

# Quarterly conversations

Q1 2023



**Hassell H. McClellan**

Chairperson  
John Hancock Group of Funds  
Board of Trustees

“The ‘G’ in ESG is essential, as investors increasingly are aware that governance matters for long-term company strength and resilience.”

## Multiperspectival governance

We sat down with Hassell McClellan to discuss the economy, cycles of legislative and regulatory change, and how sustainable investing may help improve the functioning of capital markets.

**Q: One of the biggest worries on investors’ minds right now is the economy and the possibility of a recession. Does the board have an outlook for the economy? If so, how do you develop it?**

**A:** As a board, we don’t try to come to one conclusion regarding an “outlook” but rather a general consensus about factors that have important implications for the direction of the economy and investment environment. The perspectives we develop, collectively and individually, reflect access to considerable data and information. For example, every quarter we bring in an outside economist to share their views. This could be an economist from Manulife Investment Management or from a nonaffiliated asset manager with whom we have a relationship, such as Wellington Management, State Street Global Advisors, or Bain Capital. We solicit their opinions and analysis, but we challenge them, too, and test their ideas through the lens of other perspectives.

Given the dynamic nature of the economy, making economic predictions is a bit like playing a game of three-dimensional chess, no matter how good the data you may have. But the challenge in developing a sound view of the economy is that it’s not something you can do with just more data. It takes perspective, multiple perspectives, to develop an insightful interpretation of the data that signals a changing economy. And I say insightful because interpretation has to take into account not only the math of economic probabilities but also the psychology of consumers’, investors’, and corporate decision-makers’ behaviors in the face of economic uncertainty. That’s something we’re always trying to stay informed about because they can affect everything from product development plans to oversight of fund manager operations and performance.

**Q: What is your general consensus on the economy in 2023?**

**A:** At the moment, there’s reason for cautious optimism. It’s well recognized that we’ve entered a new regime of higher interest rates and historically elevated inflation, and we see no easy path to return, for example, to the era of easy money—when companies and governments could get low-interest-rate loans for everything from business expansion

to public infrastructure projects. That said, there are signs of consumer and corporate resilience in the face of otherwise challenging conditions. There will be volatility in the markets but also good reasons to expect significant opportunities for investors.

**Q: It's a postelection year, and there's a new set of developing legislative priorities in Washington. These may herald uncertainty in regulations affecting the investment industry. What's your perspective here?**

**A:** Our perspective on these issues comes together in a way that's not unlike how we develop our macroeconomic perspective. Every two years, regulatory and legislative priorities face inflection points as a result of national elections. To try to understand what these mean for our industry, we hold biannual meetings with senior regulators, legislators, and legal experts, who we ask to share their insight on the prospects for material changes in the regulatory and legislative environment. We supplement these views with the legal expertise offered by the chief legal counsel for John Hancock Investment Management, fund counsel and independent trustees' outside counsel; the latter's job is to advise the board on all matters related to our practice of fund governance. This constant triangulation of views is a critical part of the board's decision-making.

**Q: Who are some of the guests you've asked to present to the board on regulatory and legislative matters?**

**A:** It's a varied list. Invited participants have included the outgoing head of the investment management division of the SEC, senior law enforcement officials and congresspersons, and/or senior staff who were able to comment on Congressional priorities affecting the mutual fund industry. The list also includes the head of the Investment Company Institute, editors from Board IQ, and a representative from the Information Technology Industry Council.

In our view, there's no substitute for speaking directly with individuals who help direct, seek to influence, or otherwise have intimate knowledge of the inner workings of the legislative and regulatory process. Our perspective on regulatory matters and their potential impact on shareholders is enriched by these conversations.

**Q: Laws and regulations don't always progress in a linear fashion. What are your thoughts on recent disclosure proposals and political responses to environmental, social, and governance (ESG) investing?**

**A:** ESG investing is a good example where the wide array of choices, lack of uniform definitions, the improving but still largely absent consistency of disclosures by companies and asset managers, and conflicting views on potential trade-offs and/or benefits present particular challenges. The debate regarding taking ESG factors into consideration in investment decisions versus pursuing "purely" financial objectives has attracted divergent views, including from regulators and lawmakers. On one hand, the SEC has proposed harmonizing how companies disclose their greenhouse gas emissions and how asset managers disclose their approach to identifying and managing ESG risks. On the other hand, some have taken a more aggressive stance against anything that could appear to be ESG related. So in this sense, deserved or not, ESG investing is experiencing headwinds as well as tailwinds both in the United States and globally.

These reactions expose the divergent ways in which corporate and political interests respond to changes in capital markets. ESG investing, it's worth recalling, grew out of what was known as the corporate social responsibility movement, which opened important but difficult legal questions around accountability beyond corporate responsibility to shareholders. The movement evolved to include impact investing and efforts to divest

from certain industries, notably things like tobacco, alcohol, and firearms. These historical underpinnings continue to precipitate emotional reactions, and sometimes these are amplified and distorted by powerful entities with vested interests. This dynamic isn't new, but it can create oversight challenges for mutual fund boards.

I don't see questions around ESG investing going away anytime soon, but I do think demand for sustainability-focused products is likely to continue to grow. The "G" in ESG is essential, as investors increasingly are aware that governance matters for long-term company strength and resilience. This broadening of investors' perspective is a good thing, especially as companies focus on managing systemic risks related to the environment, corporate integrity, investor confidence, and societal impact. These are pressing issues that affect global economic health and security. Overall, sustainable investing has the potential to contribute to the healthy functioning of capital markets, and that's worth the debate and divergent views. Given our fiduciary responsibility, it's imperative that our board continues to develop perspectives on ESG and other issues that are important to investors.

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Incorporating ESG criteria and investing primarily in instruments that have certain ESG characteristics, as determined by the manager, carries the risk that the fund may perform differently, including underperforming, funds that do not use an ESG investment strategy.

 Investment Management

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