VALUE

Russell Investments

2021 Value of an Adviser Study

A sharper focus on the value of your advice.

THIS MATERIAL IS FOR FINANCIAL PROFESSIONAL USE ONLY
AND NOT FOR DISTRIBUTION TO CURRENT OR POTENTIAL INVESTORS.

Executive summary

Russell Investments has always focused on the value of advisers. And never was an adviser's value so obvious as during 2020.

It was a year that tested both investors and advisers in so many ways. Financial markets fell sharply early in the year when the global spread of the COVID-19 virus forced a sudden shuttering of economic activity, only to recover strongly in the final months on positive vaccine news. Most financial advisers had to switch to a virtual environment seemingly overnight. For many, harnessing the available technology was a steep learning curve. And the year ended with renewed hope following the U.S. presidential election[1].

Through it all, many of us found ourselves reassessing our lifestyles and our way of doing business. Many of you may have found your priorities and outlooks have changed – just as those of your clients may have.

That's why we think it is the perfect time for you to place a sharper focus on the full value of your advice and ensure you are communicating that value to your clients.

Our simple and handy formula can help you show your clients the overall value you bring to them. To better reflect the changing role of a financial adviser, we've reassessed the formula we use in our annual report. Given the holistic wealth management advice you provide to investors and their loved ones, your role is more likened to a family wealth adviser. Our new formula takes a closer look at that broadened role. It more closely reflects the tangible benefits for clients – such as receiving a customised client experience, or ensuring the products held in their portfolio align with their goals, circumstances, and preferences.

Given the volatility seen in 2020, it's no surprise that the biggest contributor to your value is your role as a behavioural coach. In fact, we believe that this category on its own more than offsets a 1% fee advisers typically charge for their services.

Let's take a look at the full value equation of an adviser's services. It's as easy as ABC and clearly shows the estimated value is much greater than the typical advisory fee.

In 2021, we believe the value of an adviser is approximately 2.81%.

The ABCs of adviser value

The Value of an Adviser Study is meant to quantify the contribution that the technical and emotional guidance a trusted human adviser can offer. The formula we created is designed to categorise the areas of value creation in a repeatable, memorable way:

A — **Active** rebalancing of investment portfolios

\+

B — **Behavioural** coaching

\+

C — **Customised** client experience & planning

\+

P — **Product** alignment

> We believe is greater than

Your fee the annual advisery fee you charge clients

[1] Source: Russell Investments.

