VALUE

Russell Investments

2021 Value of an Adviser Report

A sharper focus on the value of your advice

Committed to improving financial security for people for 85 years, we believe that quality advice is a key to achieving this objective. For over 20 years, we have partnered with Australian financial advisers to deliver better outcomes for their clients and supporting the evolution of advice businesses through this time.

This report seeks to provide a resource for advisers to help articulate and quantify the value an adviser provides throughout a client's advice journey.

The Value of an Adviser formula offers a memorable and repeatable framework for advisers to have a client conversation with confidence.

Executive summary

At Russell Investments, we recognise that an adviser can deliver material value to a client throughout their investment journey as their circumstances change and in different market environments.

For many of us, 2020 was a year that brought these issues to the forefront. 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. Through it all, many of us found ourselves reassessing our lifestyles and our way of doing business. Many of us may have found our priorities and outlooks have changed—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.

As the cost of delivering advice has increased, we believe it is critical to help arm advisers with information to have confident client conversations on the value an adviser delivers. While so many benefits of a quality financial advice relationship are considered intangible, our simple and handy formula can help you quantify and articulate to your clients the overall value you bring to them.

Given the volatility seen in 2020, it's no surprise that the biggest contributor to adviser value is your role as a behavioural coach. In fact, this category on its own could offset the fee that many clients may pay. However there are many other opportunities to highlight the imbedded skills, expertise and insights that a relationship with a financial adviser can provide.

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

In 2021, we believe the value an adviser in Australia adds approximately 5.2% p.a. to a client's portfolio.

The ABCs of adviser value

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

A Appropriate **asset allocation**

+

B **Behavioural coaching**

+

C **Cash optimisation**

+

E **Expertise** in additional wealth management services

+

T Tax-effective **investing and planning**

> is greater than

Your fee the up front and ongoing advice fee you charge clients

A	B	C	E	T
1.1%				

A is for Appropriate Asset Allocation = 1.1 % p.a.

How an individual is invested has a huge impact on achieving their investment goals. There is significant research that suggests that asset allocation drives over 85%[1] of the investment outcome for an individual. Yet, this critical step of an advice process is often undervalued and under appreciated.

In the superannuation environment, there are generally two types of non-advised investors. Disengaged investors who are defaulted into a one-size-fits-all asset allocation, with very limited or no reference to their personal circumstances or needs. And engaged investors who build their own portfolios, but this comes with its own risks.

For engaged investors, they could be making a fatal flaw in their portfolio design when it comes to setting an appropriate asset allocation to meet their investment objectives. Investors may not set the right investment strategy for their circumstances and they may lack the knowledge and/or time to research the many investment options available. There is also the added temptation to chase performance and overreact to market events.

Where there is a knowledge gap, it often relates to investors not understanding the relationship between risk and return and how it can impact their investment strategy and ability to achieve their goals. For example, consider investors who take on too much risk at the wrong time of their investment horizon or not take enough risk, resulting in a significant shortfall to their objective.

Knowledge gap and misconceptions

Disengaged investor	Disconnects between return and risk	Poor understanding of asset allocation and diversification
67% of super investors in the default option did not know what their asset allocation was[1]	81% of investors aged under 35 were seeking guaranteed or stable returns 21% of risk averse investors expected returns over 10%[2]	66% of engaged investors failed basic financial literacy questions on diversification[1] 50% of investors believe they are diversified, yet 58% of these have two or less holdings[3]

The value of a more personal approach to asset allocation

Our Making Super Personal White Paper identified that by incorporating more inputs about an individual's goals and circumstances, a more appropriate asset allocation can be recommended. Our analysis of around 8,000 individuals showed that adjusting growth and defensive allocations over a member's investment timeframe can improve their projected retirement income. This outcome can be further optimised when incorporating additional personal data points, such as retirement income goal, to reduce the chance of falling short.

[1] Russell Investments Making Super Personal White Paper 2020
[2] Deloitte, Access Economics ASX Investor Study 2017
[3] ASX Australian Investor Study 2020

A B C E T

1.1%

Therefore selecting an appropriate asset allocation to achieve an investor's desired goal is one of the most important decisions in investing for the longer term, and should be done with care and skill. Assuming the one-size-fits-all default approach may lead to younger investors not taking sufficient risk and older investors taking on too much risk for their investment timeframe. Relying on intuition or even simple risk questionnaires that focus on risk preferences could lead to poor outcomes.

