dakota

EPISODE 10:

Journey through John Hancock Investment Management

With York Lo

Robert Morier: Welcome to the Dakota Live! Podcast. I'm your host, Robert Morier. The goal of this podcast is to help you better know the people behind investment decisions. We introduce you to chief investment officers, manager research professionals, sales leaders, and other important players in the industry who will help you sell in between the lines and better understand the investment sales ecosystem. If you're not familiar with Dakota and their Dakota Live content, please check out dakota.com to learn more about their services. Before we get started, I need to read a brief disclosure. This content is provided for informational purposes and should not be relied upon as recommendations or advice about investing in securities. All investments involve risk and may lose money. Dakota does not guarantee the accuracy of any of the information provided by the speaker who is not affiliated with Dakota, not a solicitation, testimonial, or an endorsement by Dakota or its affiliates. Nothing herein is intended to indicate approval, support, or a recommendation of the investment advisor or its supervised persons by Dakota. So, this is our second episode of the new year and our 10th episode overall. So, I want to start out by thanking our studio team here at Dakota for their hard work and professionalism as we've built this podcast from the bottom up. So, thank you Genevieve, Roberto, and Jamie for working so hard for us as we've laid down 10 of these episodes so far.

Dakota: Thanks. Thanks for having me.

Robert Morier: Yeah, I know you're a veteran of the desk, so this all feels very familiar to you. The only difference is we put headphones on.

Dakota: Yeah, and I'm on the other side. It's like you get used to sleeping on one side of the bed. This is a different side, but I'm going to adjust.

Robert Morier: Oh, good. Well, we're looking forward to seeing you in action. Well, for those of you who are regular viewers of Dakota Live, you'll know Chris well. For those of you who are new to Dakota, Chris O'Grady is a Partner and Dakota's Chief Investment Officer. Chris brings more than 25 years of industry experience to the firm. In addition to his responsibilities of manager selection and monitoring, Chris also focuses on Dakota's investment distribution efforts. Prior to joining Dakota, Chris founded access distribution partners where he helped raise assets across multiple strategies. From 2002 to 2005, he was a trader and portfolio analyst at Cota Capital Management where he assisted in portfolio evaluation as well as the firm's marketing efforts. Chris has held multiple positions in sales and trading at Goldman Sachs, Credit Suisse, and Bank of America. And last but not least, Chris earned a bachelor's degree in International Studies from Notre Dame. So, thanks for being here, Chris, and congratulations on all your success.

Dakota: Thanks. I laugh. I have a daughter who's a sophomore in Finance at Wake Forest University. And she's asking me all these questions. I said, honey, I was an International Studies major. You figure it out. You're way ahead of the game so—

Robert Morier: You're a jack of all trades.

Dakota: It's been fun. It's a fun run. Many, many years to come, but a lot of learning.

Robert Morier: Well, it's nice to have your experience on the desk, so we really appreciate it.

Dakota: Thanks for having me.

Robert Morier: I remember hearing you're a live music fan. Is that true?

Dakota: I do like live music.

Robert Morier: And Philadelphia is a great city for that.

Dakota: Fabulous 10, a lot of rooms, anywhere from the Fillmore to World Cafe Live right up here at University of Pennsylvania. It's about 10 of us that seek out shows around the city so—

Robert Morier: What was the last show?

Dakota: Gosh, the last show might have been… I think Son Volt at the Ardmore Music Hall. It's my favorite band, yeah.

Robert Morier: All right. I like that.

Dakota: But, I mean, obviously COVID people are breaking, coming back, and many more to come. The calendar pops up, so I'll let you know.

Robert Morier: Oh, good. Well, keep us posted.

Dakota: Yeah, anybody that comes through Philadelphia, and you like live music, this is I think the best music town in the country because they have so many different-sized rooms for a band to grow. Not too dissimilar from a money manager.

Robert Morier: Yeah, that's exactly right. Well, thank you. Well, I'm excited to introduce everyone to our guest today in a few minutes. But before we do, Chris, I know you've been busy traveling, going up and down the I-95 corridor. As the firm

CIO, meeting with asset managers, allocators, where are you seeing the focus from an alternatives perspective as it relates to how clients are navigating this market?