A B C P

A 0.04%

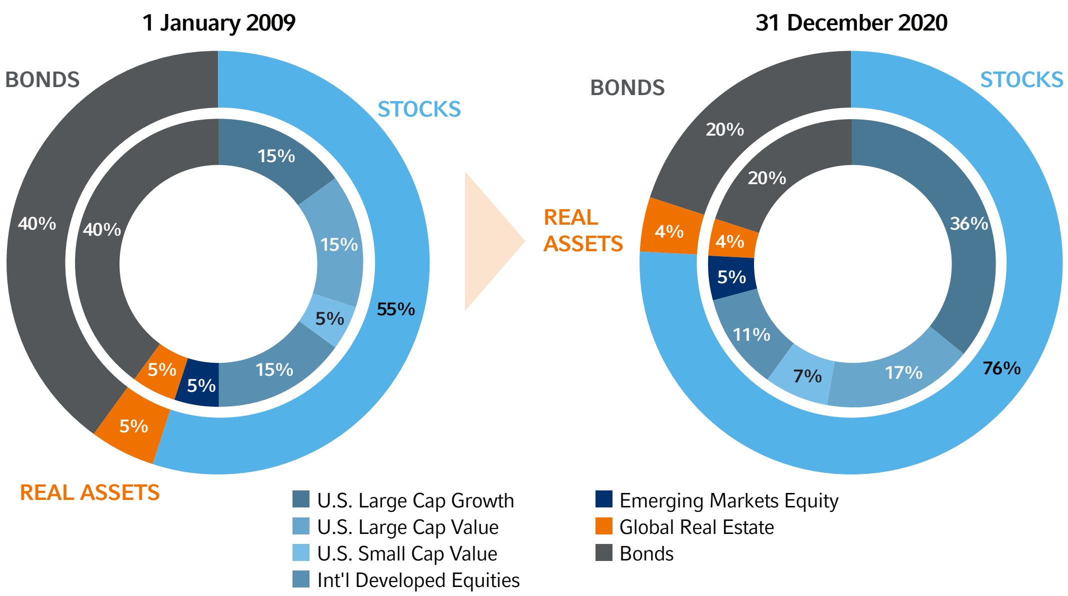
A is for active rebalancing

When markets are rising calmly, it can be easy to underestimate the importance of regular rebalancing. But in a volatile year such as 2020, active rebalancing of a portfolio could have played a significant role in smoothing out the performance. With most economic sectors shuttered and a widespread shift to a virtual environment, we also saw a few key U.S. technology names substantially increase their weighting in the S&P 500® Index. Without regular rebalancing, a diversified balanced portfolio could have become overly heavy in large capitalisation U.S. equities.

For example, if an investor had purchased a hypothetical balanced portfolio of 60% equities and 40% fixed income at the end of 2005 and it had not been actively rebalanced since then, by the end of 2020 the risk profile of the portfolio would have looked very different. That original balanced portfolio would have become a growth portfolio, with 70% invested in equities and only 30% in fixed income. That would expose the investor to risk they didn't agree to and could be a concern if equity markets suddenly reversed, as we saw in early 2020.

When balanced becomes the new growth

The potential result of an un-rebalanced portfolio



The drift was most pronounced:	Total U.S. Equity Allocation	Large Cap Growth Allocation	Large Cap Value Allocation	Fixed Income Allocation
	38%	140%	13%	-50%

Source: Hypothetical analysis provided in the chart and table above is for illustrative purposes only. Not intended to represent any actual investment. Source for both chart and table: U.S. Large Cap Growth: Russell 1000 Growth Index, U.S. Large Cap Value: Russell 1000 Value Index, U.S. Small Cap: Russell 2000® Index, International Developed Equities: MSCI World ex USA Index, Emerging Markets Equity: MSCI Emerging Markets Index; Global Real Estate: FTSE EPRA NAREIT Developed Index, and Fixed Income: Bloomberg Barclays U.S. Aggregate Bond Index.

Most importantly, the weighting of U.S. equities increased by 14 percentage points in the hypothetical portfolio described above - increasing the risk of damage to the portfolio if that asset class suffered a significant decline.

A | B | C | P

A 0.04%

Additionally, rebalancing can result in higher returns and lower volatility.[1]

Additional returns. Actively responding to changes in the markets has the potential to add 0.04% in additional returns.

Volatility reduction. Active rebalancing may also reduce portfolio volatility by an estimated 0.05%.

Hypothetical rebalancing comparison of $500,000[2]
March 2005–December 2020

		BUY AND HOLD	ACTIVE REBALANCING
0.17% =	**Annualised return**	**7.16%**	**7.33%**
	Standard deviation	**10.08%**	**9.50%**
	Ending value	**$1.4 million**	**$1.5 million**

Potential reduction in portfolio volatility **-5.6%**

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.

[1] 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). The example compares the risk and return profiles of this portfolio if it was never rebalanced during that time period versus if it was actively rebalanced once annually.

[2] For illustrative purposes only. Not meant to represent any actual investment.

Those numbers may sound small. But over the years, even small increases in returns can add up. More importantly, the reduction in volatility can help smooth out returns – which helps clients stay invested during periods of market volatility.

Take a sharper look at communicating the value of your advice

Do you share with your clients a written statement on:

- The benefits of a systematic rebalancing policy?
- What your strategic rebalancing policy is?
- How frequently the portfolios are rebalanced?
- Your approach to strategic rebalancing during periods of market volatility?

Your resource hub*:

[Keep calm and stay invested]
(Article, client-ready)

[Bull vs. Bear Market]
(1-pager, client-ready)

*Scan the QR code with your mobile phone camera or click the link to access these resources or tools. These resources or tools may not be available at your firm. Please check with your home office for availability.

