VALUE

Embrace the possible™

2019 Value of an Advisor Study

How can tax-smart advisors provide maximum value?

russellinvestments.com

Executive summary

At Russell Investments, we are advisor-centric. Your business goals are our business goals.

This annual report looks holistically at the real value advisors deliver for their clients, in their portfolios, in vital services advisors provide, and this year, **especially in their after-tax returns**. We developed a formula to calculate the full value equation of an advisor's services.

With growing regulatory attention on advisory fees and natural consumer skepticism about delivered value, today's advisors may be challenged to articulate the material value they deliver. By looking at the full value equation of an advisor's services—annual rebalancing, behavior mistakes many investors make, the cost of investment-only management, planning and ancillary services, and tax-smart investing—it is clear that the value an advisor can deliver to clients materially exceeds the 1% fee they typically charge for their services.

In 2019, we believe the value of an advisor in the U.S. is calculated at 4.63%.

Introduction

Downward fee pressure. It seems constant, coming from regulators, robo-advisors, passive solutions, and consumer demand. Fees are top-of-mind for many investors. With a record-length bull market performance, based on the S&P 500, there is natural skepticism about paying for advice—it doesn't seem hard to throw together a winning portfolio. This view completely overlooks the fact that standard investment selection is just one part of an advisor's value. But often advisors struggle to clearly articulate that the value their clients can derive materially exceeds the 1% fee they typically charge. Let's make that easier.

The ABCs of advisor value

Coordinating all the needs of wealth management is complex, including the accumulation, distribution, and transfer of wealth. This complexity becomes even more apparent as markets move into a time of potentially lower returns and higher volatility.

The value of an advisor is meant to quantify the contribution the technical and emotional guidance a trusted human advisor can offer.

A — **Annual** rebalancing of investment portfolios

\+

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

\+

C — **Cost** of basic investment-only management

\+

P — **Planning** costs & ancillary services

\+

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

>
is greater than

Your fee
the annual advisory fee you charge clients

A	B	C	P	T
0.10%				

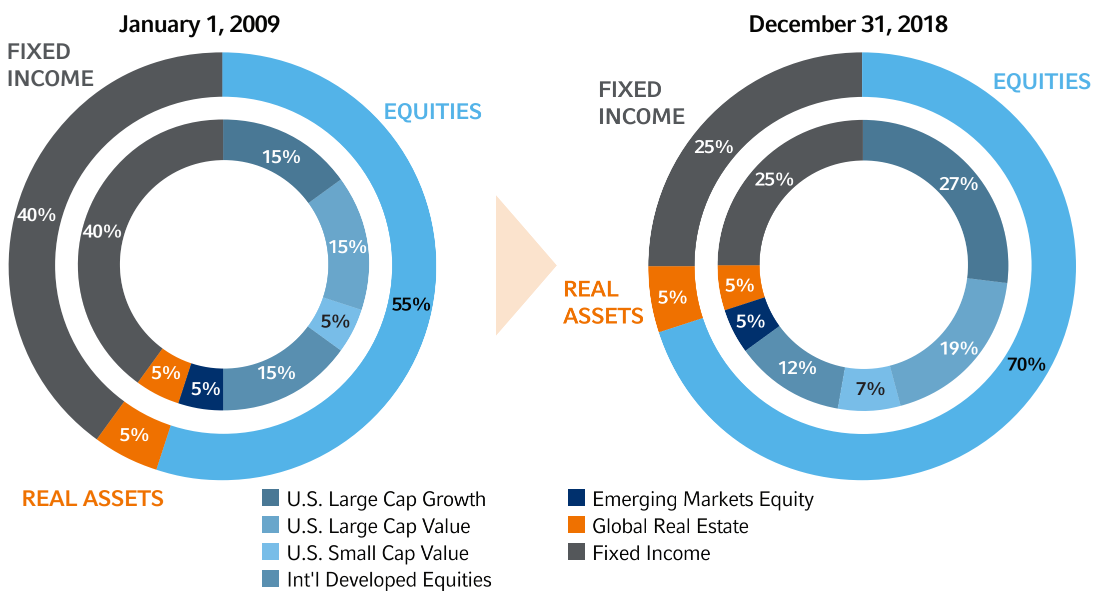
A is for Annual rebalancing = 0.10%

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

Avoiding unnecessary risk exposure. As this chart demonstrates, a hypothetical balanced index portfolio that has not been rebalanced would look more like a growth portfolio and expose the investor to risk they didn't agree to.

