

**Top interview: The Professionals Supporting Pension Operation in Japan**

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**Frank Russell Company, Ltd. Representative Director and President**

**Mr. Masanori Tsuno**



Masanori Tsuno

- 1978: Bachelor of Engineering, the University of Tokyo
- 1980: Master of Engineering, the University of Tokyo
- 1987: Master of Business Administration (MBA), University of Washington
- 1987: Joined Frank Russell Japan Company, Ltd. to open an office in Japan.
- 1989: Representative Director, Frank Russell Japan Company.  
Led business development in Japan.
- 1995: Director, International Operation, Frank Russell Company (U.S.A.)  
Led business development in Japan for its U.S. head office.

- 1996: President and Representative Director, Frank Russell Japan Company, Ltd.  
Member of Business Execution Committee, Frank Russell Company (U.S.A.)
- 1999: President and Representative Director, Frank Russell Investment Trust Company  
(Japan)

Recently, it has been often reported that pension investment in Japan is struggling. Frank Russell Company Ltd., based in Tokyo, provides professional services on asset management to Japanese pension funds. Started its business in 1986 as a Japan office of the Russell Investment Group (U.S.A.), Russell has been deeply involved in providing solutions to Japanese pension plan. Based on its global and in-depth survey of investment managers, Russell provides investors such as large pension funds and financial institutions with consultation services on asset management. Also Russell has developed their business actively in the field of investment trust, with its very unique product called the Multi-Manager Funds. ■1 It can be said that Russell has expanded its business along with the development of pension and fund management industry in Japan.

We interviewed Mr. Masanori Tsuno, President and Representative Director of Frank Russell Japan, about his experience, future business strategies and outlook of pension investment in Japan.

■1

Usually, each fund hires one investment manager. However, the Multi-Manager Fund hires multiple investment managers that perform different roles. Russell assigns more than one excellent investment managers strictly screened from the world, to a Multi-Manager Fund. Russell continuously monitors them, and makes changes to the fund when necessary, to achieve stable and high performance. This is designed to achieve consistent overall results, better than the average, as the entire Funds.

## **The Root of Russell Investment Group ---The Founder Frank Russell**

**Editor:** President Tsuno, we are told that Russell Investment Group (“Russell” in the following) was founded in the United States about 70 years ago. Before we ask you about your business in Japan, would you tell us about the company’s establishment and its history in the United States, where the headquarters are located?

**Tsuno:** Russell was founded in Tacoma, Washington, in the United States, in 1936, the 11th year of Showa, 68 years ago. Tacoma is about 1 hour drive to the South of Seattle. The founder of the company was Frank Russell. The company was named after him until it was changed to Russell Investment Group. Until 1936 he worked for Merrill Lynch Securities in New York. Merrill Lynch had gained renowned for its prediction and avoidance of the stock crash in 1929. He was one of the team members then. Later, he left the job, and returned to his hometown Tacoma. Major companies and the wealthy individuals are found around the United States, as you may know. In Tacoma, there are the Boeing Company, Weyerhaeuser Company (a lumber company), Nordstrom, Inc. (a department store chain), and so on. At first, Frank Russell worked for the founders’ families of these companies. He provided so-called ‘private banking service’ in Japan, securities service and fund management.

## **Decision of George Russell**

### **---Change of Business to Asset Management Consultation**

**Editor:** Russell currently gives operational advice to ¥200 trillion of assets around the world, and is the biggest company in terms of asset under advisement. While Russell started more like a securities firm, how did the consultation business begin and has grown successfully?

**Tsuno:** George Russell, who is the current chairman emeritus of the company, and the grandson of Frank Russell, was a fund manager from the latter half of the 1950s to the 1960s. As you know, a fund manager invests assets effectively and provides investment earnings to clients. Frank's clients often complained about bad returns. Then, in order to objectively analyze his quality as a fund manager, whether he is a good one or a bad one, he researched fund managers with good reputations at that time. As a result, he reached the following conclusion: "a good fund manager raises more investment returns than the market average for a long-term, such as 10 years. However, it is not the case for a single year or in short terms. Even an excellent fund manager could lose for a short-term." Then, he wanted to reconstruct his business from a client's point of view. In the latter half of the '60s, he changed his business to advise which fund manager should be chosen, and how to get more consistent returns with a combination of multiple good fund managers, instead of doing his best as a fund manager himself.

The institutional pension in the United States and its amount of funds happened to grow much in the latter half of the 1960s. It was like what happened in the latter half of the '80s and '90s in Japan. Until then, banks had mainly managed the institutional pension funds in the United States. However, as they grew big, pension funds had trouble with who to entrust their assets. Then, they asked Russell for advice and we started to help them finding good fund managers. This business grew successfully in the former half of the 1970s.

