

# Pensions & Investments

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## FACE TO FACE EDUARDO REPETTO

# Applied scientist

Eduardo Repetto's background in aeronautic engineering gives him a unique perspective as CIO at Dimensional Fund Advisors.

By RAQUEL PICHARDO

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**E**duardo Repetto took an unconventional path into asset management. Dimensional Fund Advisors' new chief investment officer is an aeronautical engineer by training and had no investment experience before joining the Santa Monica, Calif.-based firm in 2000 as a research associate. In the past seven years, he has risen through the ranks to lead DFA's \$149.7 billion investment operations.

Mr. Repetto's doctoral dissertation in aeronautics earned him the William F. Ballhaus Prize from the California Institute of Technology. He is also the recipient of the Ernest E. Sechler Memorial Award for his teaching and research efforts at Caltech.

Mr. Repetto, a native of Argentina, left his home country to pursue a Master of Science degree in engineering from Brown University. It was there that finance first garnered his interest.

**How did you make your way into asset management?** That's a random path. Since I was at Brown, I was looking at finance. Partly because one of my former bosses — I did an internship at IBM — a mathematician, had at some point decided to leave applied mathematics, and move toward finance. She was telling me all the things that she was doing and I found them extremely

interesting. It was really applied science. It's, "how can I do applied science and have an impact that you can see right now." When you work in finance, you are doing science, but at the same time, the results are right there ... I'm still an engineer at heart, applied to different projects.

**Dimensional has almost doubled its assets under management in two years.**

**Where did that growth come from?** I've been here since the company was at about \$25 billion, so a long time. There are two components to this growth. One is the markets. We have been getting very good performance, so that's certainly a source of the growth.

The other is that our story — the way we manage portfolios, the way we present what we do and the way we add value — has been embraced by other people. It's a very scientific approach that gives us certain assurances that we are doing a good thing. So we are getting a lot of cash inflows, not only from the U.S., (but) also in Canada, Europe and Australia.

**How would you describe the firm's investment philosophy?** We try not to be in commoditized investment products. Anyone can buy commoditized investment products, like an index. We try to give products that have some value added and some specific characteristics



that a client is looking for. We're very careful in packaging exposures that a client wants in a pure way.

For example, we don't consider ourselves an active manager. What I mean by (active manager) is someone who is able to pick stocks that are going to appreciate, or someone who is going to time the market. We think that timing the market, trying to time the market or trying to pick undervalued stocks is a futile exercise. You cannot make money there. So what we try to do is to package individual risk that produces high returns in a very efficient way.

**How much of a role, as CIO now, do you play in the day-to-day decision making?** In our company, we define strategies. I

would define them as quant-based or rules-based strategies. I'm one of the persons responsible for that. You have to include in this set of people outside consultants, like (Kenneth) French or (Eugene) Fama, and the senior portfolio managers. My responsibilities are to make sure we have the right strategies and that each one of the strategies is doing what they should be doing.

**What are some investment trends that Dimensional has been addressing?** Many clients are looking for overall investment solutions. It used to be that many of our clients were looking for the best niche manager. Some of them are saying, 'Look, we saw what happened in 2000, we saw the value run, we saw the tech run, we want to have more of an overall strategy.'

In response to that, we did what we call our core strategy. It's a multiasset-class, multistyle investment solution that gives clients the characteristics they want in the overall portfolio, not in the asset class portfolio. In our U.S. core fund, we have large companies, midsize companies, small companies, microcap, growth and value. You have to weight all the securities

inside there to make the portfolio have the characteristics that the client is looking for. And that's a very powerful thing.

**Do you offer any liability-driven investing strategies?** The truth is that today we don't. ... We are speaking with several consultants and clients about offering LDI, but we cannot disclose more than that today.

**What are some of the market trends that could benefit the firm?** A lot of people are trying to get into shorting stocks ... and there are a lot of (strategies) — 130/30 for example — that are trying to impose immediacy on a trade. This is an opportunity for us.

We really like to act as a liquidity provider. Our strategies are designed to capture the different segments of the market without the need for holding any security at any "perfect" weight. This flexibility allows our traders to substitute names and trade in a very efficient way. We accept tracking error relative to our own target portfolios in order to maximize our trading efficiency. The tracking error is at the security level and comes from not

holding the exact number of shares in every name, but our portfolio managers avoid unwanted biases at the portfolio level. In some sense we have an advantage over a market maker since we do not have inventory costs. We want to hold the securities that we buy for our portfolios.

So we think that our ability to profit from others trying to be liquidity seekers, while we are liquidity providers, could count quite a lot in the future.

**Do you offer a 130/30 strategy?** No we don't. If we ever offer one, we will probably do it by taking long positions in stocks and shorting futures.

**Did the ripples along the subprime market have any effect on you?** Not at all. Our fixed income is always high quality. We never got exposure to that ... Our clients have asked us to deliver fixed income that is very high quality. They want peace of mind in that part of their portfolio.

**The attitude toward fixed income is changing. Investors are saying, "We want it to work for us." How are you responding to that?** That's true. They want it to work for them, but at the same time they want fixed income. We responded by having strategies that try to add value but without taking unnecessary risk. The risk that you take to get the extra basis point or the extra 10 basis points — our clients don't seem to want us to take that risk.

**You've been CIO since March. Is there anything that you've changed within the company?** Beyond my title?

You're not going to see any drastic change. I personally do not believe in drastic change. I believe more in evolution and getting to where we need to be depending on our future and current needs. Part of what you will see is that we are going to have more strategies, and these strategies are always going to be there to enhance the needs of the clients' portfolio. ■

### SNAPSHOT: Eduardo Repetto

- ▶ **Position:** chief investment officer, Dimensional Fund Advisors, Santa Monica, Calif.
- ▶ **Assets under management (as of June 30):** \$149.7 billion
- ▶ **Size of investment staff:** 60
- ▶ **Education:** Diploma de Honor from Universidad de Buenos Aires, M.S. from Brown University, Ph.D. from California Institute of Technology
- ▶ **Performance (ended June 30; annualized for periods of more than one year):**

**U.S. small-cap value**

Year to date .....	<b>7.08%</b>	Russell 2000 Value .....	<b>3.79%</b>
12 months .....	<b>17.11%</b>	Russell 2000 Value .....	<b>16.05%</b>
Three years .....	<b>16.47%</b>	Russell 2000 Value .....	<b>15.01%</b>

**International small-cap value**

Year to date .....	<b>13.96%</b>	MSCI EAFE Small-Cap ND ..	<b>11.62%</b>
12 months .....	<b>33.45%</b>	MSCI EAFE Small-Cap ND ..	<b>25.19%</b>
Three years .....	<b>28.78%</b>	MSCI EAFE Small-Cap ND ..	<b>24.82%</b>

**U.S. large-cap value equity**

Year to date .....	<b>8.90%</b>	Russell 1000 Value .....	<b>6.22%</b>
12 months .....	<b>21.08%</b>	Russell 1000 Value .....	<b>21.85%</b>
Three years .....	<b>17.27%</b>	Russell 1000 Value .....	<b>15.93%</b>

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