

# Global Investment Solutions

**Dimensional Fund Advisors** applies academic research to the practical world of investing. Our goal is to help clients structure globally diversified portfolios and to add value through engineering and trading.

Dimensional Fund Advisors Canada Inc., a subsidiary of Dimensional Fund Advisors Inc., is a Canadian portfolio management company registered in British Columbia. Incorporated in June 2003, the firm has introduced no-load mutual funds designed specifically to engineer diversified solutions for Canadian investors.

David Booth and Rex Sinquefeld, co-founders of Dimensional, were pioneers in introducing asset class strategies to institutional investors in the US in the 1970s. Since Dimensional's inception in the United States in 1981, they led the firm amidst growing worldwide interest in this approach. Dimensional's range of investments and global exposure continue to expand as research and financial innovation increase our knowledge of capital markets.

## Principles and Beliefs

### **Markets Are Efficient**

Markets work and, for investment purposes, assets are fairly priced.

### **Risk and Return Are Related**

Priced risk factors determine expected return.

### **Diversification Is Key**

Diversification reduces uncertainty. Concentrated investments add risk with no additional expected return.

### **Structure Explains Performance**

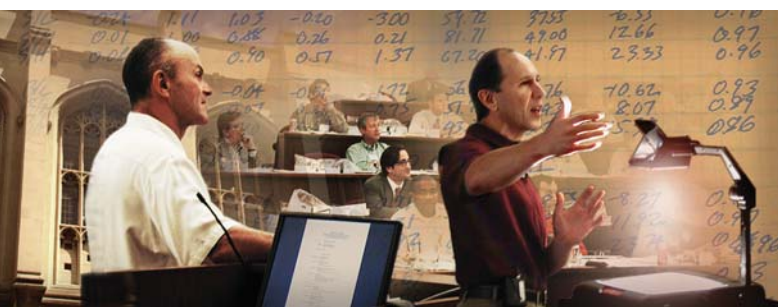
Asset allocation principally determines results in a broadly diversified portfolio.

# Investment Philosophy

## Academic Contributions

Financial economists lead the way in understanding risk and return in securities markets. Working with some of the industry's most respected financial economists, Dimensional brings academic research to practising investors in the form of distinctive empirical strategies.

This is an ongoing process to which we commit substantial resources. Academics share in the revenue, ensuring that they maintain the data and research. Clients benefit from strategies that have higher expected returns and more focused implementation.



Dimensional's researchers include Professors Eugene Fama of the University of Chicago and Kenneth French of Dartmouth College.

## Markets Work

Our core belief is that markets are "efficient," meaning prices reflect the knowledge and expectations of all investors. Though prices are not always correct, markets are so competitive that it is unlikely any single investor can routinely profit at the expense of all other investors. Dimensional distinguishes itself by applying this philosophy to its entire range of investments.

Many investment managers either believe they can actively exploit "mispricings," so they engage in traditional active management; or they believe they can do nothing to add value over benchmarks, so they engage in traditional index management. Dimensional takes a different approach. Our strategies combine the broad diversification, low cost, and reliable asset class exposure of passive strategies and add value through engineering and trading.

There can be no assurance that any Dimensional Fund will achieve its investment objective. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Data reported in this brochure represents past data.

## Dimensional Compared to Traditional Portfolio Management

### Dimensional's Value-Added Management

- ◉ Grounded in the efficiency of capital markets.
- ◉ Captures specific dimensions of risk identified by academic research.
- ◉ Minimizes transaction costs and enhances returns through trading, engineering, and tax management.

### Active Management

- ◉ Attempts to beat the market through forecasting.
- ◉ Undermines asset class exposure to keep up with the most "promising" securities.
- ◉ Generates higher fees, trading costs, and taxes due to increased turnover.

### Index Management

- ◉ Accepts asset class returns.
- ◉ Allows commercial benchmarks to define strategy.
- ◉ Sacrifices transaction costs and turnover in favour of tracking an index.

# Portfolio Engineering

Dimensional's portfolio structure is based on leading research by two members of its investment management team, Eugene Fama of the University of Chicago and Kenneth French of Dartmouth College. Their analysis of the sources of investment returns has reshaped portfolio theory and greatly improved understanding of the factors that drive equity performance.

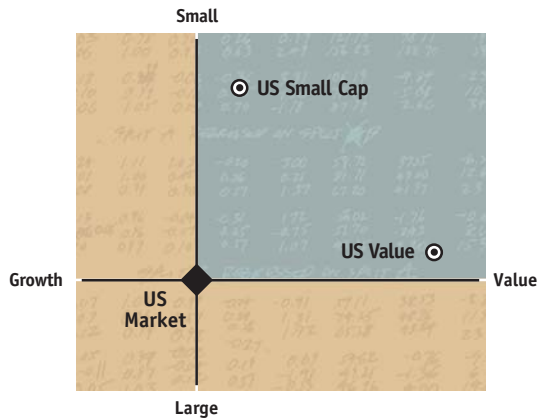


Chart is for example purposes only.

