

# Australian Core Equity Trust

THE AUSTRALIAN CORE EQUITY TRUST AIMS TO PROVIDE LONG-TERM CAPITAL GROWTH BY GAINING EXPOSURE TO A DIVERSIFIED PORTFOLIO OF SECURITIES LISTED IN AUSTRALIA, WITH INCREASED EXPOSURE TO SMALL COMPANIES AND VALUE COMPANIES RELATIVE TO A MARKET WEIGHTED PORTFOLIO.

## BENEFIT SUMMARY

- Exposure to diversified portfolio of Australian securities
- Constructed to be tax efficient
- Tilts to factors that drive higher expected returns
- Patient and low-cost trading

## WHAT'S THE THINKING BEHIND IT?

Global financial research in recent decades has shown that expected return in a broadly diversified portfolio is overwhelmingly determined by three risk factors. So it follows that as a portfolio is tilted toward these higher risk factors, it increases the expected return.

These three factors are:

- 1. Market** Shares or equities have higher expected returns than bonds or fixed interest.
- 2. Size** Small company stocks have higher expected returns than large company stocks.
- 3. Price** Lower-priced 'value' stocks have higher expected returns than higher-priced 'growth' stocks.

The Australian Core Equity Trust combines the benefits of diversification across the entire equity market, while tilting to those small and value stocks that offer higher expected returns. Plus, it does this in a way that aims to keep costs low and is mindful of the tax effects and costs of trading.

## WHY AN INTEGRATED SOLUTION?

Traditionally, asset allocation is achieved in one of two ways – by investing in an integrated core market-weighted portfolio that mirrors the characteristics of the total equity market or by building a portfolio from a number of component asset classes.

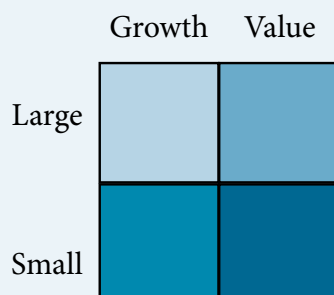
The Australian Core Equity Trust offers the best of both worlds. It targets the entire stockmarket. But unlike traditional core approaches, the securities are not held in the same proportions as a market-weighted portfolio. Instead, it increases the relative weight of small cap and value stocks where the expected returns are greater.

The integrated design does not have the hard edges of a component approach where stocks are often sold out of one trust only to be bought in another. Instead, there is a seamless transition, which means turnover can be kept low and tax liabilities can be managed more easily.

The result is a stronger foundation that allows investors to cost-effectively capitalise on the opportunities presented by the broad market while capturing the higher expected return factors.

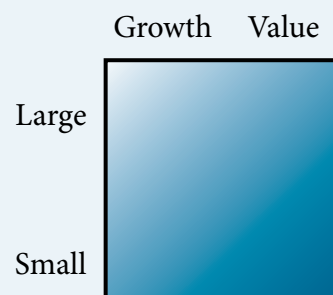
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## COMPONENT APPROACH



THIS IS THE TRADITIONAL WAY OF ALLOCATING ASSETS IN A PORTFOLIO – BREAKING UP THE MARKET INTO INDIVIDUAL COMPONENTS. BUT IT CAN BE A RECIPE FOR HIGHER TURNOVER.

## INTEGRATED SOLUTION



HERE IS AN EFFICIENT, INTEGRATED APPROACH THAT PROVIDES EXPOSURE TO THE ENTIRE MARKET WHILE TARGETING THE FACTORS THAT OFFER HIGHER EXPECTED RETURNS.

## HOW IS THE PORTFOLIO CONSTRUCTED?

### DETERMINING SIZE

Dimensional determines a company's size by measuring its market capitalisation. Market cap is calculated by multiplying a stock's price by the number of shares outstanding.

### DETERMINING VALUE

Dimensional primarily uses the ratio of a company's book value to its market cap to determine where it sits on the value/growth spectrum. This is known as the book-to-market measure or BtM for short. When assessing value, Dimensional also may consider other factors such as a company's price-to-cash-flow ratio and price-to-earnings ratio, as well as economic conditions and developments in the issuer's industry.

