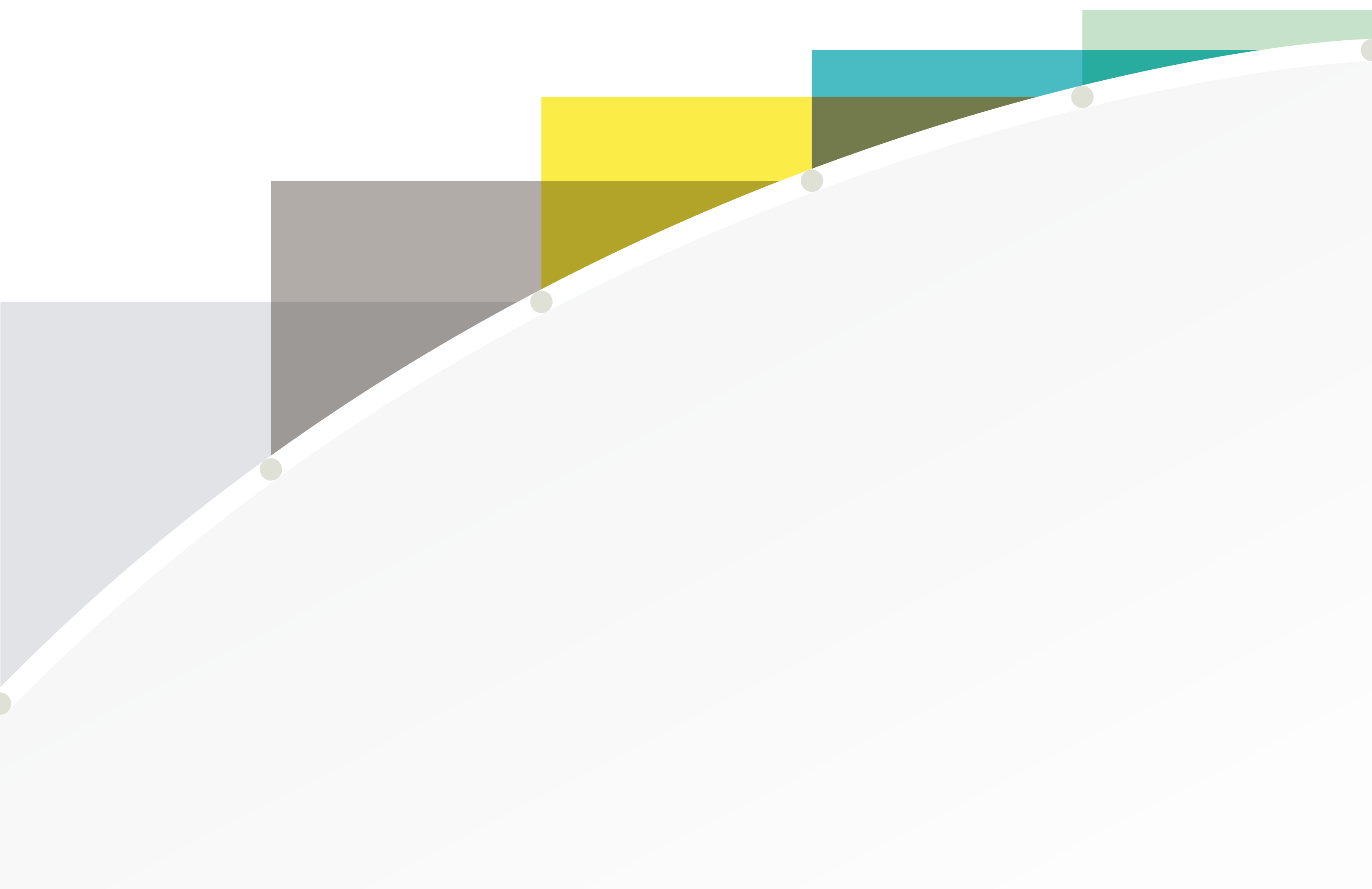
Dimensional

Dimensional
Systematic Fixed Income



Dimensional at a Glance

In the 1970s, Dimensional founders were instrumental in creating some of the first index funds. In the 1980s, Dimensional was one of the early firms to pioneer factor-based investing. In 1983, we launched our first fixed income strategy based on Eugene Fama's early research into the drivers of returns. With more than four decades of experience, we continue to evolve our fixed income approach to meet client needs.

43

YEARS SINCE FOUNDING

$777B

FIRMWIDE ASSETS UNDER MANAGEMENT

$118B

FIXED INCOME ASSETS UNDER MANAGEMENT

1,500+

EMPLOYEES IN 15 GLOBAL OFFICES

One

INVESTMENT PHILOSOPHY

Data as of December 31, 2024.
Firmwide assets under management are in USD (billions).