## Three Factors

**Equity Market** (complete value-weighted universe of stocks)  
Stocks have higher expected returns than fixed income.

**Company Size** (measured by market capitalization)  
Small company stocks have higher expected returns than large company stocks.

**Company Price** (measured by ratio of company book value to market equity)  
Lower-priced "value" stocks have higher expected returns than higher-priced "growth" stocks.

The notion that equities behave differently from fixed income is widely accepted. Within equities, Fama and French find that differences in stock returns are best explained by company size and price characteristics.

## The Dimensions of Equity Returns

Dimensional believes that because they are riskier, financially less healthy "value" companies have higher costs of capital than financially healthier "growth" companies. When they borrow from a bank, value companies pay higher interest rates; likewise, when they issue stock, they receive lower prices. A company's cost of capital is the investor's expected return. Small value companies therefore have higher expected returns than large growth companies. Long-term increases in expected return can only be achieved by accepting greater small cap and/or value risk.

The three-factor model defines risk with a precision that has made it the modern research standard. Size and price characteristics, along with broad stock market exposure, are the major explanatory variables in equity returns.

## The Dimensions of Fixed Income Returns

The primary role of fixed income in a portfolio is diversification to dampen volatility. While low-grade obligations and long-term bonds have higher expected returns than high-grade obligations and short-term bonds, Dimensional believes that the corresponding premiums are not large enough to reward the additional risk.

By keeping maturities short and credit quality high, Dimensional minimizes portfolio risk from fixed income so that investors can focus on the much-higher equity market return factors. Within our fixed income maturity and credit range, we strive to maximize returns and outperform conventional benchmarks through engineering.



# Performance Advantage

## Focused and Flexible

Dimensional's strategies are designed to capture stronger exposure to the factors that drive returns. Our portfolios are broadly diversified to reduce risk, but several conditions must be met before we include instruments. We require financial viability for every security we purchase. Portfolio eligibility rules are detailed and based only on reliable financial data from stable investment markets. Rather than replicate an index in mechanical fashion, we allow slight variations from precise market weighting. This flexibility allows us to take advantage of favourable trading opportunities.

## Better Returns through Execution

Small cap stocks are illiquid and trades can be costly. Dimensional minimizes trade costs by using technology combined with years of experience as one of the world's foremost managers of small company trades. Our strategy emphasizes price over time of execution, utilizing an extensive network of brokers to find the best trading cost opportunities from amongst a long list of eligible securities. In many cases, trades are executed in blocks of many shares. Sellers give Dimensional a volume discount in exchange for liquidity.

## Pinpointing the Best Maturity

Fixed income strategies use a "variable maturity" approach to high-grade corporate and government debt that involves no interest rate forecasting. Dimensional shifts the maturity structure in response to changes in the yield curve. We identify the points on the curve offering the highest expected return per unit of volatility. Our strategy is diversified across international markets and seeks to hedge exchange rate risk.

## Tax Management

Target market segments such as value stocks and small cap stocks have higher expected returns than their growth and large cap counterparts, but they can be costly for taxable investors. Recognizing that clients are tax sensitive, Dimensional has developed a tax management overlay.

Equity portfolios generate dividends that traditional tax management typically ignores—in spite of the fact that taxes on dividends tend to be significantly higher than taxes from capital gains. Dimensional's tax-managed strategies simultaneously attempt to minimize taxable gains and dividend yields while targeting strong asset class exposure and solid, broad diversification.

Dimensional's trading operation employs extensive professional staff and sophisticated information systems in three offices around the world.



Los Angeles



London



Sydney

## Dimensional Funds

### Canadian Equity Fund

Canadian Core Equity Fund

### US Equity Funds

US Core Equity Fund

US Value Fund

US Small Cap Fund

### International Equity Funds

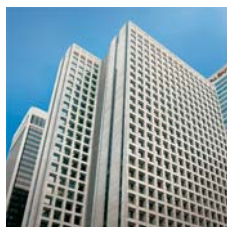
International Core Equity Fund

International Value Fund

International Small Cap Fund

### Fixed Income Fund

Five-Year Global Fixed Income Fund



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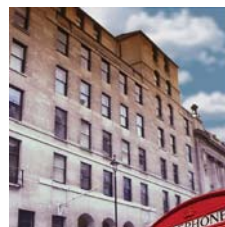
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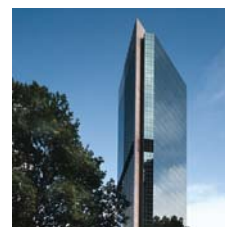
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Dimensional Funds are available only to Canadian residents. Commissions, trailing commissions, management fees, and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed; their values change frequently and past performance may not be repeated.

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