We couldn’t have done it without you.
1994, VOLGOGRAD, RUSSIA:
THE SYMBOLIC STATUE OF THE
MOTHERLAND STANDING GUARD
OVER HER COUNTRY.
MOMENTS OF INSIGHT:

THE FOUNDING OF RUSSELL 20-20

By George F. Russell, Jr.
Chairman Emeritus
Russell 20-20

My story in business has much to do with intuition. Most of the growth points in Frank Russell Company happened quickly, based on moments of insight. The founding of Russell 20-20 was one of those occasions.

In 1990 I joined the Aspen Group, which has 15 members who meet annually to discuss tough global issues. The first meeting I attended was in May of that year in Sun Valley. John Mroz was the guest speaker. He founded the EastWest Institute and, at the time, had been running that organization for nine years.

THE INSPIRATION OF JOHN EDWIN MROZ

John is a peacemaker. I think he deserves the Nobel Prize. What he has accomplished is mind-boggling. Most recently, he met with Viktor Yushchenko, the newly-elected president of Ukraine, on important issues including his first trip abroad after being sworn in. John suggested that Yushchenko visit Moscow first, instead of Berlin, which he did. This decision was seen as important both strategically and symbolically as it demonstrated the importance of Ukraine’s ties to Russia. John has worked to bridge divides between the Palestinians and Israelis. And after 9/11 he organized a group of former U.S. Senators that met with President Putin and Sergey Ivanov, his defense minister, as well as with President Bush. This effort has been credited with influencing Putin’s supportive attitude toward the U.S. since that time.

John’s talk to the Aspen Group focused on the chaotic situation behind the Iron Curtain. These were things the CIA didn’t know about. John Kenneth Galbraith at Harvard had just published a book saying the Soviet economy was stronger than ours; Galbraith, too, was misinformed.
It took me 41 phone calls to get our full membership. Everybody decided to jump right in. We had 20 members on the asset management side and 20 members on the corporate pension side.

I was so excited and impressed with what I had heard, that I woke up at 2 a.m. with the entire idea for Russell 20-20 fully developed—literally everything, including the name. It took me 41 phone calls to get our full membership. Everybody decided to jump right in. We had 20 members on the asset management side and 20 members on the corporate pension side; they represented two points of view. The managers were concerned with how and when to invest; the corporate members might have an interest in doing business in these countries.

VISITING THE NEW FRONTIER: RUSSIA, EASTERN EUROPE, CHINA AND INDIA

The concept was pretty simple. The problem facing many investors is that very few of them ever go to a site to “kick the tires.” My idea was to take a trip once a year to do on-site research.

The original focus was the former command economies—Russia, China, Eastern Europe and India, which was closely connected with Russia at that time. We wanted to take trips to learn firsthand about the investment opportunities in those countries. We wanted to meet their leaders and see their factories. It was an attempt to educate ourselves, to advance the learning process.

It took a while to get things rolling, but in 1992 we took our first trip to Czechoslovakia and Poland. In the next essay you’ll find interesting comments from Stephen Braswell and Vera Trojan, Russell 20-20 members who attended the inaugural trip.

Then we turned our attention to China and Russia. These countries were always a major focus for us as we felt they merited the most attention from investors. We went back to them repeatedly.
NEL OF THE ROAD?

In 1998 our trip ended in Kazakhstan. In our final meeting I suggested to the group that we disband. I pointed out that they had invested billions of dollars since we started. Our job had been to educate them. That had been accomplished. This discussion was continued later at the annual meeting and only one member said we should disband. I said I’d keep doing it under two conditions: That we figure out a way of giving something back to these countries, and that we broaden the scope to include other emerging markets. The latter cleared the way for us to go to countries like Chile, Argentina and Brazil.

In January 1999 I came up with a way to give something back. I was getting a blood test in Tucson. Looking at the 20 or 30 lines of data in my test results gave me the idea to build a similar “blood test” for emerging markets. Over the next several months, we developed the Russell EMPulse (the Emerging Markets Pulse—although I still like to call it “the blood test”). We identified categories such as political stability, level of corruption and rule of law. We tried to include all of the factors that investors consider when making their decisions about where to invest.

In order to keep it simple, we distilled the list to 12 line items we felt were the most crucial. That way, we could present a summary of the analysis on one page, with color-coded bars going across. The low numbers are the bad scores, represented in red. Yellow scores are middle of the road and green is good. The inputs come from the money managers who operate in each particular country. The EMPulse analysts intensively interview the managers by phone asking them to rank each item on a scale of one to ten. For each country, we talk with up to 50 managers and calculate an average score.
“BLOOD TEST” RESULTS—STRONG AND HEALTHY

Already EMPulse has had an amazing impact. Here’s why.

