Dimensional

Dimensional Fund Advisors LP

January 4, 2021

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: Tailored Shareholder Reports, Treatment of Annual Prospectus Updates for Existing Investors, and Improved Fee and Risk Disclosure for Mutual Funds and Exchange-Traded Funds; Fee Information in Investment Company Advertisements (File Number S7-09-20)

Dear Ms. Countryman:

Dimensional Fund Advisors LP ("Dimensional")[1] commends the Securities and Exchange Commission (the "Commission") for proposing to modernize the disclosure framework for registered open-end funds (the "Proposed Rule").[2] At Dimensional, we believe in transparency and the importance of providing investors with the data they need to assess and monitor their fund investments. While we believe that in many ways the Proposed Rule achieves its goal of improving fund disclosure, we are concerned that certain aspects of the Proposed Rule could have unintended negative consequences, by increasing costs for investors and mandating additional, less useful disclosures that work to distract investors from more important risk disclosures. We appreciate the opportunity to comment on the Proposed Rule and urge the Commission to consider our recommendations.

1. The Commission should retain Rule 30e-3 (notice and access).

We strongly recommend that the Commission retain the ability of open-end funds to rely on Rule 30e-3 of the Investment Company Act of 1940. We believe that the Commission's adoption of the rule in 2018 was an extremely positive step—it modernizes the way funds deliver periodic information to investors while protecting those who prefer to receive paper shareholder reports. We have prepared for the Dimensional Funds to begin reliance on Rule 30e-3 at the earliest opportunity, starting with the Dimensional Funds' semi-annual reports for the period ending April 30, 2021, and the Dimensional Funds have already incurred costs to comply with the rule. We believe that over time, relying on Rule 30e-3 will ultimately reduce costs for Dimensional Funds and their shareholders, and the Proposed Rule's exclusion of open-end funds from relying on the rule would be a step backwards. We ask the Commission to reverse its proposal to exclude open-end funds from relying on Rule 30e-3.

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1 Dimensional Fund Advisors LP is an investment adviser registered with the Securities and Exchange Commission and manages 132 registered mutual funds and exchange-traded funds (the "Dimensional Funds") as of the date of this letter.

2 Tailored Shareholder Reports, Treatment of Annual Prospectus Updates for Existing Investors, and Improved Fee and Risk Disclosure for Mutual Funds and Exchange-Traded Funds; Fee Information in Investment Company Advertisements, Release Nos. 33-10814; 34-89478; IC-33963; File No. S7-09-20 (August 5, 2020) (the "Release").

2. The Commission should require funds to compare themselves to an "appropriate index" rather than an "appropriate broad-based securities market index" as proposed.

The Proposed Rule would require funds to compare themselves to the overall applicable domestic or international equity or debt markets. However, we believe that most of Dimensional Funds' shareholders expect to see how funds have performed relative to the segment of the market in which they have invested, as many Dimensional Funds target a specific segment of the market. A more precise comparison allows investors to better evaluate how effectively a Dimensional Fund has pursued its stated strategy. For example, the principal investment strategy of Dimensional's U.S. Small Cap Value Portfolio is to purchase a broad and diverse group of U.S. small cap companies that Dimensional determines to be value stocks. We believe that a U.S small cap value index is the most appropriate comparison to help a shareholder assess the efficacy of Dimensional's implementation of the fund's stated investment strategy.[3] Thus, requiring a fund that focuses on a specific market segment to compare itself to a broad-based securities market index would not be helpful to investors.

We note also that in the Release, the staff encourages funds to include such a strategy-specific index as an "additional index" to supplement the comparison against a broad-based securities market index. While we appreciate that including an additional index would provide investors with what we believe to be a more relevant comparison, requiring funds to compare their performance to multiple indices would likely result in unnecessarily duplicative licensing fees from index providers, which ultimately results in higher costs to fund shareholders. Like most fund families that license broad-based securities market indices, Dimensional has experienced significant increases in licensing fees every few years, in some cases equivalent to double digit year-over-year increases. We believe that regulatory requirements have hampered our ability to effectively negotiate on behalf of fund investors and that rules which result in funds having to include additional indices in regulatory filings will exacerbate the current, already costly, requirements.

In its comment letter on the Proposed Rule dated December 21, 2020, the Investment Company Institute (the "ICI") recommends that the Commission remove the term "broad-based" from the instructions in Form N-1A and require only that a fund compare its performance to an "appropriate" index, which the ICI suggests defining as one whose objective is reasonably related to the fund's investment objective and principal investment strategies.[4] We agree with the ICI's recommendation and support their proposed definition of "appropriate index."

3. The Proposed Rule should not include the 10% standard for determining whether a risk is a principal risk.

We believe that the Proposed Rule's 10% standard for determining whether a risk is a principal risk would result in longer, potentially more confusing principal risk disclosure, and would be unlikely to enhance an investor's understanding of a fund's risks. While we appreciate the staff's efforts to provide quantitative guidance as to how to determine whether a risk is principal, determining whether a risk is a principal risk ultimately is subjective. As a fiduciary, we take this responsibility seriously and carefully consider what principal risks to disclose to investors. Dimensional Funds tend to be highly diversified. For example, our Large Cap International Portfolio held 1,315 securities as of November 30, 2020. Such highly

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[3] Furthermore, comparing a fund that invests in a subset of the overall market—such as small cap stocks—to a "broad-based" index might also be inappropriate depending on the index provider's methodology. For example, MSCI describes the MSCI World Index as a "broad global equity index," but the index excludes small cap companies, as does the MSCI USA Index. *See* https://www.msci.com/developed-markets.

