

VALUE



Embrace the Possible™

2020 Value of an Advisor Study

How can financial advisors amplify their value?



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Executive summary

At Russell Investments, we focus on the value of advisors.

Our annual report looks holistically at the real, measurable value advisors deliver for their clients, in their portfolios, and in vital services advisors provide. We developed a formula to calculate the full value equation of an advisor's services.

This year, the data has shown a particular uptick in the value that advisors deliver through behavioral coaching. The topic is highly relevant to the increased volatility we've seen in markets in 2020. In fact, just this single category—of helping investors avoid behavioral mistakes—more than offsets the 1% fee advisors typically charge for their services. Despite this fact, there are still advisors who may be challenged to communicate the material value they deliver. So let's look at the full value equation of an advisor's services. The data clearly shows that the value is much greater than the fee.

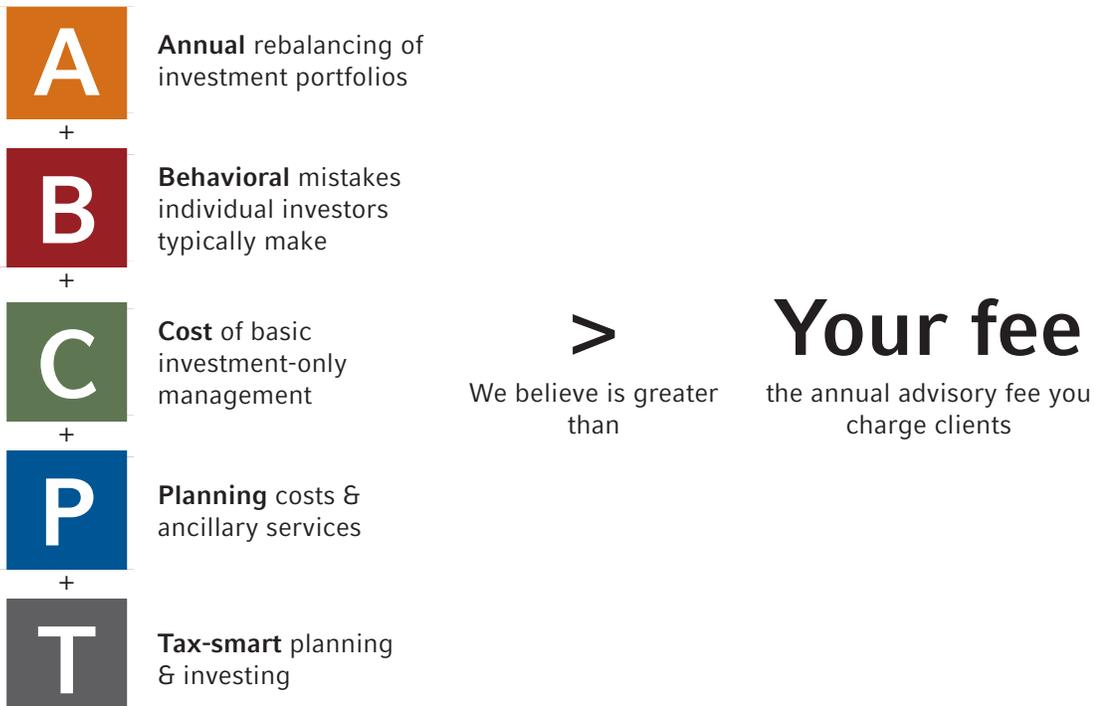
In 2020, we believe the value of an advisor in the U.S. is calculated at 4.81%.

Let's simplify to amplify.

Downward fee pressure seems constant. It comes from regulators, robo-advisors, and even from demanding clients. Fees are top-of-mind for many investors. With the rise of passive solutions, it doesn't seem hard to throw together a winning portfolio. This view completely overlooks the fact that standard investment selection is just one part of an advisor's value. But often advisors struggle to clearly articulate that the value their clients can derive materially exceeds the 1% fee they typically charge. Let's make that easier. We've run the data to measure the value advisors deliver. Then, we've created an easy-to-remember formula to help advisors communicate their value. It's as easy as ABC.

The ABCs of advisor value

The value of an advisor study is meant to quantify the contribution the technical and emotional guidance a trusted human advisor can offer. The formula we created is designed to categorize the areas of value creation in a repeatable, memorable way:

