VALUE

Russell Investments

Why work with a financial adviser?

Because that relationship may be one of your best investments.

russellinvestments.com.au

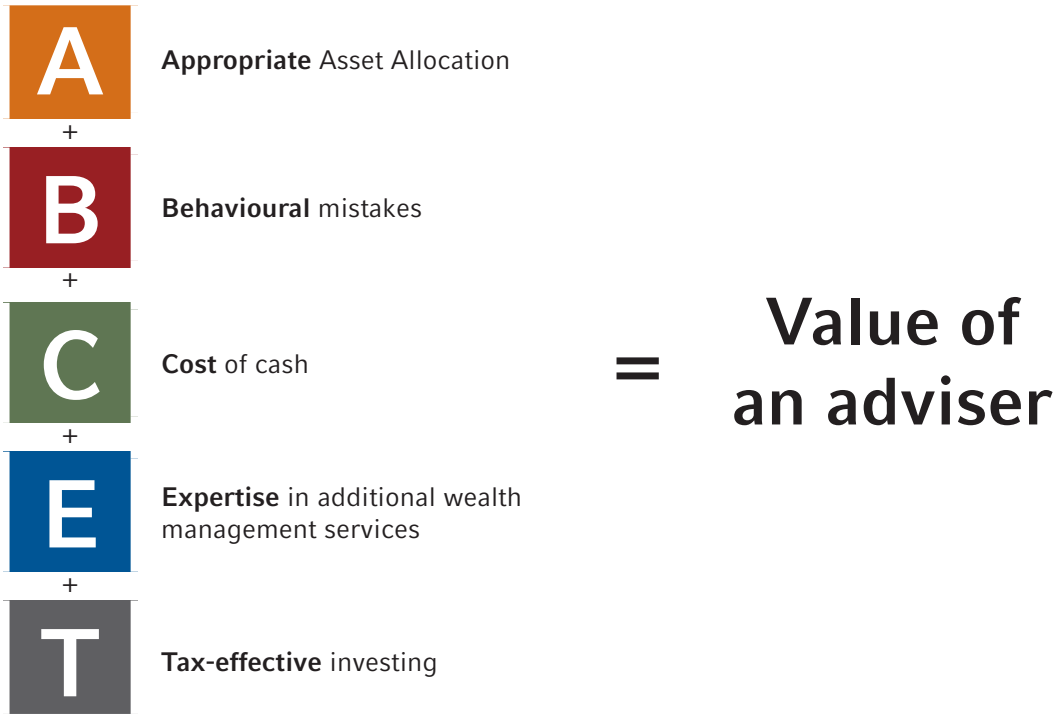
What can a financial adviser do for me?

The market volatility and uncertain economic outlook experienced in 2020 serves as a stark reminder of the value of working with a financial adviser.

At Russell Investments we believe the biggest value that a financial adviser provides is as a behaviour coach. As humans, we are vulnerable to behavioural biases—those emotional responses to market movements that have the potential to significantly impact our portfolios. Many of us were likely tempted to take our money out of the equity markets when they began to drop as the news flow on the novel coronavirus COVID-19 worsened. But doing so would have meant selling at a potential low point in the market, contrary to the tenet of successful investing: buy low, sell high. As we have seen time and time again, severe market declines are eventually followed by market rallies. A financial adviser can help mitigate emotional responses to the volatility, keeping you invested and on track with your plan.

While that is likely the biggest value a financial adviser can provide, they do so much more. Even when markets are calm, or steadily rising as they had been for several years, financial advisers provide a variety of necessary services. A financial adviser can provide holistic wealth planning: from selecting investments, to managing your portfolio through different life changes, to retirement and estate planning. They can also provide guidance on your specific tax circumstances so that you have a better chance of keeping more of what you make.

We have developed a formula that can help you understand the value of working with an adviser.



A is for Appropriate Asset Allocation

It can be tempting for investors to build their own portfolios, but there are also risks. Investors could be making a fatal flaw in their portfolio design when it comes to setting an appropriate asset allocation to meet their investment objectives. Do you have the skill and/or time to research the many investment options available to set the right investment strategy for your needs? There is also the added temptation to chase performance and over-react to market events.