Although Russell 20-20 represented trillions of dollars in investable capital and had incredible access to heads of state, quite frankly we found ourselves listening to sales pitches in many cases. Our visits were a good opportunity for officials to make their case, but there was no outside perspective to direct our discussions in any meaningful way.

After EMPulse, countries recognized that they needed to talk about how they were perceived by investors on specific development measures. We found that they were eager to discuss and explain each point in EMPulse. As a result, EMPulse greatly enhanced the content of our dialogue and opened up the possibility for mutual learning.

This was evident right off the bat on our trip to South America. In Brazil, they took us to an auditorium that had steeply banked stadium seating. Sitting on the stage in front of us were the minister of finance, the governor of the central bank and the secretary of planning and evaluation. They picked up the EMPulse report and said, “You understand our situation. Let’s talk about our problems.” For the next
two-and-a-half hours, we debated those 12 line items. It was an open and frank discussion, and it demonstrated what a valuable educational tool the EMPulse report was.

When you think about it, the report reflects the opinion of actual investors who will be committing money in that market. Facts are important, but by the time they’re reported in the media, they’re old news. Investors’ forward-looking opinions are the biggest influence on investment decisions, and that’s what the EMPulse reports capture.

A LIFE OF ITS OWN

The reins of Russell 20-20 are now in the capable hands of Mike Phillips. I am gratified to see that the organization truly has a life of its own. I’m referring to the network of business relationships and personal friendships that exists within the group. I recall one time on the way back from China, when our plane was delayed and there was a long wait in the airport. I remember watching groups of people forming, talking, then drifting on to other groups. Watching this brought home to me the fact—and it is quite amazing—that competitive organizations can get along and learn from each other.

If we gave Russell 20-20 the “blood test” today, I’m sure you’d see a lot of green 10s.
A SEAT AT THE TABLE:

RUSSELL 20-20’S 15-YEAR DIALOGUE WITH DEVELOPING MARKETS

All of us live within history; very few have the opportunity to shape it. Russell 20-20, as originally conceived by George Russell, was an attempt to secure a seat at the table—to actively participate in monumental economic changes taking place across the globe, and to benefit investors and markets on every side of the exchange.

No trip can be all things to everyone, but Russell 20-20 attempts to provide a comprehensive picture in the span of just a week or two. The Russell 20-20 trips typically encompass foreign capitals and smaller centers of industry, heads of state and major industry players, factories, finance ministers, regulators, global and local companies doing business in these countries, the U.S. diplomatic community—it’s a long list, and a long day.

But as institutional investors know, there’s no substitute for viewing the reality of developing markets firsthand. The chance to hear directly from senior-level government leaders—to sit down at the table with them, look them in the eye and hear their aspirations and intentions—is what drew members to Russell 20-20 back in 1990, and continues to make membership highly valued today.

1993

Emerging markets become popular investments sparked by 100 percent annual return from leading funds.

May 1993

Russell 20-20’s first trip to China.
In the early years of Russell 20-20, the Cold War and Tiananmen Square continued to throw a long shadow. Ensuring security for the group was a consideration not to be taken lightly.

Russell 20-20 takes its cue from George Russell: It is entrepreneurial and intuitively one step ahead, forthright and hardworking. But every member has his or her own unique perspective on the organization. To capture Russell 20-20’s first 15 years, we listened to their stories.

Several themes have come through loud and clear. Members have appreciated the opportunity to meet movers and shakers such as government leaders, high-level staff and regulators; kick the tires on site visits to businesses, infrastructure projects and other investment opportunities; and compare notes, debate and relax with peers in a collegial setting. We’d like to share some of these experiences with you in the following pages.

GOOD WILL AND INVESTOR INTEREST

In the early years of Russell 20-20, the Cold War and Tiananmen Square continued to throw a long shadow. Ensuring security for the group was a consideration not to be taken lightly. There were also the open questions: How do we “sell” a relatively unknown Russell 20-20 to these countries? And how should these trips be structured? George Russell had brought in Joan Sobba and Joe Ulatoski to co-direct the group. Joan managed the organizational side; Joe was the scout, program director and logistics person out in the field.

Joe Ulatoski started his co-director job in early 1992; the first trip, to Czechoslovakia and Poland, was slated for May of that year. As the planning proceeded, there were still many question marks. Preparing for that first trip, he worked closely with John Mroz and the Prague office of EastWest Institute, along with contacts in Warsaw.

