

WFP

WEALTH PROFESSIONAL
CANADA

WWW.WEALTHPROFESSIONAL.CA

ISSUE 6.08 | \$12.95



ETF INNOVATION

Wealth Professional Canada takes a closer look at the emerging themes that are driving the ETF space

**GIVING BACK
MADE EASY**

Expert advice on managing your clients' charitable giving

**INVESTING FOR THE
GREATER GOOD**

A new way to meet client demand for socially responsible investments

**THE TARIFF
TIPPING POINT**

How worried should advisors and investors be about a trade war?



Time to get active

Harvest Portfolios' **Paul MacDonald** tells *WPC* how he's using his industry insight to help the firm make its mark in the active ETF space

IN HIS 16 years in the investment industry, Harvest Portfolios CIO Paul MacDonald has already achieved some impressive milestones – and as the firm emerges as a leading active ETF manager in Canada, MacDonald is ready to help Harvest hit new heights.

After graduating from Griffith University in Australia in 2001, MacDonald began his career at Raymond James, certain that this was the industry for him. “Getting into the financial industry was always a path I wanted to go down,” he says. “I wanted to focus on global, so that’s why I did a degree in international finance. It’s where my passion has been and continues to be.”

At Harvest, MacDonald heads up a team of highly specialized portfolio managers with expertise in technology, financials, REITs, resources, US and global equities, and healthcare. The team is made up of seasoned experts with long records of success at industry leaders like Raymond James, RBC and TD, and this strong backbone is crucial to enabling Harvest’s ETF business to continue growing at such a rapid pace.

MacDonald has witnessed his fair share of change during his time in the industry, but he highlights one very modern challenge that’s creating a new obstacle. Today’s investors

have more access to market and company data than ever before, and MacDonald believes this influx of information is creating spikes in short-term volatility. As a result, it’s difficult for investors to cut through the noise and differentiate between investment options.

“That’s a challenge investors will continue to be faced with,” he says. “Our philosophy at Harvest is to actively generate income by focusing on quality large-cap companies that are well positioned for long-term growth. It’s how we have carved out our niche.”

One of the sectors where Harvest excels is healthcare. Under the firm’s umbrella is one of the top-performing health ETFs in Canada, the Harvest Healthcare Leaders Income ETF (HHL). Invested in an equally weighted portfolio of equity securities from 20 healthcare issuers, the fund focuses on companies that have a minimum market cap of US\$5 billion. So far, HHL is achieving its goals of capital appreciation, monthly cash distributions and minimized volatility.

“I am absolutely fascinated by some of the investment developments and human developments in the healthcare sector over the past couple of years,” MacDonald says. “It’s exciting to be so involved in the space at this point in our development and evolution.”



MacDonald says the biggest change he’s seen since joining Harvest has been the evolution of ETFs. After starting out doing closed-end funds, the firm has transitioned seamlessly into a key player in the actively managed ETF space. By focusing solely on quality equities, offering healthy payouts and supplementing that with an options strategy, Harvest has been able to grow its ETF business to almost \$600 million in AUM in under two years.

Harvest has also developed a call-option-writing strategy, which makes the firm’s suite of funds more tax-efficient by generating premium income that’s treated as capital gains. Because the portion of equities that have been written on have the downside protection of the premium collected, the call-writing



WHO IS PAUL MACDONALD?



Role: Chief investment officer at Harvest Portfolios

Industry pedigree: Prior to joining Harvest in 2013, MacDonald spent time as an associate at Raymond

James, as a VP and portfolio manager at Creststreet Asset Management, and as a VP and portfolio manager at Mavrix Fund Management, where he managed a Lipper Award-winning fund.

Education: MacDonald holds a degree in international finance from Griffith University in Australia, along with a CFA designation.

Strategy: "With all the new investment products, it can be difficult for investors to navigate. The focus for me is on investing in quality businesses, mitigating risks and actively generating equity income."

scape, MacDonald believes the market is gradually transitioning from a mid- to late-cycle environment. However, he believes the backdrop is still robust, and he won't allow negative noise to become an area of focus – although he does foresee some increased market volatility in the autumn months.

"That opinion segues into what we are doing right now: We are focused on good-quality companies and high-grade portfolios," he says. "I think we are well positioned from a market timing perspective."

That rigorous investment strategy falls in line with the philosophy made popular by Warren Buffett: tuning out the market noise and focusing instead on companies with good business fundamentals. Or, as MacDonald puts it: "Focus on quality and remember that the further you get away from a core strategy, the more risk you are taking."

It's a philosophy that has served both MacDonald and Harvest well so far. **WIP**

“Our philosophy ... is to actively generate income by focusing on quality large-cap companies that are well positioned for long-term growth. It's how we've carved out our niche”

strategy also helps reduce a fund's volatility. For example, if the fund buys a stock at \$50 per share and sells a call option that pays a premium of \$2 per share, if the stock price declines, the fund is \$2 per share better off than the fund that didn't write calls.

There are four components to the Harvest call-writing strategy: a flexible write mandate, flexible write level, flexible multiple strike levels and flexible timing. The strategy has

been central to Harvest's recent expansion.

"Covered calls capitalize on capturing current income," MacDonald says, "but we also use fundamental evaluations to actively make tactical decisions around positions. Our turnover tends to be low, based on our qualifiers to get down to our 20 positions in our funds, but there are times when we will eliminate a position for fundamental reasons."

When it comes to the current market land-