Financial advisers have the potential to add significant value to an investor’s portfolio over the long term by helping clients to work through their values, preferences and motivations from the outset. Advisers will then take these inputs and model different risk and return assumptions to assess the appropriate asset allocation.

In addition to designing the best possible investment strategy to help their clients achieve their desired goals, advisers also help their clients understand the level of risk required and the implications of this risk. This is a critical ingredient in an advice conversation.

Cost of getting it wrong

Let’s look at average returns of a simple diversified portfolio with rolling returns over a 10-year period.

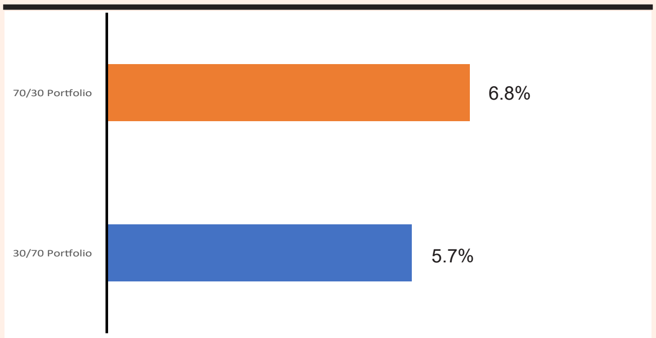
If an investor held 70% of their portfolio in growth assets and 30% in defensive, their average annual return would be 6.8% over the 10-year period. If however, they held just 30% growth assets and 70% defensive, they would achieve annualised returns of 5.7%.

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 1.1% return every year.

Assuming this younger investor had approximately $100,000 invested initially, over 20 years, that’s a significant difference of over $68,000 to the final return.

Portfolio return comparison

Over 10 years



Source: Russell Investments, Australian equities: S&P/ASX 300 TR Index AUD, International Equities: MSCI AC World TR Index AUD, MSCI AC World ex Australia NR Index (AUD Hedged). International Bonds: Bloomberg Barclays Global Aggregate TR Index. Australian Bond: Bloomberg AusBond Composite 0 Year Index AUD. Average 10 years of rolling 10-year return between May 2011 to May 2021. Example is provided for illustrative purposes only. Real returns may vary. Past performance is not a reliable indicator of future performance.

A	B	C	E	T
1.1%				

Guiding principles

In addition to investment strategy, advisers bring the necessary skills to recommend a well-diversified portfolio and provide access to funds and strategies a client may not be aware of or able to access themselves. To support these recommendations, an adviser can share their investment philosophy. Not only is it a good governance measure, but it can also help clients understand and feel confident in portfolio construction decisions imbedded in the advice recommendation.

This may include core beliefs that inform the way client's wealth is invested, for example codifying core beliefs around risk and return, considering the role of active management and dynamic asset allocation and how fees, transaction costs and taxes may also be considered in the decision making.

A well-articulated and easy to understand investment philosophy can be a resource that the adviser and client can refer to, to reinforce key decisions and recommendations now and in the future. It can be used to explain why certain actions may or may not have been taken in order to stick to the longer-term plan. Using an investment philosophy to explain the construction and implementation of a client's portfolio throughout their investment journey can help build trust and enable them to better understand the value of the recommendations.

Take a sharper look at communicating the value of your advice

Actions you can take

- Spend time articulating why getting the right asset allocation can be a key driver of achieving goals and the consequences of getting it wrong.
- Remind clients of the art and science of understanding true risk preferences.
- Use your investment philosophy to demonstrate how you select and implement an appropriate asset allocation to achieve their goals.

Your resource hub:

Asset allocation: A key driver in achieving your goals
(Article, client-ready)

Value of diversification
(Poster, client-ready)

A 1.1% | B 2.0% | C | E | T

B is for Behavioural coaching = 2.0%

There is no question that 2020 was a wild ride. Until early in 2020, investors had experienced the longest bull run in history, and the idea of significant volatility, market risk and portfolio losses were a distant memory for many. For other newer investors, the whipsawing we saw of the equity markets was their first experience of significant market dislocations.