Members who participated in that first trip remember the circumstances vividly. “The Russian troops were actually physically leaving Prague as we arrived there,” describes Russell 20-20 member emeritus Stephen Braswell. Steve is currently president of Braswell Enterprises, Inc. At the time of that first visit, he represented Prudential Investment Management. “On the site visits in Prague, we were basically going in and looking at many of the state-
run industries. They were in a shambles. They had lost virtually all of their market, and were almost deserted.”

Another dramatic revelation for participants was the lack of exposure to the language and practice of capitalism. Business plans, knowledge of competitive pressures and consumer demands for products were nowhere in sight. Gaps in understanding were demonstrated by many of the businesses visited. In Poland, the delegation broke into smaller groups to visit various sites in and around Warsaw. Russell 20-20 executive committee member Vera Trojan, who heads emerging markets investments for Wellington Management Company, LLP, was also on that first trip.

Vera’s group visited a factory that made coats to order for German designers. The owner of this operation showed them around personally. The work floor was clean and well organized, and he had a health clinic set up for his workers. For Vera, this was a man who was proud of how well his business was running, and who took a paternal interest in his workers. He invited the group to lunch—bringing them upstairs to his personal offices, where the table was set with decorations of Polish and American flags. “We were all feeling very positive,” Vera recounts, “and as we sat down at the lunch, he said, ‘Welcome to everybody, and could you please tell me why you’re all here?’”

For Vera, this incident typified Russell 20-20’s encounters in the early years: “There was a tremendous amount of good will toward the group; people welcomed change and investor interest. But,” she points out, “there was so little experience on their side of the table.”

ACCESS MATTERS

The countries Russell 20-20 visited early on soon learned about investments and investors. They quickly caught on to why opening their calendars to a group that represented trillions of dollars in investment capital could make sense for their economic futures. And Joe Ulatoski, as he made his reconnaissance visits, saw countries’ ever-increasing appreciation of the group as worth the attention of the highest levels of government.
There’s probably no more telling example of Russell 20-20’s evolution into its established stature than the group’s visit to South Africa in 2003. Brian Davis, who took over the director role in 2000, was building the itinerary for that trip. The gatekeeper for the South African government urged Brian to schedule four hours with South African President Thabo Mbeki. “He offered the group an entire half-day with the President,” Brian recalls. “I replied to him, ‘I can’t imagine he’s not busy—how about one hour?’ We settled on two—and the session went very well.”

Over the years, Russell 20-20 has met with scores of heads of state and cabinet ministers. From President Mbeki to former Prime Minister Mahathir bin Mohamad of Malaysia, to former Russian Prime Ministers Mikhail Kasyanov and Sergei Kiriyenko, to now-retired Chinese Premier Zhu Rongji, the architect of the China opening campaign, each meeting provided useful macro information.

For long-time member Ralph Layman, “To get prime minister- and president-level individuals and cabinet members, all in one trip, is very impressive. I’ve had several examples of where these meetings have influenced our investment portfolios. We’ve had excellent, straightforward, investable meetings in Kazakhstan, Malaysia, Brazil, as well as Russia, with leading ministers and heads of government over the years, which I felt were extremely valuable in shaping my investment opinion.”

Ralph, who is executive vice president, international equities at GE Asset Management, describes one of the many Russell 20-20 experiences that stand out for him. On the visit to Malaysia in 2000, the delegation met with Mahathir bin Mohamad, Malaysia’s highly controversial prime minister. During the Q&A session that Mahathir held for the group, he evaded, but finally answered, a question Ralph posed. “Essentially, he responded that he didn’t care about capital markets—he only was interested in foreign direct investment into Malaysia. This was exactly what I thought, but for him to be that blunt and say it directly … at the time, it was impactful,” Ralph says.

Vera Trojan recalls another edifying exchange. The group visited Russia for the second time in May 1998, just when the entire political and financial system was unraveling. Prime Minister Sergei Kiriyenko had just been appointed by President Yeltsin; he would ultimately hold this role for less than six months.

Russell 20-20’s meeting with Kiriyenko was an eye-opener. “Just seeing him and watching him struggle was very helpful in understanding what was at stake—and what means the government had to deal with the unfolding financial crisis,” says Vera.
“Visiting a country at such a critical turning point, and being able to talk to peers who are trying to figure this out as well, and seeing the leadership struggle with the same thing—this was very useful for us.”