When balanced becomes the new growth

The potential result of an un-rebalanced portfolio



The drift was most pronounced among Total U.S. Equity and Fixed Income allocations.	Total U.S. Equity Allocation	↑ 18%	Fixed Income Allocation	↓ -15.3%

Source: Hypothetical analysis provided in the chart & table above for illustrative purposes only. Source for both chart & table: U.S. Large Cap Growth: Russell 1000 Growth; U.S. Large Cap Value: Russell 1000 Value; U.S. Small Cap: Russell 2000; International Developed: MSCI World ex USA; Emerging Markets Equity: MSCI EM; Global Real Estate: FTSE EPRA NAREIT Developed: Fixed Income: Bloomberg Barclays U.S. Aggregate Bond.

A B C P T

0.10%

Additional returns. Regular rebalancing has the potential to add 0.10% in additional returns and 1.7% in risk mitigation.

Hypothetical rebalancing comparison of $500,000[1]
January 1988–December 2018

		BUY AND HOLD	ANNUAL REBALANCING
0.10% =	**Annualized return %**	**8.4%**	**8.5%**
	Standard deviation %	**10.3%**	**8.6%**
	Ending value $	**$6.1 million**	**$6.2 million**

Reduction in portfolio volatility	**-1.7%**

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

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. See disclosure details on methodology and criteria.

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 (through June 1996), Russell Developed ex-U.S. Large Cap Index (July 1996 to present); emerging markets = MSCI Emerging Markets Gross Index (through June 1996), Russell Emerging Markets Index (July 1996 to present); REITS = FTSE NAREIT All Equity REIT Index (through February 2005), FTSE EPRA/NAREIT Developed Index (March 2005-present); 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).

While 0.10% may not seem like much, compounded over a multi-year period, it can quickly add up. In the hypothetical example above, that's a $100,000 difference.

Do you share with your clients a written statement on:

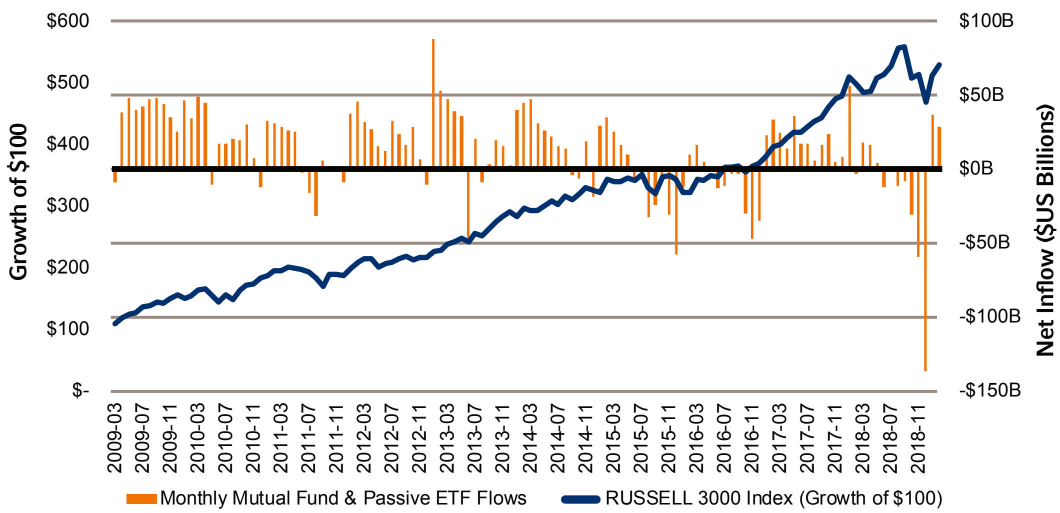
- The benefits of a systematic rebalancing policy
- What your strategic rebalancing policy is
- How frequently you rebalance their portfolios
- Your approach to strategic rebalancing policy during periods of market volatility

A	B	C	P	T
0.10%	1.90%			

B is for Behavioral mistakes = 1.90%

Behavior coaching is one of the most vital parts of the advisor job description. It's inherent in the idea of advising. And when it comes to delivering value, avoiding behavioral mistakes is a significant contributor to total value. 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 more than doubled in value. And those that chose to stay in cash during that period missed a cumulative return of more than 200%, based on the Russell 3000® Index.

