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ETF SPOTLIGHT

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John Kelleway is on a mission to empower independent advisors

HEADED THE REIT WAY
What might 2019 hold for real estate investments?

HHL

Harvest Healthcare Leaders Income ETF

TRADITIONALLY, healthcare investing hasn't held the same representation in Canada as it has around the world. In Canada, it makes up just 2% of the market, while globally, it represents closer to 15%. Because healthcare is a sector with potential for long-term growth, Harvest Portfolios wanted to bring the Canadian market greater access to it in the form of the Healthcare Leaders Income ETF (HHL).

"The Healthcare Leaders Income portfolio brings together 20 of the best leading global healthcare companies," says Paul MacDonald, CIO at Harvest Portfolios. "It uses our covered call strategy to create more income and is exposed to a diverse group of healthcare companies."

The healthcare sector's long-term growth appeal was the driving force behind the fund's original launch as a closed-end fund in 2014. (It was later converted to an ETF in 2016.) "We look at sectors with long-term growth, and healthcare has more of that than any other," MacDonald says. "We noticed that there was limited opportunity for investors in the sector, but since it has a sound structural backdrop, that makes it worthwhile."

Harvest considers healthcare to be structurally sound for three key reasons: An aging population will continue to spend on healthcare no matter the state of the market, developing markets are increasing healthcare spending disproportionately to rising income, and the space is seeing plenty of technological innovation.

Because there are thousands of companies in the healthcare sector, Harvest employs a specific strategy to narrow the field. "We have a proven process to gets that number down to something more manageable," MacDonald says. "We start with companies that have a minimum US$5 billion market cap and some specific financial criteria, which gets us

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Paul MacDonald, Harvest Portfolios

TOP 10 HOLDINGS IN HHL

1. AbbVie
2. Eli Lilly and Company
3. Pfizer
4. Sanofi
5. AstraZeneca
6. Amgen
7. Boston Scientific Corporation
8. Medtronic
9. Bristol-Meyers Squibb Company
10. Stryker Corporation

Source: Harvest Portfolios

down to about 75 companies. From there, we actively select 20 that we think are leaders in their subsector and then diversify across those subsectors so we are not overexposed to any one area in a subsector."

The process ensures that the fund gains broad exposure, but MacDonald says Harvest will only add a company if it has a proven ability to extract value. This process produces significant benefits for the fund.

"The number one is it provides exposure to a sector with a robust growth upside," MacDonald says, "and also diversification and, with our covered call strategy, a highly tax-efficient distribution."

He specifically points to diversification as something that makes HHL valuable to advisors. "All investors want to make sure they have diversity, even in a specific sector," he says. "You can own the stock of the largest company in a sector, but even it could have something happen to drop its value. So you need to diversify across the space."

MacDonald adds that the fund adheres to the philosophy that the best offense is a good defence. "Healthcare is such a big component of the global market; it is structurally sound, offers growth and provides defensive characteristics. People are still going to buy their medication in a down market. The advancement of drugs and new devices is amazing. I like to say we are only in the seventh inning of development, which is moving at a rapid pace."