Strategic Australian Equity Fund

Fund features

OBJECTIVE

The fund aims to provide long term capital growth and income by investing predominantly in a diversified portfolio of listed Australian shares.

ASSET ALLOCATION

Cash and liquid securities	0% – 5%
Fixed interest	0% – 0%
Property related securities	0% – 0%
Australian shares	95% – 100%
International shares	0% – 0%
Alternatives	0% – 0%

INVESTMENT TIMEFRAME

5+ years

LEVEL OF RISK

High

APIR CODE

DFA0008AU

ARSN

133 312 820

APPLICATIONS AND WITHDRAWALS

Daily

UNIT PRICES

Daily

DISTRIBUTIONS

Half Yearly

MINIMUM INVESTMENT

Subject to investment platform

MANAGEMENT COSTS

0.31% p.a[1]

BUY–SELL SPREAD

0.07%/0.07%

[1] Management Costs include net GST.

Benefit Summary

- Forms an integrated solution that invests broadly across the Australian market
- Emphasises investments in securities with higher expected returns
- Incorporates in-built tilts to small, low relative price and profitable companies
- Provides tax-efficient implementation at low-cost

Aims of the Strategy

Australia is a small, concentrated equity market in global terms, with just a handful of stocks dominant. So there are benefits in taking a highly diversified approach to this market through a single vehicle that maximises return and minimises cost.

Consequently, the aim of the strategy is to generate a cost-effective and tax-efficient exposure to the Australian equity market, while diversifying broadly and targeting the parts of the market that history suggests offer higher expected returns.

The Strategic Australian Equity Fund targets the whole market. But unlike a traditional core portfolio, it emphasies stocks where expected returns are greater.

The fund puts a greater weight on stocks with lower relative prices, small company stocks and companies with higher profitability.

Its graduated approach is tax-efficient and helps keep costs down by limiting turnover.

This approach builds a strong foundation that allows investors to benefit from the myriad of opportunities generated by the Australian market, but in a low-cost, efficient and highly diversified way.

The Thinking Behind It

Underpinning the Strategic Australian Equity Fund are decades of financial research by some of the world's leading academics.

That research has shown that expected returns in a diversified portfolio are overwhelmingly explained by four dimensions of expected return.

The first is the long-term premium to be generated by investing in shares over bonds. There are also established premiums for investing in small company stocks over large company stocks and for investing in low relative priced or "value" stocks over high relative priced or "growth" stocks.

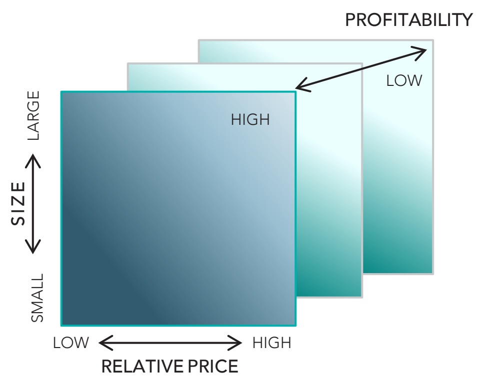
The most recently identified dimension of returns is profitability. The research shows that once you adjust for company size and relative price, stocks with higher profitability beat stocks with lower profitability over the long term.

So it makes sense to emphasise these dimensions in a diversified portfolio so as to generate a higher expected return.

How might this look in a portfolio? Just using a simple illustration (see below), we can show a total market index. Stocks can be ranked on the vertical line from large at the top to small at the bottom. And they can be ranked on the horizontal line from low relative priced securities on the left to high relative priced on the right. With profitability, we can further sort stocks on another dimension from low profitability at the back to high profitability at the front.

Combining these dimensions in a single portfolio minimises turnover, maximises diversification, increases tax efficiency and lowers the cost of rebalancing.

DIMENSIONS OF EXPECTED RETURN



Building the Portfolio

Securities judged as eligible for the portfolio are assessed in terms of size, relative price and profitability. Increased weightings are given to those stocks with smaller market capitalisation and lower relative prices.

Within these size and value categories, the funds then emphasise those securities with higher profitability. Small cap stocks with high relative prices and low profitability are excluded, because they have low expected returns.

Size is defined by a company's market capitalisation. Relative price is primarily measured in terms of book value, but other fundamentals may be used, such as earnings, dividends and cash flow. The proxy for profitability is operating income before depreciation and amortisation, minus interest expense, scaled by book equity.

Alongside this, qualitative filters remove from consideration stocks that have lower expected returns than those being targeted. For example, companies in bankruptcy, holding companies, and stocks that lack sufficient liquidity for cost-effective trading are filtered out.

The strategy generally excludes securities that the manager defines as Real Estate Investment Trusts (REITs) or REIT-like securities.

Because this is not an index approach, the manager can practice patient trading, focusing on price rather than the time of execution. This can mitigate the effects of momentum and lead to lower trading costs.

About the Investment Manager

The portfolio is managed by Dimensional Fund Advisors, a wholesale global fund manager that since 1981 has been translating academic research into practical investment solutions designed to provide effective outcomes for investors.

With 10 offices in eight countries and clients in more than 25 countries, Dimensional manages about $465 billion globally for its clients.

Many managers employ teams of analysts to research companies and make forecasts. But with little evidence that these efforts pay off for investors, Dimensional relies on markets to price securities and uses its skills to add value in ways it can control—such as strategy design, portfolio management and flexible trading.

The benefit is a transparent, consistent, efficient and process-driven approach based on rigorous research. This approach aims to deliver reliable outcomes from diversified portfolios based on the sources of higher expected returns.

Further information

If you require further information, please contact us on 1800 002 217 or email us at **admin@mosaicpa.com.au** or visit our **website**.

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