But as any Russell 20-20 member will affirm, hearing from heads-of-state and cabinet ministers can never provide the whole picture. Balanced access also includes hearing from people who are doing business on the ground in these countries. W. Allen Reed, who is president and CEO of General Motors Asset Management, describes a case in point. Russell 20-20 participants were attending a dinner on the 2003 South Africa trip. During the course of the dinner, a government speaker painted a fairly rosy picture of the country’s struggles in its transition from apartheid.

“The CEO of a local South African-based business was sitting next to me at dinner, and he shared with me the somewhat different perspective that he had,” recalls Allen. “This was very valuable to me. When you can get down to the level of a one-on-one with someone who’s talking to you in a non-public situation, you often get a different story. If you ask the right questions, you can get more out of these trips than the ‘official’ message. At times, that has been the most valuable piece of information that I’ve received.”
PART OF THE JOB
DESCRIPTION: REPEAT VISITS

“The beauty of the emerging markets,” says Ralph Layman, “is that things change so rapidly. If you don’t visit these countries in a 12-month period, with 9 percent growth rates in places like China, or 6 1/2 to 7 percent in India, you’re going to a different country a few years later. It really isn’t what you remember… and it’s fun to compare notes and see the reaction of members who don’t travel to these markets as frequently.”

Repeat trips to China and Russia in particular have provided powerful examples of the enormous forces of change at work in these economies. Scott Malpass, in his 17-year role as CIO at Notre Dame University, has made repeat trips to many developing markets with his investment team over the years. Notre Dame is a new member, and the 2004 trip to China was Scott’s first with Russell 20-20.

Scott had been to China twice with his investment team in the 18 months previous to the Russell 20-20 visit. “I had been spending a fair amount of time there already, and felt reasonably current on many of the issues at stake. But this was a chance to reaffirm some of my impressions as well as to learn new things. I thought we had access to some of the most important people in the country: senior party officials, people overseeing the capital markets, regulators in some of the key sectors in China, including telecom, utilities and financial services. We met with senior people involved in setting policies for these areas of the economy. The trip was very worthwhile.”

For Moscow-based Alfa Capital Management Chairman Bernard Sucher, his first encounter with Russell 20-20 paints a powerful picture of a Russia—and a Russian economy—where change was in the air, and the immediate future at least was full of promise. The group had returned to Russia in May 2002. It had been four years since the last 20-20 trip; Bernie Sucher and Alfa had yet to join the organization.

The setting was an elaborate dinner, held at an estate on the outskirts of Moscow, which was hosted by Russell 20-20 member SUN Group. It was attended by Prime Minister Kasyanov. “I was quite certain at that time that visit marked a completely new level of Western investor engagement with Russia. It was one of these spectacular Russian spring nights after a long winter.” Bernie weaves a compelling metaphor that embraced both the thaw in political relations and the previous chill in the investment climate: “You could just tell that the Russian story was actually starting to make sense in terms that global institutional investors could understand. And that we were going to be in for a much sunnier period. You could feel the walls coming down.

“That evening for me encapsulates the power of 20-20—the Russians value talking to the
The beauty of the emerging markets is that things change so rapidly. If you don’t visit these countries in a 12-month period...you’re going to a different country a few years later.

top people. They appreciate scale, and they appreciate doing it right. And this was a night when Russian business and Russian politics lined up with foreign investors.”

BUSINESS VALUE: A BETTER SENSE OF THE FUTURE

For GE’s Ralph Layman, Russell 20-20’s bottom-up aspects have provided breakthrough insights right alongside the macro. He cites the 1997 trip to Chongqing as a potent example. In Chongqing and the surrounding areas, the group made site visits to local companies that were the product of joint ventures with multi-national companies. “Briggs & Stratton was one that really stuck out as an interesting JV,” says Ralph. “It had struggled at the beginning, and the Chinese management that took it over localized it. Yet we could see that they had the same fundamental values that a Briggs & Stratton plant in the U.S. would have, values like management incentives, safety, quality and profitability.

“The slogans that were all over the campus for this fractional horsepower engine factory were very similar to what you might have seen at GE back in the U.S. In the center of China, here were many of the same values that we were looking for in our company. The locals were running it. And it was profitable—in fact, they were doing extremely well. That, to me, was an indication that the tide was turning. The old song about China—that you can go there and set up shop but you’ll never make money—was beginning to be debunked from a bottom-up basis.”

In the context of the most recent trip to China in 2004 Vera Trojan had this to say: “A critical question for a group like ours is the state of China’s capital markets. At Wellington, we’re portfolio investors, and we struggle with the notion of how do we
invest in this country—is it a viable financial market for large institutional investors from around the world? How should you structure your investments? What are the instruments? Hearing the different sides of the debate and understanding all the issues at play in the context of this explosive economic growth—it was very useful to talk to others on the trip who are struggling with the same issues.”