## **Start of Pension Funds Business for Middle-Class Companies**

### **---The Multi-Manager Funds**

**Editor:** Russell provides investment products, such as funds, as well as fund management consultation. We heard that Russell provides about 180 funds as the entire group, and the total

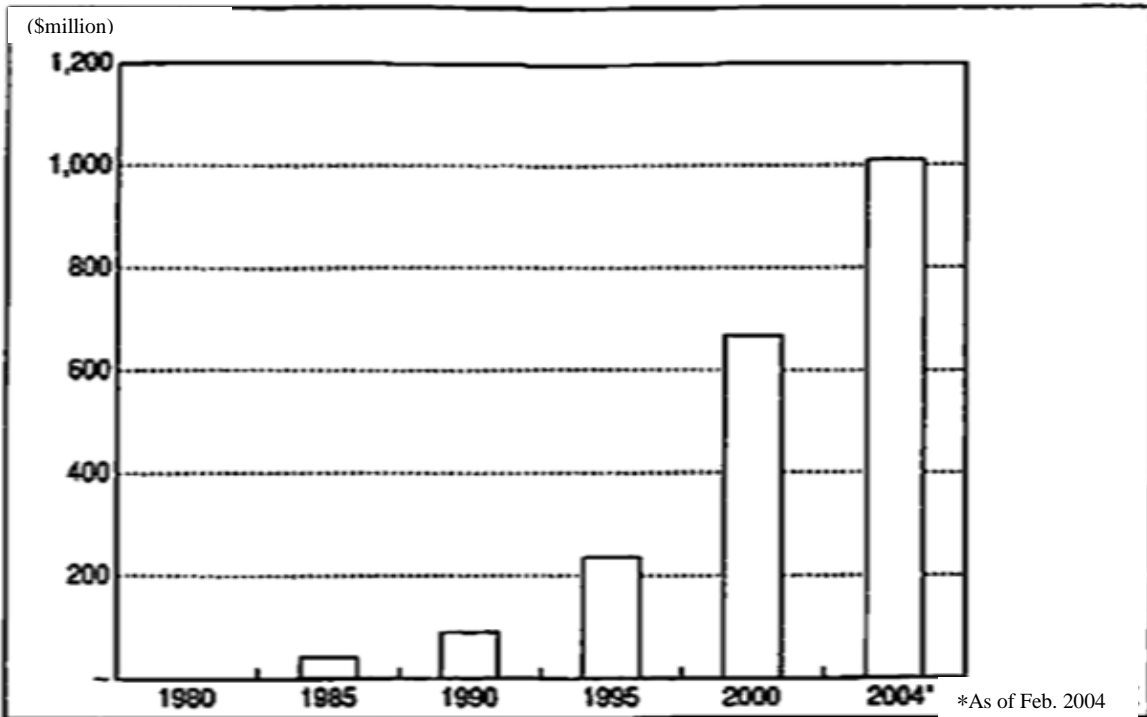
amount of operating funds are about ¥10 trillion. What made your company provide not only consulting service but also funds?

**Tsuno:** At first, only major companies showed interest in Russell's consulting service. However, after the pension plan changed in 1974, middle-class companies became more aware of our service, as well. Legal responsibility on pension fund management is same for all companies, regardless of the size of their pension funds. Then, there was a problem. While major companies have many employees, and the size of their pension fund is big, middle-class companies' fund size is small. If we wanted to do for middle-class companies with the way we did for major companies, only limited managing companies are available for them. Then, Russell was asked to solve this problem, and proposed to put funds from middle-class companies together, so that the total amount would be as much as the one of a major company. In this process for middle-class companies, Russell is still responsible for deciding which managing company to be assigned for the funds. Our Multi-Manager Funds is developed for middle-class companies, implementing this idea.

Thus, Frank Russell started his business as a fund manager, and changed it to provide a combination of excellent fund managers, standing from a client's point of view, instead of being a fund manager himself. At the beginning, we provided management consulting service for major institutional pensions. After the pension plan changed in 1974, Russell's service expanded by adding a product called the Multi-Manager Funds, which selects a combination of excellent fund managers for a client. The appearance of Russell became a managing company. However, please note that we have consistently sought excellent fund managers and the best managing companies all around the world.

Graph 1 -- Changes of the total amount of operating funds, managed by Russell Investment Group

図1 — ラッセル・インベストメント・グループの運用資産総額の推移



## Global Development of Russell

**Editor:** I see. Thus, Russell has gained a strong status in the institutional investment world for pension funds and so on. It is symbolic that George Russell, your company's current chairman emeritus, was named in 1993 as one of "the four most influential people in the institutional investment world."

We heard that Russell currently employed about 1,300 associates. It operates 9 principal offices around the world and provides its service in 35 countries. Please tell us about the process of Russell's growth to a global company.