Dakota: Well, it's serendipitous having York here to speak with today because it's essentially what we're going to hear from York. It's all private credit. It's private structures. It's investing directly into the economy via companies, which would be co-investments, secondaries. It would be private credit. It would be something that would be a little bit of a longer hold. Obviously, there's the alpha and the beta products and the equity markets. But I think people are adjusting the fixed income portion of their portfolio. And you've got a lot of structures and vehicles that are letting people access what was once institutionalized private equity. And real assets, that's really the alternative focus that people are really tilting the portfolios to, the 60/40. You're going to hear people say 40/40/20. You're going to hear people say 40/60, whatever. But it's really going to be focused on that real aspect, yield aspect of a portfolio, which wraps up into a big umbrella called alternatives.

Robert Morier: Yeah, interesting. I know we're going to talk a lot about vehicles. That's an area where York has been spending time from an alternatives' perspective with John Hancock. So, I want to stop and just say how happy I am to introduce our audience today to our guest, York Lo of John Hancock Investment Management. Hi, York. How are you?

York Lo: Good. Thanks for having me.

Robert Morier: Good. Well, thanks for being here. We appreciate it. We know you're busy, and it's a busy time of the year. We're still in the midst of quarter-end reporting, so thank you for taking time with us. So, York, I'm going to spend a few minutes, let people know who you are if they're not already familiar with you. Like Chris, you are also a veteran of this industry. So, we're very excited to hear both of you and your perspectives as we move into this new calendar year of 2023. So, York Lo is the head of alternative product and LLCs at John Hancock Investment Management where he has been a key member of the team responsible for manager selection and oversight as well as product development for global fund platforms with assets under management in excess of $200 billion. Over the past 12 years at Hancock, he has launched products across structure types, mutual funds, ETFs, UCITS, LPs and more, asset classes and styles, which contributed significantly to the firm's growth. At Hancock, he is also the founding chair of the Asian-American ERG, PACES US and has served as a mentor to the firm's MLK summer scholars. Prior to joining Hancock, York worked for more than a decade in the asset management industry in the US and Asia, working for firms such as UBS and Putnam Investments in business development and research roles. He has been a chartered alternative investment analyst since 2004 and received his MBA from MIT and his BS MBA from Boston University. Congratulations, York. It's really a lot of success. And I know you've been at Hancock for a while now, so we're excited to hear about that stage of your career. But before we do, I just want to add on a few other things. He currently serves on the advisory board of the Institutional Investor Sub-Advisory Institute and NICSA's Product and Alternative Investment Committee. He's a board member of the Chinese Historical Society of New England, an investment committee member of the Celebrity Series of Boston, a member of the leadership council and investment committee of the International Institute of New England, and a board member of the Rotary Club of Cambridge. But I'm not finished, York. You have quite a calendar, so I'm going to keep going. But you have recently been elected to the board of the Association of Asian-American Investment Managers where you started their Boston chapter and ERG network. And finally, last but not least, you are on the DEI Advisory board of the CAIA Association. So, York, it is really nice to have you here. You sound like a very busy person based on all of those board memberships, so we really appreciate it. How do you find the time?

York Lo: Certainly, actually, COVID helped because of reducing my commute. But you know, I think you can always find time for meaningful causes so—

Robert Morier: Well, when you're not in the office and you're not on these boards, I know you're also a music fan as well. Before the pandemic, I remember you were planning a trip to Montreal to see the Montreal Jazz Festival. Are you back on the road with music or just work at this point?

York Lo: Yeah, actually, we did manage to go to the Montreal Jazz Festival in 2018 and then also the Newport Jazz Festival the year after. So, we're able to see Herbie Hancock, which is one of my favorites, twice in person and is really quite an experience. And then during COVID, as you mentioned, I serve on the board of Celebrity Series. We actually were running a bunch of virtual concerts. So, we included Chucho Valdes was one that I really enjoyed. And this year we're able to bring back some of those live concerts so… I guess maybe partly it's the product development person in me. I think jazz is very much a very creative… that improvisation process just really, really speaks to me.

Robert Morier: A lot of improvising particularly when you're thinking about alternatives. So, well, when I think back to when we first met, York, I think it was 15 years ago, you had just relocated back to the United States from Hong Kong for your son's health. And 15 years later, I know everyone is well, but can you take us back to that time what it was like transitioning out of the Asian markets, pre-Great Financial Crisis, and then coming to Boston to begin this new chapter with Hancock, and of course, your family as well?

