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Go Beyond Indexing  
with Dimensional ETFs

# Go Beyond Indexing with Dimensional ETFs

Solutions from a leader in active ETF strategies<sup>1</sup>

## Dimensional at a Glance<sup>2</sup>

Dimensional founders launched the first index funds in the 1970s. As research advanced, they discovered a new approach to investing that targeted higher expected returns and were among the pioneers of factor-based investing in the 1980s.

Today, we continue to apply leading academic research to investment solutions.

41

YEARS SINCE  
FOUNDING

\$584B

FIRMWIDE ASSETS  
UNDER MANAGEMENT

1,500+

EMPLOYEES IN  
14 GLOBAL OFFICES

One

INVESTMENT  
PHILOSOPHY

Dimensional exchange-traded funds (ETFs) draw on our deep experience to deliver strategies that offer the diversification and transparency benefits of index investing.

But they go beyond that, targeting reliable drivers of higher expected returns through systematic yet flexible implementation.

HIGHER  
EXPECTED  
RETURNS

83%

Percent of Dimensional funds that outperformed their Morningstar category peer group average over the last 15 years.<sup>3</sup>

FLEXIBLE  
IMPLEMENTATION

~250 trading days

Opportunity for Dimensional's daily flexible process to rebalance portfolios each year.

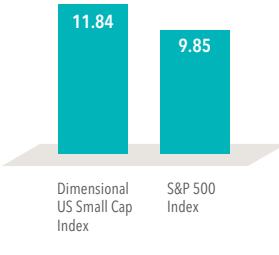
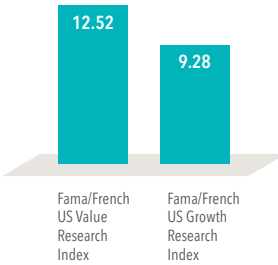
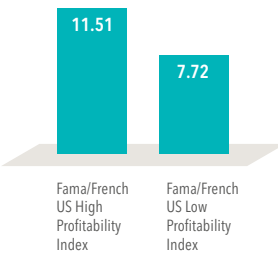
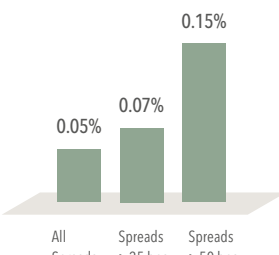
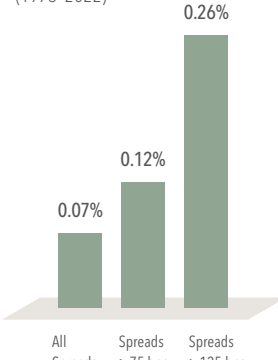
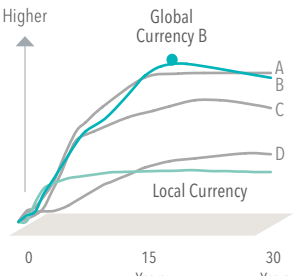
COMPETITIVELY  
PRICED

Lowest 25%

Dimensional ETFs are priced within the lowest quartile among Morningstar category peers.<sup>4</sup>

# The Drivers of Higher Expected Returns

At Dimensional, we don't try to outguess the market. We're committed to understanding it. We use leading academic research to identify reliable drivers of higher expected returns across equity and fixed income markets.