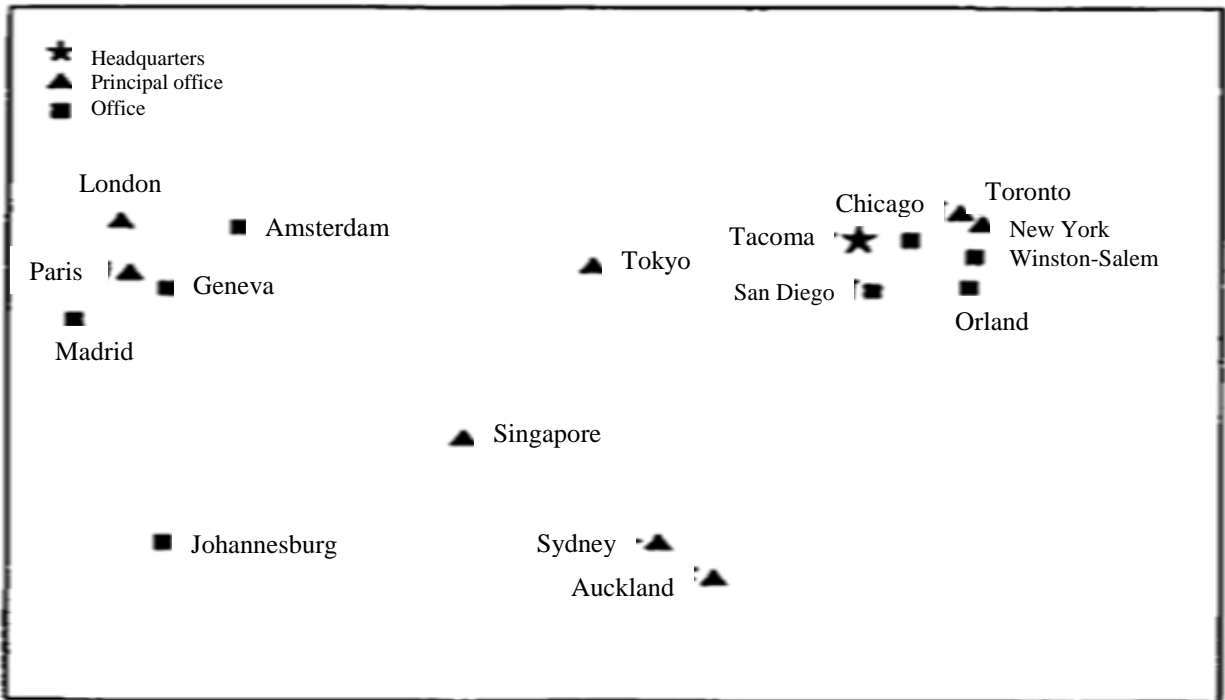
**Tsuno:** In the latter half of the '70s, the importance of internationally diversified investment was emphasized. In fact, it was Russell that pointed it out to the U.S. pension market for the first time. Since Russell's motto is that we do what we say we will do, Russell opened an office in London in 1979, as well as proposing this concept of the international diversified investment. Michael Phillips, our current chairman, was one of members who joined the company at the London office at that time.

Races and nationalities do not matter if people want to work at Russell. Phillips got the credit for his achievements. He moved to the headquarters in Tacoma, was appointed as the president, and now is the chairman. In general, it is often asked at a foreign-affiliated company, "Were you hired at the headquarters or a local office?" However, Russell does not consider that associates who are locally hired cannot become a president. I think that Russell is a very flexible and interesting company that let excellent associates have proper positions, regardless of their hiring places.

After the office in London in 1979, we opened ones in Toronto in 1984 and in Sydney and Tokyo in 1986, expanding principal footholds for business. In Japan, in the following year after the opening of Tokyo office, 1987, Frank Russell Japan Co., Ltd. was founded. I joined the company just around this time.

Pic-2 -- Russell's Global Network

図2 — ラッセルのグローバル・ネットワーク



### Decision of the Russells --- To Outgrow a Family Company

**Editor:** Northwestern Mutual Financial Life has become the parent company of the Russell group since January, 1999. Why did Russell take the current system after it had been run as a family company, from Frank Russell to his grandson George Russell?

**Tsuno:** When I joined the company, George Russell, a grandson of Frank Russell, was the chairman in Tacoma. Later, we thought that it was about time to outgrow the family company system. So, Michael Phillips, our current chairman, was promoted to president. However, just changing a president was not enough to make our company last. Therefore, Russell came to a conclusion that it needed either to go public or to be acquired by major stable company. Since Russell itself must have become more attractive in order to sell itself, we kept trying to raise the company value.



In that process, Michael Phillips was appointed to president in 1990 and to CEO in 1993. The so-called passing of the baton from the founder's family to a manager who was not a family member was finished. It should be noted that the business of Russell has grown more than 25% every year, since Michael Phillips, our current chairman, had become the president. Then, from 1997 to 1998, when Russell was ready to sell itself, the offer to sell was sent around the world. Finally, Northwestern Mutual Life purchased it.

