2022 / A NEW HORIZON FOR THE VALUE OF YOUR ADVICE

Russell Investments
EMBRACE THE POSSIBLE™

VALUE OF AN ADVISER

FIVE WAYS YOU CREATE VALUE
A+B+C+E+T

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EXECUTIVE SUMMARY

Russell Investments believes advisers are never more important than during periods of significant change. As the market transitioned from growth to value, change was everywhere, making the need for advice and reassurance with clients greater than ever.

Over the past two years, people have reassessed many aspects of their lives. This included the Great Resignation, as workers considered their employment options. This also resulted in a sustained migration out of large cities to regional communities as many businesses implemented longer-term work-from-home or hybrid arrangements. Along with significant increases in virtual shopping and rising interest rates, many people have taken this time to work out what their 'new normal' is going to be.

Through it all, we believe financial advisers provide valuable assistance, helping clients review their evolving goals, needs and circumstances. We know holistic wealth management requires a deep discovery process, planning and ongoing coordination. As priorities and outlooks may have changed over the course of the pandemic, advisers have been ensuring clients were engaged, taking any actions with intent and purpose.

Those advisers who helped their clients remain invested through the turbulence, who helped them prepare for an uncertain future, who worked with them to determine their post pandemic goals, can look back with a real sense of having provided true value.

Our annual report reflects the evolving benefits your clients receive when they work with you. We believe it's important for investors to understand the value they are receiving from you and the services you provide in helping them achieve their financial goals.

Our analysis clearly shows the total value of the services you provide is substantially higher than a typical advice fee.

In 2022, we believe the value of an adviser in Australia is approximately 5.8%.

ADVISER = VALUE

The past two years have delivered a challenging environment for investors, with many aspects being encountered for the first time. To a certain degree, investors were soothed by the emergence of numerous viable vaccines against COVID-19, potential treatments, and a slow easing of restrictions.

However, supply-chain issues and inflationary pressures are ongoing challenges. With the backdrop of geopolitical conflicts, central banks raising interest rates and heightened volatility - ongoing advice relationships continue to deliver value to clients. Advisers are needed to help investors navigate all the possible changes in their personal and working lives, the evolving geopolitical landscape, and new virtual relationships.

Russell Investments believes advisers continue to be extremely valuable in 2022 and we've updated our easy-to-remember formula to reflect this. We have updated "C" to illustrate the many and varied combinations of **choices** and trade-offs that advisers help clients navigate through. "E" highlights both the technical and emotional **expertise** that advisers provide in all stages of a client's wealth journey. Advisers are critical for families considering their post-pandemic futures.

Our 2022 Value of Adviser formula is **A+B+C+E+T**

A IS FOR APPROPRIATE ASSET ALLOCATION

How an individual is invested has a huge impact on achieving their investment goals. There is research that suggests that asset allocation drives over 85%[1] of the investment outcome for an individual. Yet, this critical step of an advice process is often undervalued and under-appreciated.

Asset allocation: a foundation of successful advice

In the superannuation environment, there are generally two types of non-advised investors. Disengaged investors who are defaulted into a one-size-fits-all asset allocation, with very limited or no reference to their personal circumstances or needs. Or engaged investors, who build their own portfolios - which comes with its own risks.

We believe that being in an asset allocation that is appropriate to an individual's personal needs can add value of up to 1.6% p.a.

The disengaged superannuation member

Of the $1.2 trillion of assets in the various MySuper investment options, over 60% of these assets are managed to a single strategy asset allocation[2]. This means for a member in a single strategy default, no matter their age, current super balance or retirement goal – they are invested the same way as everyone else.

Let's take Jane as an example. Based on her age, investment goals, current superannuation balance and preferences – her financial adviser recommended a portfolio with 80% in growth assets.

Jane's option for advised or default asset allocation:

Advised portfolio	Alternative: default portfolio
80% Growth assets	70% Growth assets
9.0% p.a.	7.6% p.a.
$237,389	$207,256
Jane's Advised portfolio delivers 1.4% p.a. higher return from an appropriate asset allocation, or over $30,000 over a 10 year period	

A hypothetical portfolio with 80% growth assets has delivered an annualised return of 9.0% p.a.[3]

If Jane was in a default superannuation option with 70% growth assets. Her return would have been 7.6% p.a.