Over the past 15 years and more, institutional investors have been faced with many critical asset allocation decisions related to developing markets. For GM’s Allen Reed, “Russell 20-20 has allowed us the courage of our convictions to make an expansive commitment to emerging markets equities.” GM has been investing in these markets since about 1992, which was a relatively early move for a pension fund. Since Allen stepped in to head GM’s pension fund investments in 1994, he’s increased that allocation: “20-20 was instrumental in allowing me to be more comfortable with investments in the markets. We continue to grow our exposure to emerging markets as a percentage of the fund, as we’ve expanded our investment programs in various ways to improve our risk/return profile.” GM’s allocation to emerging markets is approximately 3 percent on the equity side; on the debt side allocation ranges between 2 to 3 percent. “This 5 to 6 percent total investment in these countries is probably one of the larger commitments of any corporate pension fund,” Allen says.

THE RELATIONSHIPS

Every member interviewed for this commemorative emphasized that participation in Russell 20-20 isn’t just about the itinerary or access to important leaders. It’s also the relationships. It’s the access to the perspectives of senior-level peers, and the synergies of people of different backgrounds who focus on different asset categories and different investment objectives. By any measure, Russell 20-20 provides a great mix.

These relationships often go beyond the professional to the personal. Says Vera Trojan, “I always look forward to these meetings, to see old friends and catch up. It’s a great membership.”

August 1998

Russia defaults on IMF loans.

January 1999

Alternative investments increase to US$152 billion, up from an estimated US$25 billion in 1990.*

For many participants, the value of having the opportunity to work with and to see emerging markets through the eyes of some of the world’s largest—and many of the most experienced—investment players can’t be overemphasized. In Scott Malpass’ words, “it’s not just the country you’re visiting, but the group. It’s such an experienced, sophisticated group of emerging markets investors—this is every bit as valuable.”

For Steve Braswell, the business benefit of talking shop, exchanging ideas with members, and asking, “how did you handle it”—along with the personal relationships that have developed between members—has been “phenomenal. We became a kind of informal network. People have felt very comfortable talking to their peers.”

These relationships often go beyond the professional to the personal. Says Vera Trojan, “I always look forward to these meetings, to see old friends and catch up. It’s a great membership. Over the years, I have come to value relationships with people I can call and I can trust.” Ralph Layman agrees: “The membership really is like family. Many of these people are good friends.”

THE ANNUAL MEETINGS

The Russell 20-20 annual meetings have been a fundamental part of the membership experience, both in advancing knowledge and dialogue, and in keeping the group members in touch with one another. Many an annual meeting has been enlivened by the debates that have taken place between George Russell and the EastWest Institute’s John Mroz on the tug-of-war between China’s and Russia’s economies. John, in fact, has been a highly respected contributor to every annual meeting. Other notable speakers have included Milton Friedman, George Schulz and Condoleezza Rice. Additional presentations during these meetings are frequently intensive previews of the next country or countries slated for a Russell 20-20 tour.

When Mike Phillips took on the chairmanship of Russell 20-20 in 2002, he made it more democratic; the members would vote on all key decisions for the group. Since then,
Plenary meetings have set the direction for future trips. Bernie Sucher’s first experience as an official Russell 20-20 member was at the 2003 annual meeting, held in May at Stanford University’s Hoover Institute. “This was one of the more poignant moments for me and it happened right up front,” he recounts. SARS was then in full flush in Asia, and the Russell 20-20 trip that had been scheduled for China that fall was cancelled by consensus. Where should the group go instead? The question was thrown open to the membership.

Gloria Tomatoes Serobe, chairman of South Africa-based Metropolitan Holdings Ltd., made an impassioned plea for the group to visit South Africa. She told her fellow members that her country needed foreign investment, that she wanted them to see the true face of South Africa, that good things were taking place there. And that she and her firm would do everything in their power to make it a trip worth taking. It was quite an emotional session. Brazil also had some strong advocates—a senator from the Brazilian congress had addressed the group earlier that day. South Africa “won” by one vote.

Gloria Serobe kept her word. “We received a tremendous reception from South Africa,” affirms Russell 20-20 Director Brian Davis. Doors were opened at the highest levels of government and industry. And the South Africa trip turned out to be memorable for other reasons as well. One high point was a visit to Robben Island in Cape Town, the prison where Nelson Mandela was held for 18 of his 27 years of incarceration. For Bernie Sucher, who had last visited South Africa 25 years before as a young backpacker, what he experienced that week was “almost overwhelming. The South Africa I had seen before was a very beautiful, surprising, but terrible place. Today, you can only cheer for these people. This is a terribly important experiment in human affairs. It’s difficult for outsiders to get a strong grasp of all the nuances. It was a wonderful trip.”

