Brand loyalty

With its Harvest Brand Leaders Plus Income ETF, **Harvest Portfolios** offers investors the chance to achieve growth and income by investing in some of the world's best-known brands

THE WORLD'S most recognizable brands have a historical track record, attract some of the best talent on the globe, distribute their products worldwide and inspire loyalty among consumers. So it's no surprise that companies that are considered global brands are some of the most sought-after investments. This is something Harvest Portfolios recognized as an opportunity when it created its Harvest Brand Leaders Plus Income ETF (HBF), a fund that strongly aligns with Harvest's philosophy to invest in quality income-generating companies with long-term growth prospects.

"The Harvest Brand Leaders Plus Income ETF is a fund of 20 large-cap, US-listed companies selected from a universe of leading global brands," explains Paul MacDonald, CIO of Harvest Portfolios. "They are 20 picks from the [Interbrand] World's Top 100 Brands. These are great-quality leading businesses, many of which have been around for a long time, and people want to own them – companies like McDonald's, Johnson & Johnson, Pepsi and Microsoft."

MacDonald explains that the theory behind the creation of the actively managed fund, which was launched in 2014, was to include companies that can grow and prosper across the business cycle. These types of quality companies are more likely to have robust dividends and be able to withstand a potential recession. While positioned for growth, the fund also captures income by using Harvest's covered call strategy.

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When it comes to the makeup of the fund, Harvest starts with the World's Top 100 Brands list, then evaluates companies based on three factors: value, quality and income, all of which have subsets.

"For value, we look at price-to-earnings ratio and cash flow valuation metrics; with quality, return on equity and the volatility of cash flows; for income, not just dividends themselves, but the growth of income and dividends," MacDonald explains. "All of those factors narrow down the pool of companies. From there, we make sure we have the proper allocation to create a diversified portfolio."

The 20 companies that make the final cut are equally weighted, and the fund is reviewed quarterly. MacDonald notes that the turnover rate is low, but Harvest can make changes if a company's financial situation deteriorates or shows superior metrics.

The 20 holdings themselves are all North American-listed companies. "There are some international companies, but they are listed in the US," MacDonald says. "We don't get too concerned with the listing jurisdictions because all of the companies are global businesses and are engaging in global activities, whether that is Johnson & Johnson expanding in Europe and Asia or McDonald's growing their business in India."

MacDonald adds that the fund is well diversified over a variety of sectors, with the exception of utilities, REITs and resources, which tend to be more regional.

Similar to other Harvest funds, HBF uses a covered call strategy as way to generate income. "If you write a covered call, you are given a premium for that call option and are required to sell the stock at a predefined price," MacDonald explains. "What we like to do is put a maximum on any one position, which we can write up to 33%. That means we always have a long bias to the other 66%. So if the stock goes up, we will capture the growth of the company.

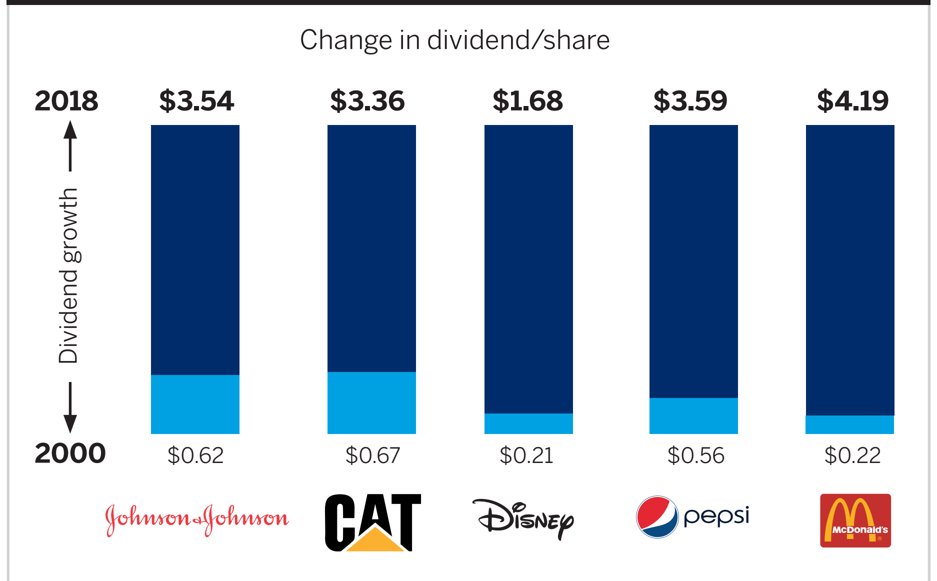
"At the same time," he continues, "utilizing the covered call enhances the income in the portfolio. That typically results in less volatility in down markets because you are insulated by the premium. We position it more for those looking for equity exposure and income, but by having a 33% maximum, you still have the opportunity for growth as well."

The combination of Harvest's selection process and covered call strategy gives the fund multiple benefits. "You can look at the portfolio and, in an up or down market, say, 'I still own these great companies.' From that perspective, the strategy has performed well," MacDonald says. "From an income generation standpoint, we have earned it from our covered calls and paid a high income stream. As an aggregate, if one looks at the overall fund performance, it has performed as expected, if not a little better."

MacDonald attributes the fund's success to two factors: the foundation of using leading brands and the fund's portfolio manager, James Learmonth. "He has done a great job at making changes and using the financial metrics to eliminate deteriorating companies and buy better opportunities. When I sum it all up, the fund has performed well. It has great companies and has generated income and good risk-adjusted returns."

Given that, MacDonald believes it is an attractive option for advisors. "I think it all comes back to how it's positioned from the start," he says. "When you look at the companies, advisors can go to their investors and say, 'You own these companies.' It provides advisors a solution of quality companies in a portfolio that has performed well. It has an income strategy, so we think it can be a core position for advisors looking to get a quality portfolio with a high tax-efficient income." WP

THE DIVIDEND BENEFITS OF MAJOR BRANDS



Source: Harvest Portfolios, Bloomberg