Equity	Size	Relative Price	Profitability																		
<p>Equity drivers are pursued through systematic, consistent exposure.</p> <p>Annualized compound returns (%)</p>	<p>Small cap outperforms large cap.</p> <p>1928-2022</p>  <table border="1"> <tr> <th>Index</th> <th>Annualized Compound Returns (%)</th> </tr> <tr> <td>Dimensional US Small Cap Index</td> <td>11.84</td> </tr> <tr> <td>S&amp;P 500 Index</td> <td>9.85</td> </tr> </table>	Index	Annualized Compound Returns (%)	Dimensional US Small Cap Index	11.84	S&P 500 Index	9.85	<p>Value outperforms growth.</p> <p>1928-2022</p>  <table border="1"> <tr> <th>Index</th> <th>Annualized Compound Returns (%)</th> </tr> <tr> <td>Fama/French US Value Research Index</td> <td>12.52</td> </tr> <tr> <td>Fama/French US Growth Research Index</td> <td>9.28</td> </tr> </table>	Index	Annualized Compound Returns (%)	Fama/French US Value Research Index	12.52	Fama/French US Growth Research Index	9.28	<p>High profitability outperforms low profitability.</p> <p>1964-2022</p>  <table border="1"> <tr> <th>Index</th> <th>Annualized Compound Returns (%)</th> </tr> <tr> <td>Fama/French US High Profitability Index</td> <td>11.51</td> </tr> <tr> <td>Fama/French US Low Profitability Index</td> <td>7.72</td> </tr> </table>	Index	Annualized Compound Returns (%)	Fama/French US High Profitability Index	11.51	Fama/French US Low Profitability Index	7.72
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Fixed Income	Term	Credit	Currency																		
<p>Fixed income drivers are pursued through systematic, dynamic exposure.</p>	<p>Wider term spreads generally lead to larger term premiums.</p> <p>US Intermediate Government minus US 1-3 Year Government, Average Monthly Return Difference (1976-2022)<sup>5</sup></p>  <table border="1"> <tr> <th>Spread Category</th> <th>Average Monthly Return Difference (%)</th> </tr> <tr> <td>All Spreads</td> <td>0.05%</td> </tr> <tr> <td>Spreads &gt;25 bps</td> <td>0.07%</td> </tr> <tr> <td>Spreads &gt;50 bps</td> <td>0.15%</td> </tr> </table>	Spread Category	Average Monthly Return Difference (%)	All Spreads	0.05%	Spreads >25 bps	0.07%	Spreads >50 bps	0.15%	<p>Wider credit spreads generally lead to larger credit premiums.</p> <p>US Intermediate Credit minus US Intermediate Government, Average Monthly Return Difference (1973-2022)<sup>5</sup></p>  <table border="1"> <tr> <th>Spread Category</th> <th>Average Monthly Return Difference (%)</th> </tr> <tr> <td>All Spreads</td> <td>0.07%</td> </tr> <tr> <td>Spreads &gt;75 bps</td> <td>0.12%</td> </tr> <tr> <td>Spreads &gt;125 bps</td> <td>0.26%</td> </tr> </table>	Spread Category	Average Monthly Return Difference (%)	All Spreads	0.07%	Spreads >75 bps	0.12%	Spreads >125 bps	0.26%	<p>Global bonds issued in different currencies offer opportunities for higher expected returns and reduced volatility.</p> <p>Currency-Hedged Expected Return<sup>5</sup></p>  <p>The chart shows that Global Currency B (teal line) achieves the highest return, significantly outperforming the Local Currency (grey line) and other currencies (A, B, C, D) over a 30-year period.</p>		
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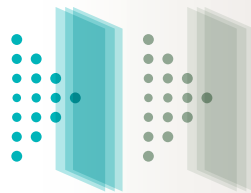
Past performance is no guarantee of future results. Actual returns may be lower. See Index Descriptions for more information.

## Our Daily Flexible Process

Investing based on higher-expected-return factors doesn't guarantee a manager will outperform markets. That's because experience is key to real-world results. At Dimensional, our daily flexible process is built on over four decades of experience in managing systematic, higher-expected-return portfolios.

### Portfolio Design

Design well-diversified portfolios that pursue drivers of higher expected returns.



### Ongoing Considerations

Use a flexible approach that incorporates additional information to manage risks and increase expected returns.



### Equity

#### DRIVERS

- Size
- Value
- Profitability

#### CONSIDERATIONS

- Investment
- Momentum
- Securities lending

### Fixed Income

#### DRIVERS

- Term
- Credit
- Currency

#### CONSIDERATIONS

- Short-term equity returns
- Proprietary credit ratings
- Liquidity profile

*“It’s 10% having a good idea and 90% implementing that idea and making it work. Dimensional has been making it work for decades.”*

ROBERT MERTON  
Nobel laureate, 1997  
Professor, MIT  
Dimensional Resident Scientist

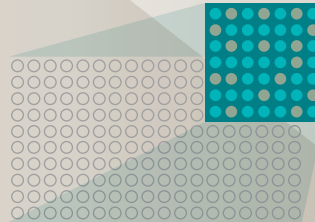
## Flexible Trading

Implement with flexibility and consider market liquidity to deliver cost-efficient portfolios through custom baskets and on-market trading.



## Ending Portfolio

The broadly diversified portfolio pursues higher expected returns, manages risk, and minimizes cost.



Order sets weighed against trading costs

Order sets weighed against trading costs

Dimensional’s daily flexible process is built on over 40 years of experience.