**LIVING HISTORY**

President Reagan’s remarks about the Soviet Union in his “Mr. Gorbachev, Tear Down This Wall” address were prescient about many things that were to happen in the nearly two decades since. Standing in front of the Brandenburg Gate in West Berlin in June 1987, he stated, “In Europe, only one nation and those it
We now know, of course, that this recognition of the need to make fundamental changes to meet the tenor of late-20th century markets had ramifications well beyond the Soviet Union.

controls refuse to join the community of freedom. Yet in this age of redoubled economic growth, of information and innovation, the Soviet Union faces a choice: It must make fundamental changes, or it will become obsolete.”

We now know, of course, that this recognition of the need to make fundamental changes to meet the tenor of late-20th century markets had ramifications well beyond the Soviet Union. Russell 20-20’s 15 years of existence might not seem like a particularly long period of time until you consider what has happened in the world. Since 1989’s Tiananmen Square uprising and the opening of the Berlin Wall, it’s as though we hit fast-forward. The collapse of the Soviet Union, 1991. The Maastricht Treaty, establishing European Union citizenship and the European Monetary Union, 1992. In 1994, Nelson Mandela became the first democratically elected state president of South Africa.

Running in parallel with these enormous strides has been a stark reality. The world is increasingly becoming a more uncertain place. This has also continued to impact the group. In addition to the SARS outbreak in 2003, unrest in Indonesia had prompted the cancellation of Russell 20-20’s visit there during its tour of Southeast Asia in 2000; the bombing of the stock exchange in Jakarta actually took place just before the group’s arrival date. In 2001, a trip to Russia was scheduled to start less than a week after September 11; Brian Davis was already in Russia—and was stranded for four days. That trip was postponed until the following year.

Since the creation of Russell EM Pulse in 1999, Russell 20-20 has had a tool that has materially changed the quality of the dialogue with many of the countries the group has visited. Members cite its impact on Brazil as particularly powerful; the 1999 EM Pulse report on Brazil was used by upper levels of the Brazilian government to “sell” needed reforms more deeply to the Brazilian senate. In 2000, a panel of cabinet-level ministers as well as Prime Minister Mahathir discussed the Malaysia report. During the group’s visit to South Africa in 2003, EM Pulse findings were discussed with President Mbeki, several ministers and a panel of corporate leaders.

Genuine interest in hearing the perspectives of veteran institutional investors has run more or less on a continuum; the Russians in 2002, for example, declined to
discuss EMPulse’s findings. But the potential for significant dialogue has been part of Russell 20-20 from the very beginning. Steve Braswell recalls an incident from Russell 20-20’s first visit to China, in 1993. Deng Pufeng, son of Deng Xiaoping, invited the group to an impromptu reception at a government guesthouse. The purpose? Russell 20-20 members were requested to communicate directly to the U.S. government the potentially disastrous consequences of voting down Most Favored Nation status for China.

Throughout the years and the myriad experiences, Russell 20-20 has continued to evolve. “In many ways, I think these countries now view Russell 20-20 more as an organization that can help them,” affirms Allen Reed. “Early on, we were there to learn from government officials and the local businessmen. Now, they meet with us to learn from us. They’re trying to understand: ‘How do I make my markets more attractive to foreign institutional investors because I need their capital?’ Russell 20-20 has taken on a different role, not as an official advisor, but as an informal spokesperson for, if you will, the Western institutional investor. The countries we visit and the people we meet with are very appreciative of the candid content that Russell 20-20 and its participants can offer.”

Every member has a cache of favorite memories: Ducking for cover during a Volgograd soccer match when live ammunition was used as part of the half-time show in 1994; hearing “Home on the Range” played in the Great Hall of the People in Beijing during (yet another) lavish reception; having the opportunity to debate the relative merits of China’s centrally planned economy over lunch with Milton Friedman; sneaking out from a lecture in Moscow with a few fellow miscreants to see Red Square; and the red-carpet banquet that took place in the middle of the night in Shenzhen in 1993 due to plane delays.