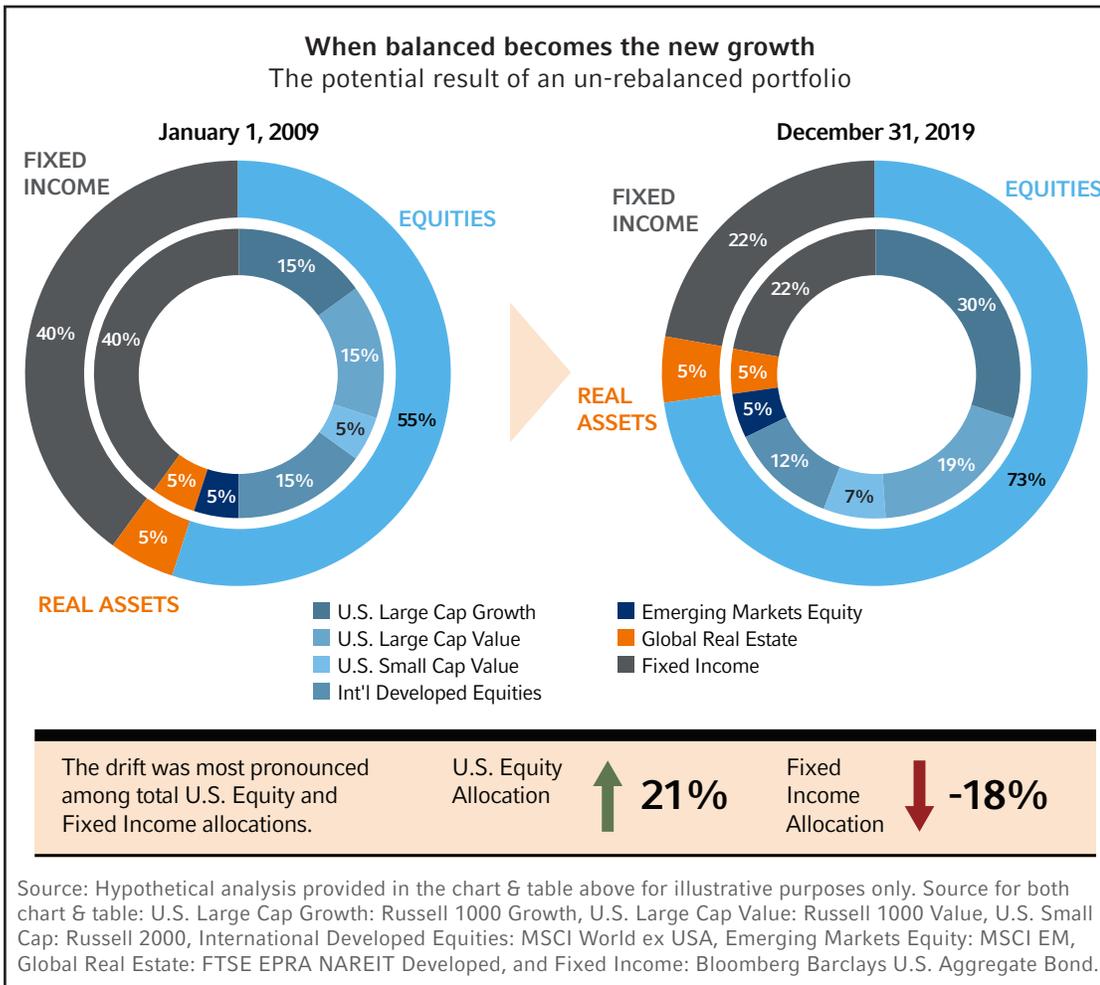




A is for Annual rebalancing = 0.32%

When markets are rising calmly, it can be easy to underestimate the importance of disciplined rebalancing. But when volatility strikes, this annual process gets the attention it deserves.

Avoiding unnecessary risk exposure. As this chart demonstrates, a hypothetical balanced index portfolio that has not been rebalanced would look more like a growth portfolio and expose the investor to risk they didn't agree to.





Additional returns. Regular rebalancing has the potential to add 0.32% in additional returns and 0.4% in risk mitigation.

Hypothetical rebalancing comparison of \$500,000¹
March 2005–December 2019

	BUY AND HOLD	ANNUAL REBALANCING
0.32% =		
Annualized return	6.73%	7.05%
Standard deviation	9.3%	8.9%
Ending value	\$1.3 million	\$1.4 million

Reduction in portfolio volatility **-0.4%**

¹For illustrative purposes only. Not meant to represent any actual investment.
Standard deviation is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. The greater the degree of dispersion, the greater the risk. See disclosure details on methodology and criteria.
Source Portfolio: Diversified portfolio consists of 30% U.S. large cap, 5% U.S. small cap, 15% non-U.S. developed, 5% emerging markets, 5% REITs, and 40% fixed income. Returns are based on the following indices: U.S. large cap = Russell 1000® Index; U.S. small cap = Russell 2000® Index; non-U.S. developed = MSCI EAFE Index; emerging markets = MSCI Emerging Markets Index; REITS = FTSE EPRA/NAREIT Developed Index; and fixed income = Bloomberg Barclays U.S. Aggregate Bond Index. Start date corresponds to index start dates (January 1988 is the inception of the MSCI Emerging Markets Index).

While 0.32% may not seem like much, compounded over a multi-year period, it can quickly add up. In the hypothetical example above, that’s a \$100,000 difference.

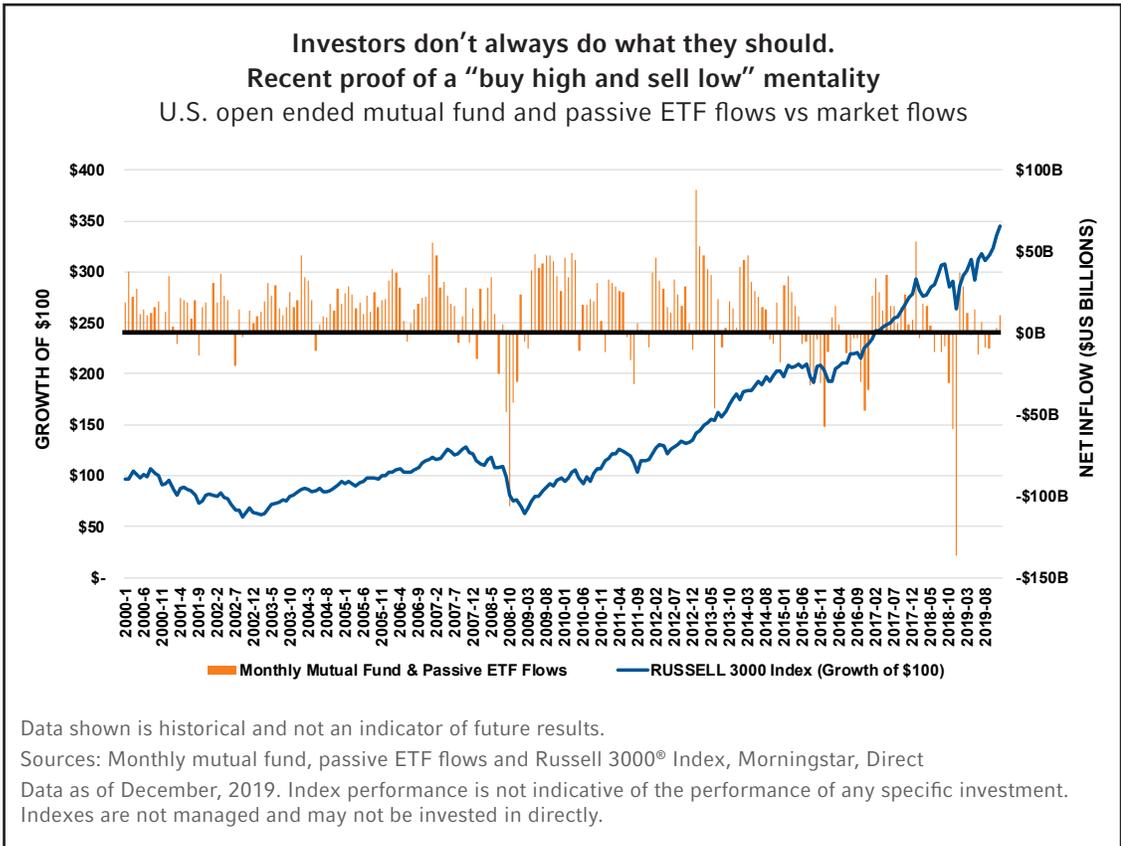
Put it in writing. Provide a written statement to your clients, including:

- The benefits of a systematic rebalancing policy
- Your strategic rebalancing policy
- How frequently you rebalance their portfolios
- Your approach to strategic rebalancing policy during periods of market volatility



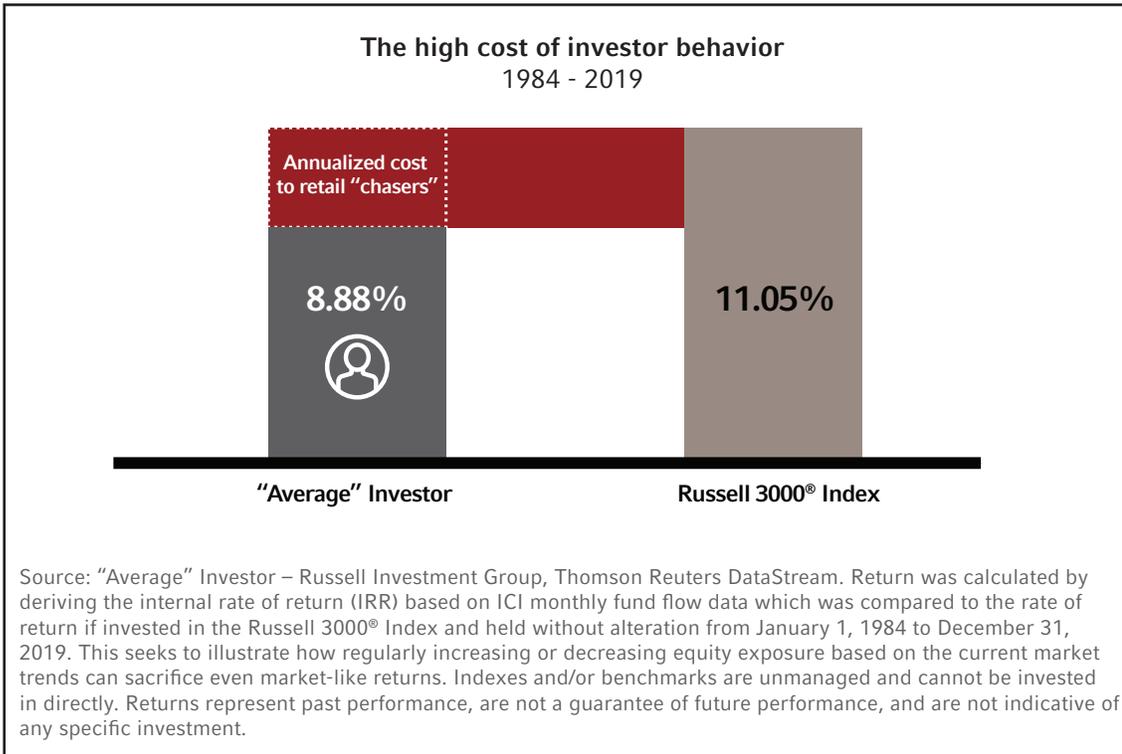
B is for Behavioral mistakes = 2.17%

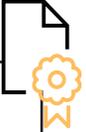
Behavioral mistakes cost real money. They can happen at any point in the market cycle. That’s why we believe behavior coaching is one of the most vital parts of the advisor job description. And when it comes to delivering value, avoiding behavioral mistakes may be the most significant contributor to total value. Left to their own devices, many investors buy high and sell low. From January 2000 to December 2019, \$100 constantly invested in the Russell 3000® Index more than tripled in value. And those that chose to stay in cash during that period missed a cumulative return of nearly 250%, based on the Russell 3000® Index.





No one likes to consider themselves to be an average investor. But the numbers don't lie. Statistically, the average stock-fund investor's inclination to chase past performance cost them 2.17% annually in the 35-year period from 1984–2019. By working with an advisor, investors can address this issue. We believe an advisor's ability to help clients stick to their long-term financial plan and skirt irrational, emotional decisions adds this value: 2.17%.





Manage the conversation

Using behavioral finance to help investors manage their human biases.

Loss aversion

Humans tend to prefer avoiding losses than acquiring equivalent gains



Overconfidence

Humans tend to over-estimate or exaggerate our ability to successfully perform tasks



Herding

Humans tend to mimic the actions of the larger group



Familiarity

Humans tend to prefer what is familiar or well-known



Mental accounting

Humans tend to attach different values to money based on its source or location



which can lead to...

Sell winners too early, hold onto losers too long	Trade too often	Buy high, sell low	Overweight home country	Naïve diversification
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but can be managed...