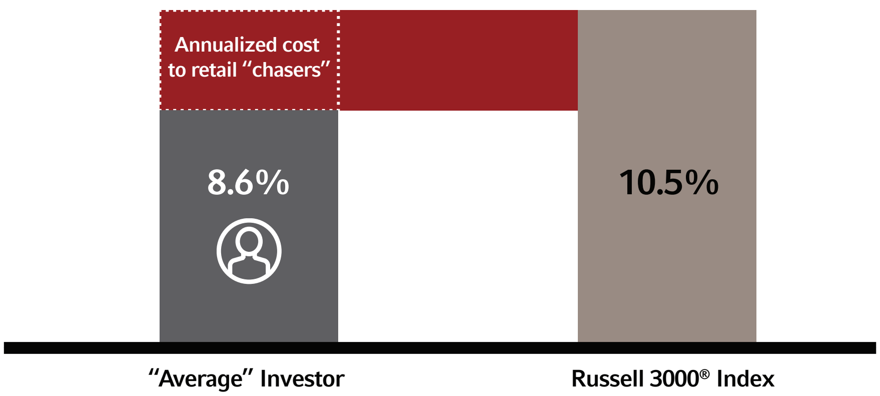
Investors don't always do what they should.
Recent proof of a "buy high and sell low" mentality
U.S. open ended mutual fund and passive ETF flows vs market flows



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 February 28th, 2019. Index performance is not indicative of the performance of any specific investment. Indexes are not managed and may not be invested in directly.

No one likes to consider themselves to be an average investor. But statistically, the average stock-fund investor's inclination to chase past performance cost them 1.90% annually in the 34-year period from 1984–2018. By working with an advisor, investors can become significantly greater than average. We believe an advisor's ability to help clients stick to their long-term financial plan and skirt irrational, emotional decisions adds this value.

The high cost of investor behavior
1984 - 2018



Source: "Average" Investor – Russell Investment Group, Thomson Reuters 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 January 1, 1984 to December 31, 2018. 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.

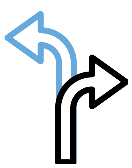
A 0.10% | B 1.90% | C | P | T

Manage the conversation

Using behavioral finance to help investors manage their human biases.

Loss aversion

Humans tend to prefer avoiding losses than acquiring equivalent gains



Overconfidence

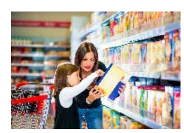
Humans tend to over-estimate or exaggerate our ability to successfully perform tasks

Herding

Humans tend to mimic the actions of the larger group

Familiarity

Humans tend to prefer what is familiar or well-known



Mental accounting

Humans tend to attach different values to money based on its source or location

can lead to...

Loss aversion	Overconfidence	Herding	Familiarity	Mental accounting
Sell winners too early, hold onto losers too long	Trade too often	Buy high, sell low	Overweight home country	Naïve diversification

can be managed...

Loss aversion	Overconfidence	Herding	Familiarity	Mental accounting
Illustrate the connection between their investments and long-term goals	Listen and provide perspective	Focus on long-term goals and emphasize a disciplined process	Diversify and cast a wider net	Money is fungible. Focus on total wealth allocation

C is for Cost of investment-only management = 0.33%

What is a bare-minimum investment management worth? To be brutally fair, what would investment management cost if a robo-advisor did it?

Robo-advisors that deliver investment-only management and no financial plan, ongoing service, or guidance have set prices at approximately 0.33%[1]—for annual statements, online access, and a phone number to call in case of questions.

The building blocks of basic investment-only management

[1]Based on the average fee charged for investment-only management by 10 robo advice offerings for a client portfolio of $135,205 as accessed on the companies' websites on 3/11/2019.

Robos have learned from us. What can we learn from them?

- How does technology enhance the online planning process?
- How does my online presence support, sell, and reflect my team?
- Which processes can leverage technology? Client experience? Inventory strategies?