Over the past 15 years, Russell 20-20 participants have demonstrated tenacity, generosity and good humor. This has been a commitment of peers and a genuine engagement. The lengthy meetings and lectures, the rides on the bus, the endless waits on the runway, experiencing and talking about what matters: It has mattered to the organizations they represent, and it has also mattered in a more personal way. History happens quickly. This book is dedicated to Russell 20-20 members, both newer members and veterans, all of whom have been at times worn out by truly Herculean itineraries, who continue to take part in the conversation.

Over the past 15 years, Russell 20-20 participants have demonstrated tenacity, generosity and good humor. This has been a commitment of peers and a genuine engagement.
2002 KRAKOW, POLAND: AN EXAMPLE OF THE DETAILED GILTWORK IN ONE OF KRAKOW’S FAMOUS CATHEDRALS.
2003 CAPE TOWN, SOUTH AFRICA: LIGHTHOUSE AT CAPE POINT.
The 15th Anniversary of Russell 20-20 is an extraordinary opportunity for us to collectively revisit our purpose. George Russell’s original vision was both clear and timely. He saw the walls coming down on the command economies, leaving the free markets standing firm.

Yet the situation was still hazardous because the countries emerging from command economies had little experience with entrepreneurship and competition. They didn’t really understand investments. It was a tremendous opportunity; but there also were tremendous risks. To invest prudently, for the long term, we needed both to learn and to teach. That’s still very much the thesis behind Russell 20-20. It is a learning and teaching institution.

I think that we are also evolving in a number of ways beyond George’s original concept. Yet there hasn’t been a statement of purpose or mission since the founding of Russell 20-20 in 1990. Is our 15th anniversary the right time to begin articulating a new vision for our organization?

I intentionally pose this as a question for the membership, because Russell 20-20 is a democratic organization. In fact, one could make the argument that we have already defined our purpose via specific decisions we have made over the last several years. But that is a rear-view mirror approach, and I think we can benefit
from a statement that defines us going forward. That said, let’s review some of the decisions we’ve made that have impacted the membership and agenda of Russell 20-20 over the last few years.

**MEMBERSHIP**

First of all, the membership of Russell 20-20 is no longer limited to just pension funds and money managers. Our group was strongly in favor of more diverse membership and we now encompass insurance companies, university endowments and other types of organizations.

Also, when George founded 20-20, most of the participants were U.S. institutions. Today we have quite a significant number of non-U.S. domiciled organizations, including members from Canada, China, India, Japan, Russia, South Africa and South Korea, and increasing interest from other parts of the world.

We also discussed the idea of inviting nongovernmental organizations (NGOs), such as the World Bank or the International Monetary Fund (IMF), to join. What emerged was the sense that we didn’t want to politicize Russell 20-20, and yet these groups are perceived as having a clear political agenda. As a result, membership in Russell 20-20 is limited to non-partisan organizations.

**ITINERARY**

We have also discussed our itinerary. As George pointed out, by 1998 our original mission to participate in the transition of command to market economies had largely been accomplished. At that point we adopted a broader focus, which was emerging markets. Russell Investment Group also created the Russell EM Pulse reports, which provide a consensus view of the investment environment in each country we visit.

Beginning in 1999, we began to visit countries—and continents—that we hadn’t visited before—South Africa, South America and Southeast Asia, to name a few. Our focus is on the big four countries: China, India, Russia and Brazil. The size of their populations alone commands our attention. Geopolitically, they cannot be ignored.
Russell 20-20 is an organization that is owned by its participants. Obviously, until now, Russell Investment Group has provided the chairman and has administered it, but we do not own it.

We continue to investigate new areas of interest. For example, some of the new Eastern European countries that are applying for membership in the European Union are now under consideration. And let’s not overlook recent developments in the Middle East. The Baghdad Stock Exchange opened last year. I would bet that some day in the future, Russell 20-20 will go to Iraq. When? I hope it won’t be next year!

LEADERSHIP AND GOVERNANCE

Russell 20-20 is an organization that is owned by its participants. Obviously, until now, Russell Investment Group has provided the chairman and has administered it, but we do not own it. In the future it is possible that Russell 20-20 may not have a Russell employee as the chairman. That’s something we may grapple with as time goes on.

I’ve already referred to our democratic decision-making process. We also work hard to maintain a truly collegial environment, where all members are equal—I love that about Russell 20-20! As you know, in other groups the sell side pays while the buy side travels free. The quid pro quo is the right to market. In Russell 20-20 everybody pays his or her own way, and there is no marketing. People exchange ideas, compare notes, test investment theses and form relationships. These are hard-working trips.

ARE WE AN NGO? YES, BUT...

