

Emerging Markets Trust

THE EMERGING MARKETS TRUST AIMS TO PROVIDE LONG-TERM CAPITAL GROWTH THROUGH ACCESS TO THE HIGHER EXPECTED RETURNS AND DIVERSIFICATION BENEFITS OF VALUE COMPANIES IN EMERGING MARKETS.

BENEFIT SUMMARY

- Provides exposure to the returns of value companies in the emerging markets
- Offers broad diversification across and within countries
- Strict country selection criteria reduces uncompensated risks
- Employs patient, low cost and tax-aware trading

WHAT'S THE THINKING BEHIND IT?

Emerging markets – a phrase that refers to the financial markets of developing economies – offer a number of benefits to investors.

Firstly, research shows they are a separate asset class whose returns have a relatively low correlation with those of developed markets like the US, the UK, Japan and Australia. This means they offer great diversification benefits.

Secondly, emerging markets offer higher expected returns than those of developed markets – but this comes at the cost of greater volatility, lower liquidity, political and economic uncertainty and often an uncertain, relatively undeveloped regulatory and legal framework.

So the key to providing investors with consistent exposure to the returns of this asset class is to pursue a highly diversified and cautious strategy that employs strict criteria around which countries are eligible for investment.

Rather than trying to time for entry and exit points to various markets, the Emerging Markets Trust embraces a patient approach that focuses on keeping costs low.

Within eligible emerging market countries, the Trust invests in value stocks. Dimensional believes the higher expected return from value stocks – companies with a low price relative to various fundamental financial measures – is compensation for the additional risk of investing in value companies.

WHAT ARE EMERGING MARKETS?

There is no single definition of an emerging market. But broadly, these are the markets of countries with a number of common characteristics. These may include a relatively undeveloped economy, an immature legal system, a high government presence in the market and an uncertain regulatory framework.

Because the economies and market systems of these countries often experience rapid growth and change, an investment strategy that seeks to successfully tap the returns of this asset class needs to be under constant review and must employ strict controls that ensure adequate diversification and protect the investment of unitholders.

HOW IS THE PORTFOLIO CONSTRUCTED?

The Emerging Markets Trust is managed without reference to an index. Its quantitative design aims to ensure that the returns from emerging markets are captured both precisely and reliably. A qualitative overlay provides flexibility in implementation.

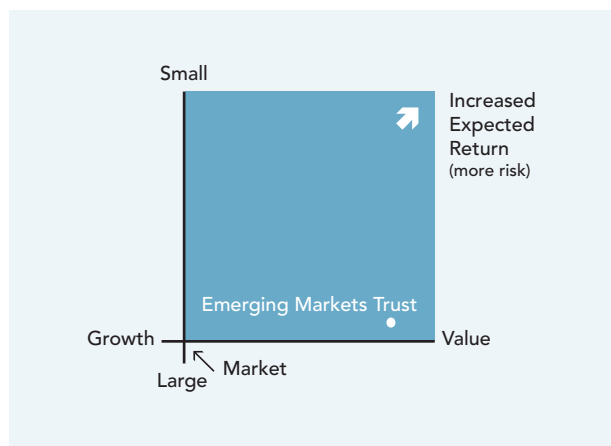
The portfolio's eligible universe includes the listed ordinary shares or depository receipts of value companies in eligible emerging market countries with a market cap above USD50 million. Within this universe it invests in those stocks with higher book-to-market ratios (BtM).

The Trust generally will invest in companies in a similar proportion to their market capitalisation within each country. However, to manage turnover and take advantage of favourable trading opportunities, the Trust may not exactly match specific company weights.

In determining what qualifies as an emerging market, Dimensional considers the classifications of various organisations. But those countries approved for investment may not include all these markets. Eligible countries must meet strict criteria covering such areas as market liquidity, availability of investor information, adequate regulation and ease of access.

Eligible countries currently include Brazil, Chile, China, Czech Republic, Hungary, India, Indonesia, Israel, Malaysia, Mexico, Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand and Turkey.

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In some cases, the Trust will indirectly seek exposure to individual emerging markets by investing in companies' depository receipts and other alternative securities issued on developed market exchanges. This provides the strategy with efficient exposure to those companies without the degree of operational and other risks involved in investing directly in an emerging market.

The Trust weights countries by their market capitalisation but with a buy cap of 12.5% for any one country. This reduces the portfolio's exposure to market and political risk in the largest countries.

Dimensional also uses qualitative filters that remove from consideration stocks that have risk characteristics other than those being targeted. For example, the strategy filters out companies in bankruptcy, holding companies, and stocks that lack sufficient liquidity for cost-effective trading.

HOW IS THE PORTFOLIO IMPLEMENTED?

Because Dimensional does not index, it can practise patient trading, focusing on price rather than time of execution, which can mitigate the effects of momentum and lead to lower trading costs.

By allowing variations from target weights, Dimensional can take advantage of favourable trading opportunities and minimise transaction costs.

The strategy implements a long-term buy and hold approach designed to reduce transaction costs and keep portfolio turnover low.

Tax management is another key feature of this portfolio. Dimensional seeks to maximise after-tax returns. It does this by managing the Trust in a way that aims to defer the realization of net capital gains where possible and to manage dividend income.

ROLE IN A PORTFOLIO

The Emerging Markets Trust is designed to be a component of a global equity portfolio. It is constructed in a way that aims to prevent it drifting from its position on the style map. This is so it can consistently deliver value returns, which research shows are above those of the market over the long term.

TRUST FEATURES

OBJECTIVE	To provide long-term capital growth through access to the higher expected returns and diversification benefits of value companies in emerging markets.
GEOGRAPHIC COVERAGE	Approved emerging markets
INDIRECT COST RATIO (ICR)	0.76% (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