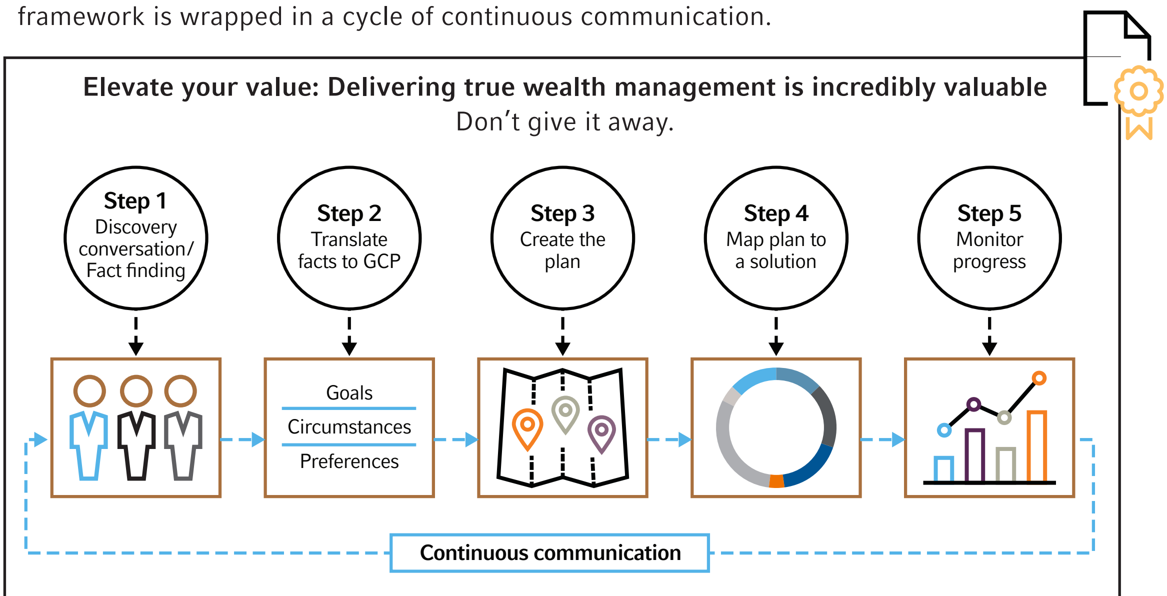
P is for Planning = 0.78%

Advisors advise. As obvious as this sounds, it's worth stating that financial advisors add value by doing the hard work of shepherding a strategy from origination to outcome. That means building and regularly updating custom financial plans, conducting regular portfolio reviews, and offering ancillary services such as tax & estate planning, college funding, 401(k) review, investment & cashflow analysis, Social Security and retirement income planning, assistance with annual tax return preparation and one-off custom requests from clients.

How much does the financial planning component cost nowadays?

Per a recent financial planning study conducted by Kitces, the average standalone planning fee for a comprehensive plan was around $2,900, which is 0.58% on a $500k account.[2] Are your clients aware of that value? Don't minimize it or give it away!

Delivering true wealth management begins with a deep discovery conversation. It is then followed by translating what is heard into goals, circumstances and preferences. The framework is wrapped in a cycle of continuous communication.



For illustrative purposes only.

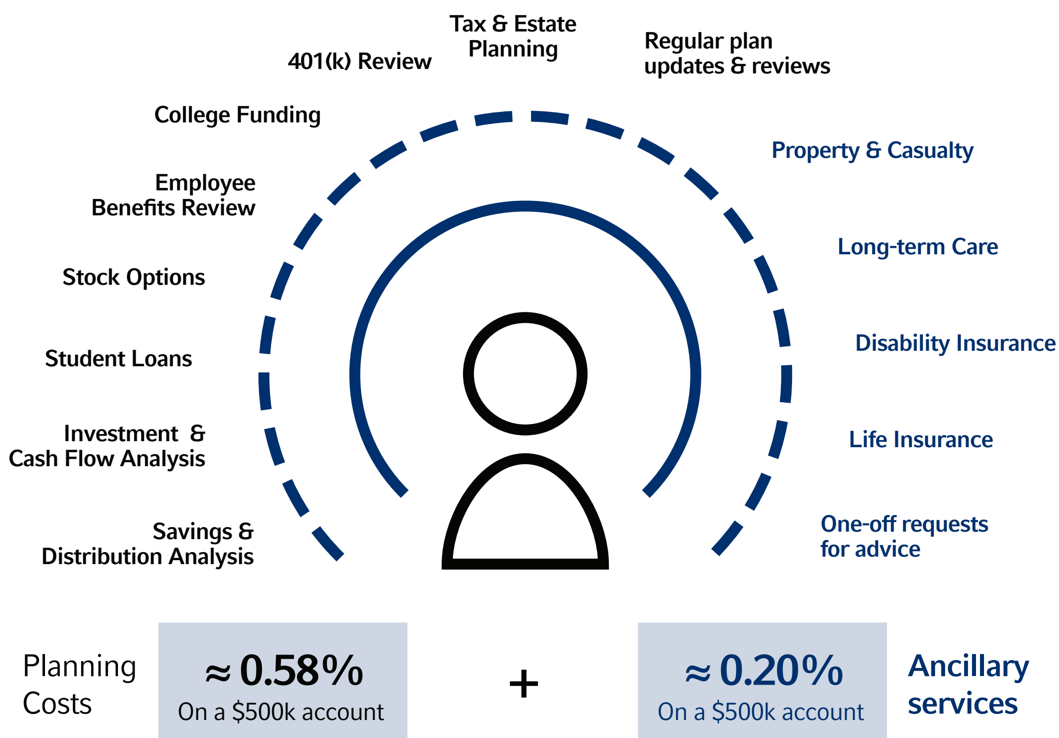
[2] The Kitces Report, Volume 2, 2018, kitces.com.

