WHY WORK WITH A FINANCIAL ADVISOR?

Russell Investments

Because that relationship may be one of your best investments.

2023
VALUE OF AN
ADVISOR

EMBRACE THE POSS/BLE™

EXECUTIVE SUMMARY

2022 was one of those years where the value of an advisor was clear. There was plenty of market turbulence as the Bank of Canada and other global central banks rapidly hiked interest rates to clamp down on rampant inflation. It was one of the few years in recent memory where both equities and bonds declined. There were ongoing geopolitical tensions, easing of Covid-19 pandemic restrictions, protests in Iran, a reduction in oil production and China unveiled a new economic modernization plan.

After pivoting to remote work at the height of the pandemic, many firms began to slowly transition to a new hybrid office model. A lot of you had to adapt to yet another change in your work/life balance.

It certainly was a challenging year for investors. But as always, those of you who worked closely with an advisor continued to receive significant value.

We also believe it's important for you to understand that value – especially in those moments where you might feel some short-term concern, confusion, or disappointment about your portfolio. That's why we update and adapt our Value of an Advisor formula every year: to illustrate the important role an advisor plays helping you pursue financial security.

Our formula for 2023 is: A + B + C + T

A + B + C + T

Active rebalancing of investment portfolios

Behavioral coaching

Customized experience & family wealth planning

Tax-smart planning & investing

A IS FOR ACTIVE REBALANCING OF INVESTMENT PORTFOLIOS

As we have all discovered in recent years, markets can be volatile. We also discovered in 2022 that fixed income may not always play its traditional role as a counterbalance to equity. We found that inflation and higher interest rates have a different impact on different asset classes.

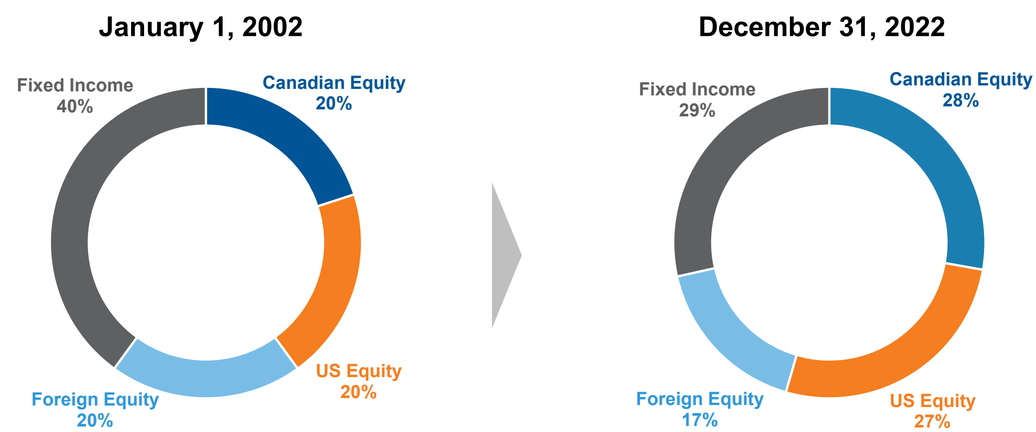
All the movement that we saw in the markets last year could have affected the mix of assets in your portfolio. That mix was originally selected because it fit your risk and return profile so if it changes, your portfolio may not act as you had intended.

For example, if you had purchased a hypothetical balanced portfolio of 60% equities and 40% fixed income in January 2002 and not had it rebalanced since then, by the end of 2022 the portfolio would be somewhat different.

That original balanced portfolio would have become more growth-oriented, with approximately 72% invested in equities and only 29% in fixed income. (All numbers have been rounded.) Without rebalancing, over the previous decade as the portfolio shifted towards a larger equity allocation, it would have become riskier.

WHEN BALANCED BECOMES THE NEW GROWTH

The potential result of an un-rebalanced portfolio



The drift was most pronounced: Canadian Equity and Fixed Income

Canadian Equity Allocation **8%**

Fixed Income Allocation **-11%**

For illustrative purposes only. Not intended to represent any actual investment. Source: Russell Investments. Analysis based on data from 1/1/2002 - 12/31/2022. Initial asset allocation: 20% S&P/TSX Composite Index (Canadian equity), 20% S&P 500 Index (US Equity), 20% MSCI EAFE Index (Foreign Equity), and 40% FTSE Canada Universe Bond Index (Canadian Fixed Income). 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.