Jane would be better off by 1.4% p.a. being in a portfolio with a more appropriate asset allocation for her particular needs. Based on an initial balance of $100,000, after 10 years Jane would have a balance of $237,389 from her advised portfolio.

By following the financial advice to invest in a higher growth portfolio, after 10 years Jane would be $30,000 better off than if she had invested in a default portfolio[4].

[1] Russell Investments Making Super Personal White Paper 2020
[2] Australian Prudential Regulation Authority (APRA) 2021
[3] See additional disclosures section of this report for assumptions
[4] This example is provided for illustrative purposes only. Individual results will vary

Risks of Do It Yourself (DIY) asset allocation

For individuals who opt to take a DIY approach and build their own portfolios, there are many inherent risks. This can include not having sufficient knowledge and understanding of key investing topics to set the right asset allocation for their goals, circumstances and preferences. Also not having the discipline and skills to maintain that asset allocation in the face of market movements and volatility.

The Australian Taxation Office (ATO)[5] reports that Self-Managed Super Funds (SMSFs) have very high allocations to cash, which we believe is a result of a bias to the sense of security that cash provides to SMSF holders. As a result, these conservative asset allocations could be holding these individuals back if they require capital growth to meet their retirement goals.

For example, Lee has a SMSF he manages on his own. It currently holds over 70% in cash and defensive assets. However, for his age, investment balance and retirement income needs, an adviser may recommend at least a 50% allocation to growth assets, and 50% in defensive assets.

Lee's current portfolio has delivered an annualised return of 4.9% p.a. However, if Lee had seen a financial adviser and invested in a portfolio with only 50% defensive assets, this hypothetical portfolio would have had an annualised return of 6.5% p.a. A significant difference of 1.6% p.a. that Lee missed out on by investing in an asset allocation that wasn't right for his needs.

Lee's option for advised or DIY asset allocation:

DIY portfolio	Alternative: Advised portfolio
30% Growth assets	50% Growth assets
4.9%	6.5%
$161,345	$188,420
Lee's DIY portfolio delivers a portfolio return 1.6% lower, which leaves him $27,000 worse off over 10 year period	

Based on an initial $100,000 balance, after 10 years Lee would have a portfolio balance of $161,345 if he had invested in the more conservative portfolio, against a balance of $188,420 for the advised portfolio.

By investing in a DIY portfolio, after 10 years Lee would be $27,000 worse off [6].

Risk and reward

Appropriate asset allocation is not just about maximising returns, but also managing risk. By risk, we mean volatility, which is often what causes investors to doubt their investment plan and pull money out of the market.

In periods of steadily rising markets, it can be easy to underestimate the value of a professionally managed portfolio. During these periods, we often see the asset allocation of DIY portfolios drift away from the initial asset allocation. A disciplined approach to portfolio management and rebalancing can ensure it retains its original asset allocation—and therefore remains appropriate for an investor's stated goals—while also potentially reducing risk.

TAKE A SHARPER LOOK AT COMMUNICATING THE VALUE OF YOUR ADVICE

Actions you can take

- ☐ Spend time articulating why getting the right asset allocation can be a key driver of achieving goals and the consequences of getting it wrong.
- ☐ Remind clients of the art and science of understanding true risk preferences.
- ☐ Use your investment philosophy to demonstrate how you select and implement an appropriate asset allocation to achieve their goals.

[5] Australian Tax Office, SMSF Statistics March 2022
[6] This example is provided for illustrative purposes only. Individual results will vary