Northwestern Mutual Life is the largest life insurance company in the United States, providing individual insurance. There is few people in Japan who knows about this company because this company does not do business out of the United States at all. However, "America's Most Admired Companies," by Fortune magazine, has continuously named Northwestern Mutual Life as the first place in the life and health insurance industry division for the last 20 years. The company has gained a high reputation. Also, the nature of its corporate finance has been very good so that its ratings are always AAA. One of Russell's merits of being purchased by such a good company is the improvement of raising funds. It made it possible to develop more business with inexpensive fund raising. Since 1999, Russell's business has grown even more.

## **Advance into the Japanese Market**

### **--- At First, as a Missionary of Pension Management**

**Editor:** Now we finished asking about business development of Russell in the world. Next we would like to ask you about its business development in Japan. We heard that you joined Russell when you studied at the business school of the University of Washington. Please tell us how you have developed business in Japan after you worked in United States.

**Tsuno:** In the later half of the '80s, the size of institutional pension funds in Japan grew very big. Therefore, Russell opened an office in Tokyo targeting at Japan. However, at that time, only trust

banks and life insurance companies could legally manage institutional pension funds in Japan. Before April, 1990, Japanese institutions could not use investment advisers for their pension management. Although we advanced into Japan in the latter half of the '80s, Japanese companies could not become our clients immediately. Due to this situation, we started providing our service to Japanese financial institutions which had invested overseas, using foreign managing companies.

Later, in the '90s, Japanese companies were legally allowed to use investment advisers for their pension management. Then, Russell has developed consulting business for institutional pensions, adding the existing consulting business for the financial institutions.

In the latter half of the '80s, many investment consulting companies were there in Japan, knowing institutional pension funds would become legally available for them. In 1986 when Russell advanced into the Japanese market, Japan Securities Investment Advisers Associations were founded, as well. However, then, we considered that institutional pensions in Japan could not be beneficial for a while. At that time, when government offices, the pension management industry and the companies with institutional pensions were getting ready for the opening of the Japanese pension market, Russell very often found opportunities joining them to advice, as a missionary of pension management. Peter Dietz, our first president in Japan, was often summoned from the then Ministry of Welfare, the then Ministry of Finance, and governmental deliberative councils. I went along with him and listened to what Dietz and others said.

Meanwhile, Japanese companies with institutional pensions were getting aware of the need to study. If the pension market be opened, then their responsibility, besides their freedom, would increase. There were many discussions about what activities and preparations they should start for the liberalization of the market.

Those who attended a study group were very interested in the liberalization of the market. Right now more than half of those who were members of the study group are Russell's clients. At the beginning of the '90s, we hosted small study groups and middle-scale conferences inviting professional people in charge of pensions from the United States.

Also, governmental affiliated organizations were supposed to give guidance to companies to manage pension funds for employees, and held study groups to increase the managing freedom of companies. I was invited to join their discussions in the former half of the '90s. Although it is strange to think about that now, representatives of the pension management industry insisted regulations on the book value base meaningful. I felt, then, "A person's title means much for his opinion to be accepted in Japan. An opinion without any titles, even though it is professional, would not necessarily be considered sound." For me it was a good experience to know how a decision was made in Japan. While it is reasonably liberalized now, I think that problems we face today would be a little different, if the liberalization, not regulations, was done immediately at that time.

## **Difficult Path to Full-Scale Development of the Fund Managing Business**

### **--- Japan can Change in the Right Direction**

**Editor:** You showed me the list of clients with whom Russell currently has business relationships in Japan. All of them are first-class major companies, such as Toyota Motor Corporation, JTB and Bank of Tokyo-Mitsubishi. While Russell has now gained a stable status in pension and fund managing business in Japan, I assume that you had a difficult experience until the business started going well. What was the hardest thing you, President Tsuno, did to expand the business of Russell Japan?

**Tsuno:** It was fine when Russell evaluated foreign fund managers to provide service to Japanese institutional investors, especially investors from financial institutions. However, when we started

evaluating domestic fund managers, people from the industry said many opinions against us. What was most often said in the 1990s were “We can not accept Russell in Japan,” and “Why do we have to be influenced by Russell, if we do not have any business contracts with it?” Also, “Russell would not be successful dealing with Japanese pension plan,” and “Russell can last only three years in Japan for we do not have such a culture to be evaluated.” Therefore, it is very moving for me to see the present development of Russell in Japan. Learning through experience, I am strongly convinced that, even though Japan does not seem to change, she absorbs important things and changes a lot. The current situation in Japan has various old bondages and cannot be corrected at once. If necessary, we should take time to solve issues. I expect that things would go speedy after some point in Japan.

It was not always smooth for Russell, dealing with various issues. However, as people got more aware of the situation, around 1994, 5 companies out of 10 with the biggest institutional pension funds in Japan became clients for Russell’s consulting service. Even now the companies with the biggest institutional pension funds in Japan are our clients.

### **How do you Evaluate a Managing Company? --- The Point is a Person.**

**Editor:** An American company that evaluates the ability of a managing company, or a so-called fund manager, has moved into Japanese market. At that time, Russell was severely criticized in the industry. It does not seem to be easy to evaluate a professional fund manager. What is the most important aspect at the evaluation?