Investor behaviour since COVID-19

We know from our concept of the cycle of investor emotions, in times of uncertainty, investors can fall prey to making behavioural mistakes. We know that without the disciplined actions of an adviser, loss-averse or overconfident investors can make well intentioned, but poor decisions that can damage their personal wealth.

Timing the market, not time in the market: The loss-averse investor

In early 2020, as new information of the pandemic spread and measures such as lockdowns and border closures were implemented, we saw markets sell off fast and strong. From 21 February to 23 March 2020, 36.2% had been wiped off the S&P/ASX 300.

According to the Reserve Bank of Australia (RBA)[4] during this time, there were sizeable levels of members switching to cash in March 2020, and the size of these flows was higher than in previous dislocations, including the Global Financial Crisis. It also reported that these members were generally closer to retirement with larger balances.

Without an adviser's guidance, many investors would have sold low in March—and perhaps have had to buy high as the markets steadily recovered throughout the end of the year. We observed that advised individuals were less likely to transact and stay invested in their respective portfolio, indicating the benefits of advisers keeping clients calm and focusing on the longer-term perspective.

To illustrate this we can consider three investors, with assumed larger balances to represent older individuals approaching retirement and their different responses to this market volatility. Each investor starts 1 January 2020 with $250,000 in a proxy diversified portfolio. Investor 1 stays invested throughout. Investor 2 switches to cash on 15 March, and then buys back into the portfolio in November 2020. Investor 3 switches to cash from 15 March 2021, and remains there. Investor 1 who stayed invested throughout the volatility actually gained 9% or $22,500 in this period, whereas Investor 3 who switched to cash and stayed there made a loss of -$17,500 over the same period.

The loss-averse investor

When investors are so fearful of loss that they will focus on trying to avoid a loss rather than focus on making gains.

The investment impact of time in the market

1 January 2020 to 31 May 2021

	Portfolio value (1 Jan)	Portfolio value (31 May)	Portfolio return
Investor 1	$250,000	$272,500	9%
Investor 2	$250,000	$262,500	5%
Investor 3	$250,000	$232,500	-7%

Source: Morningstar Rebalance monthly Balanced Portfolio: 30% MSCI World NR AUD, 30% S&P/ ASX 200, 12.5% BBgBarc Global Agg TR Hdg AUD, 12.5% BBg AusBond Bank 0+Y AUD, 5% FTSE EPRA NAREIT Dev TR AUD, 5%S&P Global Infrastructure NR AUD, 5% Cash. For illustrative purposes only. Real returns may vary. Past performance is not a reliable indicator of future performance.

[4] Reserve Bank of Australia, Financial Stability Review April 2021, Box C: What did 2020 Reveal about liquidity challenges facing Superannuation Funds?

GameStop and Fake news: The overconfident investor

The other significant cohort that appeared during COVID-19 was the over-confident investor. Individuals in this group saw the volatility in the markets as an opportunity to invest, often for the first time. The Australian Securities and Investments Commission (ASIC) reported[5] that there are 1.67 million active retail, share trading accounts in Australia, with a staggering 700,000 share trading accounts that traded for the first time during 2020.

The ASX also reported that for many investors, their risk appetite increased during this time. Prior to the pandemic, 46% of investors indicated they would accept moderate to high variability in returns. During the volatility, 64% reported their willingness to accept the higher levels of risk in their investments[6].

So with a high number of retail investors trading on the Australian sharemarket, with a higher tolerance for risk, what were some of the outcomes for these investors? ASIC provided analysis[7] that from new or re-activated share trading accounts in the early days of the volatility (24 February 2020 to 3 April 2020), it estimated that over $230 million dollars worth of losses were incurred by new retail investors during this time.

Since then we have seen further retail share trader scenarios play out, including the US stock GameStop. This saw US retail share traders use information from social media and online forums to inflate the price of the stock as a collective effort against institutional investors who had large short positions (a trading strategy to profit on securities losing value). By trading sentiment and with volume increases, the share price went from US$20 in early January 2021 to over US$500 by 28 January 2021. Just one week later on 4 February, the price of GameStop was US$53.50. Investors that bought it at the height of the sentiment storm on social media risked buying it at a very high price and losing significant value soon after.