B IS FOR BEHAVIOURAL COACHING

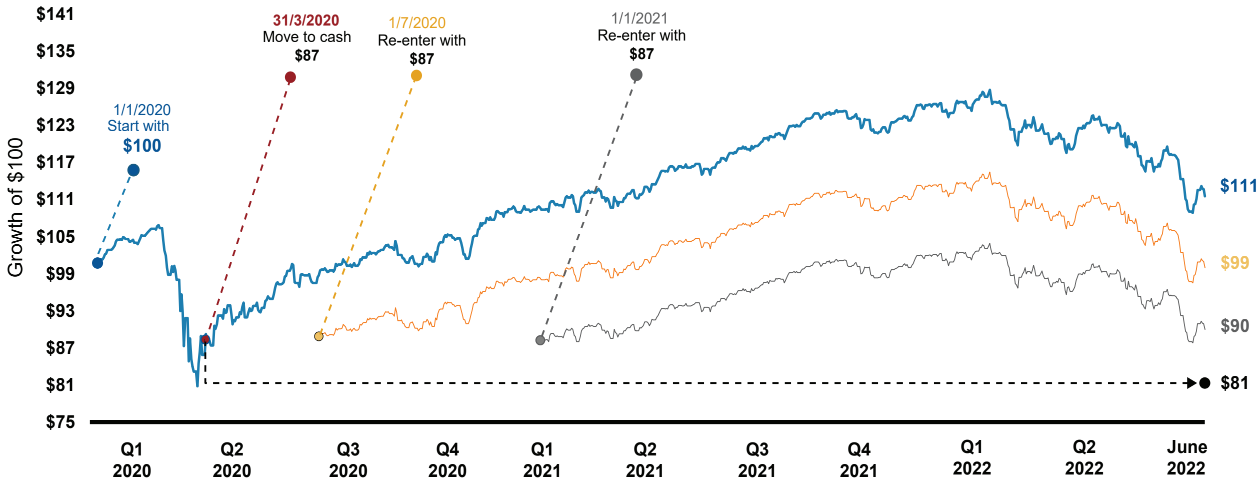
For many investors, 2020 was their first experience of significant market drops and ongoing volatility. While volatility was somewhat dampened in 2021, it came back to the forefront in 2022.

These last two years have been a clear demonstration of the importance of remaining invested through thick or thin. An investor who fled for the exits in mid-March 2020 when the pandemic emerged, would have had a difficult time to find the best re-entry point, with no real market "dips" to take advantage of. This is where the value from your behavioural guidance shows up on the bottom line.

Fear impacts opportunity

Take for example three hypothetical investors' journeys from January 2020 through to 30 June 2022:

- Investors who remained in the market for the full time period would have seen a $100 investment rise to $111 (blue line in the chart below).
- An investor who moved to cash in March 2020 and then returned to the market a few months later at the end of the second quarter, would only have $99 at the end point (orange line in the chart below).
- An investor who moved to cash in March 2020 and remained in cash for the entire year, then re-entered the market at the beginning of 2021, would have only $90 at the end point (grey line in the chart below).



Source: Bloomberg. Balanced Portfolio: 35% ASX300 TR Index, 35% S&P 500 TR Index (Half Hedged), 15% Bloomberg AusBond Composit 0+ Yr Index & 15% Bloomberg Aggregate Bond Index.

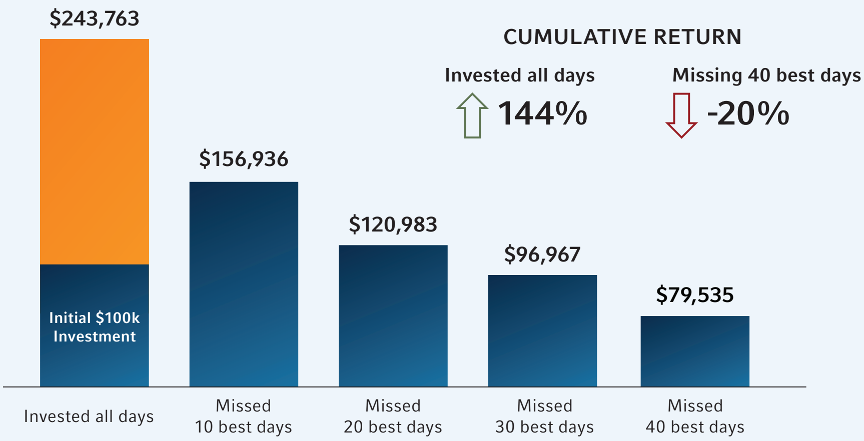
That's the problem with abandoning an investment plan due to fear. Pulling out of the market when it is volatile can lock in losses and could lead to missing out on any subsequent rally. Without a crystal ball, it's hard to time the perfect point to get back into the market once you've left.

A = 1.6% | B = 2.9% | C | E | T

As the graph below shows, missing out on even a few days of good performance can have a detrimental effect on a portfolio. While markets can be unpredictable, their long-term trend has been up [7].