What is the value of typical ancillary services an advisor and their staff offer?

We believe advisors and their staff consistently underestimate the value of the ancillary services—insurance needs, custom requests and questions—they may provide their clients. These additional services can quickly consume 20, 50, or 100 hours each year. If the advisor is providing additional/ancillary services, we estimate that the total planning fee goes up by an additional 0.20%.

In other words, the average standalone planning fee for the most comprehensive plan was $3,918, which is 0.78% on a $500,000 account.

Planning is complex and varied



Source: The Kitces Report Volume 2, 2018 – kitces.com

Map your commitment and engagement to clients

One of your biggest challenges as an advisor is to help your clients stay focused and on course. Despite your best efforts, clients sometimes struggle to remember your valuable guidance. A solution to this common problem is to provide them with a Client Engagement Road Map. The Client Engagement Road Map positions you as the coordinator of your clients' multi-faceted financial affairs. Helping your client articulate and then document their goals and objectives is a critical function. Ask your Russell Investments representative for access to this easy-to-use tool and client-approved value communication materials.

Making a commitment to your clients—and in return having some expectations from clients, too.

WHAT YOU CAN EXPECT FROM US	WHAT WE EXPECT FROM OUR CLIENTS
• Transparency into our partnership process, values and priorities	• Openness about your current situation, goals, circumstances, preferences, asset location, and other relevant wealth management information
• Comprehensive financial planning process—creating, monitoring, and updating your custom financial plan	• Proactive, two-way communication as your situation changes
• Regular, ongoing, and proactive interactions with our team to help guide you through the emotions that markets, and investing, may trigger	• At least two face-to-face updates/meetings per year
• On-going asset allocation, investment selection, customized portfolio design & construction • Proactive rebalancing of portfolios	• Feedback on our client events and educational workshops throughout the year
• Tax-smart planning and tax-managed investing	• Annual tax review of your state/federal tax-return
• Help you build a team of experts to meet all your wealth management needs (tax team, trust and estate attorney, insurance, banking, business succession, etc.)	• Introductions to individuals in your professional and personal networks for whom you believe we can add value

Frame conversations to the client's life and goals

Help clients see their whole financial picture

Quarterly Client Engagement Roadmap

January – March, 2019
Scheduled activities

- Data Gathering
- Financial Goals
- Risk Tolerance
- Long-range Plan

April – June, 2019
Scheduled activities

- Goals Review
- Roadmap Review
- Investment Implementation
- Life Insurance
- Estate Plans Updated
- ED: Diversification

July – September, 2019
Scheduled activities

- Goals Review
- Roadmap Review
- Investment Review
- Insurance Implementation
- Estate Plans Completed
- ED: Long-term View of the Market

October – December, 2019
Scheduled activities

- Review Existing Plans
- Roadmap Review
- Investment Review
- Estate Planning
- Client Satisfaction Review

January – March, 2020
Scheduled activities

- Goals & Situation Review
- Roadmap Review
- Investment Review
- Education Planning
- ED: U.S. Equities

April – June, 2020
Scheduled activities

- Goals & Situation review
- Roadmap Review
- Investment Review
- Disability Insurance
- ED: Fixed Income