This is not limited to the US market. More recently, ASIC issued warnings to retail investors alerting them to be aware of the risk for first time investors. In particular, it warned about relying on claims on social media forums, indicating that online scams, unlicensed advice and misinformation about products and trading strategies were becoming more common.

A silver lining of this market volatility has seen younger investors keen to engage with their wealth and become active market participants. They are seeking to improve their financial knowledge and engagement, and are also more open to seeking advice. An exciting outcome of recent months is that we can start to see the emergence of a new generation of investors and a new client opportunity for financial advisers.

The overconfident investor

When investors have high conviction in their decisions, despite taking into account the actual risk, return or impact.

[5] ASIC *First-time trader? Be aware of the risks* article
[6] ASX Australian Investor Report 2020
[7] ASIC Retail investor trading during COVID-19 volatility report 2020

Investor behaviour over the longer term

This retail investor behaviour during COVID-19 volatility is not only seen for this specific window of time, but also over the longer term.

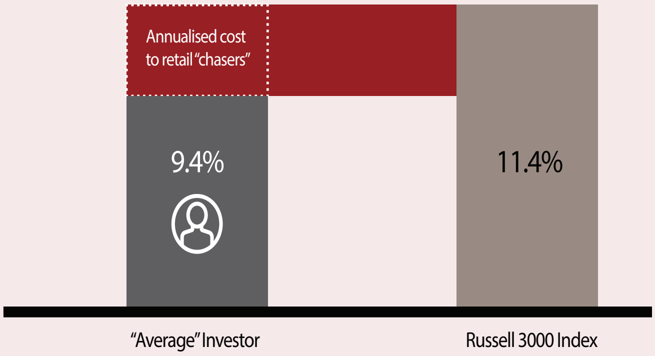
The cost of behavioural mistakes

Based on our own US study analysis, the average retail equity investor's inclination to chase past performance would have underperformed the Russell 3000 Index.

Statistically, the average retail equity fund investor's inclination to chase past performance cost them 2.0% annually in the 36-year period from 1984–2021.

By working with an adviser, investors can become significantly greater than average. We believe an adviser's ability to help clients stick to their long-term financial plan and avoid behavioural mistakes adds this value.

The high cost of investor behaviour
1984 - 2021



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 2021 to 31 March 2021. 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. Example provided for illustrative purposes only. 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

Actions you can take

- Use a consistent framework for review meetings around when to and when not to make changes to a client portfolio.
- Develop a proactive client engagement plan for different client types and different scenarios.

Your resource hub:

Cycle of investor emotions
(Web page, client-ready)

Challenging conversation guide
(E-book)

Effective client meetings
(Web page)

C is for Cash Optimisation = 0.6%

Cash is one of the first concepts we learn about as part of our financial education. We earn an income, learn to save and invest—our early attitudes to cash can inform the financial decisions over our lifetime.

Advisers have an opportunity to help clients optimise how they use cash at different stages in their wealth journey. From managing an income and spending behaviour and personal cashflow coaching and management through to managing cash balances, leading up to and through retirement.

Cash provides a level of certainty for planning purposes. For example, investors who require cashflow in retirement can develop strategies to allocate and maintain levels of cash to meet 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.

The real cost of cash

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. In times of crisis and panic, investors often respond with increased savings.

We saw this play out during COVID-19. Australia had experienced a significant increase in bank deposits. From March 2020 to March 2021, Australians increased their cash in the bank by 12%, accounting for an additional $124 billion in additional cash in banks over a one-year period[8].

What's concerning is not just the amount of excess cash that is being held, but the real cost of this cash hoarding. In our current context of an extended low interest environment and inflation concerns, this means that while cash seems safe, it can be a negative investment. For example, if an investor placed their money in a one-year Term Deposit which offers 0.25% p.a. and after adjusting for expected inflation, the real return on cash is -1.8%[9], the investor is effectively paying the bank to store their cash.

