



Growing together, with integrity and respect

# Dimensional Fund Advisors (DFA) – Fund Manager Review – July 2025

## Overview

Dimensional Fund Advisors is a global investment firm founded in 1981 by David Booth and Rex Sinquefeld. Headquartered in Austin, Texas, it operates in more than a dozen countries, including the UK, Australia, Germany, and Japan. Today, Dimensional manages approximately **\$853 billion in assets** (as at mid-2025), making it one of the world's largest and most respected fund houses.

## Core Philosophy

Dimensional is not your typical fund manager. Their approach is based on **decades of academic research**, not market predictions or flashy stock picks.

### 1. Evidence-Based Investing

Dimensional's strategies are grounded in research by some of the world's most respected economists, including Nobel Prize winners **Eugene Fama**, **Robert Merton**, and **Myron Scholes**. These studies have consistently shown that certain market segments tend to outperform over time. These areas include:

- **Smaller companies (small-cap)**
- **Companies with lower prices relative to their value (value stocks)**
- **More profitable companies**

### 2. Efficient Markets

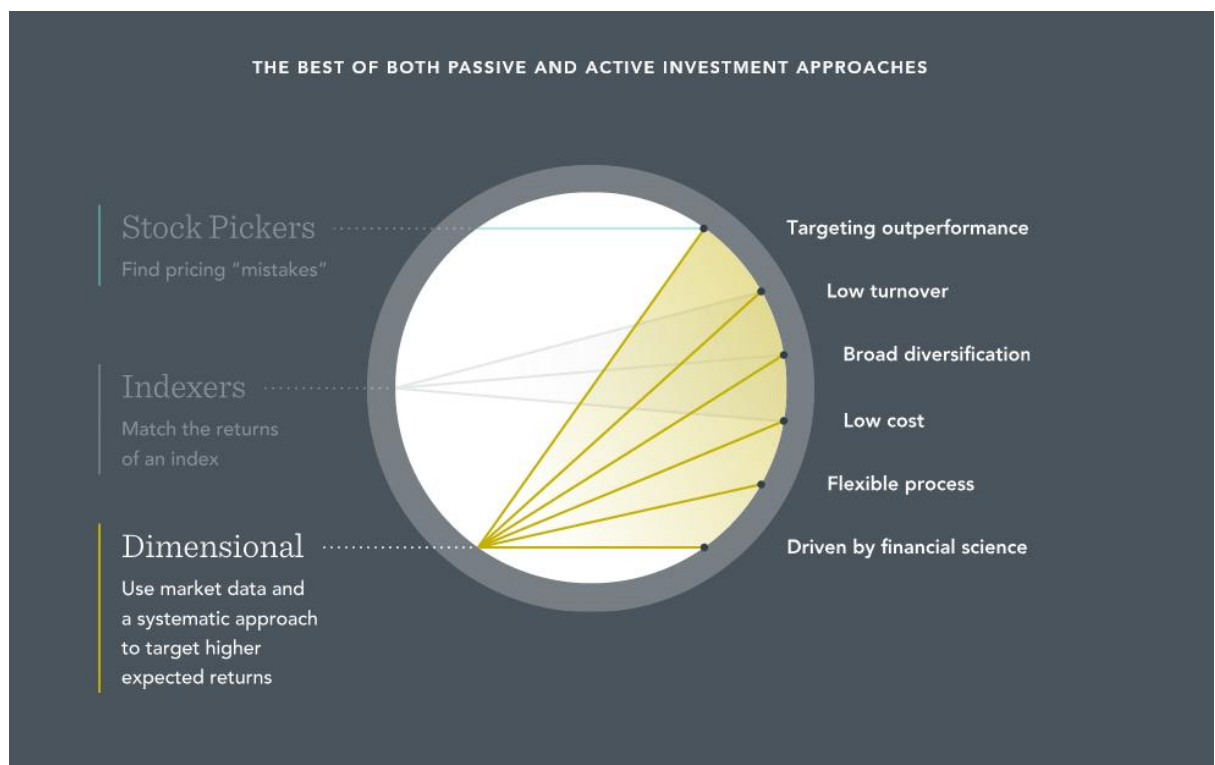
Dimensional believes markets work. Rather than trying to beat the market by guessing which stocks will win next, they focus on **capturing long-term returns from proven market factors**, using a rules-based, structured investment process.

## Strategy in Practice

### Smart but Not Passive

While Dimensional doesn't try to "pick winners," it also doesn't follow traditional index funds. Instead, it takes a "**passive-plus**" approach—systematically tilting towards the parts of the market that research shows have higher expected returns.