York Lo: Yeah, so I was born and raised in Hong Kong. So, Hong Kong is always near and dear to my heart. But of course, for those of you who've been there, the air pollution is really bad. So, when my son was a year old, basically, the pediatrician saying that we stay there, he will for sure develop asthma, which is not a disease that we want him to have. And I think we definitely made the right choice. He is turning 16 this year. He's actually taller than me. He played basketball and does rowing. And so, I think… and then we also have a very nice… I also have a daughter. And we have a very nice family here. And of course, that also leads me to Hancock essentially. And interestingly enough, in 2008, they were… I guess at that time we have a global research model. And they were looking for someone to cover the Asia platform from Boston. So, it actually worked out perfectly. And that's the first five years of my time at Hancock was covering actually mostly our Asian platform.

Robert Morier: Oh, that's good. Well, I know you've stayed close to the Asian markets. You're an associate in research at the Fairbank Center for Chinese Studies at Harvard University. We obviously talk with our clients, partners, and Chris particularly on his side of the business. There's no shortage of conversations about China and the Chinese markets. Chris, how have you been seeing investors and your partners think about China as it relates to maybe their overall equity allocations?

Dakota: Well, I think it's… I mean, chime in here. But the one observation of the Chinese markets is the indexes are interestingly constructed. I don't know if you're getting the full experience of Chinese demand, consumer demand, when you go into some of the larger indexes. There's volatility. Obviously, there's been a nice move in front of the reopening trade. There's a lot of Chinese private equity. Can you get that private equity out of those vehicles? Can you get private equity out of the country? It seems like there's been a big compounding trade. So, I mean, I think my observation and summary from speaking to a lot of people is there's just a lot of opaqueness, a lot of misunderstanding of China. It's this draconian economic system, but it's not. And I mean, York, tell us what is your observation?

York Lo: Yeah, I mean, we can certainly spend another episode or two on the topic.

Dakota: Yeah. Yeah, a season.

York Lo: Yeah, perfectly agree with you, 100%. If you look at the MSCI China index. Some people have done a study. Actually, if you look at the past 30 years, actually your return would be blah or nothing. But of course, we know it is the greatest creation in terms of wealth creation globally in the past three decades is in China, right? We have so many billionaires that have emerged. So how do you capitalize on that? I think you want to be able to participate in alt where it is, A-shares and private equity as you mentioned, and all the other aspects. But I mean, it is volatile, but I think it is interesting with this year, right? Because you might be dealing with a China that's easing monetarily, which is contrary direction to the rest of the world and also is reopening up after COVID. So, I think that has in the past couple of months resulted in some interesting performance. And so, yeah, it remains something that's on my radar. And certainly, it's an interesting puzzle to see how people can best capitalize on this. Definitely active management plays a role. If people want to navigate this properly, active management definitely would help.

Robert Morier: Well, it sounds like we might have given you a reason to come down to Philadelphia for a part two episode on China and China asset allocation. But you mentioned active management. Take us back to June 2008. You're a senior manager research analyst. The financial world is generally coming apart at the seams. But you successfully managed through that time. Can you share some of the lessons that you've learned about the manager research evaluation process over that time period, through the relatively newer role on the product development side in 2013? What have you seen develop over that time period? And what do you continue to look for today?

York Lo: Yeah, I think maybe not just simply manager research, but just high level in terms of how we build our business. I think one thing is the key and it's the word that we talked all the time about in investment world which is diversification. I think we have very intentionally built a very diverse business base, good mix of fixed income and equities and alts. I think that's really important. And I think the key is there is room for-- what I learned is there is room for every single strategy under the sun, I think, in different market environment. And what is key in terms of successful manager research relationship is we understand what the performance blueprint is. So, for example, we develop something called value props for all the strategies that we have cover where we really discuss with a manager what are we expecting from your strategy in terms of performance drawdown, returns in different market environment. And for example, like deep value, we understand why it's underperforming in a grove environment and why it could really perform in environment we have seen recently, for example. So, I think as long as we understand all of that, even if this period of underperformance, we can understand, it's great. But it's the failure is usually when we have managers who tell us one thing and then they deliver another thing, right? I ended up buying something else that we are not. So, I think those relationships tend to be bad. And I think another important thing is really the culture of firms. I think it is very important that they have a very cohesive environment, inclusive environment, where people feel like they're empowered. So that really significantly reduced the turnover in the team because ultimately… I mean, unless you're talking about systematic strategies, it's ultimately a people business here, right? So, I think it's key how firms are retaining and growing their talent.

Robert Morier: When you think about a year like 2022… and this is a question for both Chris, you and York… it was one of those years where diversification, at least between fixed income and equity, broke down. So, you saw both asset classes, both in the same direction. So, as you think about your clients and going back to those clients after that year, looking ahead into 2023, diversification obviously is one of the more important attributes, as York pointed out. But how does that conversation change, if at all, as you go into this new year for you and your clients?