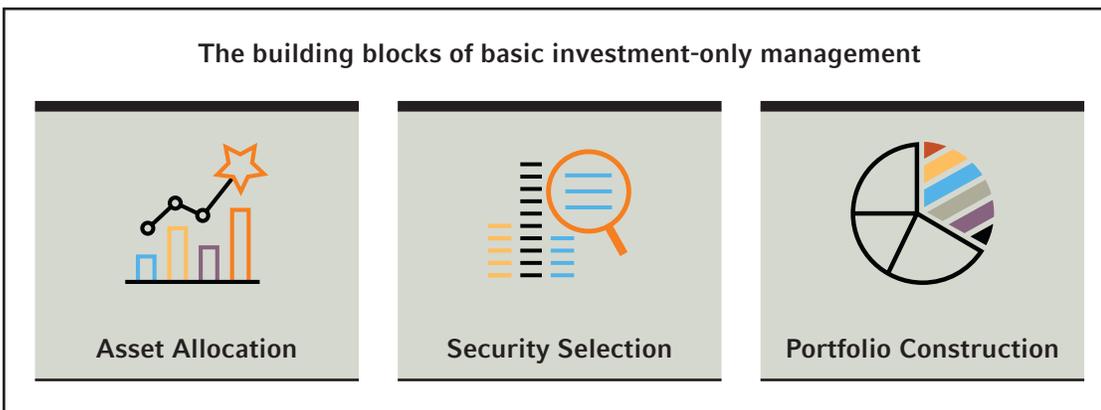
Illustrate the connection between their investments and long-term goals	Listen and provide perspective	Focus on long-term goals and emphasize a disciplined process	Diversify and cast a wider net	Money is fungible. Focus on total wealth allocation
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C is for **Cost of investment-only management = 0.29%**

What would investment management cost if a robo-advisor did it? You can't get much more bare-bones than that. But we understand the importance of quantifying this aspect of an advisor's job.

Robo-advisors that deliver investment-only management and no financial plan, ongoing service, or guidance have set prices at approximately 0.29%¹—for annual statements, online access, and a phone number to call in case of questions.



¹Based on the average fee charged for investment-only management by 10 robo-advice offerings for a client portfolio of \$500,000 as accessed on Ignites Article - Top 10 robo advisors June 2018, bankrate.com/investing/best-robo-advisers/, and individual robo advisor websites on 2/6/2020.

Robos have learned from us. What can we learn from them?

- How can we embrace technology to enhance the online planning process?
- How can I improve my online presence to stay connected with clients and show our value?
- Which processes would improve with technology? Client experience? Inventory strategies?



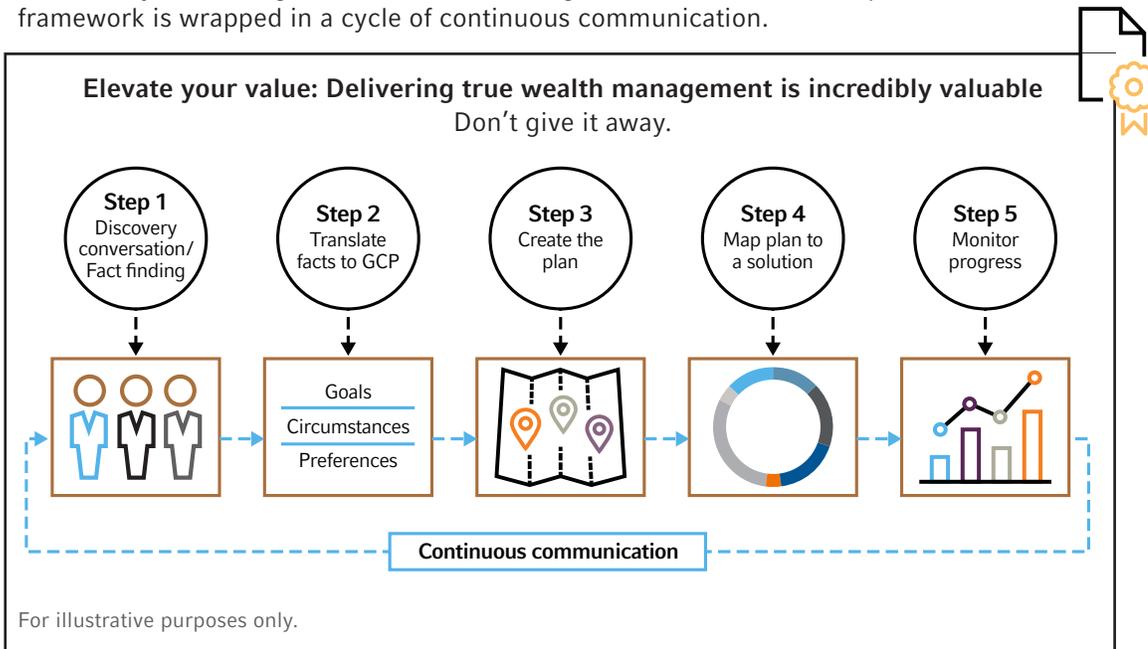
P is for Planning = 0.72%

Outcomes matter. Advisors understand that. But it’s worth stating that financial advisors add value by doing the hard work of shepherding a strategy from origination to the final outcome investors desire. That means building and regularly updating custom financial plans, conducting regular portfolio reviews, and offering a long list of valuable, often overlooked ancillary services. These might include tax & estate planning, college funding, 401(k) review, investment & cashflow analysis, Social Security & retirement income planning, assistance with annual tax return preparation and one-off custom requests from clients.

How much does the financial planning component cost nowadays?

Per a recent financial planning study conducted by Kitces, the average standalone planning fee for a comprehensive plan was around \$2,080, which is 0.52% on a \$400k account.² Are your clients aware of that value? They should be.

True wealth management is also an intentional, valuable process. It begins with a deep discovery conversation that requires the professional guidance of an advisor. It is then followed by translating that conversation into goals, circumstances and preferences. The framework is wrapped in a cycle of continuous communication.