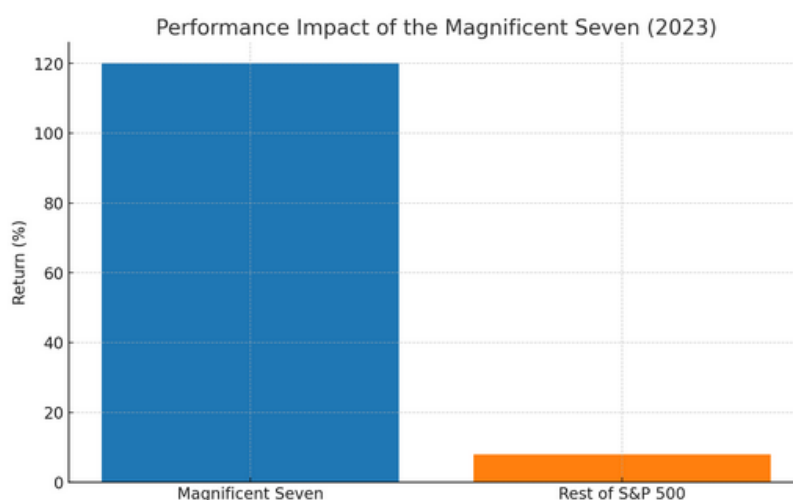
- **Smart Factor Exposure:** Portfolios are tilted toward value, small-cap, and high-profitability stocks.
- **Cost Efficiency:** Dimensional trades flexibly, looking to reduce costs, avoid unnecessary turnover, and take advantage of price improvements.
- **Implementation Skill:** They rebalance portfolios daily, use block trading strategies, and take pride in how efficiently they execute trades.



## Performance

Some of Dimensional's equity strategies have **underperformed traditional market indices**, particularly those dominated by large-cap growth stocks. This underperformance is primarily due to:

- **Low interest rates and Quantitative Easing (QE)** support growth stocks disproportionately.
- The dramatic rise of tech giants like the “**Magnificent Seven**” (Apple, Microsoft, Amazon, Nvidia, Google, Meta, and Tesla), which drove a significant portion of market returns. In 2023 alone, these seven stocks delivered a **return of over 120%**, significantly outperforming the broader market.



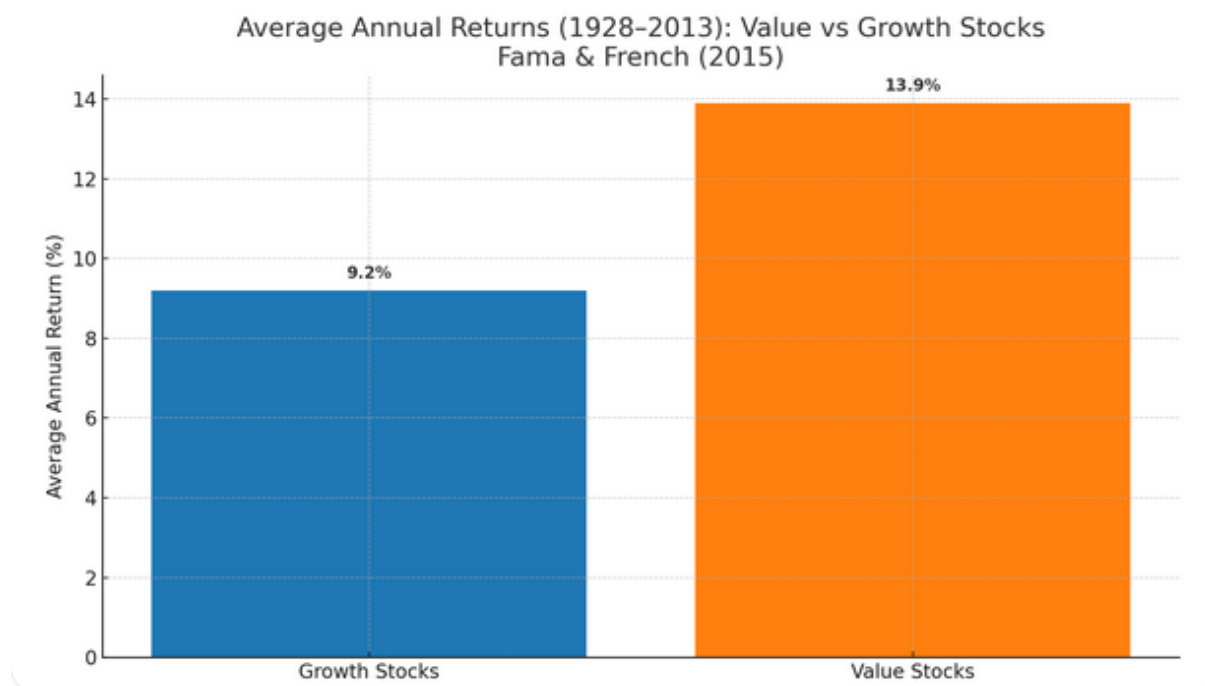
## Is the Strategy Broken?