**Tsuno:** It is surely very difficult to evaluate a managing company. When you, an investor, choose a fund managed by a managing company, you probably choose it based on the past managing results by each company. However, if you buy a fund in this way, you often fail and regret your decision. Here, I tell you the most obvious example. A managing company had a very excellent fund manager,

and, thanks to him, gained wonderful achievements in the past. However, after that person left the company, the company's past achievements do not mean much. Then what should we do? If a company's building looks fine, does it mean that the company is fine? No. Even though a company's name is well-known or its brand name sounds fine, these facts are not related to its actual managing ability. Russell thinks that people are the most important point in this fund managing industry. Especially, how good is a fund manager at a company? And how does he manage a fund? Besides, since a managing company is also an organization, can a fund manager freely work and do their best in an organization or in a team? We evaluate these aspects.

Also, it is rare that a managing company is perfect with every managing method. It is easier to understand if I explain this using an example of decathlon at the Olympic Games. A champion of decathlon is not necessarily best for each of ten events, since champions of a single event mark better records than the total champion. Our services and products propose the scheme to let a so-called dream team, a combination of single event champions and specialists, manage a fund.

In order to provide such services and products, Russell established a global evaluation system. Currently 6,600 managing teams are evaluated, 500 are recommended among them, and furthermore only 120 managing teams are assigned to manage our funds.

## **Business Expansion, Helped by Relaxation of Regulations and Revision of the Investment Trust Law**

**Editor:** After the fund management consulting business was firmly established in Japan, how did you enter into other business?

**Tsuno:** In 1994, 5 companies out of 10 with the biggest institutional pension funds became clients for Russell's consulting service. Also, from 1993 to 1995, the fund management special committee, a governmental affiliated organization mentioned above, submitted a report recommending the

abolition of regulations on stocks and securities in Japan. It became clear that the institutional pension would grow in Japan, so that I stayed in Tacoma from the middle of 1995 to the middle of 1996 to prepare the start of fund business in Japan. And, when I came back to Tokyo, I was appointed as the current position. At that time, in fact, regulations were abolished and the pension management consulting business started to grow. When it became possible to manage a pension fund themselves, companies grew aware of the importance of a good fund managing company. There had been a trend, from 1996 to 1998, for a company to choose Russell or other management consulting companies for its pension fund. Fortunately, on that trend, we have provided our consulting service to very wonderful clients.

Besides, after revision of the investment trust law in Japan, it became possible to provide a product like our Multi-Manager Funds. Also, in 1998, banks started to sell investment trust products through tellers, and an investment trust boom was there. We, too, wanted to provide general investors the Multi-Manager Funds as investment trust products in the end. In 1999, Frank Russell Investments, Ltd. was established, starting the Multi-Manager Funds business. Later, since 2000, the Multi-Manager Funds has been provided to institutional investors with pension funds and so on.

Thus, Frank Russell Japan Company, Ltd. was established in 1987, starting management consultations for the first time in Japan. And Frank Russell Investments, Ltd. was established in 1999, and has provided the Multi-Manager Funds to individual and institutional investors. Later, in 2002, these two companies were integrated and we are now called Frank Russell Company, Ltd.

## **The Business Model of Russell**

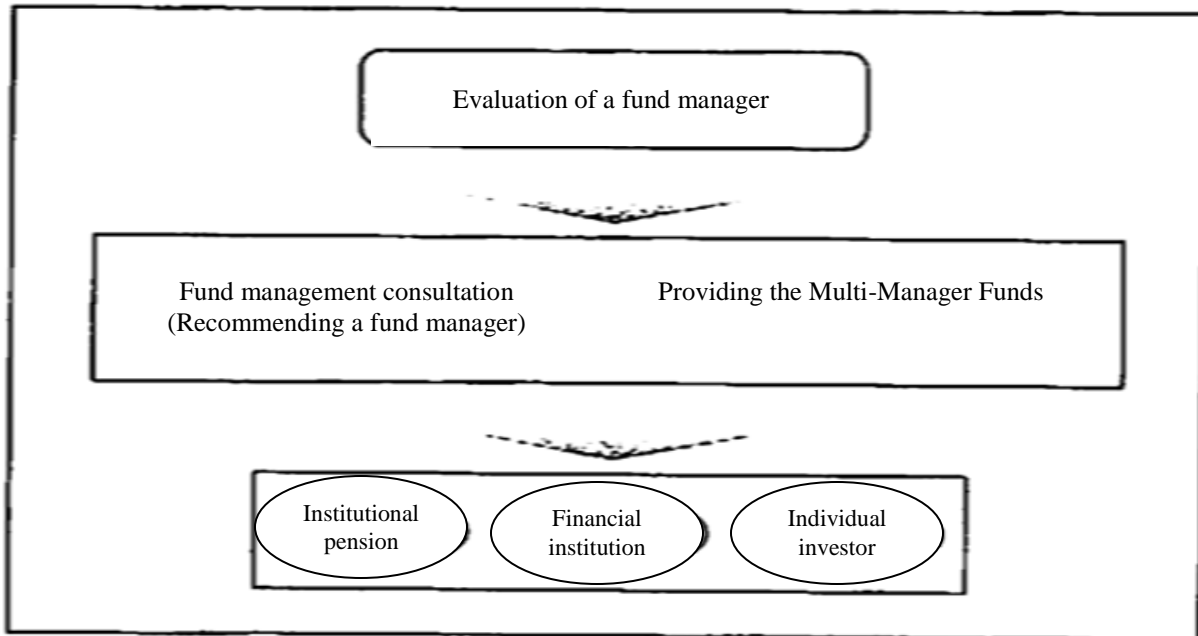
**Editor:** Russell provides fund management operation service to a wide range of investors, from general individual investors to institutional investors with major institutional pension funds. Would you please simply explain about the business model of Russell?