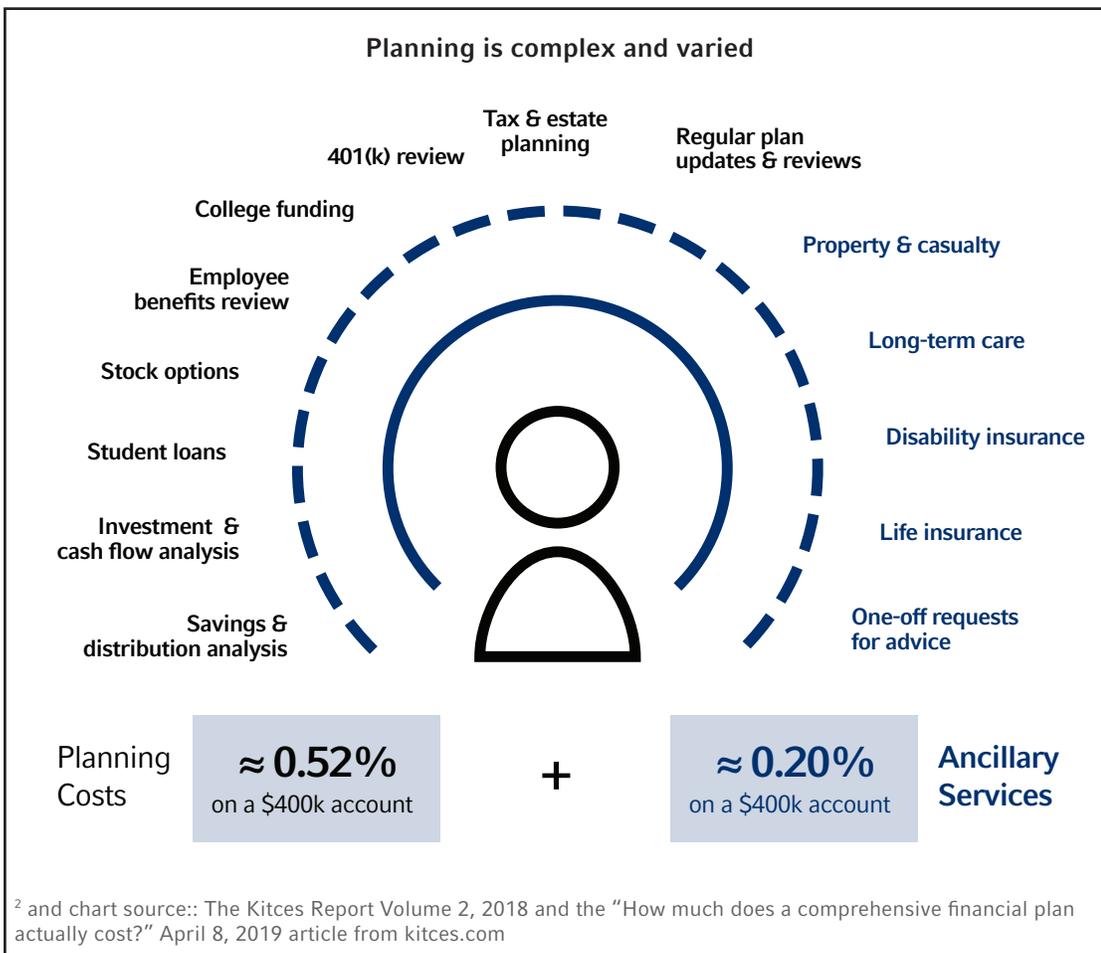
² The Kitces Report Volume 2, 2018 and the “How much does a comprehensive financial plan actually cost?” April 8, 2019 article from kitces.com.



What is the value of typical ancillary services an advisor and their team offer?

Over our decades of practice management, too often we have found that advisors and their team consistently underestimate the value of the ancillary services they provide to clients, such as addressing insurance needs, custom requests and questions. These additional services can quickly consume 20, 50, or 100 hours each year. If the advisor is providing these ancillary services, we estimate that the total planning fee goes up by an additional 0.20%.

Let’s run the numbers. The average standalone planning fee for the most comprehensive plan with ancillary services was \$2,880, which is 0.72% on a \$400,000 account.²





Map your client engagement

As an advisor, one of the primary ways you deliver value is by helping your clients stay focused and on course. It's not easy. Despite your best efforts, clients sometimes struggle to remember the plan you built together. A solution to this common problem is to provide them with a Client Engagement Roadmap. The Client Engagement Roadmap positions you as the coordinator of your clients' multi-faceted financial affairs. It also helps your client articulate and then document their goals and objectives—a critical part of the process. Ask your Russell Investments representative for access to this easy-to-use tool and value communication materials approved for client use.