July – September, 2020
Scheduled activities

- Goals & Situation Review
- Roadmap Review
- Investment Review
- Long-term Care Insurance
- ED: International Investing

October – December, 2020
Scheduled activities

- Goals & Situation Review
- Roadmap Review
- Investment Review
- Family Meeting
- ED: Legacy Planning

A	B	C	P	T
0.10%	1.90%	0.33%	0.78%	1.52%

T is for Tax-smart investing = 1.52%

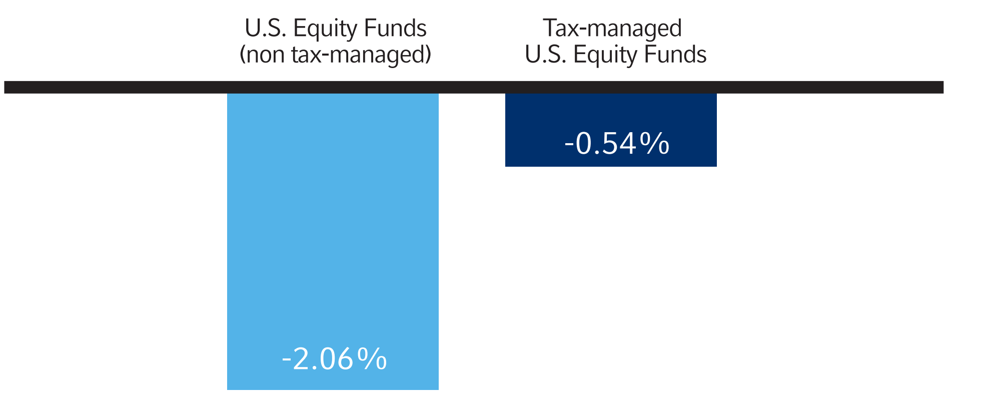
It's not what you earn. It's what you keep. We believe wise advisors don't just focus on returns. They focus on after-tax returns. Providing a more tax-smart approach can have substantial impact on the size of those after-tax returns. While downward fee pressure can mean downward value trends in other areas, advisors who focus on tax-smart investing can distinguish themselves and demonstrate differentiating value.

Dialing down tax drag

Just how much return can be added with a tax-smart approach? The average annual tax drag for the five years ending December 31, 2018 was significant. Investors in non-tax managed U.S. equity products (active, passive, and ETFs) lost on average 2.06% of their return to taxes. Those in tax-managed U.S. equity funds forfeited only 0.54%. That's a value difference of 1.52%. With taxable investors holding $8.6 trillion of the $15.7 trillion invested in open-end mutual funds, this is a massive concern—and a massive opportunity for added value.[3]

Dialing down the tax drag

Average annual tax drag (return lost to the tax-payer) for 5 years ending December 2018



Tax-managed: funds identified by Morningstar to be tax-managed.

Universe averages*: Created table of all U.S. equity mutual funds and ETF's as reported by Morningstar. Calculated arithmetic average for pre-tax, post-tax return for all shares classes as listed by Morningstar.