**Tsuno:** Our business operates globally in the same way. Our consulting business is to seek good managing companies around the world and recommend better managing companies and better fund managers. And our Multi-Manager Funds business is to select suitable managers to grow a fund. These two businesses are totally same around the world. We prepared a platform and infrastructure to develop our business big, based on these two. It will be an important point in the future for Russell if we could provide our consultation and funds to clients in more convenient ways, following movements of clients and markets. We want to strengthen a hybrid product combining consultation and funds more in the future.

I think that the Japanese pension market would grow very big as elderly people increase in Japan. I also think that, like discussions on the Japanese public pension plan, an individual would have to be responsible for own pension and fund management, and be an own chief financial officer (CFO).

While it is very hard even for professional people from institutional pension and financial institutions to distinguish a really good fund manager, Russell will be able to supply that function. Thus, we want to positively provide Multi-Manager Funds or its combined service with fund management consultations to individuals, investors with institutional pensions and financial institutions, and if necessarily, even to investors with public funds.

Pic. 3 -The Business Model of Russell



### **An Associate whom Russell Seeks --- A Person with Sincerity and Honesty**

**Editor:** We have talked about the business of Russell so far. Now, I would like to ask you about Russell's corporate culture and philosophy regarding the human resources of Russell. First, what did you consider to build an in-house organization at Russell during the start of new business in Japan?

**Tsuno:** When I joined Russell, there were only three members: Peter Dietz who was the then president of the Japanese corporation of Russell, me and another associate who is still with us. Later, we have slowly increased the number of our staff.

In those days, different from now, we provided our service to financial institutions, and the management consultation industry did not exist. We hired our staffs, checking whether he or she



mind a small company, like us, or not, rather than his or her professional knowledge. Looking back, I think that our staff have different characters, depending on the periods when they were hired: during the start of Russell in Japan, during its gradual expansion, and during the start of the Multi-Manager Funds business. Recently, we hire people with professional specialties and some experience in each field of the trust industry, the securities industry or the life insurance industry.

What has been consistent at Russell is that we have hired people who could think working with us meant a lot in the Japanese society, including OBs and OGs of Russell. Everyone at Russell does daily business with the belief that working at Russell positively impacts the Japanese society. It has not been changed. Because a life is short, we hire people who want to do something meaningful at work. Our associates join the company, planning to spend their precious time of their lives at Russell, so that we, as a company, want to provide a place that is worth their decision. This principle of Russell is same all around the globe, not only in Tokyo. And this is better for our staff to develop more ability at work, as well as for the company to grow along with them.

I think that a company is basically a portfolio of its staff. While everyone at Russell has different ability, I hope that our staff do their best, and show their best ability at work. It is consistent, when Russell hires people, our associates, we hire those who desire to show their own power and grow along with Russell. Our company wants to hire associates who have real integrity that is also expressed as sincerity or honesty.

## **Russell's Corporate Culture, Taking Good Care of its Staffs, Creates Value of Clients**

**Editor:** Russell requires its associates to have integrity. This is based on good relationship between the company and its associates, isn't this?

**Tsuno:** Yes, this is. Russell's motto is "Focus on our people." This motto is based on the idea that, if an associate is not satisfied, he or she cannot make a client satisfied. Thus, we should focus on our staff, before our clients. I think that a company must reward its associates with proper pay and treatment. This is based on the following idea: "The thing which continues to exist at a company in the end is its culture." Have you heard a theory, saying "A company lasts only for 30 years"? For example, it is possible for a person to work at a company for 30 years. However, when a company lasts for 100, 200 or 300 years, its staff and services have changed. Then, its corporate culture means very important for a company to last. And associates, of whom a company is made up, create its corporate culture. Therefore, it is important to focus on our people, our associates creating Russell's culture. This is also why we regard each person's sincerity and honesty as the most important. In fact, Northwestern Mutual Life had better corporate culture than Russell. That was the biggest reason why we asked to be purchased by the company.

