John Hancock Investment Management

Quarterly conversations

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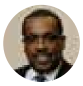

Hassell H. McClellan

Chairperson,
John Hancock Group of Funds
Board of Trustees

We sat down with Hassell McClellan, chair of the Board of Trustees of the John Hancock Funds, to talk about key trends in the asset management industry. Ranging from cybersecurity to sustainability, Hassell describes how the board approaches key risks and provides his thoughts on the lingering effects of COVID-19 on investor behavior.

Q: What are some of the major areas of important development or innovation—whether in terms of products, technology, or client service—that you and the board are watching closely?

Hassell: There's no shortage of issues, but a few we're thinking about a lot these days are cybersecurity, artificial intelligence, passive versus active investing, and sustainability; for example, cybersecurity in the context of financial transactions, investments, and retirement savings is both complex and complicated. As a board, we have to think through cybersecurity risk management and oversight across multiple digital perspectives.

In fact, we think of it across an entire value chain of digital finance. One thing we obviously focus on is the set of policies and safeguards in place at John Hancock. But we also focus on getting assurance of strong policies and safeguards at the subadvisors that manage—and the financial intermediaries that distribute—John Hancock products. It's hard to overemphasize how important this is to our shareholders, whose personal data and savings are at issue, and to John Hancock itself when you consider the reputational risk associated with data breaches.

Q: How does the Board go about tackling this sort of issue?

Hassell: We have standing committees that meet regularly, such as the committees for audit and for contracts and legal, but to handle a systemic risk like cybersecurity, we work in task forces that represent the best combination of board member skill sets to handle the relevant issues.

My job as chair is to create teams of trustees from the various committees whose expertise, experience, and perspective are best suited to address specific challenges. In this way, the role of the chair is a little bit like an orchestra conductor: I have to be versed in every instrument and know when to lean in harder on one section than another. Also, personally, I find it invaluable to be on every task force. While I may not make every single meeting of every group, I work to stay up to date on everything that's happening and to listen carefully to what each task force discovers, concludes, and recommends.

Q: Speaking of systemic risks, how are you thinking now about the impact of COVID-19?

Hassell: My instincts and observations suggest that, as a consequence of the pandemic, the average individual has a much more active perception of risk—of mortality, really. People are almost hardwired to think about risks in compartmentalized, and sometimes statistically irrational, ways. When it comes to air travel, for example, people frequently dwell on the unlikely event of an accident happening, but when they get in a car to go to the store, they generally don't think about the far more likely event of a deadly accident occurring. Now, with COVID, I think the lid has been taken off common ways of perceiving risk, so people are seeing risk in places they haven't before. Going to the store represents an unacceptable risk to many, including the vaccinated. During the deep COVID period in the spring and summer of 2020, I personally felt like it was a risk to go put gas in my car! It actually made me rethink the pros and cons of owning an electric vehicle, which I could simply plug into an outlet in my garage. No mess, no human contact, lower risk!

Q: Do you think COVID-19 has changed how people think about investing?

Hassell: Absolutely. I think people have, as I said, a heightened sense of mortality—or at least contingency. What is the long term? Is it really being sped up in front of me, playing out in the short term? COVID has taught us that nothing is guaranteed.

With this comes a shift in thinking about risk and reward, and there's evidence to suggest this has altered people's judgment and values, with the aggregate result for the markets being a tendency to become more sensitive, and perhaps volatile, more quickly. This creates both challenges and opportunities in investing and the timing and asymmetry of information accessibility more consequential.

Q: At the start of our conversation, you mentioned the trends of passive versus active investing and sustainability. Do you see these issues intersecting with behavioral changes prompted by COVID-19?

Hassell: The rise of passive management is no longer new, and it's easy to find financial news that proclaims the death of active management. But I would say that in major inflection points, such as the onset of the pandemic, we saw quite starkly how actively managed strategies can outperform passive approaches. The same goes for ESG approaches to investing, which in some ways have demonstrated their value to investors in the wake of the pandemic-driven volatility.

Behaviorally, COVID has prompted more people to think about the resilience of their portfolios to systemic risk. Because of this, my perspective is that many investors are more interested in questions of sustainability—of finding balance in a world where systemic risks like the pandemic or West Coast megadroughts or catastrophic flooding have shown a seismic power to upend daily life and the broader economy.

Q: You've spoken before about the idea of compelling value. Is what's compelling today different from what it used to be?

Hassell: Value in investing is about the asymmetry of price and perceived value, or price and future earnings and what investors are willing to pay for the latter. But what really makes something compellingly valuable? The answer, in my view, is that quality or attribute that makes it imperative in demand and less vulnerable to value erosion. If something is less vulnerable to value erosion because it stems from a need versus a want, then I say it has compelling value.

Let's take water and oil as an example. Oil as a commodity hasn't been around that long, and if we suddenly couldn't get any of it out of the ground, there'd be serious economic and geopolitical shock waves, but we'd get over it. But what if we couldn't get enough fresh water? The clock would start ticking a lot faster for all of us. By extension, companies in the oil supply chain have a particular value thought of as an asymmetry of price and earnings potential, but they don't represent compelling value in the way that water and water infrastructure companies might for investors. COVID, as another example, enhanced and highlighted the compelling value proposition of internet connectivity and related virtual-based products and services.

Q: Do you see any silver lining in the pandemic for investors?

Hassell: Well, yes, there are various things that may come of it that we think of as positive over the long term. Focusing on what matters—on what's sustainable and, therefore, what holds compelling value—is part of it. Also, the opportunities in technology-based companies have grown exponentially. We'll continue to see acceleration of innovation in some areas as a result of the pandemic—including medicine, product design, supply chain management, retail relationships with consumers, and communications—that are likely to create significant investment opportunities.

We're only just beginning to get a handle on this, but I do think some positive behavioral and economic effects of COVID will linger. For one thing, it's helped to promote the touchless society: All of the business communication that was mostly held face to face is now handled in large part through virtual meetings. How many contexts can you find yourself in a videoconference call? You could be in your car, walking down the street, on your laptop in the kitchen. For many in the service economy, commuting is fully optional and might seem even a little archaic. The touchless society trend is likely here to stay—and we may well have the pandemic to thank for it.

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