

Dimensional Fund Advisors Ltd.

PILLAR 3 RISK DISCLOSURE STATEMENT

31 December 2009

Introduction

The Pillar 3 disclosures relate to Dimensional Fund Advisors Ltd (hereinafter referred to as “the Firm”) a 100% owned subsidiary of Dimensional Fund Advisors LP, a company organised in the United States of America.

The Firm is authorised and regulated by the Financial Services Authority (the “FSA”) and is classified as a limited licence firm for capital purposes.

The Capital Requirements Directive (“CRD”) introduces a new prudential framework for firms with the intention of relating capital more closely to risks. It involves a three ‘pillar’ approach:

- Pillar 1: deals with minimum capital requirements for credit, market and operational risks;
- Pillar 2: requires firms to assess capital requirements for credit, market and operational risks;
- Pillar 3: deals with disclosure requirements.

Under Pillar 3 the Firm is expected to disclose information relating to the capital it holds and each material category of risk it faces in order to assist users of its accounts and to encourage market discipline. These disclosures aim to provide information on the risk exposures faced by the Firm and the risk assessment process it has in place to monitor these. These disclosures are required to be made under Chapter 11 of the FSA’s Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) and are seen as complimentary to Pillar 1 and Pillar 2.

The information is provided as follows:

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The information contained in this disclosure statement has not been audited by the Firm’s external auditors.

1 Background to the business, management structure and risk management framework

(I) Background to the business

The Firm offers a broad range of investment products encompassing both equity and fixed interest strategies to clients based in the UK, Europe, the Middle East, Latin America and Africa.

Portfolios tend to be highly diversified with in some cases many thousands of equity holdings. The strategies are designed to obtain the market return from a particular asset class and do not use derivatives except through investment in forward currency contracts within the fixed income portfolios.

The Firm's buy/sell programs and overall portfolio management approach substantially eliminate bias towards buying or selling any one investment over another, as long as the individual securities meet the objectives of the portfolio and the investment guidelines. This lack of bias enables the Firm to make investment decisions solely based on the investment philosophy of the Firm and what it believes is in the best interest of the Firm's clients.

The Firm's activities for FSA purposes are classified as "Simple" on the basis that (i) it focuses on providing discretionary fund management for collective investment schemes and separate accounts and offers a limited product range, (ii) the investment style comprises a quantitative investment approach consisting of widely diversified portfolios invested in equities or high grade bonds, (iii) it has relatively small market share, (iv) its clients are large pension funds, insurance companies, banks, supranationals or collective investment schemes, (v) its retail activities are limited to working with fee-only financial advisors using the Firm's funds as investment options. (It does not deal directly with private investors), (vi) it uses derivatives only for hedging purposes, and (vii) whilst it operates in different markets it does not actively market itself or its products in the various markets other than through direct contact with the clients referred to in (iv) and (v) or by marketing to consultants.

(ii) Management structure and risk management framework

The structure of the Firm and its various committees and the nature of its client relationships help provide protection against risk. The Firm rarely accepts performance fees or any other incentive arrangements from clients and therefore there is less risk that such fee structures could create financial incentives for the Firm or any of its employees to take unacceptable risks with client assets. The Firm's only external source of revenue are investment management fees paid by clients.

Due to the relatively small nature, scale and lack of complexity of the Firm's business and the narrow range of the investment services and activities undertaken in the course of that business, the Firm does not currently see the necessity to have a separate formal risk management function. The Firm designates the responsibility of implementing its policies and procedures to the Chief Operating Officer ("COO") and the maintenance of an ongoing risk assessment of the Firm's risks to the Compliance Officer.

To ensure the Firm has effective systems and controls in place to identify, monitor and manage risks arising in the business, a management structure composed of several committees and functions that have responsibility for key risk management areas has been put in place in addition to the regular and ad-hoc meetings of the Firm's Board of Directors.

The main areas covered are as follows:

Quarterly Board meetings – The Board of the Firm reviews various management reports at its quarterly Board Meetings, including trading, performance measurement, funds under management, profitability, revenue, costs, administration, operations, compliance and management reports. The Board approve the selection of portfolio managers and traders who are authorised to manage client assets and supervise trades on behalf of the Firm's clients. The Board reviews the Firm's Internal Capital Adequacy Assessment Process document ("ICAAP") twice a year.

Management Committee – Local senior management of the Firm meets on a weekly basis to discuss day to day issues in the running of the Firm. The Management Committee consists of the CEO, the head of Institutional services, the head of Financial Advisor services, the COO, the head of trading, the head of portfolio management and the head of finance.