The role of an adviser is to help you articulate your life goals, translate this into investment objectives and design the best possible investment strategy and portfolio recommendations within a level of risk that is appropriate for you. Helping you understand the level of risk required and the implications of this risk is a critical ingredient in an advice conversation. Not taking sufficient risk can impact whether a goal is potentially achievable or not.

For example, let's look at average returns of Australian equity and bond portfolios over a 20-year period. If an investor held 70% of their portfolio in growth assets and 30% in defensive, their average annual return would be 9.0% over the 20-year period. If, however, they held just 30% growth assets and 70% defensive, they would achieve annualised returns of 8.1%.

ALLOCATION	AVERAGE 10 YEARS OF ROLLING 20 YEAR RETURN (MAY 2011-MAY 2020)	RETURN ON $100,000 INVESTED OVER 20 YRS
Australian Equities	9.7%	
Australian Bonds	7.4%	
30/70 Portfolio	8.1%	$472,689.62
70/30 Portfolio	9.0%	$558,500.10
Difference	0.9%	$85,810.48

Source: Russell Investments, Australian equities: S&P/ASX 300 TR Index AUD, Australian Bond: Bloomberg AusBond Composite 0 Year Index AUD

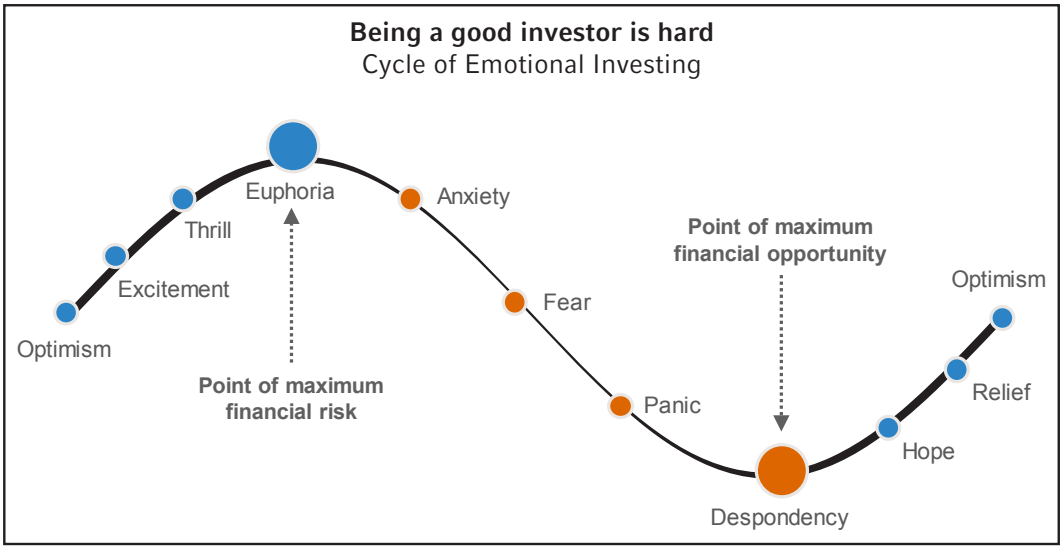
In this case, if a younger investor had invested conservatively instead of in the growth option, they would have missed out on average of 0.9% return every year for 20 years. On $100,000 invested, that's a significant difference of over $85,000 to the final return.

In addition to investment strategy, professional advisers bring the necessary skills to construct well-diversified portfolios, which is one of the most important contributors to long ¬term returns. Advisers provide important access to funds and strategies that you may not be aware of or able to access. This includes the right active strategies to build growth, ensuring the total fees are appropriate and the portfolio is well diversified to manage risk.

What is clear from our analysis is that financial advisers have the potential to add significant additional value to an investor's portfolio over the long term by helping you to work through your values, preferences and motivations from the outset. For investors who elect to proceed without advice, there can be a big price to pay for selecting the wrong asset allocation.

B is for Behavioural mistakes

Most people act like humans, not investors. People tend to let their emotions and other human tendencies influence their decision-making. In many parts of life, that's perfectly reasonable. But when it comes to investing, acting like a human may actually cost you money.

