: Stock index consisting of the 3000 largest publicly listed U.S. companies, representing about 98% of the total capitalization of the entire U.S. stock market.

S&P 500: A market-capitalization-weighted index of 500 widely held stocks that is often used as a proxy for the U.S. stock market. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity and industry group representation.

S&P Goldman Sachs Commodity Index: The S&P GSCI® is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

U.S. 10-year note: A debt obligation issued by the U.S. Treasury that has a maturity of 10 years.

U.S. GDP (Gross Domestic Product) Growth Rate: An aggregated measure of changes in value of the goods and services produced by the U.S. economy. It is calculated in real terms or inflation-adjusted terms to net out the effect of changes on the price of produced goods and services.

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