VALUE

Russell Investments

Why work with a financial adviser?

Because that relationship may be one of your best investments.

Why work with a financial adviser?

Like many investors considering working with a financial adviser, you probably wonder what you would get for the fee you will pay. After all, the S&P 500® Index has experienced a 10-year record-length bull market, so how hard can it be to throw together a winning portfolio?

With the wealth of information at our fingertips, you may think you understand the markets enough to invest for yourself or that getting a financial professional to manage your assets is expensive.

Understanding the markets doesn't necessarily help you invest in them logically. Investing can be challenging, and emotional responses in periods of volatility have the potential to undo years of past or potential gains in your portfolio.

Advisers can assist you in a full 360-degree spectrum of wealth planning—from investments, to managing your portfolio through different life changes, to retirement and estate planning, as well as guidance on potential tax implications of your investments—in order to help you work towards your financial goals. But more than that, they can act as behaviour coaches: guiding you through your emotional responses to help ensure your portfolio remains on track.

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

A — **Annual** rebalancing of investment portfolios

\+

B — **Behavioural** mistakes individual investors typically make

\+

C — **Cost** of getting it wrong

\+

P — **Planning** and additional wealth management services

\+

T — **Tax-smart** planning and investing

= **Value of an adviser**

A is for Annual rebalancing

When markets are rising, it can be easy to underestimate the importance of disciplined rebalancing.

What is rebalancing? Technically, it is the periodic buying and selling of assets in your portfolio to maintain your originally desired asset allocation—or mix of investments.

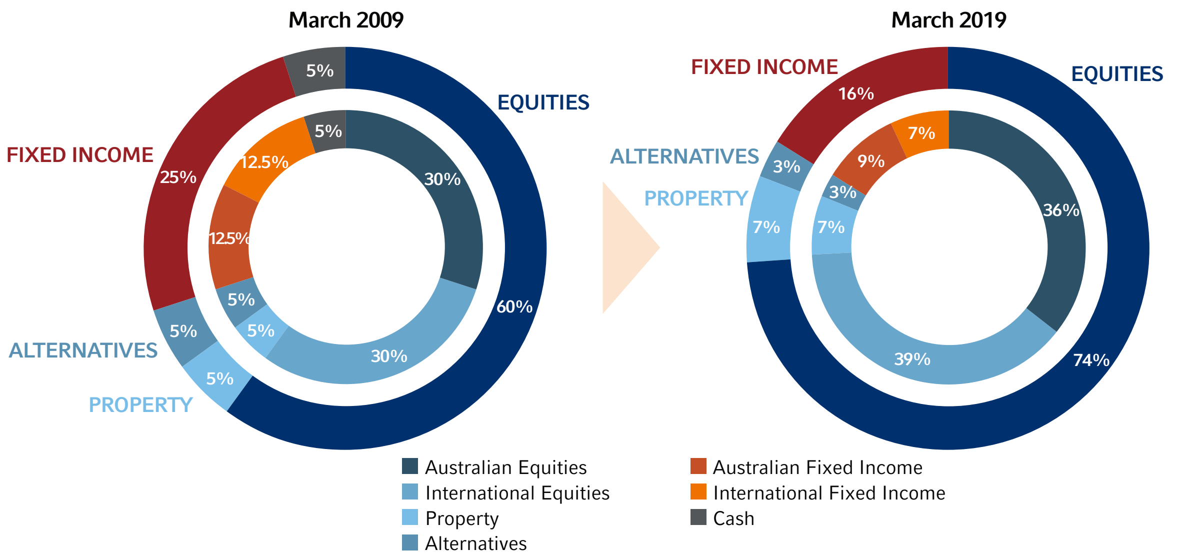
We believe there are two reasons that many investors don't rebalance if left to their own devices:

1. Because it's an easy thing to forget to do. Investors know they're supposed to do it. We also know we're *supposed* to change the batteries on our smoke alarms once a year. But do we really do it?
2. Because, in many cases, rebalancing may be the equivalent of buying more of what's been hurting your portfolio and selling what's been doing well. It may run counter to what an investor's gut feelings are telling them they need. Rebalancing takes discipline. Your adviser can help deliver that discipline and help position your portfolio for long-term success.

We believe rebalancing is a vital service, because it helps you remain on track with your plan, avoiding unnecessary risk. As you can see from the illustration below, without rebalancing, over the years your balanced portfolio could end up looking like a growth portfolio.

When balanced becomes the new growth

The potential result of an un-rebalanced portfolio



Source: Hypothetical analysis provided in the chart for illustrative purposes only. Source for the chart : Australian Equities: S&P/ASX 300 TR, Index AUD; International Equities: MSCI World NR Index AUD; Property: FTSE EPRA/NAREIT Developed NR Index AUD; Alternatives: Barclay CTA, Index (AUD Hedged); Australian Fixed Income: Bloomberg AusBond Composite 0 Year Index AUD; International Fixed Income: Bloomberg, Barclays Global Aggregate TR Index AUD; Cash: RBA Bank Accepted Bills 90 Days.