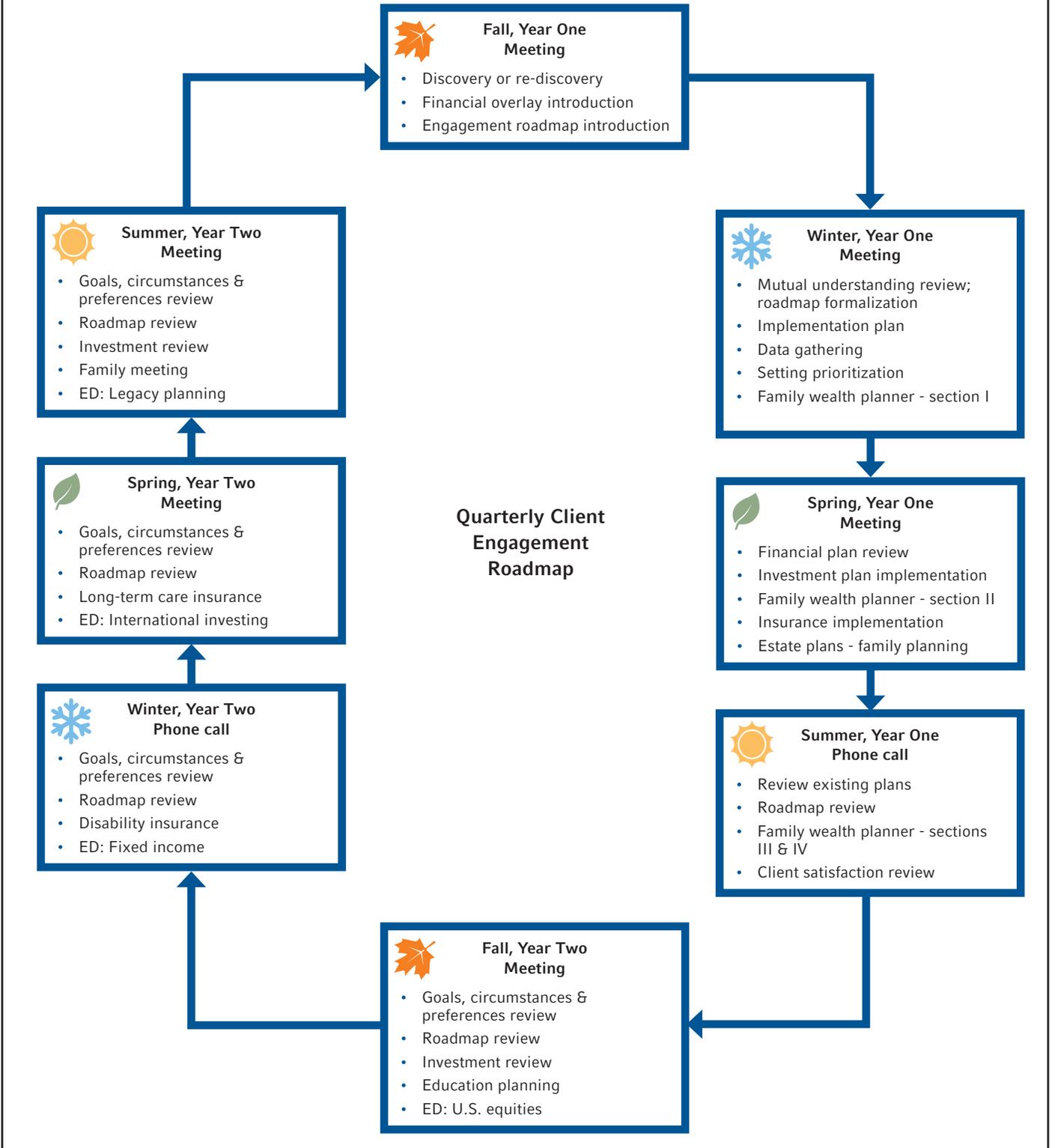


Making a commitment to your clients—and in return having some expectations from clients, too.

WHAT YOU CAN EXPECT FROM US	WHAT WE EXPECT FROM OUR CLIENTS
<ul style="list-style-type: none"> • Transparency into our partnership process, values and priorities 	<ul style="list-style-type: none"> • Openness about your current situation, goals, circumstances, preferences, asset location, and other relevant wealth management information
<ul style="list-style-type: none"> • Comprehensive financial planning process—creating, monitoring, and updating your custom financial plan 	<ul style="list-style-type: none"> • Proactive, two-way communication as your situation changes
<ul style="list-style-type: none"> • Regular, ongoing, and proactive interactions with our team to help guide you through the emotions that markets, and investing, may trigger 	<ul style="list-style-type: none"> • At least two face-to-face updates/meetings per year
<ul style="list-style-type: none"> • On-going asset allocation, investment selection, customized portfolio design & construction • Proactive rebalancing of portfolios 	<ul style="list-style-type: none"> • Feedback on our client events and educational workshops throughout the year
<ul style="list-style-type: none"> • Tax-smart planning and tax-managed investing 	<ul style="list-style-type: none"> • Annual tax review of your state/federal tax return
<ul style="list-style-type: none"> • Help you build a team of experts to meet all your wealth management needs (tax team, trust and estate attorney, insurance, banking, business succession, etc.) 	<ul style="list-style-type: none"> • Introductions to individuals in your professional and personal networks for whom you believe we can add value



Frame conversations to the client's journey and goals
 Help clients see their whole financial picture