THE INVESTMENT IMPACT OF MISSING BEST MARKET DAYS

10 years ending 31 August, 2022

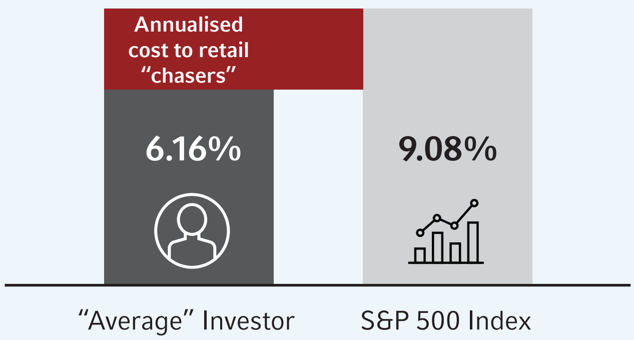


Source: Morninstar. Returns based on S&P/ASX 300 Index, for 10-year period ending August 31, 2022. For illustrative purposes only. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

In fact, without your guidance, investors often buy when markets are euphoric and sell when markets are bearish. We believe there is good value in your ability to help clients stick to their long-term financial plan and avoid the behavioural mistakes that may have them miss out on the market's best days.

THE HIGH COST OF INVESTOR BEHAVIOUR

Over 20 years



Source: "Average" Investor - Russell Investment Group, Refinitiv DataStream. Return was calculated by deriving the internal rate of return (IRR) based on ICI monthly fund flow data which was compared to the rate of return if invested in the S&P 500 Index and held without alteration from 1 January 2002 to 31 December 2021. This seeks to illustrate how regularly increasing or decreasing equity exposure based on the current market trends can sacrifice even market-like returns. Indexes and/or benchmarks are unmanaged and cannot be invested in directly. Example provided for illustrative purposes only. Returns represent past performance, and are not a guarantee of future performance, and are not indicative of any specific investment.

TAKE A SHARPER LOOK AT COMMUNICATING THE VALUE OF YOUR ADVICE

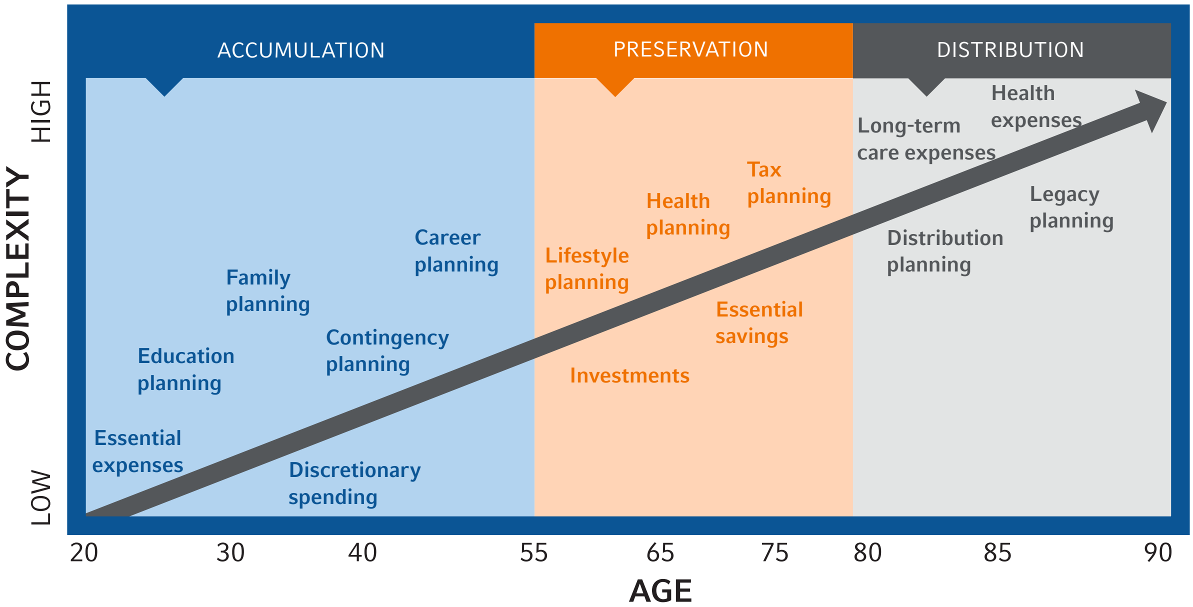
Actions you can take

- ☐ Use a consistent framework for review meetings around when to and when not to make changes to a client portfolio.
- ☐ Develop a proactive client engagement plan for different client types and different scenarios.