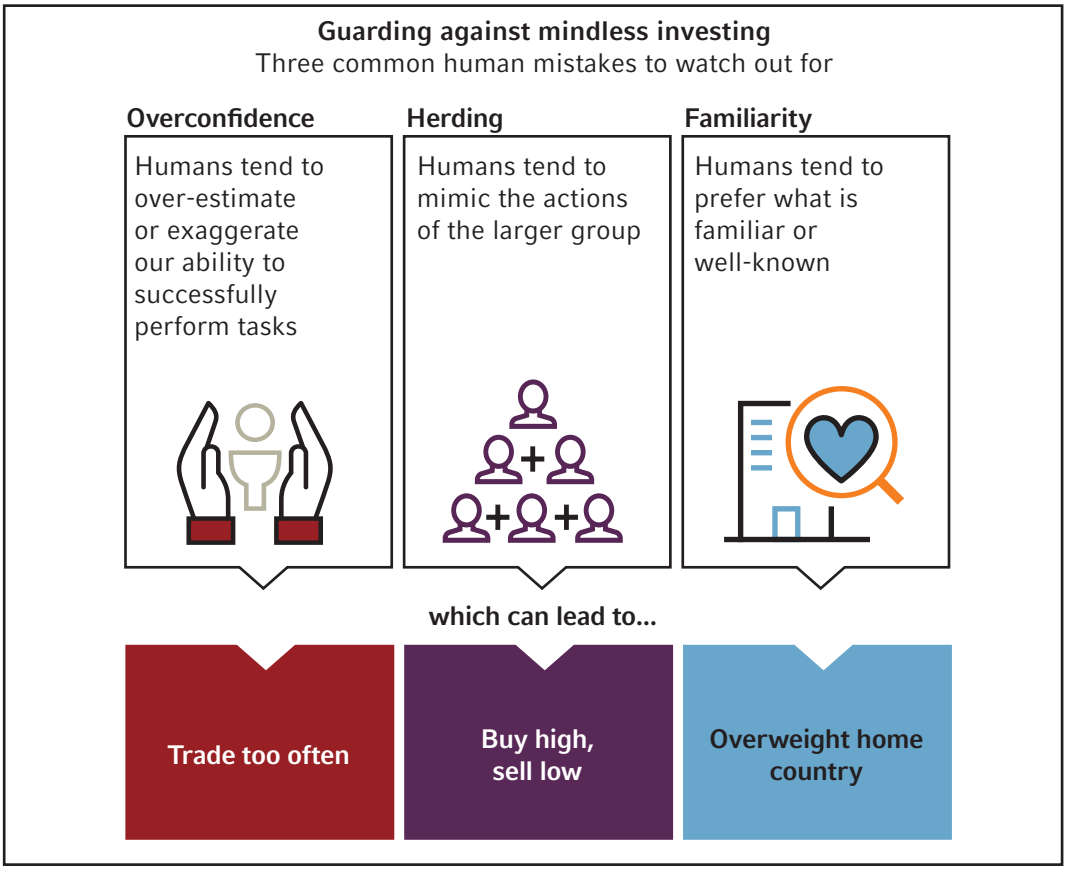


For illustrative purposes only.

We like to think we make rational and logical decisions when we are investing. That's because volatile markets can spark our "blink" reflexes: those intuitive "fight or flight" responses that we make when faced with danger or uncertainty. Daniel Kahneman and the late Amos Tversky, both leading behavioural scientists, divided the human thought process in two ways: blink, and "think," which is when we are rational, systematic and controlled. Researchers in the fields of economics, psychology and neuroscience (which together make up behavioural science) have uncovered more than 200 types of unconscious biases in humans* that result in our blink responses—and can ultimately jeopardise the health of our wealth—if left unchecked.

* Investments & Wealth Monitor, May/June 2017, p. 5

To be a successful investor, it is important to be objective and disciplined when making investment decisions. This means making sure decisions align with your long-term goals. While you would be forgiven if ongoing trade wars, a global pandemic, and an uncertain economic outlook has prompted you to second-guess your investment strategy, making changes off the back of these events may be detrimental to your portfolio.