When you rebalance your portfolio regularly, your advisor sells your high performers and buys low performers. Not only does this help you capture your gains, it can also help smooth out returns. And when it comes to our portfolio, don't we all prefer a smoother ride to a rollercoaster?

More importantly, maintaining the allocation of assets within the original guidelines keeps your portfolio aligned with your stated risk tolerance and your expectations for your money. Keeping you on track and reasonably comfortable is how your advisor can add value.

B IS FOR BEHAVIORAL COACHING

Last year was a difficult year for investors. Not only did both equities and fixed income end the year lower, both asset classes were quite volatile throughout. You may have felt like throwing in the towel.

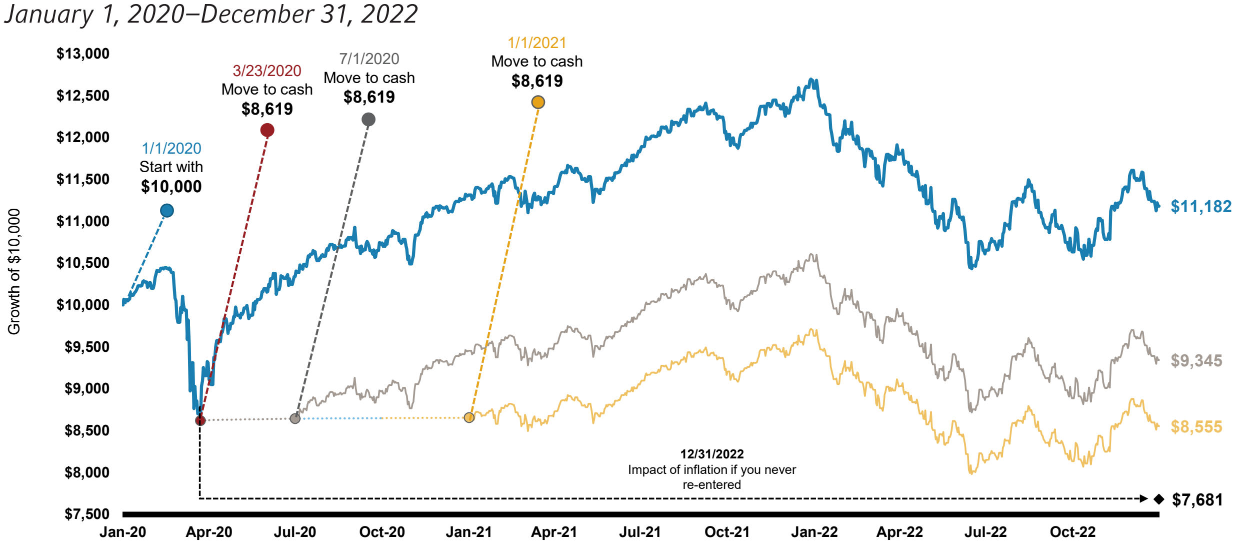
But pulling out of the market when it's volatile can lock in losses and could lead to missing out on any subsequent rally. Without a crystal ball, it's hard to time the perfect point to get back into the market once you have left.

The chart below shows the difficulty of finding a new point of entry once you leave the markets. If you had remained invested over the past two years, you would have seen your $10,000 investment on January 1, 2020 rise to $11,182 by the end of 2022. But if you had moved to cash in March 2020 when the pandemic hit, and then returned to the market a few months later at the end of the second quarter, you would only have $9,345 by the end of last year. Meanwhile, if you moved to cash in March 2020 and stayed in cash until January, you would have only $8,555 at the end of 2022. And if you had moved out of the markets and stayed in cash for the duration, inflation would have eaten away at the value of your money, and you would have only $7,681 at the end of 2022.

This is where we believe an advisor can be a valuable guide. Their role as a behavior coach can go a long way to keeping you invested, by focusing on the long term rather than letting you fall prey to your emotions when markets get volatile.