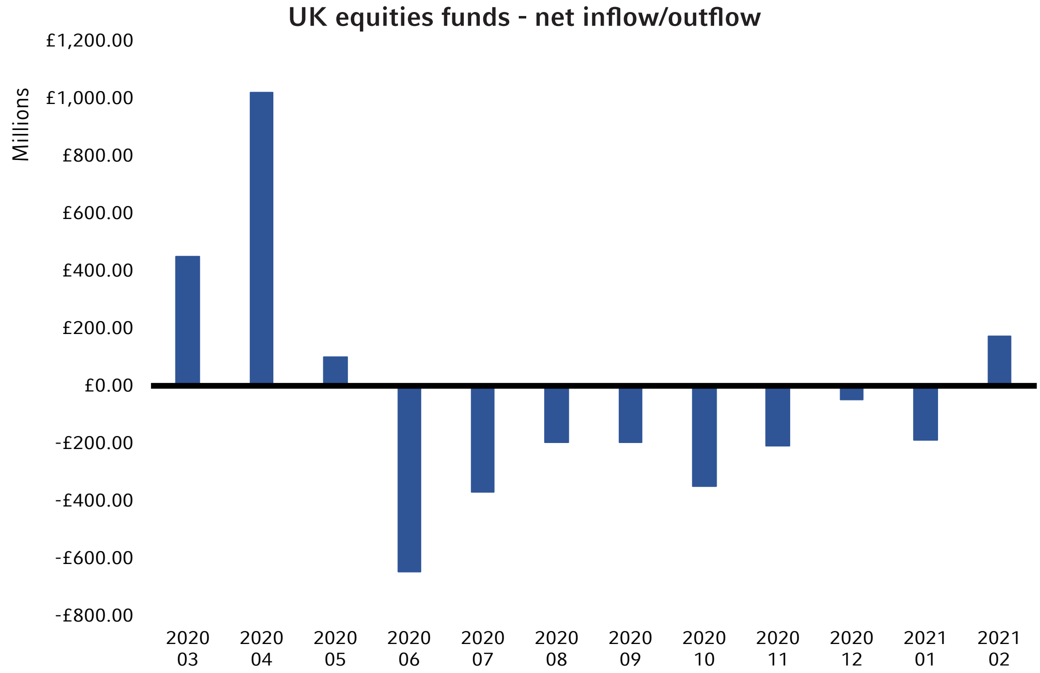
B is for behavioural coaching

There is no question that 2020 was a wild ride. Many investors were tempted to flee for the exit in mid-March when the FTSE All-Share Index registered its largest weekly decline since 2008. In fact, between 17 January 2020 when the index closed at a record high, and 23 March 2020 the FTSE All-Share fell by 35.9%[3].

This is where the value from your behavioural guidance really comes into focus. Investors who remained invested would have seen the index rebound 27.8% in the subsequent three months[4].

Without an adviser's guidance, many investors could have sold following the coronavirus induced market sell off in March 2020. In fact, investors redeemed a total of £2.2bn from UK equity strategies between May 2020 and January 2021 according to Calastone. It was only until February 2021 this year where UK equities witnessed a net inflow of £145m. This means many investors have had to buy high as the markets recovered throughout the remainder of 2020. Or they would have been forced to remain in cash until a better entry point appeared – a risky and unpredictable strategy[5].

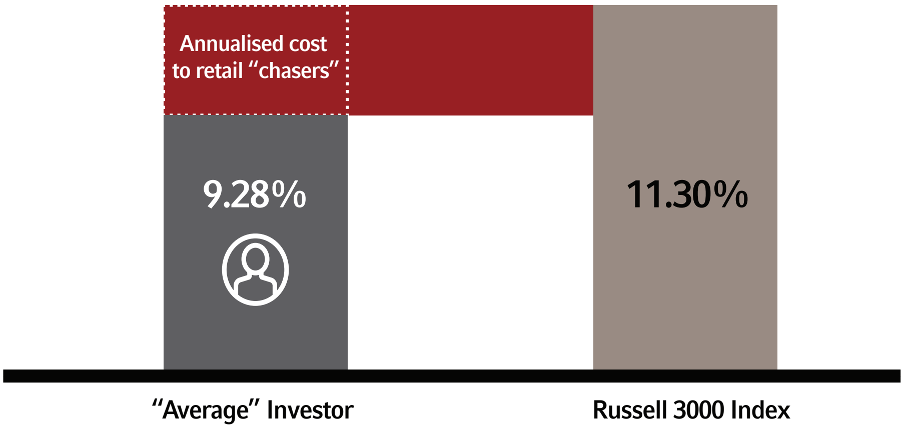
As the flows chart below shows, missing out on even a few days of good performance can have a detrimental effect on a portfolio. And how do you know which days those will be? That's the catch – you don't. Markets can be unpredictable. But their long-term trend has been up. In fact, the FTSE All-Share Index has finished the year in positive territory 68% of the time since 1962[6].