Since we spend a part of our short lives at a company, it is very important that a personal purpose is in harmony with a corporate purpose. We want to hire those whose purpose fits with Russell's, besides being sincere and honest.

According to various business books written by business managers, there are three types of employees. First, some employees can motivate themselves. Second, other employees can do better when encouraged by others. Third, the rest of them cannot be motivated by any means. At Russell, at least all associates are the first or second type. Each one of them has worked at Russell, with their own purpose.

Russell seeks to hire people who are very sincere, who are honest, who can think from a long-term point of view and who want to polish their specialty. However, human resources are unevenly distributed in Japan. Excellent people concentrate at major companies, and it is hard to hire them. As a result, more of our associates at Russell in Japan are female. Simply compared, when a position was applied by people, regardless of gender, so far women were more excellent than men. It

is related to a fact that excellent men have already been reserved for future employment by major companies.

Fortune magazine in the United States has named Russell as the eleventh place of “100 Best Companies to Work For.” Russell has the reputation of being a good company caring about its associates.

We, also, introduced various policies regarding human resources. Partly because we have our parent company in the United States, Russell allows associates to use flexible time system or work at home. In Japan, our associates can temporarily work at home, when their family members need care at home or they themselves are sick. Compared with other companies in Japan, Russell has already introduced very advanced policies for associates. In the future, we would like to take more new systems such as these, responding future change of working environment and human resource market.

## **In the Future, Young People Choose a Company with a Substantial Institutional Pension Plan**

**Editor:** Russell has come along with the history of pension management in Japan. I would like to ask you about what measurement should be taken against issues with the Japanese pension plan, which recently have gathered a lot of attention.

**Tsuno:** The more a society has elderly people, the more important pensions mean. Especially as an individual, although we have largely depended on public pensions so far, we soon gradually have to depend on institutional pensions or personal savings (private pensions). People will shift their dependency from public pensions to institutional pensions and even to private pensions. Roles of institutional pensions, especially, will be considered more important than they are now.

Right now, revision of the public pension plan is discussed at various places. Each political party proposes many ideas on its manifesto. The current system is designed on the assumption that the Japanese population would change in a shape of a pyramid. However, we now have an inverted pyramid shape of the population, with more elderly people and less young ones. Practical measures must be taken for the current population in Japan.

We, as individuals, have only limited options to choose in Japan. I think that, as the size of public pensions has become less, the importance of institutional pensions grows more. In Japan, the population decreases and the labor decreases. For a company, in order to maintain the same business as the present, it must either get much more efficient with less labor, or secure excellent employees. It will be very important to secure good employees. And, in this age, what kind of an institutional pension plan a company has would be a big reason for young people to apply for a job there.

Recently, a company's balance sheet mentions its liability of its pension plan. Companies have discussed about how to reduce the debt on pension. In a short-term, business owners want to decrease pension plans, like a defined benefit pension plan, in which a company is responsible to pay a gap, if a pension fund is not enough. Instead, for them a defined contribution pension plan may seem to be more attractive, because a company is responsible only to pay annual installments. However, in a long-term, compared with a company only with a defined contribution pension plan, people value a company with both a defined contribution pension plan and a defined benefit pension plan more. The latter company can offer a defined benefit plan, guaranteeing good retirement to employees who have worked hard. Although corporate managers now focus on how to control debts on their institutional pensions, it would be important for them to have a good institutional pension plan, and to secure good employees. Therefore, while the public pensions are reduced, it will be, in the future, important for a company to have a good institutional pension plan that makes an employee feel like, "If I join this company, I can design my future in some degree."

Russell contributes 15% of its annual income toward pensions and retirement money. Although this is not guaranteed, we are going to pay 15% of our annual income as the contribution toward pensions and retirement money as long as Russell is beneficial. “Focus on our people” should not be just said. This is a visible practice of our motto.

## **Russell’s Support System to Design a Private Pension**

**Editor:** When issues on pension are discussed, it is often said that self-help by each individual is important. What kind of support in the future, do you think, Russell can provide in the private field of pension?

**Tsuno:** I discussed, before, that institutional pensions would become very important. In addition to that, an individual should make sure to prepare his or her own private pension, as well, since we can not be fine only with an institutional pension. Because everyone thinks so, variable pensions are in a boom. However, it is hard for an individual to know what to invest for the preparation of his or her pension. Education of investment takes time. Therefore, it is very vital that a person gets familiar with investment since his or her early age in Japan.

On the other hand, even after you obtain more knowledge of general investment theories or investment in general, it is still difficult to know which fund manager’s managing product should be invested. I think that a company must prepare helping an individual client understand up to the point where he or she can think, “Probably this managing product would be O.K.” I believe that the Multi-Manager Funds by Russell will be very suitable for management of a private pension.