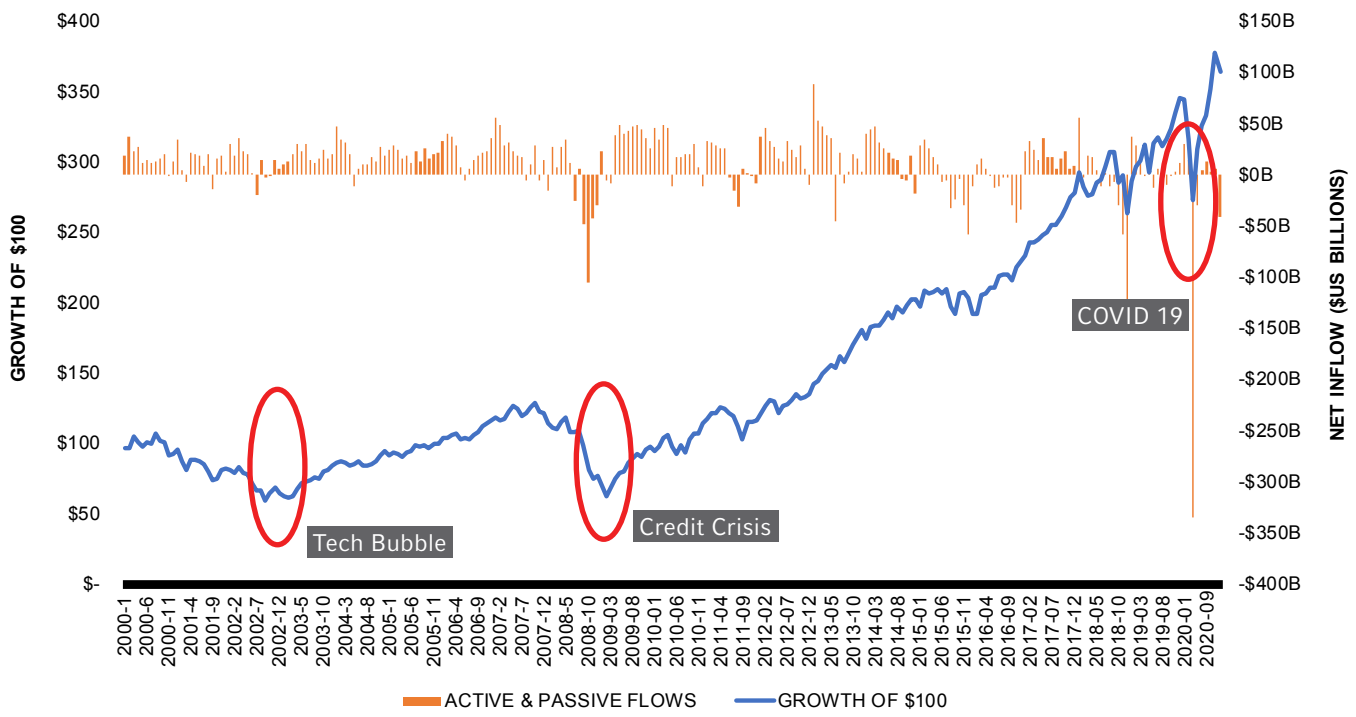


You may find you become overly optimistic when markets are rising, or overly pessimistic when markets are declining. Your adviser can help you remain objective and disciplined through the cycle of market emotions. We believe avoiding behavioural mistakes is a significant contributor to total value. In fact, sometimes it's the decisions you choose not to make that count more.

Left to their own devices, many investors buy high and sell low. From January 2000 to September 2020, $100 constantly invested in the Russell 3000® Index more than tripled in value. And those who chose to stay in cash during that period missed a cumulative return of nearly 250%, based on the Russell 3000® Index.

Recent proof of a "Buy High And Sell Low" Mentality

U. S. open ended mutual fund and passive ETF flows vs market flows



Data shown is historical and not an indicator of future results.
Sources: Monthly mutual fund, passive ETF flows and Russell 3000® Index, Morningstar, Direct
Data as of September 2020. Index performance is not indicative of the performance of any specific investment. Indexes are not managed and may not be invested in directly.

> *We believe advisers can play a critical role in helping you avoid common behavioural tendencies and may potentially help you achieve better portfolio returns than those investors making decisions without professional guidance.*

C is for Cost of cash

An investor's attitude to cash can often be an interesting insight not only in their investment preferences but also their investing confidence. For many, cash can provide a sense of security and familiarity. It largely behaves as we expect it to, it doesn't surprise investors on the upside, but more importantly it doesn't surprise investors on the downside.