### The Dimensional View

Dimensional says no, and their case is compelling:

- Their **tilt towards value stocks** and small caps means they were **underexposed** to the mega-cap tech stocks that drove recent index performance.
- The **last 15 years were unusual**, marked by artificial market conditions: ultra-low rates, QE, and deflationary pressures.
- With a shift towards more **normalised interest rates and inflation**, they believe the environment is turning back in favour of value and profitability factors.

Historical evidence supports this. A long-term study by Fama and French (2015) reveals that value stocks outperformed growth stocks by an average annual return of 4.7% from 1928 to 2013. However, this trend has experienced reversals during specific periods, such as the 2010s.



## Our View

Since around 2010, value-focused funds—such as those run by Dimensional—have lagged behind growth-dominated indices, especially those driven by a small number of mega-cap tech stocks.

But does this mean the strategy no longer works?

### *Why Value Has Struggled Recently*

Several unique forces have worked against value strategies since 2010:

- **Ultra-low interest rates and QE** (which favoured high-growth future earnings)
- **Dominance of a few tech stocks** like Apple, Nvidia, and Amazon (which traditional value funds underweight)
- **Shifts in the economy** toward intangible assets (which aren't well reflected in traditional valuation metrics) – these are things you can't touch or measure (software, brand, algorithms, etc.)

Traditional value investing often relies on **metrics such as price-to-book (P/B) or price-to-earnings (P/E) ratios** to identify “cheap” companies. These work well in asset-intensive industries, such as manufacturing or banking, where the value of the assets is readily apparent.

But in today's economy:

- Many of the most valuable companies (like Amazon, Alphabet, and Nvidia) have **few physical assets**.
- Their real value lies in software, R&D, and customer relationships, which **don't show up well on a balance sheet**.
- This makes them look expensive by traditional metrics, even if they are fundamentally strong and growing.

These created an environment that was unusually difficult for value investing, but not one that invalidated the strategy. Therefore, when value investors exclude these firms or underweight them, they risk missing out on a significant portion of the modern market's growth.

Dimensional continually reviews research, both externally from the academic community and internally from its research team, to identify studies that are both implementable in the real world and lead to better outcomes for clients. Recent examples of this include **profitability, asset growth, and short-term reversals**.

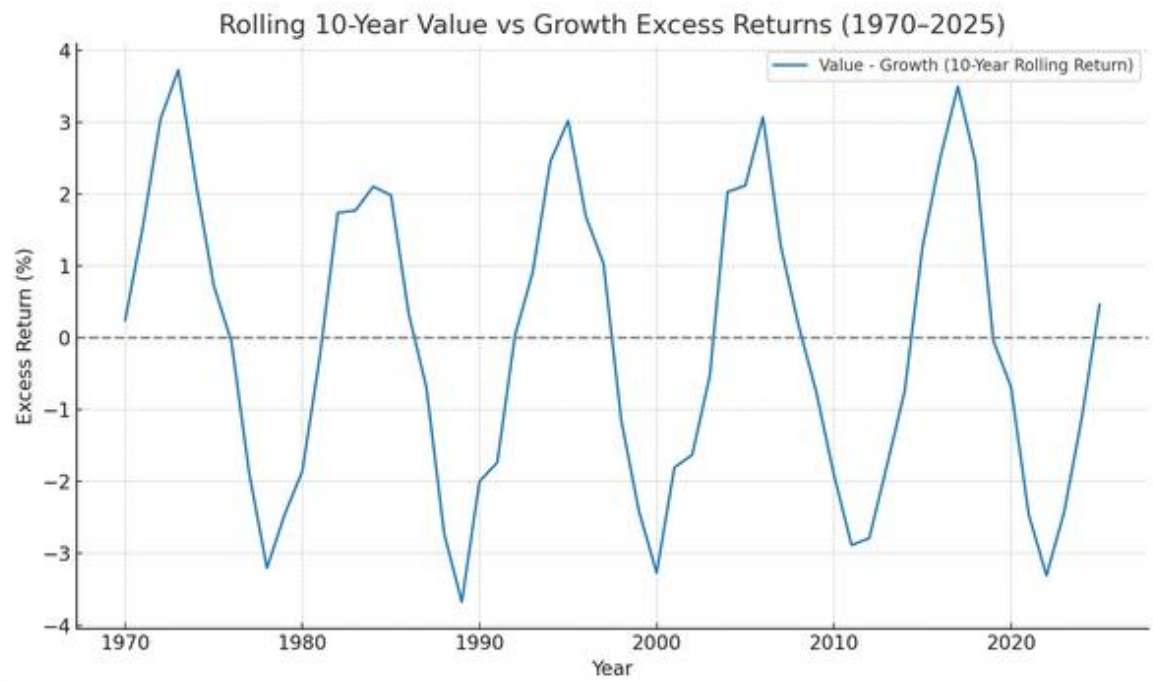
#### *Why the Future May Look Different*