Compliance Committee – Responsible for the oversight of compliance monitoring, operational risk and the policies and procedures, for monitoring the Firm's activities and providing regulatory advice to significant business projects. The Compliance Committee consists of the CEO, the COO, the head of finance, the head of portfolio management and the head legal counsel of the Firm. The compliance officer attends each meeting and reports to the Committee.

Investment Committee – Responsible for supervising the management and investment of the Firm's client assets including the approval of, and supervision of compliance with, investment guidelines for each investment portfolio, the approval of brokers and implementation of actions for the fair pricing of securities.

(III) Risk management by category of risk

The relevant risks applicable to the Firm are categorised as business, operational, credit and market risks.

Business risk

The main risk the Firm faces is an event leading to a significant fall in the level of assets under management as the Firm's revenue is reliant on the performance of the existing funds and its ability to launch new funds/obtain new mandates. As such, the risk posed to the Firm relates to underperformance resulting in a decline in revenue and adverse market conditions hindering the launch of new funds and ultimately the risk of redemptions from funds managed by the Firm. In the event of significant falls in revenues the Board of the Firm is confident that with the existing high levels of capital held by it, the Firm should continue to cover all the expenses of the business.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or resulting from external events.

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks. These relate to the outsourcing of investment accounting, transfer agency and various middle office functions. Appropriate policies are in place to mitigate against these risks, including undertaking both onsite and desk based monitoring and the ongoing review of risk indicators and errors and incidents.

The risk of loss of key investment staff is mitigated by the Firm's investment approach which is not reliant upon an individual manager. Managers and traders are cross trained across portfolios and strategies to ensure depth of skill and expertise.

The Firm has alternative arrangements in place should a disaster recovery event occur. These arrangements are tested on a regular basis in order to ensure their effectiveness should they be required to be invoked.

Market risk

The Firm takes no market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies.

The risk is mitigated by keeping the size of the debtor balance under regular review.

Low cash balances are maintained in currencies other than sterling.

The Firm calculates its foreign exchange risk by reference to the rules in BIPRU 7.5.1 of the FSA Handbook and applies an 8% risk factor to its foreign exchange exposure.

Credit risk

Credit risk is the risk of financial loss if a client, fund or counterparty fails to meet its contractual obligations.

The Firm is exposed to credit risk in respect of investment management fees billed and cash held on deposit.

The number of credit exposures relating to the Firm's investment management clients is limited. Management fees are drawn monthly from the funds managed and performance fees are drawn annually where applicable. The Firm considers that there is little risk of default by its clients. All bank accounts are held with large international credit institutions.

Given the nature of the Firm's exposures, no specific policy for hedging and mitigating credit risk is in place. The Firm uses the simplified standardised approach detailed in BIPRU 3.5.5 of the FSA Handbook when calculating risk weighted exposures in respect of its debtors. This amounts to 8% of the total balance due. All bank balances are subject to a risk weighted exposure of 1.6% in accordance with BIPRU 3.4 of the FSA Handbook.

2 Capital resources and requirements

Capital resources

Pillar 1

As at 31 December 2009 the Firm held regulatory capital resources of £4.7m. This comprised entirely of core Tier 1 capital.

The Firm is a limited licence firm, and as such its capital requirements are the greater of:

- Its base capital requirement of €125,000;
- The sum of its market and credit risk requirements; or
- Its fixed overhead requirement ("FOR").

As at 31 December 2009 the Firm's Pillar 1 capital requirement was £1.927m. This has been determined by reference to the Firm's FOR and calculated in accordance with the FSA's General Prudential Sourcebook ("GENPRU") at GENPRU 2.1.53. The requirement is based on the FOR since at all times this exceeds the total of the credit and market risk capital requirements it faces and also exceeds its base capital requirement of €125,000.

The FOR is based on annual expenses net of variable costs deducted, which include discretionary bonuses paid to staff, allowable commission and fees and other variable expenditure. The Firm monitors its expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year. This is monitored by the Head of Finance and reported to senior management on a monthly basis.

The Firm maintains capital resources as follows:

	31 Dec 2009 £000
Tier 1 capital*	4,656
Tier 2 capital	
Tier 3 capital	
Deductions from Tiers 1 and 2	-
Total capital resources	4,656
*No innovative tier one capital is held	

Pillar 2

Satisfaction of capital requirements

Since the Firm's ICAAP (Pillar 2) process has not identified capital to be held over and above the Pillar 1 requirement, the capital resources detailed above are considered adequate to continue to finance the Firm over the next year. No additional capital injections are considered necessary and the Firm expects to continue to be profitable.