

DIMENSIONAL FUND ADVISORS

Transparency in Mutual Funds

APRIL 2009

Recent news of fraud and malfeasance in the financial services industry highlights the importance of transparency and access to information. Investors who entrust significant portions of their wealth to professional managers should know where their money goes and how it is invested.

It is important to note that most of the highly publicized incidents of misconduct involved private investments, such as hedge funds. The managers in these cases operated programs that were not subject to the same regulatory standards as mutual funds. In the mutual fund industry, there are rules and regulations designed to benefit investors.

THE REGULATION OF MUTUAL FUNDS

Almost every part of a mutual fund's operation and structure is subject to US securities laws. Mutual funds are principally regulated by the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940. The 1940 Act was drafted after a six-year study commissioned by the US Congress and was signed into law with broad industry and political support. The 1940 Act regulates the formation and activities of mutual funds, as well as mutual fund investment advisors, principal underwriters, directors, officers, and other parties providing services to the mutual fund.

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To help investors make informed decisions, the 1940 Act requires extensive disclosure of material details about mutual funds. The main sources of information are the fund prospectus, the statement of additional information, and the annual report. The prospectus is provided at the time of the initial investment and includes details on investment objectives, past performance, fees, and risks. Mutual funds also must publish financial statements that have been independently audited. All of this information is updated regularly.

It's important to understand, however, that the 1940 Act, neither requires the SEC to supervise the investment decisions of mutual fund managers nor permits them to judge the merits of a mutual fund's investment objectives. Investors must evaluate mutual funds themselves using the available information.

MUTUAL FUND STRUCTURE SERVES INVESTORS

Running a mutual fund is a complex process involving multiple entities providing services for the functioning of the fund. Some of the parties involved are independent companies hired by, but completely separate from, the mutual fund. Oversight for many of a mutual fund's operations is provided by the board of directors. Mutual funds are required to maintain a board that meets regularly, a key difference between regulated mutual funds and private investments, and a majority of the directors must be independent from the mutual fund company. The board is responsible for approving the hiring of a chief compliance officer (CCO). The CCO oversees policies designed to prevent securities law violations by the mutual fund. The CCO must report regularly to the full board and, separately, to the independent directors, and he can be replaced only with approval of the full board.

An important but lesser-known party in the process is the mutual fund custodian. While the mutual fund manager initiates trades by deciding which securities (such as stocks and bonds) to buy and sell, trades are completed by the fund custodian who takes possession of securities purchased or transfers securities sold. The mutual fund manager never handles the securities in a trade. This separation between management and custody is mandated by law and serves investors since the mutual fund is trading securities on their behalf as shareholders. Most mutual funds use qualified banks as custodians, and the banks are required to segregate mutual fund securities from other assets. In the event that a mutual fund company ceases to do business, the securities would remain with the custodian while the mutual fund's board of directors would decide whether to hire another mutual fund manager or sell the securities and distribute the proceeds to shareholders.

Another player in the process is the accounting agent. For investors, an important function of this agent is to calculate the daily net asset value (NAV). The NAV reflects the value of the mutual fund's holdings each day and is also the price for purchasing a fund share. (Some mutual funds may levy additional charges. The prospectus contains details on fees and other expenses). The NAV matters to investors because it provides information to determine the value of their investment. Investors can also use the NAV to calculate the value of redemptions. Under the 1940 Act, open-end mutual funds are required to allow redemptions at any time. Daily asset values and access to daily redemptions are hallmarks of the mutual fund structure. These features are not always required or present in private investments.

Some mutual funds engage a transfer agent to help facilitate new investments which can enhance accountability. The transfer agent receives cash for a fund purchase from an investor and informs the mutual fund manager. This way, the fund manager knows about new money for making trades in the market.

The rules of the regulated mutual fund industry help protect investors, but the system is not foolproof. Investors should take full advantage of the available information and base their decisions on careful analysis in consultation with their financial advisor.

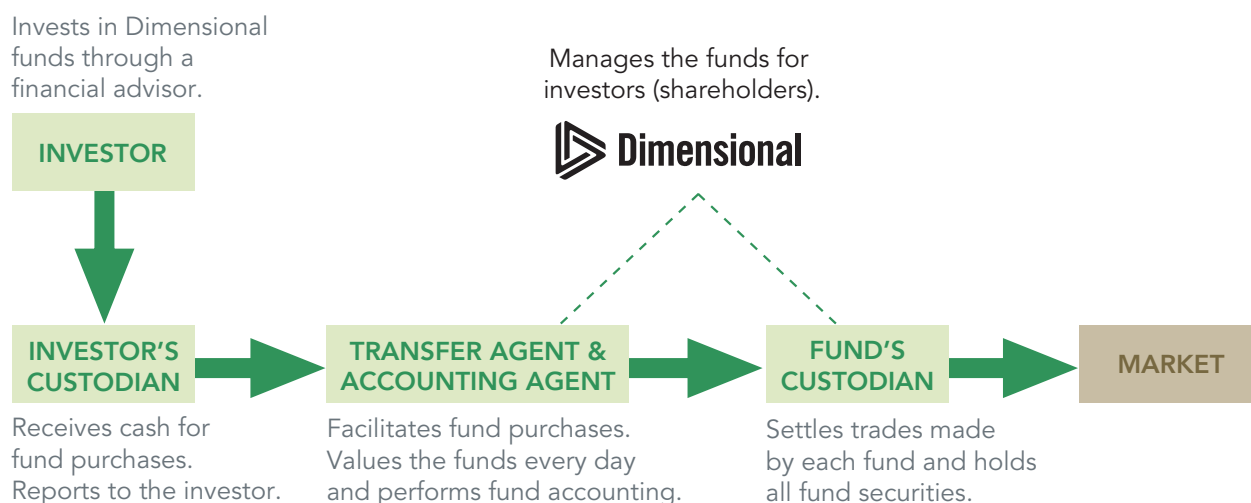
INVESTING WITH DIMENSIONAL

Dimensional does not sell fund shares directly to the public. Typically, individuals invest with Dimensional through approved financial advisors and purchase or redeem fund shares through an investor custodian. This custodian has a responsibility to the investor and is an independent entity separate from other parties in the process. The investor custodian receives information from the accounting agent and compiles account statements for each client. The investor custodian also maintains a record of shares bought and sold by clients, and provides fund information for tax reporting.

The following diagram illustrates how money flows from an investor to the market for Dimensional clients who work with financial advisors.

INVESTING IN DIMENSIONAL FUNDS

How money flows from an investor to the market



The transfer agent, accounting agent, and fund's custodian are independent companies hired to provide services for Dimensional's mutual funds. They handle the money for new investment purchases and share information which Dimensional uses to manage the mutual funds. For all mutual funds, this separation of duties encourages accountability and transparency in the process.

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Dimensional Fund Advisors is an investment advisor registered with the Securities and Exchange Commission. Consider the investment objectives, risks, and charges and expenses of the Dimensional funds carefully before investing. For this and other information about the Dimensional funds, please read the prospectus carefully before investing. Prospectuses are available by calling Dimensional Fund Advisors collect at (310) 395-8005; on the Internet at www.dimensionalfundadvisors.com; or, by mail, DFA Securities Inc., c/o Dimensional Fund Advisors, 1299 Ocean Avenue, Santa Monica, CA 90401. Dimensional funds are distributed by DFA Securities Inc

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