Source: Calastone Fund Flow Index.

[3] Source: Bloomberg.
[4] Source: Bloomberg.
[5] Source: Calastone.
[6] Source: Russell Investments/ Bloomberg represented by the FTSE All-Share Index from 1962-2020.

The high cost of investor behaviour
1984 - 2020



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 Russell 3000 Index and held without alteration from 1 January 1984 to 31 December 2020. 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. Returns represent past performance, 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.

How do you proactively incorporate coaching into every client meeting?

- Do you have a framework for handling challenging client conversations?
- Do you have a repeatable process for client reviews?
- Have you developed a plan regarding client engagement when things go wrong?
- How consistent is your message and is it simple and concise?

Your resource hub*:

[Effective Client Reviews](#)
(Web page)

[Behavioural Bias](#)
(Blog post)

*Scan the QR code with your mobile phone camera or click the link to access these resources or tools. These resources or tools may not be available at your firm. Please check with your home office for availability.

C

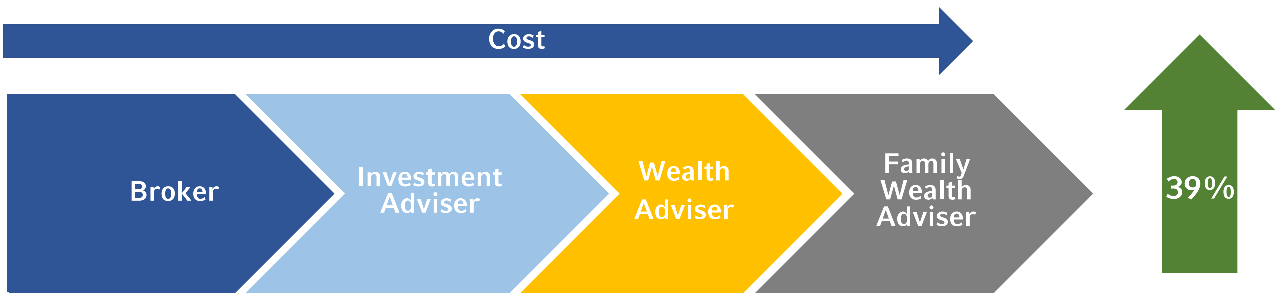
C is for customised client experience & planning

If someone wanted a cookie-cutter, one-size-fits-all investing experience – at very little cost – they could use a robo-adviser.

Robo-advisers generally don't provide a financial plan, ongoing service, or guidance. In most cases, they give the investor the option of choosing from a pre-selected list of funds, provide annual statements and a phone number to call in case of questions. Moreover, the person answering the investor's call would typically have a standard set of responses to common questions. That would be fine if all investors were alike.

But each investor has their own set of goals, circumstances, and preferences. And that is why we believe the customised client experience an adviser can offer has significant value.

We also recognise that your role has changed in recent years. At one time, an adviser was essentially a broker - selecting investments for clients. Now, most advisers are expected to provide holistic wealth advice for entire families. Indeed, between 2017 and the end of 2020, there was a 39% increase in advisers delivering comprehensive planning services in the U.S.[7] We believe a similar trend exists in the UK and Europe.



- Investment selection
- Capital markets expertise

Investors receive everything a Broker offers, plus:

- Asset allocation
- Income distribution

Investors receive everything a Broker and Investment Adviser offers, plus:

- Investment *management*
- Goals, circumstances, preferences
- Deep discovery
- Financial planning
- Protection strategies
- Planning reviews

Investors receive everything a Broker, Investment Adviser, and Wealth Adviser offers, plus:

- Family meetings
- Family education

Increase in advisers providing comprehensive planning 2017-2020[8]

[7] Source: Envestnet. https://www.envestnet.com/press/envestnet-moneyguides-latest-advisor-survey-finds-financial-planning-services-fees-rise
[8] Data source: https://www.envestnet.com/press/envestnet-moneyguides-latest-advisor-survey-finds-financial-planning-services-fees-rise

We have found that the value that advisers deliver through the customised experience is much higher than the cost of an automated service and cookie-cutter plan from a robo-adviser.