Portfolio holdings: COVID-19 flight to cash

In addition to a behavioural bias to increase cash savings, we also see this trend in portfolio holdings. Following the news of the COVID-19 pandemic and the subsequent market volatility, we saw the tendency of some investors to shift their asset allocations to defensive or entirely to cash. The following chart highlights the significant increase in investment switching during the COVID-19 crisis. As mentioned earlier, the RBA reported sizable switches to cash with older members with higher balances, likely in their pre-retirement stage.

It is concerning when people switch to cash in times of panic and lock in short- term losses. The reluctance to return to the market can trap people out of future gains. We saw this as an issue in the post-Global Financial Crisis era where cash was quoted to be sitting on the side lines. Often referred to as the 'wall of cash', at least at the time, it had the advantage of the RBA cash rate at 6% in October 2008 and continued to be above 4% in to 2012. So, while cautious investors could hold higher allocations to cash and still achieve a positive return, with low interest rates and impacts of inflation, there is a bigger risk.

[8] Australian Prudential Regulation Authority: Monthly ADI statistics March 2021

[9] One-year Term Deposit rate: Retail deposit and investment rates; Banks' term deposits ($10,000) (Source RBA). Current inflation as measured by current Consumer Price Index (CPI) rate of 1.1% as of March 2021 (Source ABS). Expected inflation as measured by the Australian break-even 10-year inflation rate as of March 2021 (Source RBA).

Impact of cash drag

We observe this love affair with cash not just in times of panic. We see this bias towards cash investments by retail investors in the Australian market over the longer term. The Australian Taxation Office (ATO)[10] provides statistical information regarding Self-Managed Super Funds (SMSFs), showing that cash and term deposits often make up a significant component of their investments. Those with a balance between $200k and $500k, hold an average of 30% in cash and term deposits.

However, there can be a cost to holding too much cash, known by portfolio managers as cash drag. Portfolio managers are very careful with the amount of cash they hold in a portfolio. While it can cushion potential portfolio losses, it can limit overall performance and investors could miss out on potential portfolio growth. Sacrificing that growth today could mean less assets in the future and therefore less spending power over the longer term, particularly in retirement.

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

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 these defensive assets are invested can have an impact on their overall portfolio return.

Annualised return over 10 years

Scenario 1 30% portfolio holding in Term Deposit	0.7%
Scenario 2 30% portfolio holding in diversified fixed income portfolio	1.3%
Excess return	**0.6%**

Assumed 30% allocation to defensive assets. Term Deposit refers to RBA Term Deposit Rate. Diversified Fixed income portfolio refers to equal weighting to Term Deposit, Australian passive fixed income (Bloomberg AusBond Composite 0 Year Index AUD) and Global fixed income benchmarks (International Bond: Bloomberg Barclays Global Aggregate TR Index (AUD Hedged) as at April 2021. Example is provided for illustrative purposes only. Real returns may vary. Past performance is not a reliable indicator of future performance.

A diversified fixed income portfolio can improve the portfolio return by 0.60%. On a $250,000 portfolio, assumed to represent an average superannuation balance of a pre-retiree, over 10 years this is an extra $18,315.

[10] Australian Taxation Office: SMSF population analysis 30 June 2019

A	B	C	E	T
1.1%	2.0%	0.6%		

Consider cash as a tool, not an attractive investment

While cash may appear to be an attractive asset class for the sense of security it brings, it is important to also evaluate it in the context of interest rates and inflation. We have experienced low interest rates over a number of years, and the prospect of material interest rate increases don't appear to be likely in the short term. An investor needs to consider if any return achieved through a cash holding, is at risk of being eroded by inflation.

An adviser can play an important role in educating clients on an appropriate level of cash to hold in their portfolio. They can also help clients keep their portfolio invested where appropriate to grow assets for future spending needs and find the best source and process for accessing capital when required.

Take a sharper look at communicating the value of your advice

Actions you can take

- Calculate the amount of cash that clients are holding in and outside their portfolio.
- Ask a client what their attitude is to holding cash and motivations, concerns or behaviours might be influencing them.
- Discuss some of the risks of holding too much cash and potential strategies for investing 'sidelined' cash in a way that is still aligned with their objectives.