The difference may seem small, but the simple act of rebalancing can help capture gains, reduce volatility, and help your asset allocation remain in the range you initially determined was right for your desired outcome.

B is for Behavioural mistakes

We like to think we make rational and logical decisions when we are investing. But researchers in the fields of economics, psychology and neuroscience have cast doubts on that assumption. They have uncovered over 200 types of unconscious biases in humans that lead us to make decisions that can ultimately jeopardise the health of our wealth—if left unchecked.

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.

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 tightening U.S. monetary policy, global trade war escalation, and uncertainty over Brexit prompted you to second-guess your investment strategy, making changes off the back of these events may be detrimental to your portfolio.

Guarding against mindless investing
Three common human mistakes to watch out for

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.

can lead to...

Trade too often

Buy high, sell low

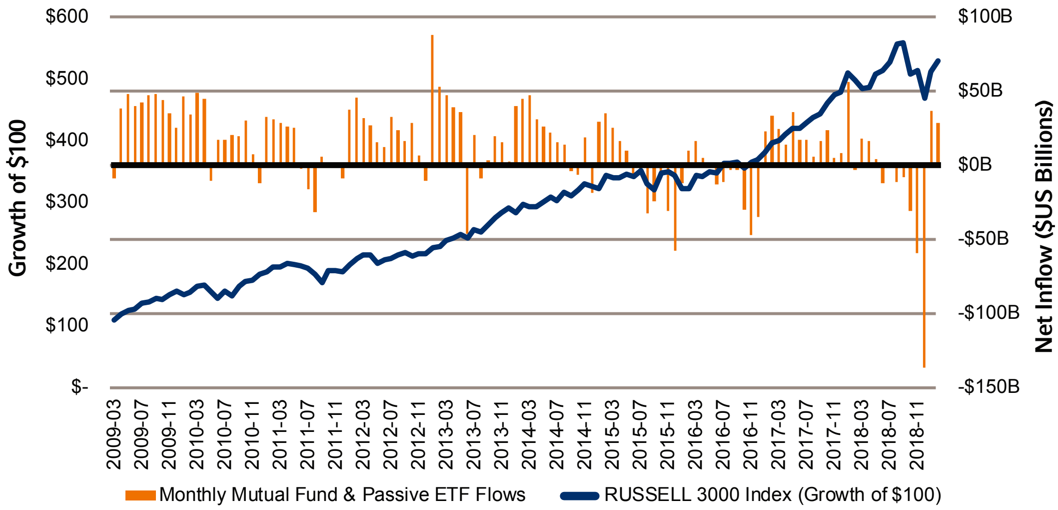
Overweight home country

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. 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 December 2007 to December 2018, investors withdrew more money from U.S. stock mutual funds than they put in. All the while, $100 constantly invested in the Russell 3000® Index—shown in the blue line below—had an ending value much higher than the starting value.

Investors don't always do what they should.
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 28 February, 2019. Index performance is not indicative of the performance of any specific investment. Indexes are not managed and may not be invested in directly.

C is for Cost of getting it wrong

The role of an adviser is in helping you to determine the best possible investment strategy and risk profile to meet your objectives. Whether that goal is to achieve long-term growth or preserve capital, this cannot be achieved without the right investment strategy and approach to risk.

Research[3] from Deloitte shows that investors often experience a disconnect between their risk profiles and their return expectations. The study into the attitudes and habits of ASX investors found younger investors were, surprisingly, more risk-averse than their older counterparts. Some 81% of investors under 35 said they were seeking guaranteed or stable returns, compared to 41% of those aged over 55. In addition, 21% of the most risk-averse investors expected returns over 10%.

In the below example, we 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 10.9% over the 20-year period. If, however, they held just 30% growth assets and 70% defensive, they would achieve annualised returns of 9.3%.

In this case, if a younger investor had invested conservatively instead of in the growth option, they would have missed out on an average of 1.6% return every year for 20 years. On $100,000 invested, that's a significant difference of almost $200,000 to the final return.

ALLOCATION	AVERAGE RETURN – 20 YEAR (1970 - 2018)
Australian Equities	12.2%
Australian Bonds	8.0%
70/30 Portfolio	10.9%
30/70 Portfolio	9.3%
Difference	1.6%

Equities: S&P/ASX 300 TR

Bonds: Bloomberg AusBond Composite 0+ Year Index AUD from 2003, UBS Warburg Aust Composite Bond Index prior to 2003, Commonwealth Bank All Series All Maturities prior to 1990.

In addition to investment strategy, professional advisers also bring the necessary skills to construct well-diversified portfolios, which is one of the most important contributors to long-term returns.

Advisers can also provide important access to funds and strategies you may not be aware of or able to access yourself. These include the right active strategies to build growth, complemented with passive strategies to keep portfolio costs in check, all while ensuring market timing and opportunities are not being missed.