# Dimensional Investing in Action

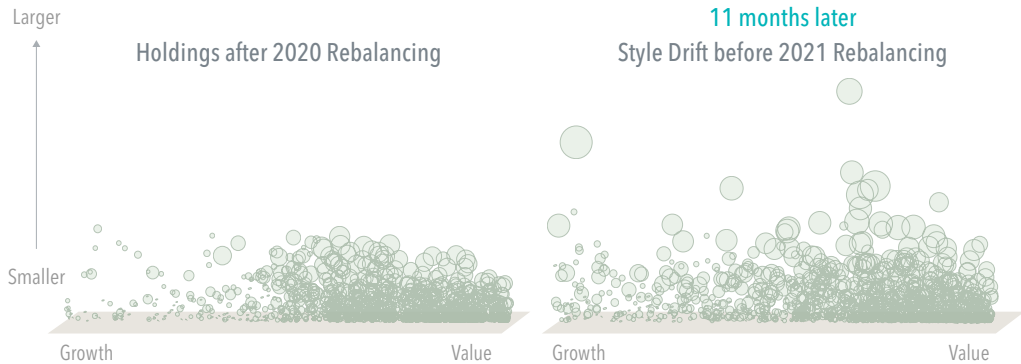
## CASE STUDY 1: EQUITIES

### Why Flexibility Matters in Rebalancing

Stock prices are changing every day. Yet indices only revisit their holdings periodically—sometimes just once a year. This can lead to style drift away from the intended exposure, as well as forced buying and selling on rebalancing dates that result in higher transaction costs. Dimensional’s approach can overcome these drawbacks with daily flexibility.

#### Size and Relative Price Characteristics

Russell 2000 Value Index Holdings



#### Index vs. Dimensional Approach

	EXPOSURE	CASH FLOWS	REBALANCING COSTS
INDEX APPROACHES	May face style drift between rebalance dates	Maintain portfolio to limit tracking error	Force trading that leads to higher costs
DIMENSIONAL'S FLEXIBLE APPROACH	Provides more consistent focus through time	Rebalances portfolio toward higher expected returns	Allows flexibility across names and timing to reduce costs

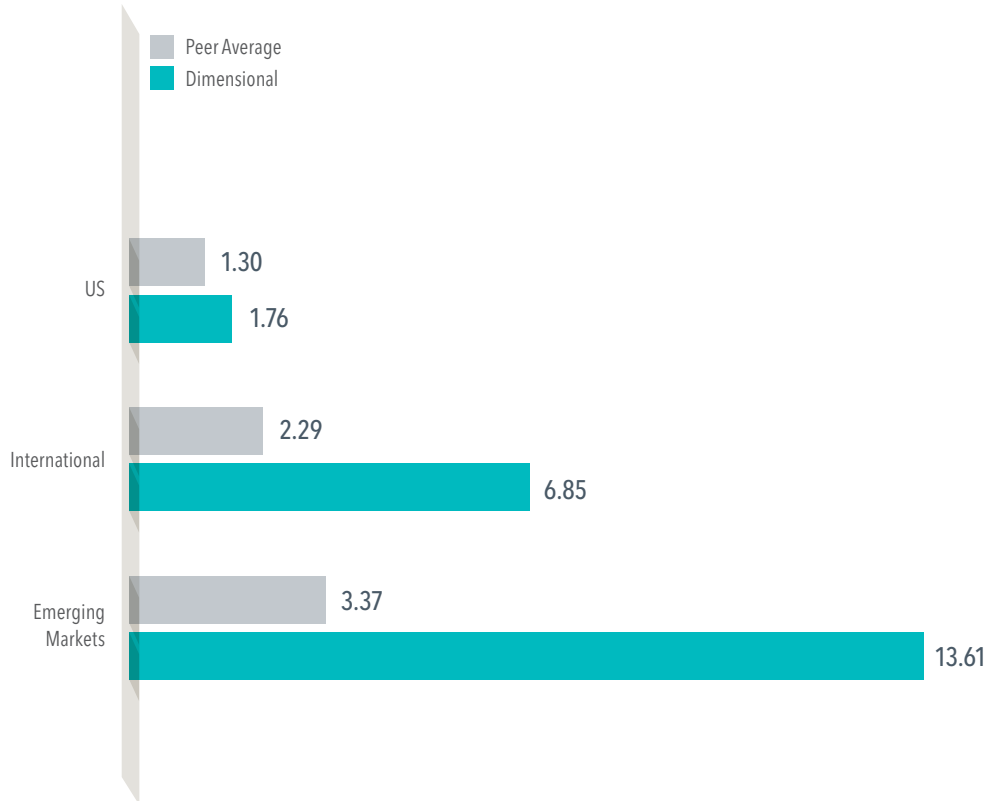
CASE STUDY 2: EQUITIES

## Adding Value with Securities Lending

Funds may seek to generate additional revenue by lending out the securities held in their portfolios. Dimensional ETFs are broadly diversified and have low turnover, which makes them conducive to generating securities lending revenue. Dimensional puts 100% of securities lending revenue back into the portfolio for our investors.<sup>6</sup>