FEAR IMPACTS OPPORTUNITY

January 1, 2020–December 31, 2022

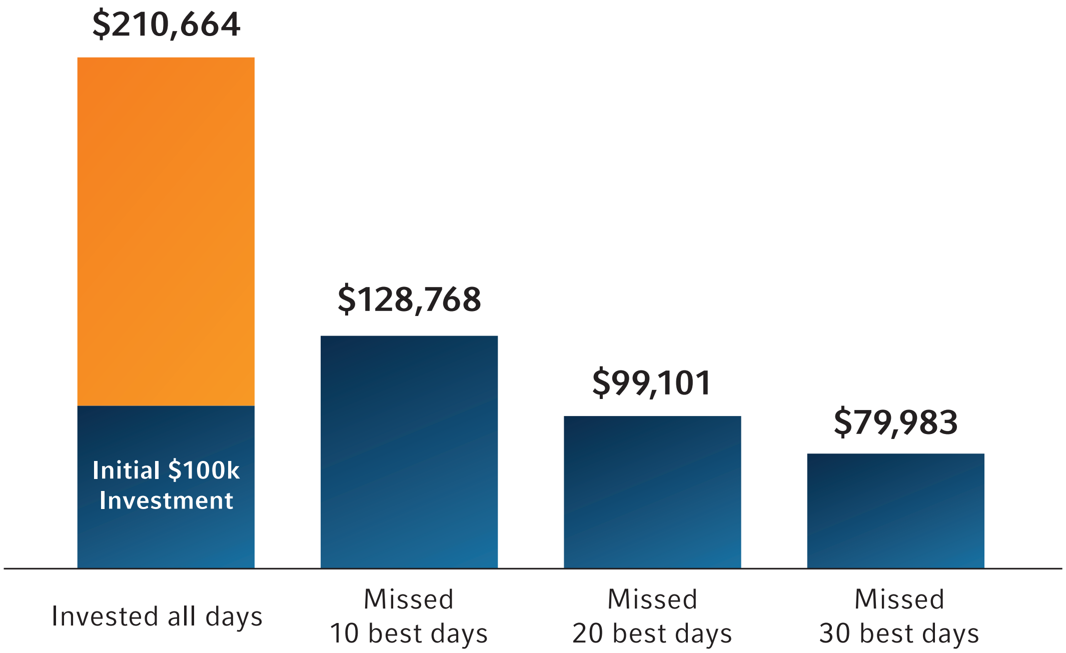


Source: Morningstar Direct. As of December 31, 2022. In CAD. Balanced Portfolio: 60% MSCI World Index & 40% Bloomberg Canada Aggregate Bond Index. Cash: S&P Canada Treasury Bill Index. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly. The performance shown does not include fees and other costs that would have reduced returns.

Even pulling out of the market for a brief period can hurt your returns. The thing is, you never know when the market will have a good or bad day. Market performance can be affected by anything from stock-specific news to geopolitical events to newly released data (such as employment statistics) to even technical trading triggers. That's why markets are so unpredictable. Nevertheless, their long-term trend has been up. In fact, **the S&P/TSX Composite Index (representing Canadian stocks) has finished the year in positive territory 74% of the time since 1924.**

THE INVESTMENT IMPACT OF MISSING BEST MARKET DAYS

10 years ending December 31, 2022



Source: Morningstar. Returns based on S&P/TSX Composite Index, for 10-year period ending December 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.

C IS FOR CUSTOMIZED EXPERIENCE AND FAMILY WEALTH PLANNING

We all like to feel special, and we all love the personal touch. There's something satisfying about receiving a curated list of suggested shows from our streaming service. Or hearing our name called out by the barista, knowing the coffee was made to our personal preferences. And what is more personal than our finances?

It's likely that your life will become more complex over time, as you accumulate assets and potentially raise a family. You may rely on your financial advisor to guide you through saving for a home, or to put money aside for your children's education, ensure you are properly insured, prepare for retirement or set up a charitable trust. The illustration below lists some of the many parts of a holistic wealth planning process.

The services listed in orange are what an advisor originally provided and what robo-advisors now offer at a very low price. Those in light blue are what a financial planner can provide while those in dark blue are the broader and more customized services that many advisors now offer.

DELIVERING TRUE WEALTH MANAGEMENT IS VALUABLE

Your advisor may be continually adjusting your plan and may consult with not only your spouse but also your children, depending on the nature and size of your assets. At all times, they should be aware of your needs, goals and preferences. Your advisor may also call upon a network of experts – such as estate lawyers, accountants, or lifestyle consultants – to ensure your financial plan encompasses all aspects of your life.