Dakota: Well, as a firm that raises money for asset managers and tries to seek out the time of individuals like York and his team, I believe our managers, some struggled from a performance standpoint. But they did what they were supposed to do. I mean, we had managers that were exposed to growth. But growth suffered because of long-dated, multiples rising, discounting future cash flows. But they did what they were supposed to do. We didn't have managers that never owned certain sectors and decided to rotate into those sectors because they were working. I mean, obviously York mentioned CTAs and strategies like that. And those are momentum strategies. But I think everybody who seemed to be from the triage and the autopsy that we've done speaking to clients, everybody's like, OK. This is exactly what it did. It did what it's supposed to do in this environment. York, I default to you saying that you pick a lot of managers for a large pool of assets. There's nothing wrong. It's not nice or enjoyable to share negative returns with investors. But these are designed to do what they're supposed to do. The only rub was… I mean, obviously value had a nice comeback. And that made sense to cyclical recovery. The embedded cushion of fixed income was really the curveball. And that's really what I think deviated from a lot of people's portfolios that this should have been just a sense of a cushion, and everything kind of fell apart. But obviously, you're early in 2010, I mean, there seems to have been… I think I just read something this is the best performing start of a 60/40 portfolio since 1987, which 1987 has its memories for a lot of people that were in the business. So, I think people got through it. It wasn't a great year. But adjustments when you go from 0% interest rates to higher rate, this has been a pretty radical adjustment. And I think everybody ported themselves well. And I think going forward, things look pretty positive. But, York, you see many, many managers, you and your team. And you could probably give a more detailed granular answer.

York Lo: Yeah, I mean, this is my accounting. This is my 25th year in the industry. And I've been, as Rob mentioned in the beginning, I've been CAIA charter holder almost 20 years now. So, I've been in the alt business over 20 years. And three major draw-down in the market, I guess first one is the dot-com bubble burst in early 2000s. And 2008, of course, the GFC. And then 2022, right? And I guess the first two major drawdowns, I guess if you put your money in fixed income, even at GFC, for example, treasuries are up 20%, you're able to defend yourself. But last year was the first time. I believe someone did a study, like if you look at the past 10 worst calendar year drawdown since 1878, this is the only time, 2022 was the only time when fixed income did not help a 60/40 portfolio. So, I think we keep talking about alts and then people. I think there you've seen-- the first two that I mentioned in terms of drawdowns, you've seen this interest into alts. I think 2022 was a very clear message that people need to have some alts in their portfolio because we look at most endowment in institutions usually have about 20% alts. And then most high net worth or retail clients have 3%. So, I think that just really highlights the fact that we need more alts. We have been-- fortunately, when I joined this group 15-years-ago, our fund of funds franchise has started investing into liquid alts. And we've been developing a lot of interesting liquid alt strategy, whether it's managed futures or long-short equity or currency and other strategies. That has helped the portfolio. But I think right now it's just a continuation, and we're seeing more and more client demand in that area.

Robert Morier: York, when you're out on a hunt, you're looking for new managers to fill asset allocation needs. We talked a little bit about some of the manager research process that goes on in your 25 years. But as you think about the continuum of your time in that role, well, what have you seen added to the due diligence questionnaire as you think about today's manager criteria?

York Lo: Yeah, I think the two main one that… for example, we have added to all the questionnaires we have the past couple of years is really… one is DEI which we're going to spend some more time. The other, of course, is ESG, right? Partly also driven by some of the requirements out there. So those are two aspects that we really want to understand what the managers are doing. And the thing is those are not going away. And I mean, in fact, it's getting more and more emphasized over time. And we see that there's direct correlation to performance, to retention of individuals. And so, I think those are the two key areas.

Robert Morier: As it pertains to DEI, I recently read that John Hancock and your parent company, Manulife, are investing more than $3.5 million over the next couple of years to promote diversity, equity, inclusion in the workplace and then outside of the workplace as well in the communities. Can you take us through? I know we're going to touch a little bit on the manager research process as it relates to ESG, but how about just from an organizational perspective, we have a lot of asset management companies who Chris works with and the Dakota teamwork with thinking about DEI, thinking about ESG as we get there. But I'd love to hear how the company thinks about it?