[7] https://russellinvestments.com/us/blog/bulls-vs-bears-2

C IS FOR CHOICES AND TRADE-OFFS

Advisers provide a holistic wealth management approach throughout a client's financial life. In fact, most people's lives invariably become more complex over time. To help achieve an individual's goals, an adviser will incorporate many inputs into the design of a personalised strategy.



Source: https://russellinvestments.com/us/blog/customized-experience

Every client has a unique set of circumstances, preferences and considerations, which increase in volume as they age, and in complexity as their needs and experience develop over that time. The sheer number of decisions to be made and the knowledge required to understand their implications can lead to decision fatigue and increases the risk of poor outcomes.

An adviser can help evaluate and prioritise these decision points. The impact of implementing the right strategy to meet an individual's unique set of needs, while maximising the outcomes of these choices and trade-offs can be invaluable.

GOALS	CIRCUMSTANCES		PREFERENCES			CONSIDERATIONS	
GROWTH	Single	Married	Conservative	Moderate	Aggressive	Rising inflation	Tax impacts
GROWTH	Divorced	Widowed	Return driven	Preservation	Yield oriented	Rising interest rates	Aged care
INCOME	Young	Not young	Fee sensitive	Values based investing	Transparency	Market volatility	Family wealth transfer
INCOME	Working	Retired	Protection	Lifestyle expectations	Other need	Spending vs savings	Estate planning

Source: https://russellinvestments.com/us/blog/customized-experience

CIRCUMSTANCES

In the accumulation phase, individuals may be planning for key events like establishing their careers, buying a home, paying for a wedding, or starting and raising a family with all of the expenses that entails. When they enter the preservation stage before retirement, different needs take priority, like caring for elderly parents or managing their own health. Finally, in the distribution phase when they are no longer working, they may need to consider long-term care or creating a legacy.

PREFERENCES

Individuals will also have personal preferences that need to be integrated into advice considerations. These may include a preference to reduce or increase investment risk, or how the portfolio is constructed. Advisers can help provide options if clients are price conscious, prefer investments aligned to their sustainability or ethical values, or want to see detailed information about where their money is invested.

The critical value an adviser can provide is helping a client understand the impacts of these trade-offs, and to avoid any unintended consequences. For example, helping a price conscious investor to understand that a passive portfolio is unlikely to significantly outperform the market - or that a sustainable portfolio will likely perform differently to a broad market index due to the nature of its investment strategy.

Sometimes these preferences can be in conflict, and an adviser can help a client to prioritise these preferences and ensure they are aligned to their overall goals.

CONSIDERATIONS

In addition to personal circumstances and preferences, advisers can also assist individuals to evaluate and navigate external factors. In particular, the current environment is shaping up to be a once in a generation event, with a mix of factors such as rising inflation, rising interest rates and ongoing market volatility.

Household savings are also at record high levels[5], which can be a benefit to some individuals strategy or could leave others exposed to poor behaviours with longer-term consequences.

Advisers are increasingly helping clients and families navigate aged care needs. Additionally, with the anticipated significant increase in intergenerational wealth transfer[6], an inheritance event is an additional advice consideration for a growing number of people. The adviser's role here is to help manage personal wealth to potentially reduce tax impacts or take advantage of benefits and incentives available.

Depending on an individual's personal circumstances, preferences and considerations – there are a broad mix of these complex factors that require expert knowledge and advice to evaluate the choice and trade-offs at play, and what is right for their specific goals and needs.

TAKE A SHARPER LOOK AT COMMUNICATING THE VALUE OF YOUR ADVICE

Actions you can take

- ☐ Can you articulate your Unique Value Proposition and the services you provide?
- ☐ Do you provide clients with a roadmap of how you will work with them to address their specific needs?

[5] RBA Cash Demand during COVID-19, March 2021

[6] McCrindle (2016). Wealth Transfer Report

E IS FOR EXPERTISE

We consistently hear and see examples of advisers that simultaneously bring their technical and emotional expertise to the benefit of clients. In the best of times, advisers help clients achieve life-long goals, and celebrate personal and family milestones along the way. In challenging times, advisers can really add value through cases of trauma, illness, financial crises, estate planning and death.