Cash can provide a level of certainty for planning purposes. For example, if you require cashflow in retirement you can develop strategies to allocate and maintain levels of cash to meet your expected spending. A popular strategy is to calculate expected spend over a number of years and keep that in cash. An additional benefit of holding cash is the ability to access it on demand.

However, there can be a cost to holding too much cash. While it can cushion potential portfolio losses, it can limit the overall performance and you could miss out on potential portfolio growth. Sacrificing that portfolio growth today, could mean less assets in the future and therefore less spending power over the longer term, particularly in retirement.

Advisers can assist you in investing in a well diversified portfolio that seeks to balance the needs of liquidity and targeting growth within the risk levels appropriate for you.

To bring this to life, let's look at two hypothetical investor scenarios that both have a desired portfolio of 30% in defensive assets and 70% in growth assets, a common balanced investor. How you invest those defensive assets can potentially have an impact on overall portfolio return.

Scenario 1 SMSF investor holds all the defensive allocation (30%) of their portfolio in cash.

Scenario 2 SMSF investor invests their defensive allocation in a Diversified Fixed Income Portfolio comprised of an equal weighting of 10% to Cash, 10% to Australian Bonds and 10% to International Bonds (total 30%).

Now, let's compare these two scenarios to the index returns over the last 10 years.

FOR PERIODS ENDING 31 MAY 2020 PRODUCT NAME	1 YEAR	3 YEARS	5 YEARS	7 YEARS	10 YEARS
RBA Term Deposit Average Rate	1.1	1.7	1.9	2.2	2.8
Diversified Fixed Income Portfolio	4	3.8	3.6	4	4.9
Total Portfolio Allocation	30%				
Scenario 1 – Return of 30% allocation in Cash	0.3	0.5	0.6	0.7	0.8
Scenario 2 – Return of 30% allocation in Diversified Fixed Income Portfolio	1.2	1.1	1.1	1.2	1.5
Return enhancement to overall portfolio	0.9	0.6	0.5	0.6	0.6

Source: Russell Investments, Lonsec irate, , Diversified fixed income portfolio, Cash: RBA Term Deposit Average Rate, Australian Bond: Bloomberg AusBond Composite 0 Year Index AUD, International Bond: Bloomberg Barclays Global Aggregate TR Index (AUD Hedged)

The overall performance over a 10 year period would have produced 0.60% return enhancement

More than just return seeking, advisers are experienced at working with you to closely identify your needs, with the ability to manage planned, unplanned or unforeseen expenditures. Advisers can help keep your portfolio invested where appropriate to grow assets for future spending needs and find the best source and process for accessing capital on your behalf when required.

E is for expertise in additional wealth management services

Advisers advise. That can start with building and regularly updating a financial plan that fits your needs based on your specific goals, circumstances and preferences, conducting regular portfolio reviews, and being available to answer your questions, guide you through market volatility and make recommendations when you go through one of life's big moments—such as getting married, buying a house, sending a child to university, or entering retirement.

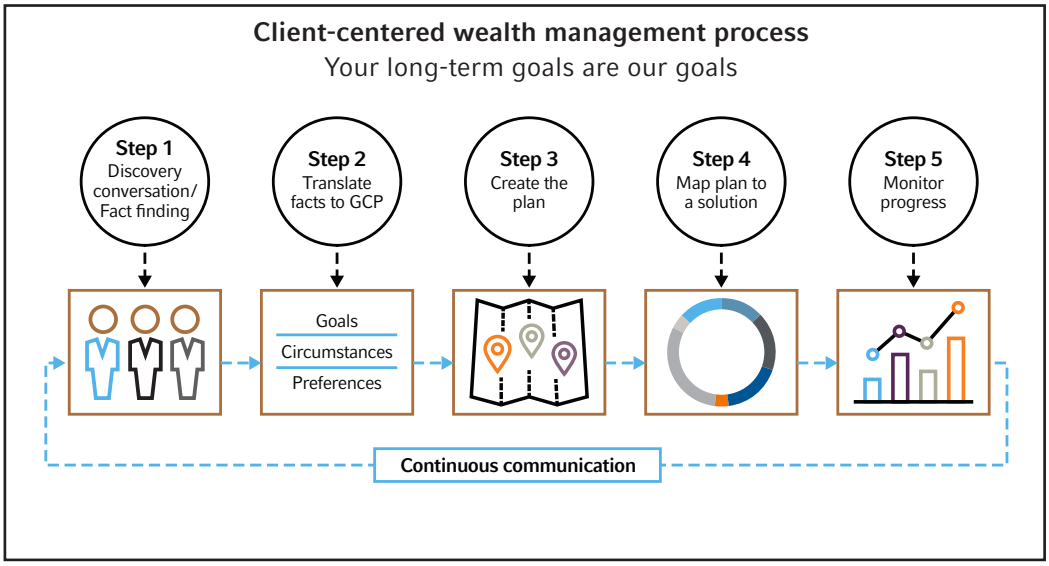
They can also offer additional services such as investment education, assistance with specific tax circumstances, estate and retirement income planning, and help you make sure you have proper insurance coverage.