To integrate the portfolio, the Australian market is divided into a number of BtM and size categories. To achieve a value tilt relative to the market, the portfolio's target weights are gradually increased for stocks in the value (highest BtM) category and decreased for those in the growth (lowest BtM) category. The portfolio's small cap exposure is achieved by gradually increasing the target weight of small stocks relative to their market weight and decreasing large cap.

The strategy seeks to hold every stock in the eligible universe, but in weights that favour both small and value exposures. The portfolio's eligible universe includes all Australian listed securities. Dimensional also applies a number of qualitative filters designed to remove from consideration stocks that have risk characteristics other than those being targeted. So, for example, companies in bankruptcy, holding companies, stocks below a defined size limit and stocks that lack sufficient liquidity for cost-effective trading are filtered out.

## HOW IS THE PORTFOLIO IMPLEMENTED?

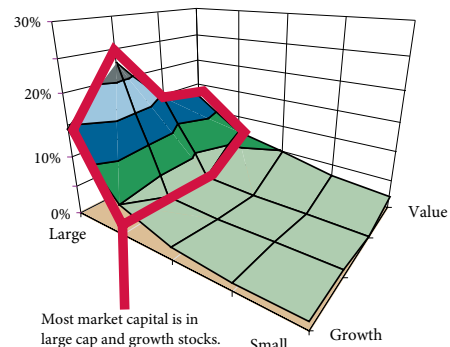
### FREE FROM INDEX CONSTRAINTS

Because Dimensional does not index, we can practice patient trading, focusing on price rather than time of execution, which can mitigate the effects of momentum and lead to lower trading costs. The result is a core holding closer to the desired allocation which can reduce or eliminate the dependence on satellite holdings.

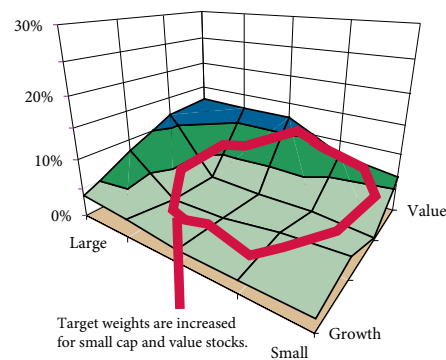
### BROADER MARKET REPRESENTATION

Dimensional's engineering and trading expertise help give the Australian Core Equity Trust a broader and more efficient exposure to the risk factors that drive higher expected returns.

### ELIGIBLE MARKET



### AUSTRALIAN CORE EQUITY TRUST



For illustrative purposes only.

Total stockmarket chart is based on companies listed on the Australian Stock Exchange.

## TRUST FEATURES

**OBJECTIVE** To provide long-term capital growth by gaining exposure to a diversified portfolio of securities listed in Australia, with increased exposure to small companies and value companies relative to a market weighted portfolio.

**GEOGRAPHIC COVERAGE** Australia

**INDIRECT COST RATIO (ICR)** 0.31%  
(actual ICR for year ended 30 June 2011)

**INCOME DISTRIBUTION** Half-yearly  
(end of June and December)

**APIR CODE** DFA0003AU

The Trust's product disclosure statement contains more complete information on risks, advisory fees, distribution charges and other expenses.

The issuer of this Fund is DFA Australia Limited. The Product Disclosure Statement for this Fund can be obtained by contacting Dimensional (see contact details below). Investors should consider the Product Disclosure Statement in deciding whether to acquire, or continue to hold, units in this Fund. This material is provided for information only. No product offer is being made with this material. This document has been prepared for use by financial advisers and professional investors only. No account has been taken of the objectives, financial situation or needs of any particular person. Accordingly, to the extent this material constitutes general financial product advice, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to the investor's objectives, financial situation and needs. To obtain a copy of Dimensional's Financial Services Guide, go to [www.dimensional.com.au](http://www.dimensional.com.au)