We believe this unique combination of technical skill and emotional expertise demonstrated by advisers provides a priceless form of value to their clients.

Technical Expertise

Managing wealth in the Australian financial system is complex at the best of times. Navigating the requirements of superannuation, taxation, insurance and legal requirements can be extremely challenging for most individuals. When you also consider the issues of limited financial literacy and low engagement with finances, the result is not a recipe for success.

The flip side is that advisers develop investment expertise – understanding financial markets and portfolio construction is key to their training and experience. Advice teams are consistently researching investment solutions, decoding technical terminology to determine what is appropriate for different clients.

We covered earlier that as clients progress through life – their personal wealth management needs increase in complexity. It's not only about how much wealth they have to manage - things like navigating business ownership, dependencies, health concerns and estate planning all require additional expertise.

The value of working with an experienced adviser is about tapping into the accumulated expertise they've developed over their career. Together with ongoing education, this invaluable knowledge leverages previous client problem solving insights, and learnings from peer and industry connections.

Emotional Expertise

With almost 50% of Australians experiencing financial stress at some point in their lives[9], the value of advisers doesn't stop at the technical. Providing emotional support is a critical part of the value of an adviser.

Technical skills only get part of the job done – the ability to engage with and gain the trust of a client is critical to a successful relationship and achieving the best outcomes. This is where advisers draw on their essential interpersonal skills like empathy, caring and genuine curiosity.

Just over

55%

of Australians considered financial literate [7]

79%

of Australians recognise that advisers have expertise in financial matters [8]

83%

of Australians that receive financial advice have peace of mind about the future [8]

83%

clients that have a financial adviser who say that they intend to get financial advice in the future [8]

[7] Financial Literacy in Australia: Insights from HILDA Data, March 2020
[8] ASIC 'What consumers really think' 2019
[9] University of NSW Centre for Social Impact, Your Financial Wellness

An adviser's role

Through the best and worst times of a client's life, as their needs grow and change, an adviser can act in many different roles:

Guide

Be a trusted adviser to help manage the emotional burden of making decisions and considering the impacts. For clients who choose to be in control, advisers can act as a coach and sounding board, providing guidance and support to the client and their broader family.

Guru

In other circumstances, an adviser can provide perspective - acting as both an expert and a voice of reason, helping with education, understanding and even wisdom.

Gladiator

If needed, an adviser can be an advocate on a clients' behalf. Challenging an insurance claim, chasing beneficiary payments, managing the financial administration, so a client and their family can focus on what is important to them.

While articulating such intangible value is challenging, an overwhelming majority of those that have experienced the technical skills and emotional support of an adviser see value in their relationship.

TAKE A SHARPER LOOK AT COMMUNICATING THE VALUE OF YOUR ADVICE

Actions you can take

- ☐ Have a clear value proposition, advice philosophy and service model that helps illustrate.
- ☐ Have existing client case studies that highlight how elements of your expertise helped them and the outcome you delivered. Share these with new clients to understand some of the intangible value you deliver.
- ☐ Understand the different motivations for seeking advice and have examples to use with new clients on how you deliver sometimes intangible yet appreciated value.

T IS FOR TAX SAVVY PLANNING AND INVESTING

Tax is often considered the realm of the accounting profession. However, an adviser can also provide expertise in managing and optimising investment tax for their clients.

The concept of investment tax isn't just limited to what goes into your tax return. Investment tax can have an impact on an asset's value or on portfolio returns, even though it may not always be seen.

23%

of investors consider overall tax effectiveness of investments as one of their top three investment considerations.[10]

Stand out from the crowd

Providing a more tax-effective approach to investing is an area where advisers can distinguish themselves and demonstrate some of the more specific advice strategies that can deliver real gains to clients.

Most investors are familiar with the concept of superannuation and its tax benefits. However, the technical expertise required to minimise your tax position through super is often daunting and confusing. Not to mention the fear of getting it wrong and being answerable to the Australian Taxation Office.

Maximising available incentives

Increasingly, advisers are also playing a role in assisting clients to maximise their tax incentives and benefits at different life-stages. From childcare rebates and family tax benefits through to navigating superannuation top ups, health care cards, concessions and aged pension implications. Business owners have additional opportunities to be considered for grants and incentive programs. Many of these considerations are imbedded into the comprehensive advice provided – and should be recognised for the value added to the client.