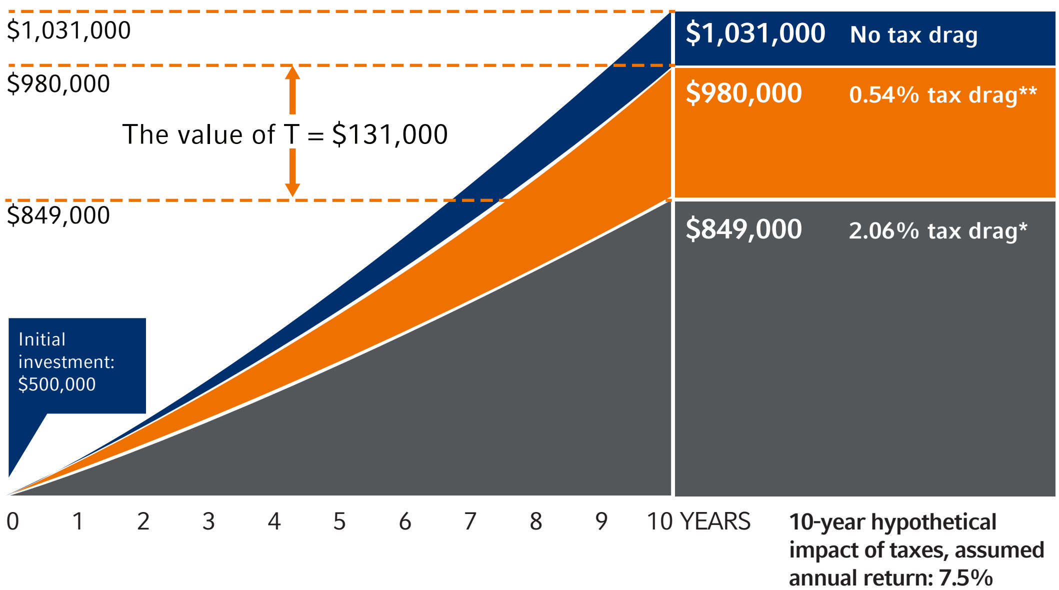
Morningstar Categories included: U.S. ETF Large Blend, U.S. ETF Large Growth, U.S. ETF Large Value, U.S. ETF Mid-Cap Blend, U.S. ETF Mid-Cap Growth, U.S. ETF Mid-Cap Value, U.S. ETF Small Blend, U.S. ETF Small Growth, U.S. ETF Small Value, U.S. OE Large Blend, U.S. OE Large Growth, U.S. OE Large Value, U.S. OE Mid-Cap Blend, U.S. OE Mid-Cap Growth, U.S. OE Mid-Cap Value, U.S. OE Small Blend, U.S. OE Small Growth, U.S. OE Small Value.

*Methodology for Universe Construction on Tax Drag chart: Tax Drag represents the average Morningstar Tax Cost Ratio for funds in each category. The Morningstar Tax Cost Ratio measures how much a fund's annualized return is reduced by the taxes investors pay on distributions.

[3] Source: 2018 Investment Company Factbook.

Tax-smart advisors can help add this value by helping build and implement a personalized, comprehensive, and tax-sensitive investment.

Helping your clients keep more of what they earn
Hypothetical growth of $500,000 over 10 years at 7.5% per year



*Taxed at 40.8% tax rate: Top marginal rate of 37.0% + 3.8% Net Investment Income Tax, **Taxed at 23.8% tax rate: Long-Term Cap Gain rate of 20% + 3.8%% Net Investment Income Tax. This example does not reflect the deduction of state income taxes. If it had, returns would have been lower.

This is a hypothetical illustration and not meant to represent an actual investment strategy. Taxes may be due at some point in the future and tax rates may be different when they are. Investing involves risk and you may incur a profit or loss regardless of strategy selected.

Understanding your client's tax-sensitivity level

Do you...

- **KNOW** each client's marginal tax rate?
- **PROVIDE** intentionally different investment solutions for taxable and non-taxable assets?
- **EXPLAIN** to clients the benefits of managing taxes?
- **HAVE** a process for partnering with local CPAs?
- **REVIEW** your client's 1099?

Forensic review of the IRS Form 1099

Connecting the dots between what a client makes and actually keeps

Box 1a: Total amount of dividends to include both qualified and non-qualified

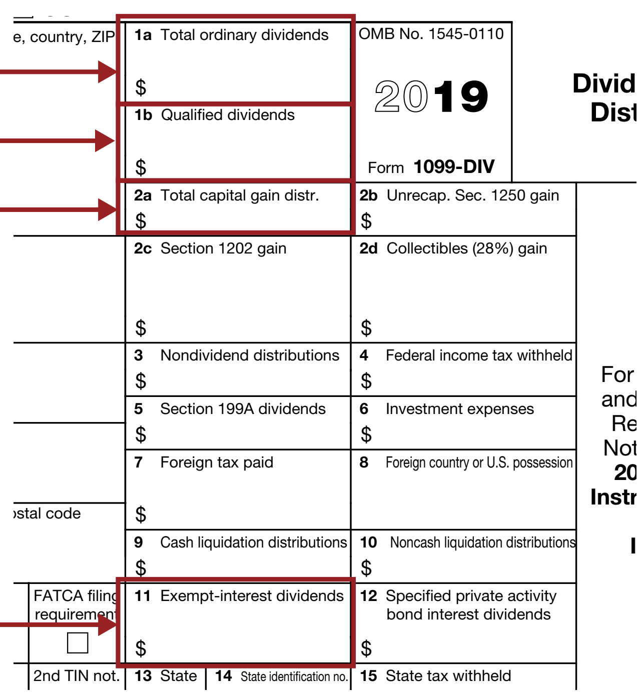
Box 1b: Qualified dividends may be eligible for reduced capital gains rates

Look for:

- Difference between 1a and 1b. Too much non-qualified dividends?
- Does the client need dividend income?