### Outpacing Peers<sup>7</sup>

Average annual lending revenue relative to average net assets for FY2020 to FY2022 (in basis points)



Securities lending involves risk—including counterparty risk—and possible loss. Revenue is not guaranteed and may fluctuate. Lending activities are conducted by the custodians for the funds. Past performance is no guarantee of future results.

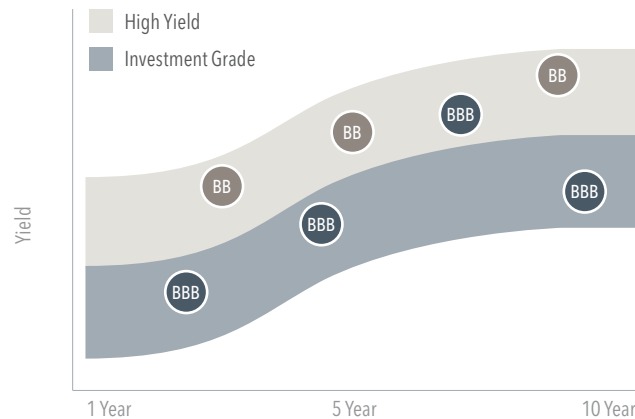
Non-Dimensional data provided by Morningstar. Dimensional data provided internally. Sample consists of US-domiciled ETFs and open-end funds. Annual values are weighted averages across category groupings, shown in basis points. Averages are based on the annual values sourced each fiscal year (2020–2022). Peer average excludes Dimensional funds.

CASE STUDY 3: FIXED INCOME

## Proprietary Credit Monitoring in Real Time

Tracking a fixed income index comes with challenges. Because many indices rely on ratings agencies to define credit risk exposures, they may not capture all the up-to-the-minute information that is embedded in market prices. This can result in unintentional exposures to credit risk. Additionally, forced selling of bonds that fall out of investment grade (“fallen angels”) may come at a cost. Dimensional’s real-time, market-based approach to credit monitoring can help mitigate these limitations of index-tracking approaches.

### Are You Taking On More Risk than You Think?

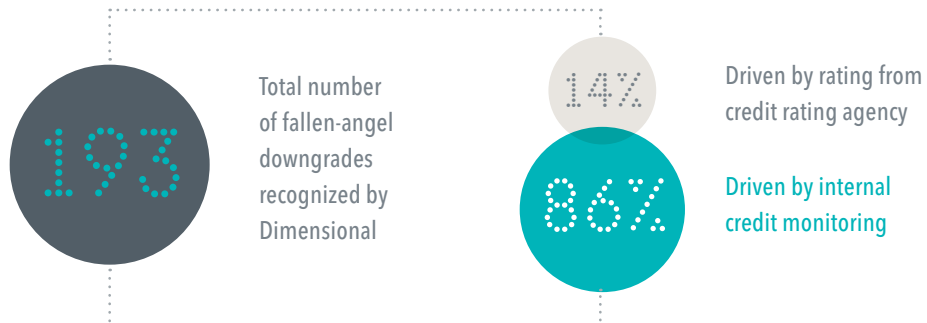


An investment-grade bond may begin trading like a high yield bond before a credit rating agency issues a downgrade.

*For illustrative purposes only*

### Not Falling for Fallen Angels

Internal Downgrades from Investment Grade to High Yield, 2010-2022<sup>a</sup>





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## Interested in learning more?

