

FACE TO FACE GERARD O'REILLY

Dimensional eyes the fund sector's trillion-dollar club

INTERVIEW

Co-CEO plans a bigger push into wealth management to boost its growth

OWEN WALKER

You don't have to be a rocket scientist to work at Dimensional Fund Advisors but Gerard O'Reilly finds it helps. The Irishman is co-chief executive of one of the fastest-growing US investment businesses – and took a PhD in aeronautics before entering fund management.

He was attracted to Dimensional because of its bookish culture and the chance to learn from famous economists at the company, including Nobel Prize winners Eugene Fama, Myron Scholes, Merton Miller and Robert Merton, as well as Ken French, who worked with Professor Fama on asset pricing.

"You better check your ego at the door if you're going to learn finance from these folks, and you'd better not make the same mistake again," he says. "You can make it once, and they're happy that you can make it once, but don't make it twice. That's the type of culture, philosophy that we have – it keeps you humble." It keeps Mr O'Reilly on his toes.

Dimensional takes a computer-driven quantitative approach that is based on an investment doctrine nurtured in Chicago's Booth School of Business – named after the company's co-founder, David Booth. It distils this process into cheap funds that are a hit with investors.

Dimensional's assets swelled by 17 per cent each year between 2012 and 2017, according to Willis Towers Watson, the consultancy. This makes it the second-fastest growing large asset manager behind Vanguard.

Dimensional tends to do things differently to other managers. We meet in the group's London offices, near Regent's Park, an unlikely location for a global asset manager. At 42, Mr O'Reilly is two decades younger than most of his peers at the head of investment companies. When he was pro-



CV

Born November 1976 Waterford, Ireland

Salary Undisclosed

Education
BA theoretical physics Trinity College Dublin, 1997
MS high performance computing Trinity College Dublin, 1998
PhD aeronautics California Institute of Technology, 2004

Career 2004-present Dimensional Fund Advisors, including 2004-10 vice president, research; 2010-14 head of research; 2014-17 co-chief investment officer; 2017-present, chief investment officer and co-chief executive

moted in 2017, he had worked in fund management for just 13 years.

Mr O'Reilly describes his move into asset management as "serendipity". He was near the end of his PhD in California but knew that as a foreigner he would struggle to get a job in the US aeronautical industry. At a wedding he spoke to a fellow guest who had switched from academia to Dimensional – and it convinced him to join the company. He began at the research division in 2004, in his "first job in the real world". Ten years later he was co-chief investment officer.

He says he was fortunate that when he started, Mr Booth, then co-chief executive, announced that he wanted the business to be able to increase its assets under management tenfold to \$500bn. This meant a new structure for the company, more staff and ultimately moving the headquarters from Santa Monica, California, to Austin, Texas. Mr O'Reilly, as an analyst and then head of the research team, was involved in the decisions.

"I had projects with the operations team, with the legal team, with the portfolio management team, with the trading team," he recalls. "My attitude was always, let's take this thing

on, let's get it closed, let's move on to the next."

Three years after being made co-CIO he was elevated to co-CEO, a role he shares with Dave Butler, a 26-year company veteran. Mr O'Reilly kept his CIO brief.

Dimensional is unusual in that its co-leadership structure works. Other asset managers have adopted the model in times of corporate upheaval, notably Standard Life Aberdeen and Janus Henderson, but most are shortlived. Dimensional uses the structure to preserve continuity. When one leader leaves, the other stays as the new chief beds in.

"[Investors are] going to entrust their investments with Dimensional, and they want to make sure that we're a stable organisation," he says. "So, having that type of succession planning in place is very, very important."

Mr O'Reilly says that what sets Dimensional apart from rivals is that it has only one investment philosophy, which all staff buy into. "Market prices are the main protagonist of our story, everything else, they're all supporting characters. It's all about market prices and what information we can take from them," he explains.

Dimensional Fund Advisors
Assets \$517bn
Founded 1981
Employees 1,300
Headquarters Austin, Texas
Ownership Privately owned primarily by current and former employees and directors

This approach influences other aspects of the company, including how products are designed, priced and distributed. "You look at market prices in all different types of areas," he says. "When it comes to pricing of the funds, we're a price-taker not a price-setter and so we try to be bottom decile in terms of our fees."

The company's US mutual funds have an asset-weighted average expense ratio of 34 basis points. As a result, Dimensional is known for strong performance and value. Last year, though, was the first time in a decade that assets under management fell, from \$577bn to \$517bn. Mr O'Reilly says this was less to do with clients pulling their money and more about poor investment returns.

The group's largest fund, the \$28.7bn International Core Equity Portfolio, lost 17.4 per cent last year, while its second biggest, the \$28bn Emerging Markets Core Equity Portfolio, was down 15.25 per cent.

Mr O'Reilly points to systematic factors that misbehaved, including the underperformance of value stocks in developed markets and sluggish returns from small companies. He says the way the company keeps investors informed meant they did not flee at the first sign of trouble.

"Last year was disappointing in terms of the absolute returns but absolutely not unexpected," he says. "One of the things that is very, very important to long-term success is understanding volatility. If you can understand volatility and you can set your expectations well, you can turn yourself into a long-term investor and [do] not make rash decisions or decisions based on very short time-period data – all returns data is noisy."

Having joined the company as it was preparing to grow to \$500bn of assets, Mr O'Reilly now wants to set it on a course to join the trillion dollar club. Part of this plan involves a bigger push into wealth management, offering advisers products to help rich individuals. He also wants to increase Dimensional's presence in Europe and Asia, building on its current 13 offices in nine countries.

"If we deliver good services to our clients, if they like what we do, then we'll grow as a business," he adds.

At the time of publication (as of 3/31/2019), Dimensional's AUM was: \$576bn.

Performance as of December 31, 2022

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AUM cited in the article is as of 3/31/2019, and fund data is as of 12/31/2018.

Average Annual Total Returns %				Expense Ratio ¹
Data Series	1 Year	5 Years	10 Years	
DFA International Core Equity Portfolio	−13.48	1.30	5.24	0.24%
DFA Emerging Markets Core Equity Portfolio	−16.40	−0.19	2.24	0.39%

1. Expense ratio as of 2/28/22. The fund’s prospectus contains more information on fees and expenses.

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