



HILL INVESTMENT GROUP

Take the long view

Question and Answer

Q: Intelligent investors ask why hiring a passive advisor beats purchasing retail index funds?

A: The academic evidence tells us that the passive philosophy is the winning strategy. Pure asset class funds, as opposed to index funds, offer a more elegant way to earn market returns. We have identified the key advantages pure asset class funds have over ETFs and retail index funds.

Background

In the early 1970's, investment pioneers worked from academic models to develop the principles and techniques that led to index investing. While indexing offers a simple approach, the limitations prevent index investors from earning true market returns. Due to a limited selection of equity asset classes and less rigorous targeting of value and small equity premiums, the pure passive approach wins by a significant annual advantage.

Smart Exposure to Risk/Return

Dimensional Fund Advisors (DFA) is the company responsible for helping institutions and advisors implement the passive philosophy in the most diversified, low cost, tax-efficient way. DFA's asset class funds capture the dimensions of risk that provide higher expected returns without being confined by retail indices. Over 96% of the variation in returns is due to the exposure to three key risk factors. The factors are sensitivity to: the market, size, and value/growth. The following represent key considerations:

<i>Compare</i>	<i>Index Funds</i>	<i>Asset Class Funds (DFA)</i>
Core Concept	Funds created to mimic commercial benchmarks	Build customized funds that offer additional exposure to risk factors that increase returns in the long run
Target Return	Retail index	Return of entire asset class
Transaction Costs	Mandatory index tracking increases turnover and transaction costs	Minimize transaction costs and thereby enhance net returns through: block trading, hold ranges and tax management algorithms
Market Coverage	Excludes many world markets	Creates funds to cover the world markets providing investors with greater diversification and lower volatility
Securities Lending	Returns 100% of securities net lending revenue to investors	Returns 100% of securities net lending revenue to investors