York Lo: Yeah, I think it is an evolution, right? I think in the wake of George Floyd two-plus years ago now, lots of companies. But I guess DEI has always been part of our DNA for the longest time. And it's moving beyond just simply… I mean, of course, increasing representation within the firm is important in terms… developing all these employee resources group to make people feel like they belong is important. And I helped started the Asian, as you mentioned, the AAPI group at Hancock. But the evolution is really into how you integrate that into our business process, whether it's supplier diversity, making sure that we are sourcing more from diverse suppliers, or in the manager research side really, how we are helping to move the industry to be more diverse and inclusive. I think that is the key. I mean, we do a lot of community outreach already supporting diverse communities. And you mentioned about the MLK summer program. We've run that over 10 years and helped many kids over the years. And some of them are working for our firm. But I think it's really the next step that I'm most excited. It's not just simply management team putting hashtag something on a post, but actually integrating that into our business and driving business impact.

Robert Morier: Do you find that because it's more measurable that it's in a sense… I don't want to say that it's easier to implement. Obviously, it's not. It takes a lot of different areas of the industry to be able to increase DEI within financial services in particular. But one of the challenges as we know filling out these questionnaires or speaking to asset managers is that ESG, generally speaking, outside of the environment… so zero carbon emissions, those types of things… it can be relatively challenging to metric. But with DEI, it seems like there's some real achievable goals. I know you wrote the commitment for John Hancock with some other large financial services firms in terms of how you were pledging DEI, specifically from a manager research perspective. Can you talk about some of those characteristics that were written into that pledge you wrote?

York Lo: Yeah, sure. So, it's something that I developed in conjunction with Citywire. And it's been mentioned I think Merrill, RBC, JP Morgan, Northern Trust, and Lincoln and a few other firms have signed on and really appreciate their commitment. And of course, us have signed on. And it's really three elements. One is making sure that your own group is diverse and continue to improve on that. And we are doing that. Certainly, other groups are doing that. Second is really engaging with all your whether it's subadvisors or managers. It could be third-party funds that you do due diligence on, making sure that you engage with those teams on DEI issues on an annual basis. So that's the second point. And then the third point is whenever you're doing the searches, and I think the key here is to make sure that you include diverse teams of women… teams, not just firms, right? We understand that firms might be difficult to come by in every single asset class every year. But I mean, just teams of even larger companies, making sure that they have women or BIPOC, Black, Indigenous, People of Color, in their teams. So, I think that is… I think it's very important. I mean, in the institutional world, I think there's a lot of diverse manager programs. I mean, obviously, Rob, you worked for one firm before that does a lot of that business. But I think that engagement with some of our largest subadvisors or smaller advisors to making sure that they're more diverse is important because ultimately those folks can grow to the… we know that diversity of thought does generate better alpha. Professor Josh Lerner has done a lot of studies and other folks have done studies on that. But you need to get the people to those driver's seat first, right? And then they can perhaps start the firm, their own firm, right? So, I think it's all kind of trickle-down multiyear process. And I think it might be less impactful than say someone just say, hey, you see CalPERS like just allocated a billion to diverse private equity managers, for example. So, what we're doing might be, in terms of dollar amount, not the immediate effect. It might not be as impactful. But I think the kind of broader knock-on effect is actually quite significant. And we have seen that. We started doing the DEI survey since 2020. And we have seen improvement certainly at the firms that we engage with.

Robert Morier: Could you expand a little bit on engagement? What does engagement mean to Hancock? I think that's another attribute particularly, as you've said, I did. I worked for an emerging manager of managers for several years. We also engaged with asset managers to help improve DEI characteristics across the organization. But it means something different to every firm. So, I would just be curious as an asset manager is calling you, York, and trying to work with you as a partner either on the sub-advisory platform and other areas, how should they expect engagement to come from your team at Hancock?

York Lo: Yeah, I mean, we have our annual due diligence survey where it has a DEI section you have to fill up. And then we compare that to some of the industry data. You've seen some data from ICI, which we also work with. You've seen data from eVestment that has… they're also comparing it to… I think it's important to look at where the company is based in and see how that compares to their geographic population. I think that is important. And then we also talked to their chief diversity officer to see what kind of programs there because the numbers are… everybody filled it up. It's just there. But you really kind of… similar to the manager research process in general, you need to kick the tires a bit and see what they are really implementing. Are people really feeling better about the firm? And I think that's quite critical. And then in terms of sourcing new managers, we have in addition… I mean, I'm glad that all the databases are now… even Morningstar is incorporating more DEI data. But I think we actively go out to… for example, 100 women in finance is one group. You mentioned about AIM which I'm on the board of. It's another group… to really source diverse-owned managers, if you will. So, whenever we have a search, we try to use those kind of sourcing mechanisms.

