

Two-Year Diversified Fixed Interest Trust

THE TWO-YEAR DIVERSIFIED FIXED INTEREST TRUST AIMS TO MAXIMISE THE EXPECTED RETURNS OF A BROADLY DIVERSIFIED PORTFOLIO OF SHORT-TERM, HIGH CREDIT QUALITY, DOMESTIC AND GLOBAL FIXED INTEREST SECURITIES. IT IS DESIGNED TO PROVIDE LIQUIDITY AND DAMPEN OVERALL PORTFOLIO VOLATILITY.

BENEFIT SUMMARY

- Expected return premium over cash
- Variable maturity approach captures 'sweet spot' of curve
- Diversified across multiple issuers and countries
- Constructed to effectively dampen overall portfolio volatility

WHAT'S THE THINKING BEHIND IT?

Two risk factors explain the majority of returns in a fixed interest portfolio:

- 1. Term risk:** This refers to the risks involved in lending your money out for long periods.
- 2. Credit risk:** This is the risk that the borrower defaults. In other words, you don't get your money back.

Dimensional sees fixed interest as a defensive asset class, of which two primary aims are to provide liquidity and lower the volatility of a diversified portfolio.

The best way of meeting those particular goals is to restrict fixed interest investments to short-term, higher quality instruments.

While long-term bonds have higher expected returns than short-term bonds, Dimensional believes that the best risk-adjusted returns can be delivered by investing in short-dated securities.

Credit quality and expected returns are inversely related – so corporate bonds, for example, offer the potential of stronger premiums than government bonds. But in harvesting this additional risk, Dimensional is mindful of protecting investors through broad diversification and careful security selection.

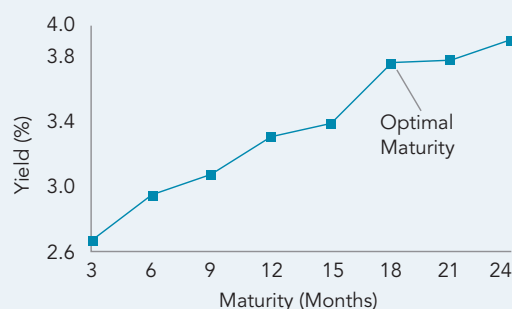
DIMENSIONAL'S APPROACH

In implementing its fixed interest strategies, Dimensional employs a philosophy that involves no interest rate forecasting. This is based on research by Professor Gene Fama, who found that fixed interest markets so efficiently price securities that the best estimate of future yield curves is today's curve. (A yield curve is the trajectory drawn by yields of bonds of the same credit quality but different maturities).

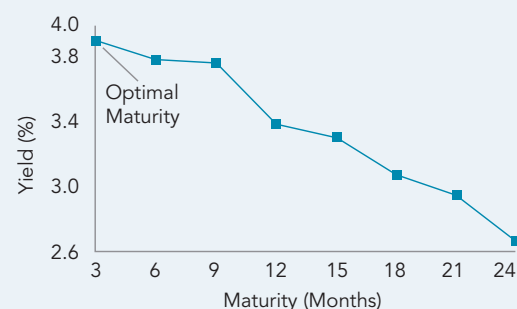
So instead of forecasting, Dimensional seeks to maximise expected returns by exploiting opportunities offered by the current yield curve. Using today's information, it chooses the optimal maturity and holding period – the 'sweet spot'. In broad terms, this means shortening maturities when curves are flat or inverted, and extending them when curves are upwardly sloped. This is called the variable maturity approach.

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VARIABLE MATURITY APPROACH



- EXTEND MATURITIES WHEN THERE IS AN ANTICIPATED REWARD FOR DOING SO.
- WITH A STEEP YIELD CURVE, EXTEND THE MATURITY.



- STAY SHORT WHEN LONGER MATURITIES DO NOT PROVIDE ADDITIONAL RETURN.
- WITH AN INVERTED YIELD CURVE, INVEST IN CASH EQUIVALENTS.

Hypothetical yield curves presented for illustrative purposes only.

A GLOBAL APPROACH

The Two-Year Diversified Fixed Interest Trust invests in both domestic and global fixed interest securities.

To eliminate volatility caused by currency fluctuations, foreign currency exposure is hedged back to the Australian dollar.

The addition of global bonds has the benefit of increasing diversification within the portfolio, which reduces overall volatility. It also provides exposure to the expected returns of multiple yield curves, rather than a single domestic curve.

So investing in hedged global bonds, along with domestic bonds, allows the flexibility to create a more diversified and less risky fixed interest portfolio.

HOW IS THE PORTFOLIO CONSTRUCTED?

The Two-Year Diversified Fixed Interest Trust invests in high credit quality domestic and global fixed interest and money market securities, with a maximum maturity of two years.

The Trust invests in a broad range of securities denominated in currencies from various countries – including Australia, Canada, Denmark, Europe (Euro), Japan, New Zealand, Sweden, Switzerland, the UK and the US.

Eligible issuers generally must have a short-term credit rating of at least A1. If the issuer does not have a short-term rating, it must have a long-term rating of at least AA. Even so, Dimensional does not rely solely on credit ratings in determining the quality of a security. Its primary focus is always on the price of a security in the market, both in absolute and relative terms.

Securities that meet the Trust's requirements include Commonwealth or foreign government and semi-government bonds, high quality corporate paper, bank-backed or asset-backed debt securities from eligible issuers, money market securities and repurchase agreements from eligible issuers and cash.

To protect investors from 'concentration risk', the Trust is subject to strict rules about diversification. These involve limits on the proportion of the fund to be allocated at time of purchase to the paper of any single corporate issuer.

SUMMARY

MIN. CREDIT RATING	A1 short-term AA long-term
MAX. MATURITY	2 years
AVG. MATURITY	N/A
ISSUER LIMITS	
CORPORATE	5%
SEMI GOV'T & GOV'T AGENCIES	10%
'BIG FOUR' BANKS	10%
COMMONWEALTH GOVT & GUARANTEED ISSUES	100%

ROLE IN A PORTFOLIO

Dimensional's fixed interest strategies should not be judged in isolation, but on their impact on *overall* portfolio volatility. In this context, fixed interest may provide a better outcome than cash on a risk-adjusted basis.

TRUST FEATURES

OBJECTIVE	To maximise the expected returns of a broadly diversified portfolio of short-term, high credit quality, domestic and global fixed interest securities.
GEOGRAPHIC COVERAGE	Developed market economies
INDIRECT COST RATIO (ICR)	0.40% (actual ICR for year ended 30 June 2009)
INCOME DISTRIBUTION	Half-yearly (end of June and December)

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