Your financial plan is a key element to help your reach your goals. A robust financial plan may incorporate coordination of your multiple financial goals, considerations for investing at different stages in your life, and strategising with your other trusted professionals dedicated to your financial health.

Your adviser may provide:

- Savings & distribution analysis
- Investment & cashflow analysis
- Student loans
- Stock options
- Employee benefits review
- Education funding
- Regular reviews
- One-off requests for advice
- Investment education
- Property
- Long-term care
- Disability insurance
- Life insurance

Your adviser will likely work with you to tailor your custom financial plan and investment solutions to what matters most to you. The process begins with a deep discovery conversation. Followed by translating what is heard into goals, circumstances and preferences. And because your priorities and circumstances are likely to change over time, your adviser may choose to engage with you continuously to help you reach your desired goals.



For illustrative purposes only.

T is for Tax-effective investing

When it comes to investing, it's not what you make that counts. It's what you get to keep. Your adviser can help you navigate the complex world of tax implications of your investments.

Tax is often considered the realm of the accounting profession.

However, your adviser can also provide expertise on managing and optimising investment tax. The concept of investment tax isn't just limited to what goes into your tax return. Investment tax can have an impact on the asset value or portfolio return, even though it may not always be seen. As a result, it can be difficult to know how to be tax effective in your portfolio.

By lowering the tax on your investments, you may be able reach your financial goals sooner.

Adviser play an important role in your tax journey, helping you navigate key components when it comes to tax-effective strategies.

You may not understand the range of investment vehicles available to you and the benefits they could add to your investment portfolio.

Advisers can assist in the management and optimisation of investment tax in a number of ways such as structural tax strategies.

Structural tax strategies

Advisers can add significant value in managing your investment tax through structural tax strategies. These not only require a close understanding of your needs, but technical expertise and up to date legal and regulatory knowledge to do this successfully. Such strategies can include:

- salary sacrifice pre- and post- superannuation contributions for accumulators
- transition to retirement strategies and reinvesting tax savings
- optimising tax for non-superannuation assets and managing 'tax surprises' as regulatory changes occur

> *Quality financial advisers not only have the technical expertise to help you make the most of your tax circumstances but can help you to avoid any unexpected surprises at tax time.*

The bottom line

Your adviser charges for the service he or she provides. As we demonstrate below, your adviser can play many roles, each of which has significant value and can ultimately help you and your family reach your long-term financial goals.

The value of an adviser relationship

Financial Planning	Financial Therapist	Investment Strategist
Investment Advocate	Tax Coordination	Financial Educator

A successful relationship with your trusted financial adviser requires engagement—on both sides. We outlined above what your financial adviser typically delivers to clients. Following are some considerations for how you can be an engaged client:

- Be open with your adviser about your current situation, goals, circumstances, preferences, values, asset location and other relevant wealth management information;
- Engage in proactive, two-way communication with your adviser as your family's situation changes;
- Participate in regular face-to-face meetings with your adviser;
- Provide feedback to your adviser about client events and educational workshops they host;
- Introduce to your adviser those people in your professional and personal networks whom you believe your adviser could help.

Russell Investments

To learn more, speak with your financial adviser.

russellinvestments.com.au