- Contact your Regional Director
- Call (512) 306-4308

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1. Based on \$72 billion in active exchange-traded funds (ETFs) assets under management as of December 31, 2022, in USD.
  2. Firmwide assets under management in USD (billions), number of employees, and offices as of December 31, 2022.
  3. The sample includes US-domiciled, USD-denominated open-end and exchange-traded funds at the beginning of the 15-year period ending December 31, 2022. Each fund is evaluated relative to its respective Morningstar category average as of the start of the 15-year period. Outperformers are funds that survive the full 15-year period and whose cumulative net return over the period exceeded that of their Morningstar category average. See "Category Average Data Appendix" for more information. Visit [us.dimensions.com](https://us.dimensions.com) for standardized performance information for Dimensional's funds.
  4. Comparison of funds in Morningstar peer categories as of January 3, 2023.
  5. **Term spread analysis:** Returns are the average monthly difference over all months and months when term spreads are greater than 25 and 50 bps. Term spreads are measured as the difference in yield to worst between the Bloomberg US Intermediate Government and Bloomberg US 1–3 Year Government indices. **Credit spread analysis:** Returns are the average monthly difference over all months and months when credit spreads are greater than 75 and 125 bps. Credit spreads are measured as the difference in yield to worst between the Bloomberg US Intermediate Credit and Bloomberg US Intermediate Government indices. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. **Currency analysis:** Hypothetical example for illustrative purposes only. By hedging a bond's local currency, Dimensional can target the highest-expected-return segment of a bond's yield curve while managing currency risk. Bloomberg data provided by Bloomberg.
  6. Net of paying securities lending agent.
  7. US funds are those in the following Morningstar categories: "US Fund Small Value," "US Fund Small Blend," "US Fund Small Growth," "US Fund Mid-Cap Value," "US Fund Mid-Cap Blend," "US Fund Mid-Cap Growth," "US Fund Large Value," "US Fund Large Blend," "US Fund Large Growth." International funds are those in the following Morningstar categories: "US Fund Foreign Small/Mid Value," "US Fund Foreign Small/Mid Blend," "US Fund Foreign Small/Mid Growth," "US Fund Foreign Large Value," "US Fund Foreign Large Blend," "US Fund Foreign Large Growth." Emerging Markets funds are those in the following Morningstar categories: "US Fund Diversified Emerging Markets."
  8. Bond ratings are intended to indicate the credit quality of a bond, considering the financial strength of its issuer and the likelihood that it will repay the debt. Ratings range from AAA (highly unlikely to default) to D (in default). Downgrades represent full-letter downgrades (e.g., AAA to AA). Downgrades from investment grade are bonds that were initially given an investment-grade rating and subsequently reduced to junk bond status. Source: TRACE. The Trade Reporting and Compliance Engine (TRACE) is the Financial Industry Regulatory Authority, Inc. (FINRA)–developed vehicle that facilitates the mandatory reporting of over-the-counter secondary market transactions in eligible fixed income securities. All broker-dealers who are FINRA member firms have an obligation to report transactions in corporate bonds to TRACE under a Securities and Exchange Commission (SEC)–approved set of rules. Dimensional eligible universe data as of December 2022: ~21,000 securities, ~1,900 issuers of which ~5,000 securities held, ~750 issuers held. Holdings are subject to change.

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## DISCLOSURES

This information is provided for registered investment advisors and institutional investors and is not intended for public use. Dimensional Fund Advisors LP 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 (512) 306-7400 or at [us.dimensions.com](https://us.dimensions.com).** Dimensional funds are distributed by DFA Securities LLC.

**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. There is no guarantee strategies will be successful. Diversification neither assures a profit nor guarantees against loss in a declining market.

ETFs trade like stocks, fluctuate in market value and may trade either at a premium or discount to their net asset value. ETF shares trade at market price and are not individually redeemable with the issuing fund, other than in large share amounts called creation units. ETFs are subject to risks similar to those of stocks, including those regarding short-selling and margin account maintenance. Brokerage commissions and expenses will reduce returns.

Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bloomberg data provided by Bloomberg. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.

With respect to the Dimensional US Large Cap Value ETF and Dimensional Global Real Estate ETF: The information contained in this material is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This material and the prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted. Additional information on the ETFs can be found in the [red herring prospectus](#).

## INDEX DESCRIPTIONS

**Dimensional US Small Cap Index** was created by Dimensional in March 2007 and is compiled by Dimensional. It represents a market-capitalization-weighted index of securities of the smallest US companies whose market capitalization falls in the lowest 8% of the total market capitalization of the eligible market. The eligible market is composed of securities of US companies traded on the NYSE, NYSE MKT (formerly AMEX), and Nasdaq Global Market. Exclusions: non-US companies, REITs, UITs, and investment companies. From January 1975 to the present, the index excludes companies with the lowest profitability and highest relative price within the small cap universe. The index also excludes those companies with the highest asset growth within the small cap universe. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book. Asset growth is defined as change in total assets from the prior fiscal year to current fiscal year. Source: CRSP and Compustat. The index monthly returns are computed as the simple average of the monthly returns of 12 subindices, each one reconstituted once a year at the end of a different month of the year. The calculation methodology for the Dimensional US Small Cap Index was amended in January 2014, to include profitability as a factor in selecting securities for inclusion in the index.