The Best of Index and Active Investing in Bonds

Dimensional has been managing fixed income portfolios since 1983. Our systematic approach combines benefits of indexing—including broad diversification, low costs, and transparency—with flexible, active implementation to target higher expected returns and manage risk.

How Dimensional Is Different	Dimensional	Indexing	Traditional Active
Investment Focus	Drivers of higher expected returns	Index tracking	Fundamental analysis and interest rate forecasting
Portfolio Construction	Broadly diversified portfolios balancing expected returns, risks, and costs	Portfolio decisions outsourced to index providers	Potentially concentrated positions with lower liquidity
Implementation Approach	Systematic yet flexible daily process	Inflexible rebalancing schedule	Often dependent on "star manager" decisions
Trading	Price-driven approach with cost and risk management	Time-sensitive trading during index reconstitution	Potential trade urgency in specific names
Style Consistency	Designed to pursue consistent exposure to the targeted asset class	Potential style drift from infrequent rebalancing	Potential variation in asset class exposure may increase risk

A Systematic Investment Approach

Research has shown that market prices provide real-time information about differences in expected bond returns. Using this information, Dimensional applies a consistent yet flexible process each day to pursue higher expected returns.

Using Forward Rates

A bond's forward rate is the sum of its current yield and expected price change for a specific holding period.

We use current market prices to estimate forward rates, which help identify return differences among bonds in order to pursue those with higher expected returns.

TARGETING HIGHER EXPECTED RETURNS

1.6M+

Daily expected-return calculations across numerous issuers, countries, and currencies

We continually evaluate the global opportunity set and position portfolios for higher expected returns.

MANAGING RISKS

60M+

Price inputs assessed daily across more than 39,000 securities[1]

We manage risk through diversification, market-informed daily credit monitoring, and transparent controls in portfolio design.

TRADING WITH FLEXIBILITY

6–19 Basis Points*

Average price advantage on Dimensional trades vs. adjacent market trades[2]

We may view bonds with similar characteristics as comparable buying or selling opportunities, leading to lower costs and enhanced returns.

* Based on a comparison of Dimensional's corporate and agency bond trade prices from January 1, 2022, to December 31, 2024, relative to most recent same-direction trades before and after Dimensional trades.

TARGETING HIGHER EXPECTED RETURNS

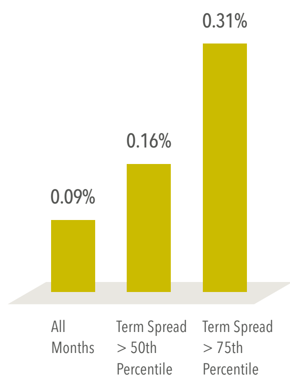
As market prices change, so can the expected returns of various bonds. Rather than trying to predict interest rates or macroeconomic variables, Dimensional uses observable market information to position fixed income portfolios for higher expected returns.

Fixed Income Drivers of Return

Term

Wider term spreads generally lead to larger term premiums.

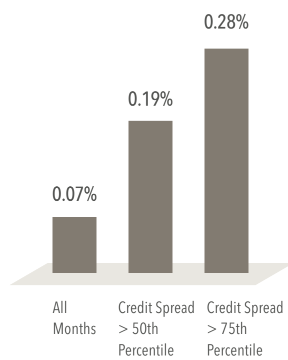
US Government Term Spread: 3–10 Years Minus 1–3 Years, Average Monthly Return Difference (1976–2024)[3]



Credit

Wider credit spreads generally lead to larger credit premiums.

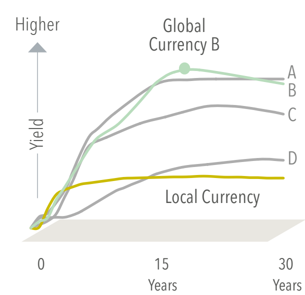
US Intermediate-Term Credit Spread, Average Monthly Return Difference (1973–2024)[3]



Currency

Global bonds issued in different currencies offer opportunities for higher expected returns and reduced volatility.

Currency-Hedged Expected Return[3]



How Dimensional Pursues These Drivers

Variable Maturity

Vary duration based on current term spreads to pursue higher expected returns.

Variable Credit

Vary exposure across credit quality based on current credit spreads to pursue higher expected returns.

Global Bonds

Vary exposure to global yield curves based on forward rates while achieving additional diversification.