Recent research[9] has shown that investors are more willing to work with advisers who have a deep understanding of their individual circumstances and financial goals. This is where human advisers have the edge over robo-advisers. Just as an adviser's role has evolved over the years, most investors' lives become more complex over time. They get married, buy a home, raise children, save for their children's educations, care for elderly parents, and prepare for their retirement or manage their retirement. Having a wise, human adviser by their side in navigating these life-defining moments can bring tremendous value to investors.

It's no surprise then that the majority of investors surveyed said that more frequent and more personalised service would play a large role in whether they would continue to work with an adviser[10].

Here's where a trusted human can compete. The average fee charged by a robo-adviser is about 0.41%. The average planning fee is 1.04% of assets under management. In that 0.63% difference is a wide range of quantitative and qualitative services.

1.04%
Average planning fee charged in 2020[11]

\-

0.41%
Average robo-adviser fee[12]

=

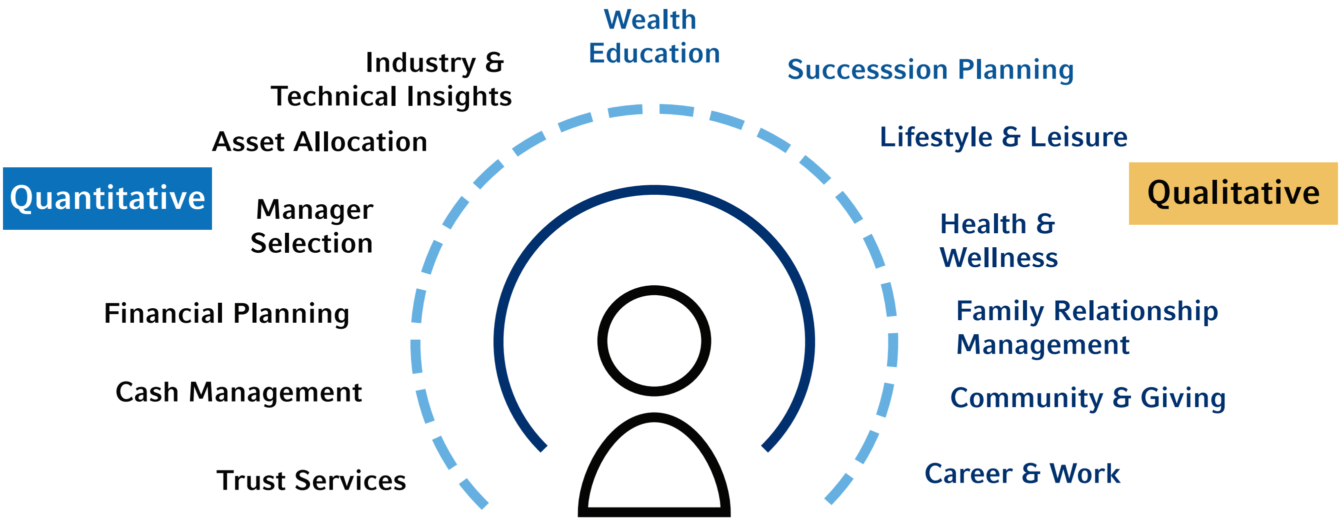
0.63%
Value of C

[9] Survey "How can advisers better communicate with their clients", December 2019 by YCharts. Total sample size represented 650 individuals across the U.S. https://go.ycharts.com/hubfs/YCharts_Client_Communications_Survey.pdf, Accessed 3 February 2021.

[10] Source: https://go.ycharts.com/hubfs/YCharts_Client_Communications_Survey.pdf, Accessed 3 February 2021.

[11] Based on average of the fees charged for a $500,000 account by the 18 roboadvisers referenced in https://www.roboadvisorpros.com/robo-advisorfees-lowest-to-highest/. Published on 19 January 2021. Accessed on 3 February 2021.

[12] Data source: https://www.envestnet.com/press/envestnet-moneyguides-latest-advisor-survey-finds-financial-planning-services-fees-rise. Accessed on 3 February 2021.



