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Dimensional's Eduardo Repetto has no army of analysts. Photo LOUISE KENNERLEY

Funds of many dimensions

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Eduardo Repetto of Dimensional Fund Advisors is surely one of the few chief investment officers who has a PhD in aeronautical engineering.

Originally from Argentina but now based in Austin, Texas, Repetto was named co-chief executive last year, sharing the title with the company's founder, David Booth, who is due to retire in three years.

Mercer named Dimensional's Australian Value Trust the best performing long-only Australian share fund over the past 10 years with an annualised return net of fees of 12.2 per cent, an outperformance of more than 3.5 per cent against the S&P/ASX 300 accumulation index over the same period.

At February 25, Dimensional managed $US216 billion, with $US18 billion of the total funds managed for domestic clients.

The Australian funds are run across 13 pooled strategies: the largest are Australian Value ($3.7 billion) and Global Value ($3.5 billion). Dimensional is a quantitative fund manager.

"We don't have armies of analysts meeting with management or poring over financial statements trying to find mispricing," explains Repetto.

The strategy is defined by three ideas – equity, size and value – based on broad expectations that equities outperform as an asset class over time; small companies outperform large companies in the long term; and value stocks outperform growth stocks due to their low price relative to fundamentals.

Repetto adds: "We don't consider the momentum premium one you can implement in a reliable way, but it is one that you have to consider."

He notes the tendency for stocks that have been either outperforming or underperforming the market over some months to continue doing so.

Another differentiation point is Dimensional's low cost of executing trades and its awareness of tax considerations.

About 80 per cent of trades are executed through the firm's traders through direct market access.

"We do hold a lot of securities which provide diversification but create an efficient trading environment because, depending on a price, we'll buy [or sell] anything."

Dimensional has 100 stocks in its domestic large cap portfolio, 200 stocks in its value fund and 400 in its small cap portfolio, which goes deeper than the Small Ordinaries down to stocks with a market capitalisation of $50 million or more.

"By having so many names, we are always finding liquidity in different names and capturing a premium from other investors who demand liquidity in those names as a matter of urgency," says Repetto.

He adds that portfolio managers don't fall in love with individual stocks; rather they constantly rebalance and never expect the same stocks to do all the work.

The Australian Value fund has recently been rotating out of the strongly performing materials sector and buying into underperforming financial and industrial stocks, as well as picking up stocks in consumer discretionary and consumer staples.

Its exposure to one sector is limited to the index plus 10 per cent.

Major buys during the last quarter of 2010 were National Australia Bank, Origin Energy, Santos, Harvey Norman and Toll Holdings. The manager believes in company risk, and imposes a limit of 5 per cent per holding. Dimensional does not participate in floats, but buys block trades at a discount.

Its top 10 holdings at the end of December were Wesfarmers, National Australia Bank, ANZ Banking Group, Origin Energy, Macquarie Group, Suncorp, Santos, Insurance Australia Group, Incitec Pivot and Qantas.

Dimensional's emerging market fund has attracted unsolicited attention from sovereign wealth funds.

In the past year, Dimensional's Australian Small strategy was its best performing, delivering returns of 15.8 per cent last year net of fees, 2 per cent more than the Small Ordinaries. Over the past 10 years, it delivered an annualised return net of fees of 12.2 per cent, outperforming the Small Ordinaries by 4 per cent.

Its best performers last year were mid-cap resources plays Iluka Resources and Lynas Corporation, as well as takeover benefits from stocks including Tower Australia.

Recently, Morningstar named Dimensional the ninth largest mutual fund family in the United States, having been ranked lower than 40th before the global financial crisis.

Its emerging market fund has attracted unsolicited attention from sovereign wealth funds, having a track record over almost two decades.

Dimensional, which had no liquidity issues during the global financial crisis, has a target cash position of 0.25 per cent, and thus remained fully invested during the crisis, capturing the bounce when the market recovered.