

TECH SECTOR

The social distancing tech winners

The leaders of **Harvest Portfolios** tell *WP* why some tech stocks have boomed despite the recent market crash and how investors can capitalize on social distancing

WHILE THE S&P 500 lost around 30% of its value in March, video conferencing company Zoom saw its stock value rise by 101%. Though Zoom's share price has readjusted somewhat since that initial boom, the tech company is clearly reaping the benefits of allowing businesses, universities and even families to keep functioning during a time of social distancing.

But which of the tech companies supporting a more remote, socially distant world could prove to be long-term growth leaders? For Harvest Portfolios' investment

at companies like Zoom or DocuSign, there's been a long-term shift towards flexible work arrangements. But obviously with COVID-19, it's really accelerated this shift in a very short period. Companies like Zoom and DocuSign, whose main value proposition is trying to facilitate remote collaboration, are likely to see a pretty dramatic benefit, at least in the short term. They see a large influx of new users and add existing users who begin using it on a wider scale. The key question is really, for any of these story stocks, how sustainable

in volatility. Harvest's focus is the same as it has always been: investing in high-quality companies and delivering income to investors.

"Harvest's investment philosophy is centred around finding opportunities in areas that are poised to benefit from strong long-term dynamics," says Harvest president and CEO Michael Kovacs. "Focusing on the dominant companies in these areas, with strong fundamentals and trading at reasonable valuations, helps to avoid the temptation of chasing short-term 'story stocks.' Within technology specifically, this involves analysis of sustained sales and earnings growth, return on equity, strong cash flows, balance sheets, and growth-adjusted financial ratios, among other metrics."

Class A units of Harvest's HTA fund were down around 21% from February 20 to the end of March, the same as the market-cap-weighted S&P 500 tech sector; however, the equal-weighted S&P 500 tech sector was down around 24%. Learmonth explains that Harvest's focus on larger-cap companies and a diversified basket of equally weighted tech stocks positions its funds for a recovery after significant declines in the market. More crucial for investors, though, is that fact that Harvest's covered call strategy is paying out income.

Learmonth explains that HTA employs an active covered call strategy, reconstituted on a quarterly basis with 20 equally weighted large-cap tech names. Over the past few months, as the coronavirus started



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team, the key is to look for sustainable investments that have clear advantages beyond the 'story stocks.'

"When, like now, there's a systemic shock that's hitting everything, people start looking for those 'story stocks' – companies that might provide kind of a port in the storm," explains portfolio manager James Learmonth, who is responsible for the Harvest Tech Achievers Growth & Income ETF (HTA). "When we look

is this boost going to be in the longer term?"

The Harvest investment team sees the potential for companies that enable workplace efficiencies to deliver long-term, as it appears the coronavirus outbreak has only accelerated a wider shift toward remote and flexible workplaces. They're aware, though, that stories can create bubbles for select stocks and that those values will correct as stories subside, as witnessed with Zoom's significant increase



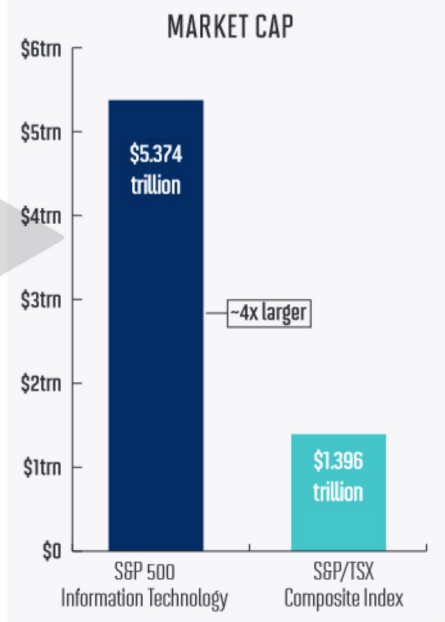
spread outside of China, Harvest has been writing call options at more aggressive levels, selling call options at levels well above what's needed to meet the company's distribution requirements.

At the same time, HTA is set up to benefit from the long-term shift to cloud-based

bigger customers are the streaming services we're all leaning on for entertainment during social distancing.

"The tech sector has led for most of this cycle," explains Harvest CIO Paul MacDonald. "In this correction, that leadership has been muted, but as we enter a new

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market defined by a health crisis will only recover when that crisis abates.

MacDonald explains that Harvest prides itself on operational agility and has been able to quickly make its investment management teams remote and ready to take advantage of any opportunities they see as the situation evolves. While Harvest's covered call strategy is benefiting from market volatility, it requires a dedicated team executing and monitoring it on a regular basis. Today, the team is positioned to keep doing exactly that: using volatility to deliver income.

Overall, MacDonald and Learmonth feel their strategy of picking long-term winners and generating income through covered calls is best suited for this era of high volatility.

"We're in the heat of the moment now, but we have confidence in the companies within all of our portfolios," MacDonald says. "The way we've established our mandate is to really own best-in-class, high-quality companies. We're comfortable with how we are positioned in this challenging environment, and the fund is poised to benefit as the markets stabilize." **WP**



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infrastructure that the Harvest team has observed. HTA is invested in companies that focus on software as a service models, such as Microsoft, Adobe and Salesforce, as well as companies like Intel and Cisco that will benefit from increased spending on data centres. They're also looking at hidden gems like Akamai Technologies, which provides solutions to streamline high-quantity and -quality data transfers. Some of Akamai's

normal, I don't think there's any question that technology will play an equivalent, if not more important, role in our day-to-day lives. I think as the bottom is found in the market, tech will resume that leadership."

As they look for that bottom, the Harvest investment team is keeping an eye on one set of numbers above any other: the infection, recovery and death rates of COVID-19. They understand that an economy and stock