**Fama/French US Value Research Index:** Provided by Fama/French from CRSP securities data. Includes the lower 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

**Fama/French US Growth Research Index:** Provided by Fama/French from CRSP securities data. Includes the higher 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

**Fama/French US High Profitability Index:** July 1963–present: Courtesy of Fama/French from CRSP and Compustat securities data. Includes all stocks in the upper 30% operating profitability (OP) range of NYSE eligible firms; rebalanced annually in June. OP for June of year  $t$  is annual revenues minus cost of goods sold, interest expense, and selling, general, and administrative expenses divided by book equity for the last fiscal year end in  $t - 1$ . Fama/French and multifactor data provided by Fama/French.

**Fama/French US Low Profitability Index:** July 1963–present: Courtesy of Fama/French from CRSP and Compustat securities data. Includes all stocks in the lower 30% operating profitability (OP) range of NYSE eligible firms; rebalanced annually in June. OP for June of year  $t$  is annual revenues minus cost of goods sold, interest expense, and selling, general, and administrative expenses divided by book equity for the last fiscal year end in  $t - 1$ . Fama/French and multifactor data provided by Fama/French.

Results shown during periods prior to each index's inception date do not represent actual returns of the respective index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance results assume the reinvestment of dividends and capital gains. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book.

Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP. Robert Merton provides consulting services to Dimensional Fund Advisors LP.

## CATEGORY AVERAGE DATA APPENDIX

**Data sample:** The sample includes US-domiciled, USD-denominated open-end and exchange-traded funds in the following Morningstar categories. Non-Dimensional fund data provided by Morningstar. Morningstar category average monthly returns provided by Morningstar. Dimensional fund data is provided by the fund accountant. Dimensional funds or subadvised funds whose access is or previously was limited to certain investors are excluded. Index funds, load-waived funds, and funds of funds are excluded from the industry sample.

**Methodology:** The beginning samples include funds as of the start of the 15-year period. Each fund is evaluated relative to its respective Morningstar category average as of the start of each period. Outperformers are funds that survive the full 15-year period and whose cumulative net return over the period exceeded that of their Morningstar category average. We aggregate funds with multiple share classes to the strategy level.

**Morningstar categories (equity):** Equity fund sample includes the following Morningstar historical categories: Diversified Emerging Markets, Europe Stock, Foreign Large Blend, Foreign Large Growth, Foreign Large Value, Foreign Small/Mid Blend, Foreign Small/Mid Growth, Foreign Small/Mid Value, Global Real Estate, Japan Stock, Large Blend, Large Growth, Large Value, Mid-Cap Blend, Mid-Cap Growth, Mid-Cap Value, Pacific/Asia ex-Japan Stock, Real Estate, Small Blend, Small Growth, Small Value, World Large-Stock Blend, World Large-Stock Growth, World Large-Stock Value, and World Small/Mid Stock.

**Morningstar categories (fixed income):** Fixed income fund sample includes the following Morningstar historical categories: Corporate Bond, High Yield Bond, Inflation-Protected Bond, Intermediate Core Bond, Intermediate Core-Plus Bond, Intermediate Government, Long Government, Muni California Intermediate, Muni California Long, Muni Massachusetts, Muni Minnesota, Muni National Intermediate, Muni National Long, Muni National Short, Muni New Jersey, Muni New York Intermediate, Muni New York Long, Muni Ohio, Muni Pennsylvania, Muni Single State Intermediate, Muni Single State Long, Muni Single State Short, Muni Target Maturity, Short Government, Short-Term Bond, Ultrashort Bond, World Bond, and World Bond-USD Hedged.

Mutual fund investment values will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Diversification neither assures a profit nor guarantees against a loss in a declining market. There is no guarantee investment strategies will be successful. Past performance is no guarantee of future results.

**Investment products:** • Not FDIC Insured • Not Bank Guaranteed • May Lose Value

Dimensional Fund Advisors does not have any bank affiliates.

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