Robert Morier: Well, it sounds like, in a certain way, alternative asset managers may have an opportunity to lead the charge there. You said that in areas, newer areas of the market, you're seeing more diversity, more representation. So, as we kind of pivot over to your role as head of alternative products and you're thinking about these new areas, these new vehicles, marrying it with DEI with the traditional manager research approach, where do you where do you see that going in terms of the ability to be able to see that those improvements start to take up?

York Lo: Yeah, I think the alternative space, similar to the comment I made earlier, there is a lot of newer development means, newer asset class means, that there's no incumbent, right? Incumbents could be usually is a white male in there, which is kind of reason why you've seen a pretty good uptick in terms of where there's venture or private equity or even private credit side, a lot of diverse managers and teams there. And yeah, I think in terms of the way our manager research approach is the same or the product development approach is the same, in the traditional mutual fund liquid side, we have a managers' model where we have our sister company and then we work with 30 different other asset managers, kind of best in class in each of their asset class. And then in alternatives, it's the same thing. We actually have started working with-- well, actually, if you go back in our history of our firm, we have always invested in some of our general accounts, for example. Many of the third-party managers in the private equity side or infrastructure side, we've been GPs since the '80s.

Robert Morier: That's helpful. So, over the last few years, you've been focusing on launching alternative products in different vehicles, limited partnerships, interval funds for high net-worth clients, as well as CITs for pension clients. So how have those initiatives been going in terms of client take up? I'm assuming it's still going strong, but I'd love to hear what that rollout looked like and what the take up has been.

York Lo: These product structure, and of course, you mentioned about ETF which I have launched too. And then I guess SMA is another vehicle that we have seen kind of the AD, the transition from mutual funds into all these different vehicles. I think that the pie certainly has grown and continue to grow in terms of assets, and but it's just moving to a different structure. So being the more kind of innovative person, I'm always on the cutting edge. And I think the alt side, especially less-liquid alts has been an area of focus. I guess I can't really talk too much directly about the products itself. But I think, for example, we have launched a tender offer fund in the private credit side late last year on the SMA's lending front with marathon asset management. So that's really bringing the same model that we have in the mutual fund to the less liquid area.

Dakota: Hey, York. Obviously, the big move in the backup and interest rates last year with insurance companies that are on the annuity side and obviously the rerating of annuities when the 10-year note goes higher, there's probably more interest in annuities. When book yield goes higher, there's probably more surplus to be shared with insurance companies. Insurance companies would argue, I'm not going to say are flush, but they're probably looking pretty solid from an investment standpoint. Can you just take a step back and give us a 5,000-foot view of just Hancock and Manulife, this big pool of assets that you get to play in? And obviously, whether it's the general account, whether it's the annuity side, talk about where are we slotting a lot of these investment decisions from this large pool of assets that you get to access.

York Lo: Yeah, so I think Hancock might be at least in the high net-worth alt side, maybe a relatively newcomer. But in terms of general alts, we have been a player for a long time, starting with real estate in the '20s. And then I guess in the '80s, we have already started allocating the private equity and do a lot of private credit in general, right? And I think one thing that we're particularly known for, for example, is our timberland farmland. We are the number one timber institutional investor. And we are one of the top investors.

Dakota: I did not know that. I did not know that.

York Lo: Right. So that has been very well known with a lot of large institutional clients. So, we have kind of seen the benefit of all these alts, just like other insurance companies. But I think that that is worth highlighted. And then in the private equity side, of course, there's a well-known firm in the industry namely HarbourVest that used to be Hancock Venture Partners before they renamed themselves, so that team that used to manage our private equity investments. But of course, our sister company also still have tons. And then in terms of our… maybe not so much annuities because we have kind of phased out of that business a bit. But in terms of fund of funds, fund of mutual funds, we have been allocating the liquid alts for the past 15 years with even a dedicated fund of alternative mutual funds.

Dakota: It's interesting with HarbourVest. Obviously, they've been a pioneer in terms of… I know Vanguard has a partnership with them. So obviously, one of the thinking passive thought is… paths of thought, not passive thought, is trying to really make private equity and these products more available to 401(k) plans, donor advised funds, things like the more liquid products. And clearly, that's where HarbourVest has been a leader. So, it makes sense coming from Hancock with that spirit of the high net worth individual really creating that technology to let longer retirement plans have access to these structures. So that's extreme.