- **Interest rates have risen** and are likely to stay higher than in the last decade.
- **Inflation is back**, which often benefits value sectors like energy, materials, and industrials.
- **Valuations remain compelling**, with value stocks trading at meaningful discounts.

These factors suggest that the environment may now favour value once again.

#### *Our Perspective*

The goal of working with Dimensional is to capture long-term return premiums, and value remains one of the most well-supported of these, academically and historically. This chart effectively illustrates the challenges associated with these strategies.



However, remember that value is only one component of the factors they use to drive returns.

# Why Consider Dimensional?

## 1. Systematic and Disciplined

Investing with Dimensional is not about gambling on trends. It's about **stacking the odds** in your favour through disciplined exposure to long-term drivers of return.



## The Importance of Integrating Multiple Premiums

Estimated probability of outperforming the S&P 500 Index



Integrating multiple premiums can help increase the reliability of outperformance.

These returns are calculated retrospectively with the benefit of hindsight. The projections or other information generated by bootstrapped samples regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Results will vary with each use and over time. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Estimated probability of outperformance is computed by performing one hundred thousand bootstrapped runs of monthly returns from January 1975 to December 2023. For each return comparison, returns are bootstrapped jointly for the S&P 500 Index and tilted US portfolios, and the probability of outperformance is calculated as the percentage of sample return trajectories in which the annualized compound return of the tilted portfolio is greater than that of the S&P 500 Index. The simulations account for the impact of unknown expected returns following the methodology of Fama and French (2018). Integrated represented by Dimensional US Adjusted Market 1 Index without exclusions. Size tilt: Emphasizes stocks in the integrated index with lower market capitalization. Value tilt: Emphasizes stocks in the integrated index with higher price-to-book ratio. Profitability tilt: Emphasizes stocks in the integrated index with higher profitability. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book. S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Please see "Appendix: US All Cap Simulations" for descriptions of Dimensional index data and the size, value, and profitability tilt hypothetical illustrations.

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## 2. Low Costs

Dimensional funds are **low-cost** compared to many actively managed strategies, allowing you to retain more of your investment returns.

## 3. Proven Process

Their approach is based on **real data**, not predictions. They believe that by sticking to the evidence and maintaining discipline, investors have a better chance of success.

## Dimensional vs Index Funds vs Active Managers

Approach	Goal	How It Works
Index Fund	Match the market	Buys all stocks in a market index
Active Manager	Beat the market	Picks stocks and times trades based on predictions
Dimensional	Beat the Market	Systematically tilts toward proven return drivers

Dimensional is often seen as a **middle ground**, aiming to deliver better outcomes than passive funds, with greater consistency and lower cost than traditional active managers.

### The Investor's Challenge

Many investors have only experienced the market since 2009, a period when passive investing dominated and value strategies struggled. But that doesn't mean the evidence has changed. It just means that **education and understanding** are more important than ever. From **1926–2019**, the data shows approximate average annual returns of:

- **U.S. Market (broad index):** ~10%
- **Value stocks:** ~12–13%
- **Small-cap stocks:** ~12–13%
- **Small-cap value:** ~13–14%

The question investors must answer is whether history repeats itself.

### Summary

Dimensional Fund Advisors brings together:

- **Decades of Nobel Prize-winning research**
- **Global experience and scale**
- **A disciplined investment approach**
- **A belief in markets, not predictions**

While recent years have tested their style, history shows that **market leadership rotates**, and diversified factor-based investing remains a robust approach for long-term investors.

Investing with Dimensional is about **trusting the evidence, staying the course, and letting disciplined structure—not emotion—drive success.**



## **Additional Material:**

[Investment and Expected Stock Returns](#)

[What Does High Asset Growth Say About a Company's Expected Return?](#)

[Implementing Reversal Screens](#)

[Performance of the Premiums](#)

[The Fund Landscape](#)

[Swing in Small Value Stocks Shows Benefits of Staying the Course](#)

[How Often Do Small Cap, Value, and High Profitability Outperform?](#)

[When It's Value vs. Growth, History Is on Value's Side](#)

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