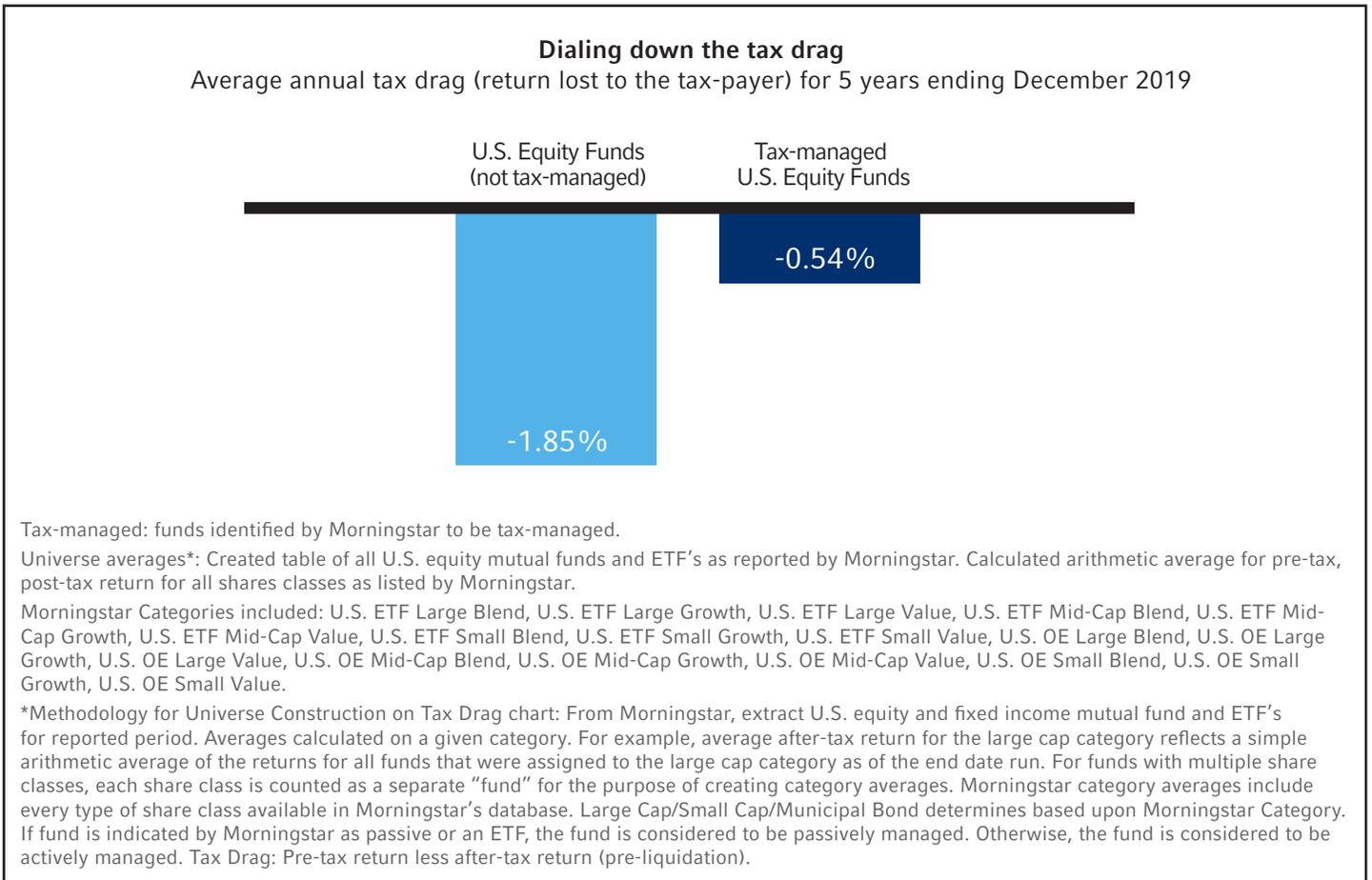


T is for Tax-smart investing = 1.31%

Why is tax management important? Because taxes have the ability to seriously erode returns. While downward fee pressure can mean downward value trends in other areas, advisors who focus on tax-smart investing can distinguish themselves and demonstrate differentiating value. Because it's not what you earn. It's what you get to keep.

Dialing down tax drag

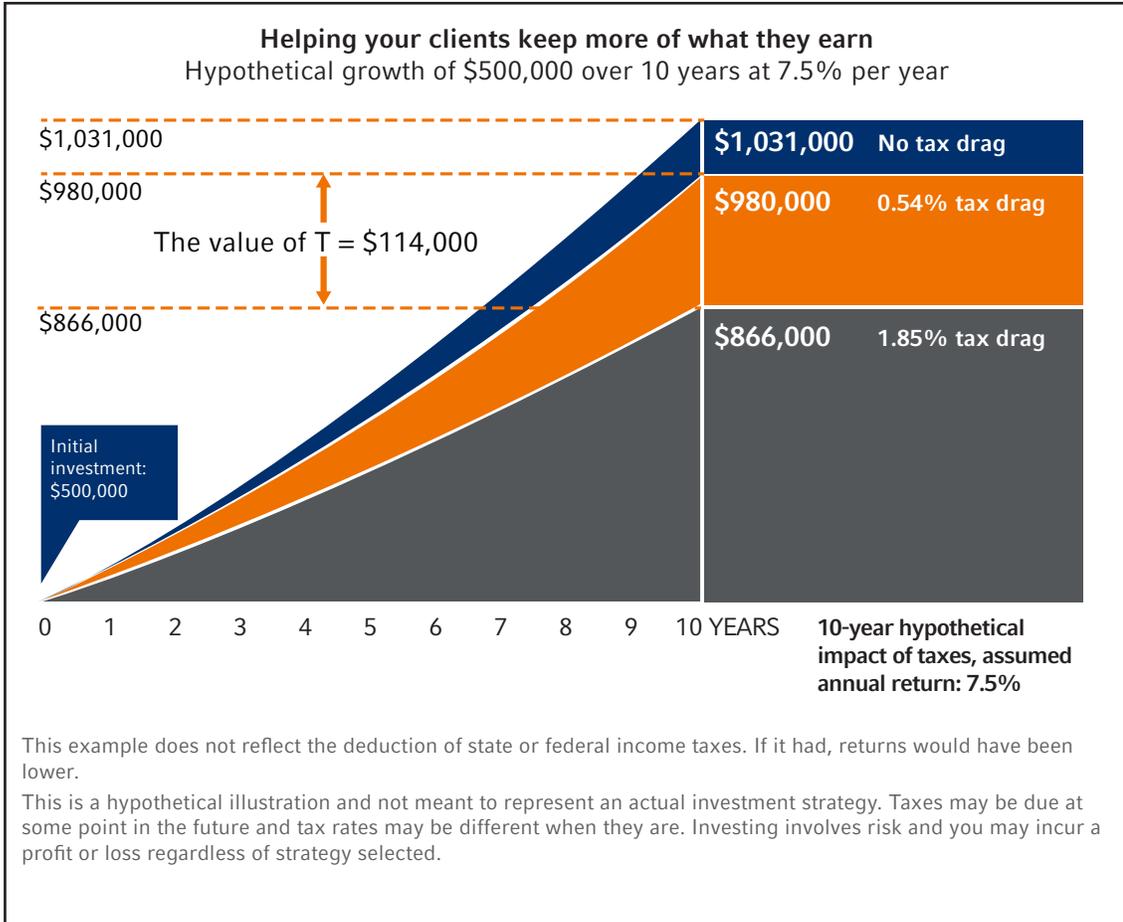
Just how much return can be added with a tax-smart approach? The average annual tax drag for the five years ending December 31, 2019 was significant. Investors in non-tax managed U.S. equity products (active, passive, and ETFs) lost on average 1.85% of their return to taxes. Those in tax-managed U.S. equity funds forfeited only 0.54%. That's a value difference of 1.31%. With taxable investors holding \$8.5 trillion of the \$18.7 trillion invested in open-end mutual funds, this is a massive concern—and a massive opportunity for added value.³



³ Source: 2019 Investment Company Institute Factbook.



Are you a tax-smart advisor? You can help increase your value by helping build and implement personalized, comprehensive, and tax-sensitive investment plans.





Understanding your client's tax-sensitivity level

Do you...

- **KNOW** each client's marginal tax rate?
- **PROVIDE** intentionally different investment solutions for taxable and non-taxable assets?
- **EXPLAIN** to clients the benefits of managing taxes?
- **PARTNER** with local CPAs to minimize tax drag?
- **REVIEW** your client's 1099?