Russell is the largest company among providers of multi-manager funds. In fact, I believe that such a product will grow especially in Japan. So far the Japanese financial industry had been protected by regulations in various ways. It is only around 1997 or 98 when real competitions have started in the world of fund managers in Japan. There are many fund managers with long experience overseas.

Through products and services of Russell, we offer Japanese investors opportunities to use those excellent managing companies overseas.

## **Pension Management Governance, Supporting the Pension Capitalism**

**Editor:** What do you think is important for pension management in the future?

**Tsuno:** While individuals do things by themselves as CFOs, CFOs at companies must of course manage their institutional pensions soundly, too. And, the Japanese government also should be responsible for managing the public pension. The pension management governance will be very important. Japan did lack a vision of how to manage a pension, and that is a big problem. We at Russell have insisted the importance of pension management governance overseas for a long time, in addition to practical measures promoting it. Now you are aware of its importance so that Russell can help you in many ways.

From now on, as the aging would advance more in Japan, funds will be collected in the pension field. Mature capitalism is, in a sense, destined to be the pension capitalism, as well. The existence of these pension funds will be very important for the corporate governance and corporate management. If a company did not manage its own pension operation well and could not provide enough pensions to its employees, investors would severely criticize the company. The pension debt of a company would mean much more than itself. When corporate managers clearly realize that a pension is a vital fund supporting the capitalism, the capital market in Japan would grow soundly.

When China and other countries, in addition to Japan and its market, would grow more and more, Japanese pension funds will be invested in a new market around the world and bear benefits there, so that we can supply enough pensions to Japanese pensioners in the end. This scheme will be very important in the future.

## **Social Contributions of Russell ---Russell 20-20 Association**

**Editor:** In order to promote pension funds invested in such a market, Russell has some activities, besides its own business. Could you explain them?

**Tsuno:** In fact, Russell has been aware of this promotion of pension investment for a long time. Russell assumed that, when the Berlin Wall fell, Eastern European countries and the surrounding area, including the former Soviet Union, would be capitalized. Then, of course, various helps by the public sector would be indispensable, however the private sector, especially pension funds, also should be invested in newly capitalized countries at last. We at Russell thought that this kind of scheme was needed. Therefore, we founded the Russell 20-20 Association in 1990. As Russell 20-20, 20 major pension funds and corporations, and 20 major asset managing companies around the world have come together and have examined investment climate in emerging newly capitalized countries. Every year Russell 20-20 picked several countries and inspected there, starting in 1990.

We meet the Prime Minister, the President, or the Minister of Finance of each country, and discuss and propose, from an investor's point of view, what improvements should be made in order to invest in the country. Although this activity is not known very well, it has been given high praises. Russell 20-20 is a group of about 40 companies, and the total investment capital is US \$ 8 trillion. Of course, all of their capital would not be invested. However, it is very big investment capital for a newly emerging market. Since '90, Russell has been served as the Association's coordinator and secretariat. It is not directly connected to the business of Russell. In spite of that, Russell keeps trying to create a new global flow of pension funds, as a part of social contributions.

**[From Editors]**

Russell Investment Group is a fund management consulting company that is well-known in the pension industry in Japan. This time, we visited President Tsuno at the head office at an excellent location at Akasaka, close to the Crown Prince's Palace. We talked about the Russell's history from its foundation to today, besides the corporate philosophy that is consistent, not changed through the history.

We are surprised knowing that Peter Dietz was the first chairman of Frank Russell Japan Company, Ltd., Japanese corporate of Russell Investment Group. Dietz received Ph. D at a business school in the United States, and thought up the Dietz Method that is a performance measurement for a managing result of an investment fund manager. He is a practical business man with a scholarly mind. President Tsuno, Russell's forth president in Japan, also received a MBA degree from the University of Washington (Seattle) in the United States. The pension funds management industry is a very competitive world where sophisticated fund managers manage funds. Since a consultant evaluates their managing results, distinguishes good managing companies from bad ones, and provide valuable information to pension sponsors, we felt that people at Russell headquarters in the United States had required a consultant to be a man of more learning than a fund manager.

Besides, through this interview, we could know that Russell Investment Group has required associates around the world with something more than just high level of knowledge. The Group has as its motto, "Russell's corporate culture, taking good care of its staffs, creates value of clients in the end." And they have hired people who have integrity, expressed in English, that is also being sincere and honest. The explanation by President Tsuno on these subjects was deeply impressive. As we think now, since Russell's business is to intermediate between an evaluated fund manager and an investor sponsoring funds who is a potential buyer of the evaluation information, such a hiring policy is probably reasonable. They have daily practiced this reasonable policy, so that Russell has gained the present high status in the world.



Together with the first president Dietz, President Tsuno had enlightened Japan on the institutional pension. However, the institutional pension is now against an unfavorable wind, affected by the lost decade, a recession period in '90s, of the Japanese economy. We expect Russell's evaluation business and ability to provide funds all around the world more than ever. We want President Tsuno to keep active for the sake of the secure retirement of Japanese workers in the future.