York Lo: But on the DB side, certainly, lots of investment. Even our own DB, we have lots of investments in alts over the years. I think the DC side is certainly challenging because there's such a high focus on fees, right? And given… I think people do like the low correlation. But in terms of because the fee is its huge issue. So, it's been ongoing kind of a challenge for people trying to fit that into the DC side.
But I think you have certainly seen some uptick in terms of private real estate, which some of them are daily value. And it's lower fees too, right? So there has been some adoption in some of the fund of funds. And we will see. I mean, we have some letter ruling from the DOL, including private equity and fund of funds for DC plans. But the

uptick, I think, still remain to be seen there. But I think over time, I think you will probably see more.

Dakota: Yeah, I'm still blown away by the timberland comments. I know Jeremy Grantham up there in Boston has always been a big timberland investor at Cambridge, the large consultants. I mean, Boston is probably synonymous with timber so… but like anything, whether it's private equity or whether it's timber, being a holder really pays dividends in the long run from a compounding standpoint. So, the more these products have become more available to all individuals that can just let the power of compounding, let alone the drawdown years of 2022. An old friend of mine told me a long time ago, an old oil investor, he said, just be a holder.

York Lo: Yeah, I mean, if you speak about low correlation to the market. I think timber is a really good example, right? I mean, the trees will continue to grow, assuming that you properly manage the forest that you own. So, I think that is something that is somewhat decoupled to the general fluctuation of the market.

Dakota: I'm going to sell saws. I want to be a saw salesman up in Boston. There's a lot of timber.

Robert Morier: It's never too late.

Dakota: Never too late.

Robert Morier: York, as you look ahead to Hancock's alternative business and you think about key areas of focus, I know you've been long standing established alternative investors as you just summarized, but any areas of the alternatives market that you're going to be spending some time looking at this year or in the coming few years?

York Lo: Yeah, I think they're really… the two key areas are really real assets and private credit. I think those are the two key areas that we focus a lot on. I think real assets remain very interesting, especially in the inflationary environment that we have. And we also like the low correlation of the timberland farmland, for example, is one area. And then the private credit side, also very interesting. I think because a lot of that is floating rate, right? So even if rates continue to go up, I think that they should be able to do OK. And particularly I think asset-based lending that we have is very differentiated is secured by real assets that would do well in inflation environment. And also, it's a little less impacted by the interest rate fluctuation in general than the public credit side. And also, I guess it's also a more… like for example, we have health care royalty in asset-based lending, health care lending, which is interesting because it takes advantage almost of the, I guess, the drawdown in the equity market because you're looking at-- for example, the biotech side, there's over 200 companies that are trading below cash. It holds, right? So of course they don't want to issue more. If they need to finance, they don't want to issue more equity. So, I think this is-- and of course, with the inflation, I think companies and equities in general could be under some profits and earnings challenge. So, I think private credit is a good way going forward in this market.

Dakota: York, when somebody partners with John Hancock on the price of the asset lending side, is it under a Hancock labeled product and they're just the subadvisor? Or are you allocating to them as a third-party manager what is the path for a money manager to think about working with the Hancock team?

York Lo: Yeah, I think it's both ways. I mean, in the case that you mentioned the asset-based lending fund is a sub-advisory relationship where JH is the advisor and Marathon is the subadvisor. And we have also other products which directly invest in people's third-party private funds in some cases. So that's also another route. So really, yeah, both are ways to partnership.

Dakota: And then for those listening as well, real assets, obviously, you gave us a couple of ideas. Can you expand on that? I think sometimes we throw around terminology in this industry and people are like, oh, yeah, yeah. Real assets, real… there's probably some granularity there, so can you just probably share some of the nuances in the sub-asset classes.

York Lo: Most people, of course, are familiar with real estate because we probably all own it ourselves. And then of course, within that, there's lots of subgroups. I think our focus traditionally has been in the Core and Core Plus because of our insurance heritage. But I think there's a lot of opportunistic value add opportunities out there that are also very interesting. And then of course, another big food group in the real asset space is infrastructure. That is, you've seen these really humongous funds. And we have done a lot of investments in that space too, both co-investments, investments in funds, as I mentioned, over 30 GPs that we work with. And so that's another area I think that has… and this environment is very interesting because of the stable cash flow that it generates, the inflation adjustment that you can make to the revenue that you collect. So, I think that's an area that… and also the environmental impact, right? If people talk about… looping back into ESG, all the solar, wind project, and we finance a lot of those too. Those could be very interesting from an impact perspective too, so double bottom line. Similar to timber farmland, it can also do both.