[4] Comment Letter of the Investment Company Institute (December 21, 2020) ("the ICI Letter") at 26.

diversified funds are subject to many non-principal risks, some of which might be deemed by the staff to be principal risks if the Proposed Rule's 10% standard were applied. For instance, our Large Cap International Portfolio had 10% of its assets in six different industry sectors, and the staff suggests in the Release that the Proposed Rule would require adding a risk factor for each of these six sectors,[5] which would almost double the number of current principal risks in the fund's prospectus.[6] We believe that such distracting disclosure would not achieve the Commission's goal of streamlining prospectus risk disclosure,[7] nor would it serve investors well. Furthermore, the fund's investment in these six sectors is not an intentional part of its investment strategy (*i.e.*, the fund does not target these six sectors); on the contrary, the fund has a fundamental policy not to concentrate in any particular sector, and the amount of assets invested in each sector is likely to change as markets move. Including sector-specific risks would obfuscate what we believe to be the fund's principal risks, such as equity market risk, foreign securities and currency risk, and value investment risk. We believe that directing funds to apply the proposed 10% standard would result in funds disclosing even more risks as principal risks, which would overwhelm the disclosure and obscure key risks. We urge the Commission to remove the 10% standard from the Proposed Rule. Alternatively, if the Commission adopts the 10% standard, the staff should clarify that to be considered a principal risk, it should be an intentional part of the fund's strategy to acquire such 10% investment.

4. The Commission should not adopt the proposal to refer to "fee waivers" as "temporary discounts".

Using the term "temporary discount" to describe a fee waiver suggests to investors that the "discount" is expected to end shortly, after which the fund's fees will increase. In our experience, based on our practice, that is simply not the case, as it assumes the fund sponsor's intent is a short-term waiver. Dimensional's practice has been to implement fee waivers for a variety of reasons and keep them in place for years; thus the term "temporary discount" does not accurately reflect how we use fee waivers in most cases.

For example, Dimensional Funds' expense ratios are typically higher when a fund is first launched. In such cases, the fee waiver represents an expense assumption, not an expense cap or a "discount" on management fees. Typically, we have set the fee waiver by calculating what we expect the fund's expense ratio to be at the end of its first full year of operations, and it is implemented so that the initial investors in the fund do not unfairly incur higher expenses simply because they are early investors in the fund. Calling this equalizing waiver a "temporary discount" would mischaracterize the purpose of the waiver, as we do not intend for the net expense ratio to go up in the future—rather, we expect that the total expenses before the fee waiver will go down over time. Even after a fund's expenses are low enough that the fee waiver and/or expense cap is no longer hit and no longer reflected in the fund's fee table, we typically do not terminate the waivers.[8] Finally, but importantly, the fee waivers for feeder funds while they act as feeders

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[5] The staff indicates that a fund that invests 10% or more of its assets in a particular sector, such as financial services or consumer staples, could determine that it should disclose a "principal risk" relating to its investments in that sector. Release at page 314.

[6] The fund's prospectus dated February 28, 2020 discloses eight principal risks: equity market risk, foreign securities and currencies risk, value investment risk, profitability investment risk, derivatives risk, securities lending risk, operational risk, and cyber security risk.

[7] *See*, for example, Release at page 311.

[8] For example, when the DFA Selectively Hedged Global Fixed Portfolio launched, its prospectus dated December 31, 2007 disclosed a management fee of 0.15% and other expenses based on anticipated fees of 0.58%, for total operating expenses of 0.73%. Dimensional waived fees and assumed expenses of 0.48%, resulting in a net expense ratio of 0.25%. Just over a year later, in its February 28, 2009 prospectus, the fund's

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are not temporary. Dimensional manages 14 feeder funds for which the fee waivers are permanent and may not be terminated by the advisor—calling such a waiver a "temporary discount" is clearly incorrect. For these reasons, we recommend that the Commission retain the term "fee waiver."

5. Funds should be required to disclose fees paid to a securities lending agent that is affiliated with the fund's adviser.

We recommend that the Commission require funds to describe payments made to an affiliated securities lending agent in disclosure accompanying the prospectus fee table and the shareholder report expense example. We believe this would enhance transparency about fees associated with a fund's securities lending program. In the Release, the staff acknowledges that funds using affiliated securities lending agents may use revenue generated by their securities lending programs "to defray some of the fund's direct costs, such as advisory fees" and that "using this revenue to reduce other costs of investing in the fund (where that reduction is reflected in the fee table) may make the fund appear to be less expensive."[9] We believe investors should be made directly aware of such arrangements. Main street investors may not easily have access to the N-PORT disclosures that detail such information.

6. The Commission should modernize delivery of Section 19(a) notices.

Finally, we note that the ICI has recommended that a fund be permitted to meet its Section 19(a) notice obligations by posting the information on its website, as long as the fund informs shareholders in its annual and semi-annual reports that distribution source information is available at a specific website address.[10] We support the ICI's proposal and believe it would reduce costs for fund shareholders.

Please do not hesitate to contact us if we could be of further assistance. We would welcome the opportunity to present an expanded discussion of our thoughts on these issues.

Sincerely,

Catherine L. Newell
General Counsel and Executive Vice President

management fee was still 0.15%, but other expenses had decreased to 0.09% for a total expense ratio of 0.24%, with no expenses assumed or fees waived. The fund's agreement with the advisor to waive fees is still in place. Other Dimensional Funds have continued to use fee waivers since their inception; for example, the Global Allocation 60/40 Portfolio and Global Allocation 25/75 Portfolio are both funds of funds that have had contractual fee waivers in place since their inception in 2003.

[9] Release at footnote 577.

[10] ICI Letter at 53.