Your resource hub:

Beware of the hidden cost of cash

(Article, client-ready)

A 1.1% | B 2.0% | C 0.6% | E PRICELESS | T

E is for Expertise = priceless

A common misconception is that financial advisers are purely investment managers, whose only job is to select investments and achieve a certain level of return. Good financial advice goes far beyond this.

The quantification of the value of financial planning expertise is variable depending on the adviser's practice and services offered, and an individual's personal circumstances.

When surveying Australians, ASIC found that 79% of individuals agree that financial advisers have expertise in financial matters that the individual does not[11]. The expertise includes technical skills to assist clients in navigating the investment, legal, tax, superannuation and insurance requirements of a client. However, a quality financial adviser goes beyond just technical aspects. They also incorporate additional skills of effective communication, client understanding, emotional intelligence and behavioural awareness to name a few. A few recognised benefits of this expertise includes education, engagement, efficiency and enrichment to a client's financial and personal well being.

EXPERTISE

79% of Australians recognise that advisers have experitise in financial matters.

Education

There is a body of research that indicates many Australians have sub-optimal financial literacy levels. The Household, Income and Labour Dynamics in Australia (HILDA) survey found that 45% of all Australians fell short of a financial literacy benchmark, accounting for 8.5 million Australians. Couple this with the complexity of our superannuation and taxation systems, there is a growing need for individuals to enhance their understanding of investing basics in order to make sound decisions that impact their financial security.

ASIC's research reinforces this, with 69% of Australians recognising that they could benefit from an adviser educating and guiding them on financial matters. Whether it be taking time to discuss investment basics at initial engagements or reinforcing investment principles at key decision points, articulating education as a key component of your advice proposition can be an opportunity to highlight your expertise.

EDUCATION

Just over **55%** of Australians are considered financially literate.

69% of Australians say that advisers can educate them about financial matters.

[11] ASIC financial advice: What consumers really think report 2019

A	B	C	E	T
1.1%	2.0%	06%	PRICELESS	

Engagement

Customer intimacy and understanding is a powerful consumer trend, being embraced by banks, retail chains, technology brands, entertainment services and more. However, financial advisers have long been investing time in understanding the key needs and preferences of clients, providing personalised modelling and financial plans. It's a core principal of personal advice and it is a value that shouldn't be underestimated.

A further benefit is how an ongoing relationship with an adviser can help maintain and track the financial plan, whether it be in the form of a partnership or to help keep the client accountable to the key actions required to achieve their personal goals—much like a personal trainer or coach.

There is research[12] that shows that goal tracking can also play a significant role in engagement and improve the chance of reaching goals, known as the 'Mere-Measurement Effect'. A study published in the Journal of Medical Internet Research[13] studied the impact of fitness apps and positive behavioural changes across three groups—current app users, non-app users and former app users. Seventy-five per cent of current app users reported being more active compared to less than half of non-app and former app users.

ENGAGEMENT

'Mere-measurement-effect' observes that measuring your activity pushes you to do more.

Efficiency

For many clients, the value of an adviser relationship is about having someone that has the expertise to do something more effectively and efficiently than they can themselves. Many individuals are time poor and are happy to pay for the efficiency of outsourcing to an expert.

To quantify this, the National Australia Bank (NAB) released findings[14] that, overall, Australians would pay $98 for an extra hour in their day. When looking at cohorts that identify a greater value to time, women aged 30-49 were willing to pay $207 for an extra hour in a day.

Working with a financial adviser is just one way that time poor people are partnering with professionals to gain efficiencies in their personal life. Ways an adviser can help clients regain valuable time and create efficiency include:

- hours required to administer personal financial matters
- hours spent evaluating the best strategy
- hours spent researching various platforms, investment solutions and insurance providers.

Based on data that estimates the average time to develop a client's personal advice plan and Statement of Advice, we estimate that at minimum an adviser is saving at least 10 hours of a client's time. This is in notwithstanding the adviser's expertise, experience and access to systems which further improve the efficiency of an adviser undertaking this work compared to an individual with limited knowledge and skills.

EFFICIENCY

On average, advisers give back 10+ hours to their clients.