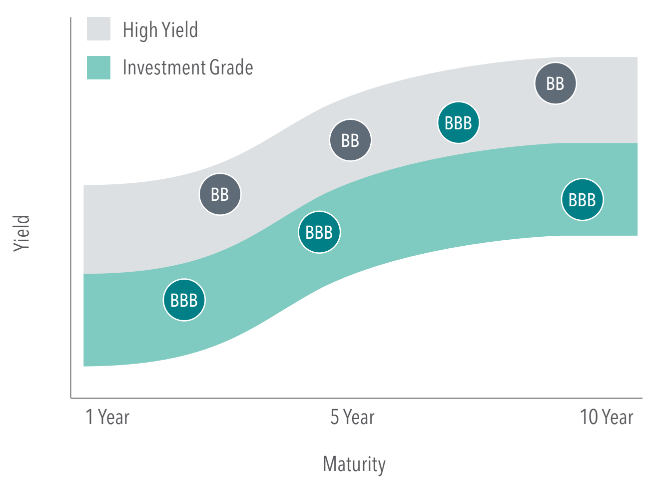
Past performance is no guarantee of future results.

MANAGING RISKS

To assess credit risk, we apply a framework that uses many inputs, including current market prices, dealer quotes, bond ratings from nationally recognized statistical ratings organizations, TRACE data, credit default swaps, liquidity analysis, and an issuer's short-term equity returns, among other considerations.[4] This broad range of market-based information helps us evaluate and manage changing risks in real time while maintaining style consistency in portfolios.

Indexers and some traditional managers may rely solely on third-party ratings agencies to assess a bond's credit risk. But outsourcing credit monitoring can lead to unintended risk exposures and forced selling of "fallen angel" bonds—or those that move below investment grade. Our internal credit monitoring helps us proactively identify emerging credit risks and possible downgrades.

Are You Taking On More Risk Than You Think?

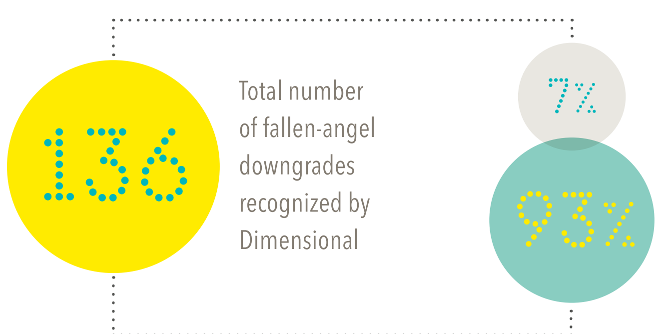


An investment grade bond may begin trading like a high yield bond before a credit rating agency issues a downgrade.

For illustrative purposes only

Not Falling for Fallen Angels

Internal Downgrades from Investment Grade to High Yield, 2020–2024[5]



Driven by rating from credit rating agency

Driven by internal credit monitoring

TRADING WITH FLEXIBILITY

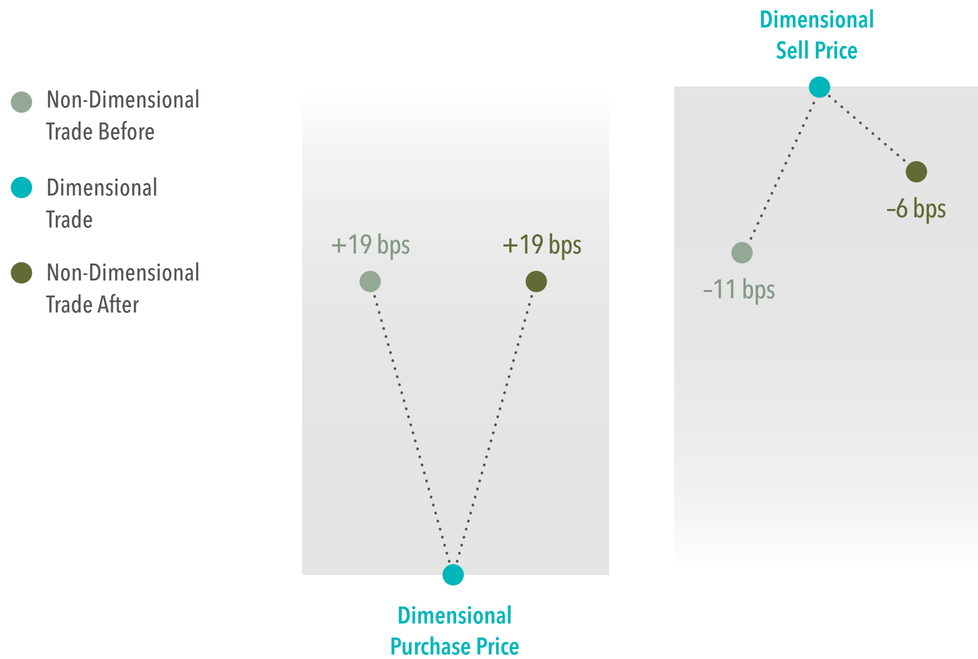
Dimensional's systematic approach targets higher expected returns while managing for costs and risks. Using real-time market inputs combined with our internal credit monitoring, we identify bonds with similar characteristics as comparable buying or selling opportunities. We believe this enhances our trading flexibility, which helps reduce costs.