Then, there is the continued monitoring of the strategy to ensure all aspects of your personal finances are considered, helping you to stay on track to achieving your financial goals.

P is for Planning costs and 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 off to college or entering retirement.

They can also offer additional services such as investment education, assistance with annual tax return preparation, estate planning, retirement income planning, and helping 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 implementation with a variety of financial professionals dedicated to your financial health.

Your adviser may provide:

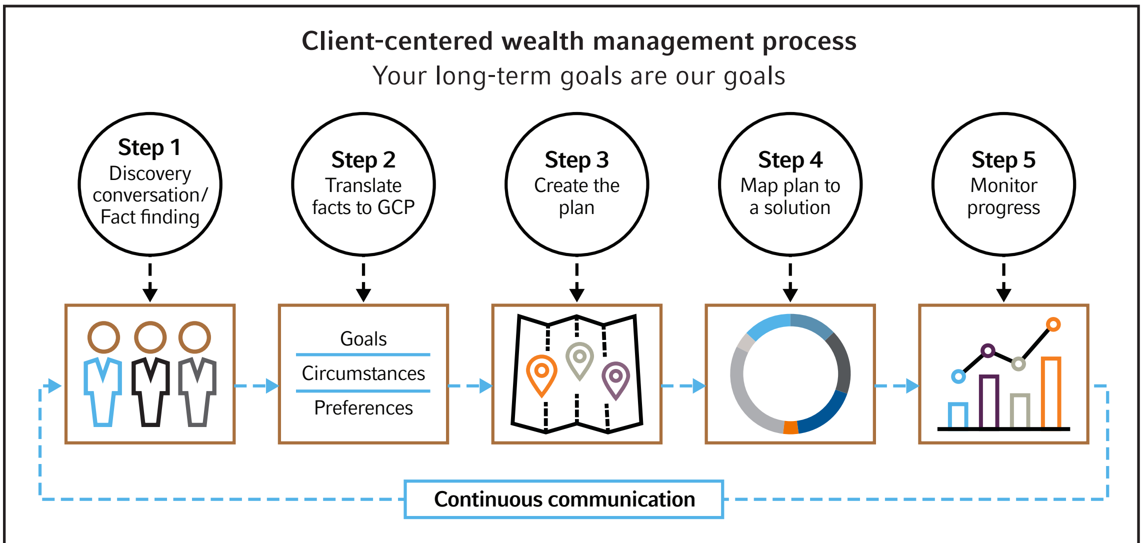
Financial planning topics

- Savings and distribution analysis
- Investment and cashflow analysis
- Tax and estate planning
- Student loans
- Stock options
- Employee benefits review
- Education funding
- Regular plan updates and reviews

Additional services

- 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-smart 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.

Taking a tax-managed approach to investing and incorporating strategies designed to help reduce the impact of taxes on investment returns may help you achieve better outcomes. There is also the technical expertise of how to make the most out of your tax circumstances regarding superannuation, which can be considered daunting. Not to mention the fear of getting it wrong and being answerable to the Australian Taxation Office. Advisers can provide expert guidance on choosing appropriate tax-smart solutions and strategies that can deliver meaningful value, potentially avoiding 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	Rebalancing Strategy
Investment Advocate	Tax Coordination	Financial Quarterback

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 allocation 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;
- Share with your adviser your annual tax return and superannuation circumstances to optimise the tax implications;
- 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.

IMPORTANT INFORMATION AND DISCLOSURES

1 As background, Russell Investments has been producing the Value of an Adviser report in the US since 2013. Over the past 20 years, we've worked with top advisers around the world including the US, Canada, UK and Australia. The study is based on our 20 years of experience coaching advisers to make their practices more sustainable and to help build deeper relationships with their clients. Over time, the study has evolved to reflect the changes in the industry, new competitive forces such as robo-advice and the capital market environment.

We make reference to the study in this report and discuss some of the key assumptions it makes.

2 "Average" US equity investor is based on general cash-flow trends as measured by the Investment Company Institute (ICI) compared to the market's overall performance. US mutual fund data was used, as robust global or Australian historical data is not currently available.

3 Deloitte, Access Economics ASX Investor Study 2017.

Issued by Russell Investment Management Ltd ABN 53 068 338 974, AFS Licence 247185 ("RIM"). This publication is FOR INFORMATION PURPOSES only. It provides general information and should not be relied upon in making an investment decision. It has not been prepared having regard to investment objectives, financial situation or needs. It has been compiled from sources considered to be reliable, but is not guaranteed. Past performance is not a reliable indicator of future performance.

RIM is part of Russell Investments. Russell Investments or its associates, officers or employees may buy or sell the financial products as principal or agent. RIM is the responsible entity of Russell Investments' Funds and the issuer of the Product Disclosure Statement ("PDS") for each Russell Investments' Fund. Any potential investor should consider the latest PDS in deciding whether to acquire, or to continue to hold, an investment in any Russell Investments Fund. The PDS is currently available by visiting russellinvestments.com.au or by phoning (02) 9229 5111.