[12] Psychological Bulletin Vol 142, No 2, 2016: Does monitoring goal process promote goal attainment?
[13] JMIR Publication Vol 17, No 8, 2015
[14] NAB Wellbeing insight report 2021

A	B	C	E	T
1.1%	2.0%	0.6%	PRICELESS	

Enrichment

Technical expertise, client engagement and overall efficiency are key elements of the value of an adviser. However, one of the most important benefits of receiving financial advice is providing feelings of confidence in short-term decisions and the impact over the long term.

This confidence may arise from knowledge that their wealth is invested to meet their needs, but other advice strategies around insurance, family asset protection and estate planning to name just a few, can also help provide confidence that their family and their own future is secure. Importantly, 83% of individuals that had recently received financial advice identified that using a financial adviser provided peace of mind about the future[15].

ENRICHMENT

83% of those that receive advice have peace of mind about the future.

Take a sharper look at communicating the value of your advice

Actions you can take

- Have a clear value proposition, advice philosophy and service model that helps illustrate.
- Have existing client case studies that highlight how elements of your expertise helped them and the outcome you delivered. Share these with new clients to understand some of the intangible value you deliver.
- Understand the different motivations for seeking advice and have examples to use with new clients on how you deliver sometimes intangible yet appreciated value.

Your resource hub:

Client-ready resources
(Web page)

Client version of Value of an Adviser
(e-book)

Why work with a financial adviser
(Article, client-ready)

[15] ASIC financial advice: What consumers really think report 2019

A	B	C	E	T
1.1%	2.0%	0.6%	PRICELESS	1.5%

T is for Tax-effective investing and planning = 1.5 %

Tax is often considered the realm of the accounting profession. However, an adviser can also provide expertise on managing and optimising investment tax for their clients. 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 for clients to know how to be tax effective in their portfolios.

It is important for advisers to highlight the direct and indirect tax implications of their recommendations. Tax is a key consideration for many investors. ASX report that 23% of investors consider overall tax effectiveness of investments as one of their top three investment considerations[16]. Therefore advisers need to be proactive and remind clients of intentional tax strategies, such as structural tax recommendations and portfolio strategies.

Structural tax strategies: Investment tax considerations at every client stage

It's important to remind clients that in our complex system, there are opportunities for them to consider how to make tax-savvy decisions in building their wealth. Different investment structures have different tax rates, and depending on the unique needs of the client, an adviser has an opportunity to highlight some of these recommendations.

Super accumulators	Wealth builders	Transitioning to retirement	Active retirement
In addition to the savings benefits of contribution strategies, advisers can emphasise the tax benefits of different contribution strategies, even modelling out the savings.	Assist clients that may have the means to successfully build their wealth for retirement and beyond, but also pay high levels of tax. Tax-smart strategies can include utilising structural tax options such as investment bonds, with tax paid structures or tax-aware portfolio strategies.	Help clients navigate through complex and technical tax strategies, while also supporting them on the often emotional journey around retiring.	While not tax payers, work with clients to utilise franking credits associated with dividends to supplement income.

Tax-aware implementation

In addition to structural tax strategies, advisers have a role in researching and recommending portfolios solutions that are tax efficient for clients.

We refer to this as the tax decision hierarchy, where advisers can illustrate key steps in the portfolio implementation that have tax benefits for clients. This starts with the client and considering the ideal tax structures that can be used to optimise their after-tax position. Following this decision, an adviser can identify different ways to access a portfolio that may provide short and long term tax-planning opportunities, such as Managed Accounts. Then when selecting the investment manager and suite of portfolios to recommend to a client, the adviser can highlight other tax-smart investment strategies imbedded in the portfolio. For example, this may include portfolio management approaches, such as reduced turnover and the portfolio components selected.

[16] ASX Australian Investor Report 2020

A	B	C	E	T
1.1%	2.0%	0.6%	PRICELESS	1.5%

Take the example of a simple scenario, and consider how many different tax-aware elements are imbedded into this advice.

Scenario to highlight: Adviser recommends a 45-year-old client to invest their superannuation in a multi-asset managed portfolio and make additional pre-tax contributions to increase their super balance to close the gap on retirement goals.