FAMILY WEALTH MANAGER

For illustrative purposes only.

Take a sharper look at communicating the value of your advice

How do you customise the client experience you deliver?

- Do you have a repeatable discovery process?
- Do you have a written defined service model that you share with clients, based on your segmentation strategy?
- Can you articulate your Unique Value Proposition and the services you provide?
- Are you providing comprehensive Family Wealth Planning to your best clients?
- Do you provide clients with a roadmap of how you will work with to address their specific needs?

Your resource hub*:

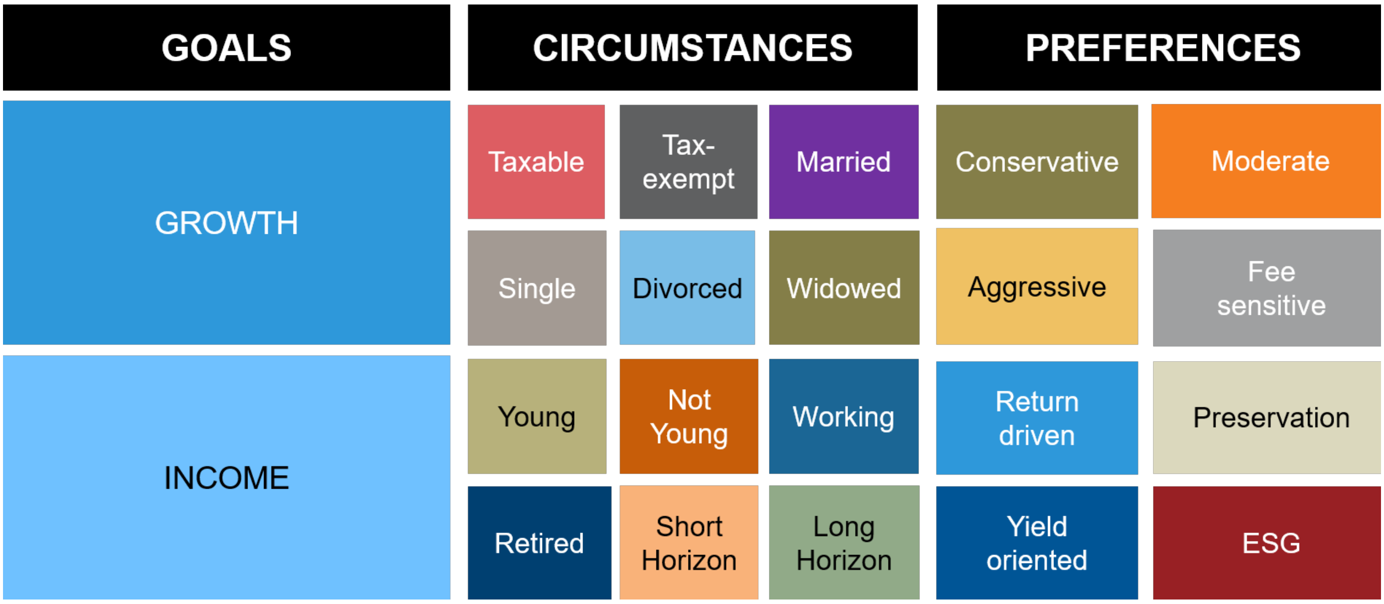
Protecting portfolios from downside risks
(1-pager)

Cycle of investor emotions
(Webpage)

*Scan the QR code with your mobile phone camera or click the link to access these resources or tools. These resources or tools may not be available at your firm. Please check with your home office for availability.

P is for product alignment with goals

If every investor has their own goals, circumstances and preferences, then it stands to reason that each will require a different mix of products. But how can you provide that customised client experience when there is only an average of 1700 work hours in a year? That's based on 35 hours a week over 47 weeks. And that's not accounting for illnesses, additional holiday, conferences, meetings and other events that can take a bite out of the time you have available. Impossible, right?



Hypothetical scenario for illustrative purposes only.

Besides, we've already discovered that investors value advisers for their personalised service and want more frequent communication. So, it makes sense for you to provide the wealth management services and outsource the investment management. This is where the use of models can really help you free up time while still ensuring each of your clients gets the customised client experience they value.