Box 2a: Capital gain distributions. Understand amount as % of total investments. Are gains out of line with investment size?

Box 11: Tax-exempt dividend/interest from municipal bond funds. Know client's tax rate and tax-equivalent yield.



The bottom line

The value of an advisor is meant to quantify the contribution the technical and emotional guidance a trusted human advisor can offer.

4.63% > 1%

Advisors delivering services and value above and beyond investment-only advice have an estimated contributory value of 4.63%. At the same time, advisors typically charge just 1% for their services.

By demonstrating to clients how their value greatly exceeds the fee charged, advisors can improve client satisfaction. This value is a meaningful differentiator in a time of margin compression, regulatory scrutiny, and demanding investors.

Your clients are your most persuasive advocates. Helping them understand the value you deliver is key.

This formula offers a memorable and repeatable framework for you to have that conversation with confidence:

A	**Annual** rebalancing of investment portfolios	0.10%
+		+
B	**Behavioral** mistakes individual investors typically make	1.90%
+		+
C	**Cost** of basic investment-only management	0.33%
+		+
P	**Planning** costs & ancillary services	0.78%
+		+
T	**Tax-smart** planning & investing	1.52%

= **4.63%** total 2019 value of an advisor

Let's rise to the call of providing value to investors.

At Russell Investments, we believe in the importance of advisors. We see the advantages you create for your clients. We know the commitment you bring to your relationships. This annual Value of an Advisor study quantifies that dedication and the resulting benefit. It is one small part of our work in powering advisor success.

For more information:

Call Russell Investments at **800-787-7354** or

visit **russellinvestments.com**

Fund objectives, risks, charges and expenses should be carefully considered before investing. A summary prospectus, if available, or a prospectus containing this and other important information can be obtained by calling (800) 787-7354 or visiting https://russellinvestments.com. Please read a prospectus carefully before investing.

IMPORTANT INFORMATION AND DISCLOSURES

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Methodology for the Rebalancing Comparison, January 1988 – December 2018. 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 (through June 1996), Russell Developed ex-U.S. Large Cap Index (July 1996 to present); emerging markets = MSCI Emerging Markets Gross Index (through June 1996), Russell Emerging Markets Index (July 1996 to present); REITS = FTSE NAREIT All Equity REIT Index (through February 2005), FTSE EPRA/NAREIT Developed Index (March 2005-present); 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).

*Methodology for Universe Construction on Tax Drag chart: From Morningstar, extract U.S. equity and fixed income mutual fund and ETF's for reported period. Averages calculated on a given category. For example, average after-tax return for the large cap category reflects a simple arithmetic average of the returns for all funds that were assigned to the large cap category as of the end date run. For funds with multiple share classes, each share class is counted as a separate "fund" for the purpose of creating category averages. Morningstar category averages include every type of share class available in Morningstar's database. Large Cap/Small Cap/Municipal Bond determines based upon Morningstar Category. If fund is indicated on Morningstar as passive or an ETF, the fund is considered to be passively managed. Otherwise, the fund is considered to be actively managed. Tax Drag: Pre-tax return less after-tax return (pre-liquidation).

Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

The Investment Company Institute is the national trade association of U.S. investment companies, which includes mutual funds, closed-end funds, exchange-traded funds and unit investment trusts.

Bloomberg Barclays U.S. Aggregate Bond Index: An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities. (specifically: Barclays Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index).

FTSE EPRA/NAREIT Developed Index: A global market capitalization weighted index composed of listed real estate securities in the North American, European and Asian real estate markets.

MSCI Emerging Markets Index: A float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI World Index: A market cap weighted stock market index of 1,653 stocks from companies throughout the world.

MSCI World ex-USA Index: The MSCI All Country (AC) World ex U.S. Index tracks global stock market performance that includes developed and emerging markets but excludes the U.S.

The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

The Russell 3000® Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The S&P 500® Index: A free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States. The stocks included in the S&P 500® are those of large publicly held companies that trade on either of the two largest American stock market exchanges: the New York Stock Exchange and the NASDAQ.

Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Past performance does not guarantee future performance.

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