This means your advisor will develop a deep understanding of your individual situation and what you are trying to achieve. They can spearhead the holistic wealth planning process – saving you time and effort. We believe an advisor who works with you to build financial stability for your entire family provides significant value.

T IS FOR TAX-SMART PLANNING AND INVESTING

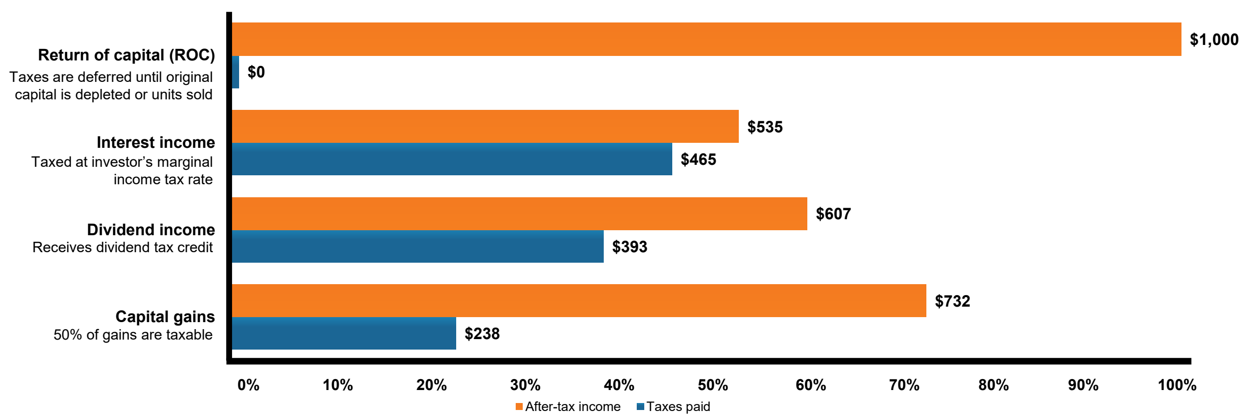
It's one thing to pay taxes on your investment portfolio when you've enjoyed a healthy return. But when your portfolio declines – as many did in 2022 – and you still have to pay taxes on your investments, well, that can feel particularly galling.

Without proper tax management, you may pay more taxes than you need to every April. There is a myriad of taxes that can be triggered by our investments: taxes on dividends, on interest, on capital gain distributions, or on the sale of shares, for example.

Tax-aware advisors who structure your portfolio and choose solutions that help manage investment taxes can provide significant value.

For example, an advisor who understands the different rates of taxation on different types of distributions can ensure you are sheltering interest income in a registered account – such as a Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Account (TFSA). Or they can help you structure your portfolio so that the distributions you receive from your non-registered accounts are composed of return of capital.

DIFFERENCES IN TAXATION FOR $1,000 OF DISTRIBUTIONS



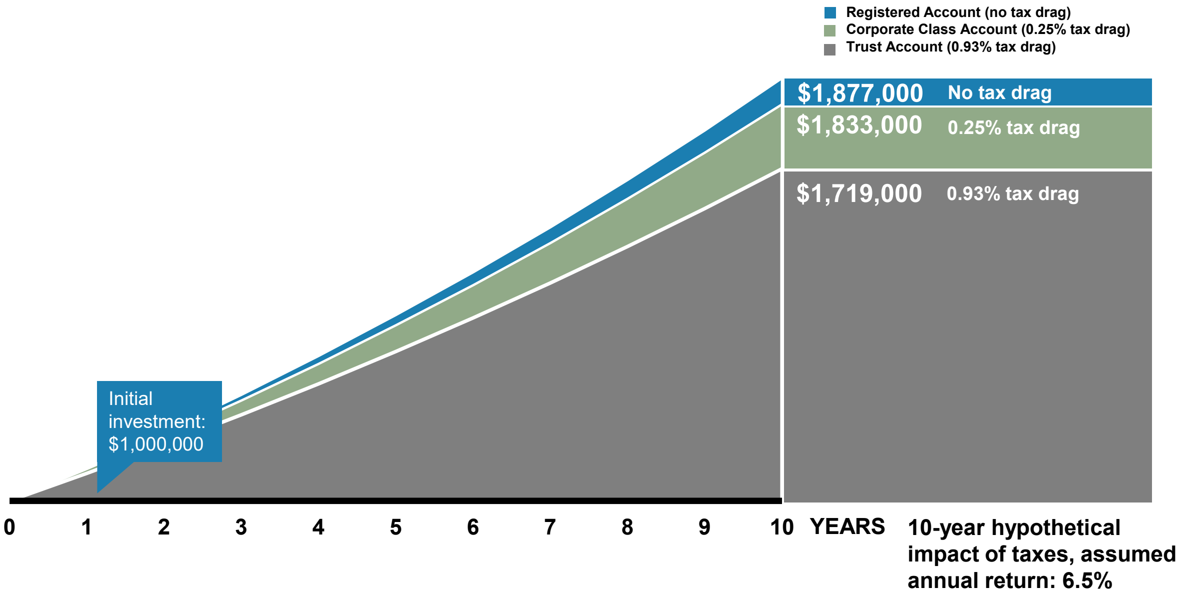
For illustrative purposes only.