Implementing solutions

As part of the implementation, advisers can provide guidance on choosing appropriate tax effective solutions and strategies that can deliver meaningful value to clients. For example, advisers can add value by:

- Considering investment solutions that actively implement strategies such as lower turnover styles, tax-minimisation overlays and centralised portfolio management.
- Tax advice through superannuation contribution strategies (salary sacrifice and transition to retirement) and reinvesting tax savings
- Insurance premium – identifying tax deduction benefits in super and reinvesting these tax savings
- Optimising tax for non-superannuation assets and managing 'tax surprises' as regulatory changes occur (e.g. recent superannuation legislative changes).

[10] ASX Australian Investor Study 2020

What is the value of tax savvy planning?

We believe that the value of an adviser for tax savvy advice is at least the sum of:

- **Asset allocation**

  Optimising assets and contribution strategies across superannuation, investment bonds and other tax structures

- **Asset implementation**

  Tax effective investment strategies and maximising tax benefit opportunities.

Taking into account these approaches, we estimate the tax-effective investing benefit that advisers can provide is around 1.3% p.a.

A key part of the plan

We believe that advisers have an opportunity to remind and reinforce clients of this often embedded and overlooked component of advice. It is important for advisers to highlight the direct and indirect tax implications of their recommendations. Tax is a key consideration for many investors. Therefore, advisers need to be proactive and remind clients of intentional tax strategies, asset allocation and tax benefits intrinsic to their advice.

TAKE A SHARPER LOOK AT COMMUNICATING THE VALUE OF YOUR ADVICE

Actions you can take

- ☐ Know each client's marginal tax rate, tax sensitivities and opportunities.
- ☐ Provide access to solutions that have tax-savvy strategies for your clients.
- ☐ Explain the different tax-smart decisions you include in your advice and ongoing implementation.

COMMUNICATE YOUR VALUE

The waning of the pandemic and the new geopolitical environment could be the perfect time for you to reassess the full value you deliver, and how you communicate that value to your clients.

We know that many advisers worked with their clients over the course of the pandemic to stick to their investing path. Our formula shows that even if you were only able to help them avoid the behavioural mistakes that many investors made in the market turbulence, you've likely already provided value above and beyond your fee. Add to that your other services, appropriate asset allocation, the customised client experience and expertise you give them, and the savings from a tax-effective approach, and it seems clear that the total value advisers deliver is significant.

Our simple, easy-to-follow formula can help you articulate and demonstrate that value to your clients.

A is for appropriate asset allocation: **1.6%**

\+

B is for behavioural coaching: **2.9%**

\+

C is for choices and trade-offs: **Variable**

\+

E is for expertise: **Priceless**

\+

T is for tax savvy planning and investing: **1.3%**

= at least **5.8%** — the value of your advice in 2022

FOCUS ON THE VALUE YOU PROVIDE

At Russell Investments, we believe in the value of advisers. And the numbers back up our belief. We see the potential advantages you create for your clients. We know the commitment you bring to your relationships. This annual Value of an Adviser Report quantifies that dedication and the resulting benefit.

Visit our website to see our range of tools and resources designed to help you engage and build trust with your clients, including a client version of this report.

Visit russellinvestments.com.au/clientresources

REACH OUT TO LEARN MORE

Russell Investment provides investment solutions, business solutions, and can help you create your unique value proposition and provide accountability coaching.

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Contact your Regional Manager

ADDITIONAL DISCLOSURES

The value of Appropriate Asset allocation is based on 5 portfolios with average asset allocations across Conservative, Diversified 50, Balanced, Growth and High Growth risk profiles. The value takes the difference of 10 year annualised performance of each adjacent risk profile, and calculates the average overall. These portfolios use index values as asset class exposures, including Australian equities: S&P/ASX 300 TR Index AUD, International Equities: MSCI AC World TR Index AUD, MSCI AC World ex Australia NR Index (AUD Hedged). International Bonds: Bloomberg Barclays Global Aggregate TR Index. Australian Bond: Bloomberg AusBond Composite 0 Year Index AUD. Example is provided for illustrative purposes only. Real returns may vary. Past performance is not a reliable indicator of future performance.

IMPORTANT INFORMATION AND DISCLOSURES