Dakota: And, York, when approaching your group, obviously when people call in the general account of an insurance company, they need to be aware of the NAIC regulations or risk-based capital. That's probably not the case when somebody calls upon your group. It's not really your… your risk managers are worried about that versus a manager saying, gosh, I have a private equity strategy and going into a tender offer fund. They don't really need to worry too much that it might be a 30% risk-based capital charge on going to the high net worth of the wealth side.

York Lo: Yeah, that is correct. But I think… and generally, I think just if people are interested to approach a general account, I think traditionally, most of the private credit is managed in-house. So, it's really more the private equity side that we do and/or infrastructure side that we are doing a lot of third-party funds, investments.

Dakota: Insurance companies are good. They're flush with capital, but you've got to really understand the regulations. So, it's really good to understand the distinction between whether you're trying to be hired by a subadvisor or you're trying to really absorb some assets from the general account. So no, thank you for that distinction.

Robert Morier: York, a little earlier in the conversation you mentioned biotech as we're talking about alternatives and asset allocation decisions. You didn't mention venture capital. And I'm just curious if venture plays a part in your asset allocation construct. And if so, how do you approach venture relative to some of the other asset classes that you just took us through?

York Lo: Yeah, so in terms of general accounts, we don't do any venture. I think in our DB plan, we used to invest in some fund of funds that might have a venture sleeve in addition to all the other private equity in it. Over the years, we have seen a number of vows of advisors in the mutual fund side, especially in the tech space, to a lesser degree in the health care space. Sometimes they invest, include some later stage kind of private equity, think about the Ubers of the world, into their portfolio. But over time, we have seen phasing out of that. But I think it's certainly a very interesting space that I personally track. You mentioned I went to MIT. And of course, there's a lot of entrepreneurial… there's a study that it is within-- if you add up all the MIT entrepreneurs' companies that they started, its total GDP, it could be like one of the top 10 countries in the world. So, it's kind of a very interesting ecosystem. And I think one thing that is very… there could be, I mean, as the Chinese word for crisis we have danger and also opportunity. I think there could be, certainly there has been a huge correction in that area. And there's a lot more focus on P2P, the path to profitability, and then simple, but I think there is certainly innovation never stops. There's all kinds of stuff going on in the world in all areas. And I think there could potentially be some opportunities if people are-- it's just like back in the 2000 dot-com bubble burst.

Dakota: Well, one thing, obviously, that's interesting that the general account doesn't look at, venture. But one real trend and reality among insurance companies among other investors is co-investments and secondaries. I'm sure that might be an active aspect of your portfolio as well. So, we might pass on the early-stage AB round but having that optionality for the co-investment and then the reality that I don't know where people are on a waiting standpoint, secondaries seem to become really, really popular. And capital is flowing behind those. Can you comment over those?

York Lo: Yeah, so our private equity, of course, we mentioned about HarbourVest. They spun off, right? But we continue to have that program in-house. And basically, they have done a lot of co-investments and a lot of GPs and then co-investments alongside. And then also mezzanine debt is an area that along with those deals. So, they have done many funds over the years on those.
And yeah, we have also added to secondaries… added a secondaries team a couple of years ago because as we see that as a very attractive segment. And I think given the market turbulence and some of the institutional investors being kind of readjusting their portfolio, there are certainly lots of opportunities in the secondary side.

Robert Morier: Sounds like a third episode. We've got China. We've got venture.

Dakota: This could be a Netflix season, five episodes. I mean… I mean, unless selfishly, York, when we're able to get individuals like you and when we're able to get your attention, we just want to almost attack you with questions because it's rare to get this amount of time for such a large allocator.
And really, just the question to just validate what else we're seeing and obviously the learning aspect that we're learning new ideas as well. So, forgive us for the intrusion, but it's our learning… my goal every morning is… every night is to be smarter than I was in the morning. And I think we're at 10 o'clock, and I've already achieved that goal.

Robert Morier: Well, York, thank you so much for taking this time today. We really appreciate it. I think we should absolutely start by saying congratulations on all of your success. It's very exciting for us on this side of the table to see someone like you who we admire very much do such good work. So, thank you for the conversation. Thank you for the information. Chris, thank you so much for being here. It was great having you. Well, if you want to learn more about York and John Hancock Investment Management, please visit their website at www.jhinvestments.com. You can find this episode and past episodes on Spotify, Apple, Google, or your favorite podcast platform. We are also available on YouTube if you prefer to watch while you listen. Finally, if you would like to catch up on past episodes, take a look at our website at dakotalivepodcast.buzzsprout.com. So again, thank you for joining us today, York. Thank you for being here.