Tax decision hierarchy	Tax-aware strategies within advice	Tax benefit for client
Structure and tax rate implications	Make additional pre-tax contributions into superannuation.	Reduce tax rate from Marginal Tax Rate to Superannuation tax rate of 15% on the value contributed.
Portfolio access	Access portfolios via platform to maximise flexibility and tax management opportunities.	Select an investment platform upfront that maximises current and future client-trading flexibility that can reduce unnecessary tax impacts. This may be an inspecie transfer of existing holdings to reduce trading in the short term. As wealth grows and tax management needs increase, offer selected tax parcel trading to minimise capital gains tax on the same platform.
Portfolio management approach	Minimise platform level trading (e.g. target quarterly portfolio updates).	Minimisation of client-level portfolios reduces possible realised gains and tax payments. Also allows longer holding period and benefit from capital gains tax discount for assets held over 12 months.
Portfolio componentry	Use professionally managed portfolios with direct ASX shares, ETFs and active componentry with efficient implementation strategies.	By holding direct ASX securities, the client retains the beneficial ownership and personal tax experience of those holdings.
		By holding ETFs, the clients gets investment exposure, often with lower turnover, as well as the tax-effective benefits of an ETF structure.
		Utilise active strategies that are also designed with efficient implementation imbedded. This reduces duplicate trading and redundant trades.

Example is provided for illustrative purposes only.

In addition to specific strategies, it's important for advisers to take the time to stay up to date on relevant tax changes that may impact financial circumstances. It's this 'behind the scenes' expertise that advisers deliver to their clients.

Taking into account these approaches, we estimate the tax-effective investing benefit that advisers can provide is around 1.5% p.a.

As we emerge from the global pandemic, the next issue we may have to face is how to pay for the historic government stimulus packages that kept the economy afloat in 2020. That stimulus added more than $3 trillion to our country's total debt. With that in mind, it seems likely that taxes are only going to go up over time.

So don't wait to get tax-smart. Now more than ever, using solutions like Managed Accounts can provide tax benefits and value to not only your clients, but also your business.

A	B	C	E	T
1.1%	2.0%	0.6%	PRICELESS	1.5%

Take a sharper look at communicating the value of your advice

Actions you can take

- **...KNOW** each client's marginal tax rate and tax sensitivities.
- **...PROVIDE** access to solutions that have tax-savvy strategies for your clients.
- **...EXPLAIN** the different tax-smart decisions you include in your advice and ongoing implementation.

Your resource hub:

What is tax-savvy investing?

(Article, client-ready)

A	B	C	E	T
1.1%	2.0%	0.6%	PRICELESS	1.5%

The bottom line

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.

The value of an adviser is meant to quantify the contribution that the technical and emotional guidance a trusted human adviser, delivering services and value above and beyond investment-only advice, can potentially offer.

5.2% OR MORE

This value is a meaningful differentiator in a time of regulatory scrutiny amidst a challenging market environment.

Client relationships are your most valuable assets. Clients can be an adviser's most persuasive advocate, so helping them to understand the value you deliver is key. This formula offers a memorable and repeatable framework for advisers to have that conversation with confidence:

A	Appropirate **asset allocation**	1.1%		
+		+		
B	**Behavioural** coaching	2.0%		
+		+		
C	**Cash optimisation**	0.6%	=	**5.2%** total 2021 value of an adviser
+		+		
E	**Expertise** in additional wealth management services	PRICELESS		
+		+		
T	**Tax-effective** investing and planning	1.5%		

Focus on the value you provide

At Russell Investments, we believe in the importance of advisers. We see the advantages you create for your clients. We know the commitment you bring to your client relationships. This annual report attempts to quantify that dedication and the resulting benefit. It is one small part of our work in powering adviser success. Together, let's demonstrate the value of your advice.

Reach out to learn more

Russell Investments provides investment solutions and business solutions, and can also help you create your unique value proposition and provide accountability coaching.

Contact your **Regional Manager**

Visit **russellinvestments.com.au**

For more information, please contact your Russell Investments representative

Sydney **02 9229 5111**

Melbourne **03 9270 8111**