All examples shown are based on the following 2023 Ontario marginal tax rates for calculating the tax liabilities: interest income = 53.5%, Canadian eligible dividends = 39.3% and capital gains = 26.8%

Advisors who consider the impact of taxes on investments can bring a lot of value to an investor. An active tax-managed investing approach has the potential to lead to a much better after-tax outcome. We call the return that is lost to taxes "tax drag." Tax drag is not only a burden that weighs on returns over time, but also an indicator that portfolios are not deploying proper strategies. A tax-aware advisor can both identify the problem as well as the solution.

Let's look at the graph below to see how tax drag impacts returns. A registered account is shielded from taxes until the funds are withdrawn, so investments held in one have no tax drag. Corporate class funds are structured so that the majority of distributions are in the form of a return of capital. They do, however, pay taxes at the corporate level so there is a minimal tax drag on the investor's returns. And a regular mutual fund, or trust account, has a larger tax drag. The graph shows how that drag weighs on a portfolio over time.

THE VALUE OF T – 10 YEARS



Source: Russell Investments

Assumptions: C$1 million investible amount. 6.5% rate of return for “Registered Account”, 6.25% rate of return for “Corporate Class Account”, 5.57% rate of return for “Trust Account”. After-tax distributions are re-invested.

Tax “drag” is the difference between the returns on the “Registered Account” versus “Corporate Class Account” or “Trust Account”.

For illustrative purposes only, Not intended to reflect any actual portfolio or Russell Investments Canada Limited product. Percentages represent the difference in the gross return and after-tax return for trust and corporate-class mutual funds.

Tax-managed mutual funds aim to minimize distributions from non-registered accounts and they are now available to Canadian investors. These funds typically use tax-management techniques such as tax-loss harvesting, avoiding superficial losses and tax-smart yield management—all with goal of helping to reduce the tax bite on your portfolio. After all, *it’s not what you make, it’s what you get to keep.*

While taxes may be complicated and confusing, they are important. Working with a tax-smart advisor can help save you money. And we believe that holds value.

Russell Investments

WHY WORK WITH A FINANCIAL ADVISOR?

Because it may help you increase the value of your portfolio. In this time of constant change and increased customization, our lifestyles, dreams, goals, and finances may be vastly different from what they were a year or two ago. But one thing likely hasn't changed: your wish for financial stability. And that's where a trusted advisor can truly provide value.

To learn more, speak with your financial advisor.

IMPORTANT INFORMATION

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 a profit or protect against loss in declining markets.

S&P/TSX Composite Index: The benchmark Canadian index, representing roughly 70% of the total market capitalization on the Toronto Stock Exchange.

MSCI EAFE (Europe, Australasia, Far East) Index: A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

FTSE Canada Universe Bond Index measures the performance of marketable government and corporate bonds outstanding in the Canadian market.

The S&P 500® Index is an index, with dividends reinvested, of 500 issues representative of leading companies in the U.S. large cap securities market.

The **Bloomberg Canada Aggregate Bond Index** measures the Canadian investment grade fixed income market and is comprised of government, government-related and corporate securities.

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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