The time you would have spent researching funds, meeting portfolio managers and analysts, tracking those funds, and conducting ongoing research is now available for you to spend time with your top clients – giving them the personalised experience they crave.

And with that personalised service, you will gain deeper insight into your clients' goals, circumstances and preferences – making it more likely that the model strategies you choose will more closely align with the outcomes they desire.

Let's say you outsource investment management to a firm that provides a selection of model strategies or multi asset solutions. A recent study[13] has found that by doing so, a financial adviser could save 7.7 hours a week. Multiply that by the number of weeks worked in a year and you end up with an extra 360 hours – time you could spend with your family, or growing your business, or with your top clients.

$$\frac{\textbf{7.7 hours}}{\textbf{week}} \times \frac{\textbf{47 weeks}}{\textbf{year}} = \frac{\textbf{360 hours}}{\textbf{year}}$$

Now imagine having an additional 7.7 hours to work with your top clients on their specific needs and deepening the relationship they have with you. How would that impact your business? The value to you is significant, but so is the value to them. If we estimate an adviser's average hourly rate is £55.00 (based on annual revenue of £100,000 a year and a 35-hour work week), then the value of that additional time for each of your top 50 clients is £423.00. Based on a £300,000 account, that's an additional 0.14% of value you can offer them just by outsourcing.

[13] Source: https://static.twentyoverten.com/5e0f642709752828dbb0c6e0/-mjyNOiwG/Outsourcing-Money-Management-article4.pdf, AssetMark, 2019. Accessed on 3 February 2021.

A	B	C	P
0.04%	2.00%	0.63%	0.14%

£55.00/hr[14] x 7.7 = £423.00[15] → 0.14%

- 7.7: Additional hours for each top 50 client
- £423.00: Value of additional time for each top 50 client

Assumptions:

- £423.00 per £300,000 account value.

[14] Based on £100,000 Gross Dealer Concession (GDC) divided by 1,700 working hours per year (12 months). Adviser's hourly rate based on the formula: Annual Gross Revenue ÷ by number of hours worked in the year. In this hypothetical scenario: £100,000 annual gross revenue ÷ 1,700 working hours for the year [35 hours per week for 47 weeks] = £55/hour rate.

[15] Based on a £300,000 account.

Take a sharper look at communicating the value of your advice

How do you describe your product strategy to your clients?

- Have you documented your investment selection and review process in writing – and can you articulate it clearly and concisely for clients?
- Do you regularly review and manage all the investments held in client accounts, no matter how many clients hold that investment?
- Do you use distinct investment strategies to address clients' taxable and non-taxable assets?

Your resource hub*:

[Value of staying invested]

(1-pager)

*Scan the QR code with your mobile phone camera or click the link to access these resources or tools. These resources or tools may not be available at your firm. Please check with your home office for availability.

A	B	C	P
0.04%	2.00%	0.63%	0.14%

Communicate your value

This post-pandemic world 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 hard through 2020's challenges to keep in touch with their clients and keep them invested. Our formula shows that even if you were only able to help them avoid the behavioural mistakes that many investors make in the face of the significant volatility we saw, you've already provided value above and beyond your fee. Add to that your other services, the active rebalancing, customised client experience you give them and ensuring their portfolios align with their specific goals, 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.

In 2021, we believe advisers delivering services and value above and beyond investment-only advice have an estimated value of 2.81%. Compare that to the 1% advisers typically charge in fees.

A — **Active** rebalancing of investment portfolios — **0.04%**

\+

B — **Behavioural** coaching — **2.00%**

\+

C — **Customised** client experience and planning — **0.63%**

\+

P — **Product** alignment — **0.14%**

= **2.81%** total 2021 value of an adviser **> 1%**

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 advantages you create for your clients. We know the commitment you bring to your relationships. This annual Value of an Adviser study quantifies that dedication and the resulting benefit.

Reach out to learn more.

Russell investments provides investment solutions, business solutions, and can help provide accountability coaching as you seek to maximise your potential and build your practice of the future.

Contact your Russell Investments team or visit:
www.russellinvestments.com/uk/insights/value-of-an-adviser

Notes

Notes

Russell Investments

For more information:

Call Russell Investments at **+44 (0)20 7024 6000** or

visit **russellinvestments.com**