By not having to trade specific names at specific times, we can target better execution for our funds. We believe a flexible trading approach allows us to seek the best possible price and to avoid forced trades associated with agency downgrades and index reconstitutions.

Flexible Trading in Action

Average Price Differences for Corporate and Agency Bond Trades, 2022–2024[2]

On average, Dimensional's purchase price was lower than the adjacent purchase prices from 2022 to 2024. Similarly, our sell price was higher than the adjacent sell prices.



A Legacy of Innovation

Since launching our first fixed income strategy in 1983, Dimensional has continued to incorporate new research and evolving market structures to meet client needs.

1980s

Forward Rates and Variable Maturity

Nobel laureate Eugene Fama's term-structure research drives Dimensional's first systematic fixed income strategy in 1983 (short-term fixed income), applying our variable maturity approach.

1990s

Currency-Hedged Global Bonds

Dimensional launches global bond strategies that pursue higher expected returns and lower volatility in an expanded opportunity set, including a duration-constrained approach.[6]

2000s

Trade Transparency and Variable Credit

Using TRACE data, Dimensional develops enhanced market-informed credit monitoring, dealer inventory modeling, and transaction cost analysis. Dimensional launches inflation-protected and tax-exempt bond strategies and begins applying the variable credit approach to select portfolios.

2010s

Direct Trading, Higher-Yield Bonds

Dimensional begins peer-to-peer bond trading as an alternative to traditional broker-dealer networks. New offerings include a variable credit high-yield approach, social and sustainability strategies, and an inflation-linked US municipal bond strategy.

2020s

Return Variables in Global Corporate Bonds

A Dimensional study of global corporate bonds shows that most bond-level and issuer-level characteristics do not provide information about expected bond returns beyond what is already contained in forward rates. The exception is an issuer's recent stock performance, which we use to inform trading decisions.

Interested in learning more?

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

1. Source: Dimensional. As of December 31, 2024. Price inputs are evaluated or executed prices from ICE, S&P, Bloomberg, TRACE, MSRB, and TraX or inventory postings from Tradeweb, Neptune, MarketAxess, and Bloomberg.
2. Includes Trade Reporting and Compliance Engine (TRACE)–eligible corporate and agency bonds traded by Dimensional. 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. Adjacent trades by other market participants had the same direction as Dimensional trades (buys with buys, sells with sells) and were the most recent trade before and after Dimensional trades. Data compiled by Dimensional. TRACE-eligible corporate and agency bond trades from January 1, 2022, to December 31, 2024. Comparative trades (prior and post) are not filtered on trade size. This could have a considerable effect on the relative trade prices.
3. **Term spread analysis:** The bar charts in this exhibit show the average monthly difference in returns between longer-maturity and shorter-maturity bond indices. The first bar represents the average USD return difference unconditional on the term spread, while the second and third bars are average USD return differences conditional on the beginning-of-month term spread being greater than the 50th and 75th percentiles of all months. **Credit spread analysis:** The bar charts in this exhibit show the average monthly difference in USD returns between credit/corporate bond and government bond indices with similar maturities. The first bar represents the average return difference unconditional on the credit spread, while the second and third bars are average return differences conditional on the beginning-of-month credit spread being greater than the 50th and 75th percentile of all months. Intermediate-term indices include bonds with 1–10 year maturities. The monthly time series of yield and return data are provided by Bloomberg. Past performance is not a guarantee of future results. 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.
4. All broker-dealers that 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.
5. 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). Credit Rating Agency Change counted if the internal downgrade is triggered by a nationally recognized statistical organization (Moody's, S&P, and Fitch) downgrading the issuer. Downgrades from Investment Grade are issuers that were initially given an investment-grade rating and subsequently reduced to junk bond status. Source: external ratings sourced from Bloomberg; internal ratings sourced from Dimensional using market pricing data, namely from TRACE or TraX. 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 marketing 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. TraX is a European fixed income market post-trade data reporting service provided by MarketAxess. Dimensional eligible universe data as of December 2024: ~23,000 securities, ~2,000 issuers of which ~5,000 securities held, ~750 issuers held. Holdings are subject to change.
6. Guided by Eugene Fama's 1980s research on forward and spot exchange rates and work in the 1990s between Fama and Dimensional on currency-hedged investing.

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