Looking at the sum of the recent changes in Russell 20-20, I believe that our organization is now best described as an NGO. Of course, the moment you say that, it becomes necessary to define yourself relative to some of the best-known NGOs such as the World Bank or the IMF.

What does Russell 20-20 have in common with those organizations? We are all trying to promote better economic health by introducing efficient market mechanisms of various kinds. There are also some key differences. Although the World Bank has its own private equity affiliate, the main part of the work of both the World Bank and the IMF has to do with debt. By contrast, our vision...
at Russell 20-20 is of a world moving toward equity finance. This distinction has important political implications.

For example, the IMF might go to the government of Argentina or Ecuador and offer to provide debt financing on the condition that the government modifies its monetary and fiscal policy. Provisions could include balancing the budget, controlling expenses to a percentage of GDP, paying down debt, balancing specific external accounts or the overall balance of payments. All of these things can be politically sensitive and therefore the IMF tends to keep early discussions confidential at all times.

By contrast, Russell 20-20 is equity oriented and we believe in open information flow. EMPulse reports are not attempting to impose our view of these countries or markets. Whereas the IMF might say to a government, “If you do this you will get this financing,” the message from Russell 20-20 is: “This is what market participants think about your country. Money managers with trillions of dollars of investable capital perceive your country from the standpoint of liquidity, corporate governance, legal structure and nine other factors.” Sometimes the finance ministers of these countries disagree, which is their prerogative.

Our members aren’t looking to invest in governments or government projects. A country’s fiscal and monetary policies are simply part of the fundamental environment that investors include in their analysis of private sector opportunities. Russell 20-20’s role is to promote dialogue about market conditions, to help establish rules that are open, fair and consistent.

ARE WE SYNONYMOUS WITH EMPULSE? NO, BUT...

As George explains in his introductory essay, Russell EMPulse played an important role in his rededication to Russell 20-20 in 1999. On the trips where we have used EMPulse, it is fascinating to observe the range of responses. There is a most noticeable difference in the quality of dialogue it provokes.

For example, Russian and Polish government officials were far less receptive to EMPulse input than the Chinese. The Chinese were like a great big sponge; they wanted to hear the input, even if some of it was negative. The Russians’ response was along the lines of, “We don’t see that you have the right to tell us these things. If we have an economic discussion, it’s not going to include EMPulse.” Like the Chinese, the South Americans also loved it. When the countries are receptive, we find EMPulse provides actual hard input that can form the basis of a discussion. From that standpoint it’s great. The negative reactions are instructive as well.

Either way, it’s important to recognize that EMPulse is just a research product. The firsthand inspection of business opportunities,
the chance to meet political leaders face to face, and the discussions and debates amongst ourselves are central to Russell 20-20, while EMPulse is a tool.

That said, it is clear that the factors selected by EMPulse for evaluation can be described as the essential characteristics of well-ordered market economies. In this respect, we can say that the EMPulse factors reflect the value system of Russell 20-20.

**RUSSELL 20-20’S MORAL COMPASS**

In its fifteenth year, Russell 20-20 is as popular as it’s ever been, and many organizations have expressed interest in joining. Why is this the case?

In talking with you, I believe it’s accurate to say there is a desire on the part of corporations to be involved in something above the pure search for returns. Corporate social responsibility has never been stronger. I’m referring to a broad range of humanitarian issues like HIV/AIDS, clean water, hunger and poverty. Within our membership, there’s a sense of destiny and of self-determination. We believe our organization can have a major impact on the world—an impact that will be determined by the participants, the individual members. This is an exciting prospect.

How can we have an impact in helping countries in the developing world? It’s not through high-level abstractions or political ideology. Instead, it’s the relatively simple and somewhat parochial concept that the world is better for being a free market environment. At the end of the day, the relief of misery for billions of people is created by wealth.

And creating wealth is not a black box, as it was 30 years ago. Now there’s a broadly accepted formula. As George expressed it a few years ago, “If the 21st century is to be a safer place for humans than has been the 20th century, the gap between the ‘haves’ and the ‘have-nots’ must be narrowed . . . Private capital flows from developed markets into emerging markets are one of the most important ingredients in raising the standard of living...”

**IT’S NOT A MYSTERY, BUT IT’S HARD TO DO**

You, the members of Russell 20-20, are having an impact. You are helping to close the gap between the “haves” and “have-nots” through your support of free markets, the free movement of capital, regulatory constructs that are understandable and good corporate governance.

These are some of the ideas I have regarding Russell 20-20’s mission; I look forward to hearing your views as well. Above all, I want to thank all of you for making this enterprise called Russell 20-20 possible. It is an honor to share this journey with you.