Forensic review of the IRS Form 1099

Connecting the dots between what a client makes and actually keeps

Box 1a: Total amount of dividends to include both qualified and non-qualified

Box 1b: Qualified dividends may be eligible for reduced capital gains rates

Look for:

- Difference between 1a and 1b. Too much non-qualified dividends?
- Does the client need dividend income?

Box 2a: Capital gain distributions. Understand amount as % of total investments. Are gains out of line with investment size?

Box 11: Tax-exempt dividend/interest from municipal bond funds. Know client's tax rate and tax-equivalent yield.

e, country, ZIP		OMB No. 1545-0110		2020	Divid Dist
1a Total ordinary dividends	\$	1b Qualified dividends	\$		
2a Total capital gain distr.	\$	2b Unrecap. Sec. 1250 gain	\$	For and Re Not 20 Instr	
2c Section 1202 gain	\$	2d Collectibles (28%) gain	\$		
3 Nondividend distributions	\$	4 Federal income tax withheld	\$		
5 Section 199A dividends	\$	6 Investment expenses	\$		
7 Foreign tax paid	\$	8 Foreign country or U.S. possession		I	
9 Cash liquidation distributions	\$	10 Noncash liquidation distributions	\$		
11 Exempt-interest dividends	\$	12 Specified private activity bond interest dividends	\$		
FATCA filing requirement <input type="checkbox"/>		13 State	14 State identification no.	15 State tax withheld	



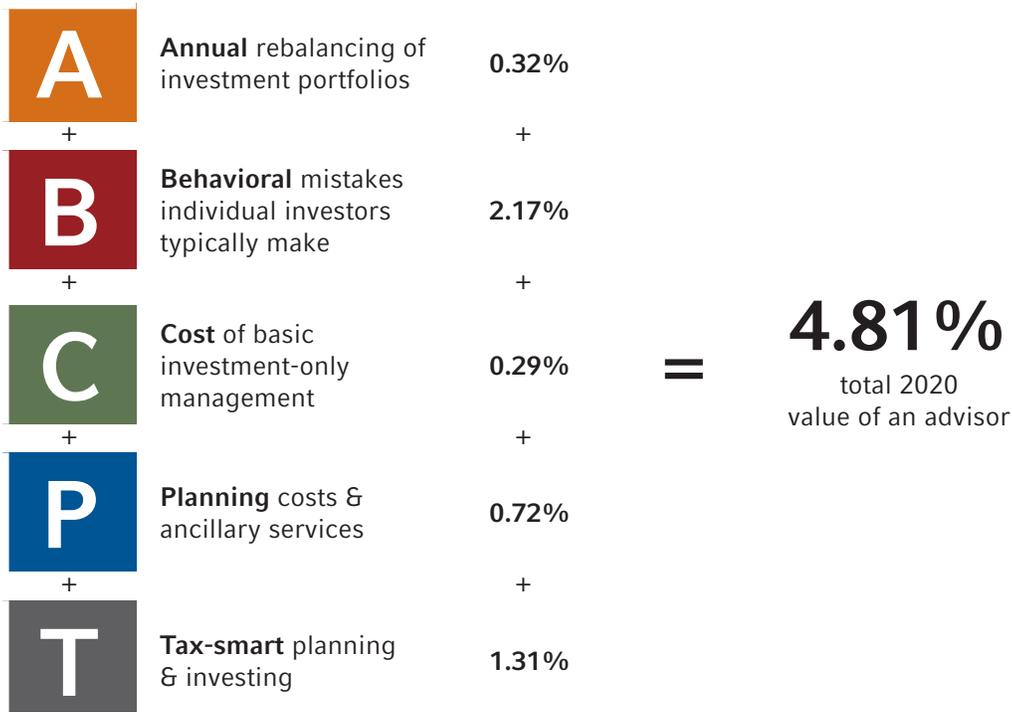
The bottom line

With a data-driven approach, this report is designed to quantify the value we believe a trusted human financial advisor can offer, through both technical and emotional guidance.

4.81% > 1%

In 2020, we believe advisors delivering services and value above and beyond investment-only advice have an estimated contributory value of 4.81%. Compare that to the 1% advisors typically charge in fees.

This value is a meaningful differentiator in a time of demanding investors, regulatory scrutiny and downward fee pressure. And by demonstrating to clients how their value greatly exceeds the fees charged, advisors can improve client satisfaction and arm their clients to advocate on their behalf.



Advisor value is real. Amplify it.

At Russell Investments, we believe in the value of advisors. And the numbers back up our belief. We see the advantages you create for your clients. We know the commitment you bring to your relationships. This annual Value of an Advisor study quantifies that dedication and the resulting benefit. All you need to do is turn up the volume.

For more information:

Call Russell Investments at **800-787-7354** or visit russellinvestments.com.

Fund objectives, risks, charges and expenses should be carefully considered before investing. A summary prospectus, if available, or a prospectus containing this and other important information can be obtained by calling (800) 787-7354 or visiting <https://russellinvestments.com>. Please read a prospectus carefully before investing.

IMPORTANT INFORMATION AND DISCLOSURES

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

The Investment Company Institute is the national trade association of U.S. investment companies, which includes mutual funds, closed-end funds, exchange-traded funds and unit investment trusts.

Bloomberg Barclays U.S. Aggregate Bond Index: An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities (specifically: Barclays Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index).

FTSE EPRA/NAREIT Developed Index: A global market capitalization weighted index composed of listed real estate securities in the North American, European and Asian real estate markets.

MSCI Emerging Markets Index: A float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

The MSCI EAFE Index is an equity index which captures large- and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada. With 918 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Countries include: Australia, Austria,

Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the U.K.

The MSCI World ex U.S. Index tracks global stock market performance that includes developed and emerging markets but excludes the U.S.

The Russell 1000® Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership.

The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

The Russell 3000® Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Past performance does not guarantee future performance.

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