A first-of-its-kind investment in travel

Harvest ETFs hopes to capitalize on the comeback of the travel industry with its Travel & Leisure ETF – the first fund to offer exposure to all subsectors of the industry

TRAVEL MIGHT not be top of mind for most Canadians right now, but with many travel companies still not near pre-pandemic valuations, Harvest ETFs saw an opportune time to launch an ETF designed as a long play on the industry's recovery.

"We had been looking at the travel industry since 2019," says Harvest president and CEO Michael Kovacs. "We recognized that the industry had been outperforming the S&P 500 for a number of years. We got lucky and didn't launch it in 2019 or going into 2020. When the pandemic hit and many of the stocks were crushed, we said it was a great opportunity to take advantage of some of the values that have come down. It is a recovery type of positioning, and eventually the industry will return to its longer-term growth trends."

On January 14, Harvest launched the Harvest Travel & Leisure Index ETF (TRVL), a market cap index of the 30 largest stocks in the five subsectors of the travel and leisure universe. Harvest partnered with Solactive, which created the index for the ETF.

"Solactive will market-weight it across the 30 stocks, and then if one gets to a maximum weighting of 10%, they will rebalance semi-annually to the market cap in the index," Kovacs explains. "It is fairly index mechanical in that way. There is no subjectivity – it is based on the market cap of these various subsectors of the industry."

Those five subsectors include airlines, cruise companies, booking agencies like Expedia, resorts and casinos, and hotels.

"We did see opportunities in the sector," Kovacs says. "Across these five different areas, a couple, like hotels and resorts/casinos, have

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Michael Kovacs, Harvest ETFs

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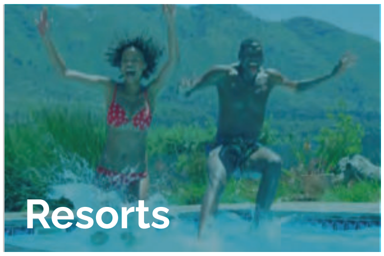
HARVEST TRAVEL & LEISURE INDEX ETF

Travel Demand is Expected to Recover



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come back quicker. Some areas, like cruise lines, we don't expect back to full capacity until 2023, and airlines later this year. I think by the time we get to 2023, we will see a good rebound across all the areas. In setting up the fund, we wanted to position ourselves across these five subsectors and develop an index-based fund with 30 different stocks."

Harvest believes this ETF is the first of its kind worldwide to offer truly diversified travel exposure. Kovacs notes that while there are some travel sector funds in the US, this is the first one diversified across the five subsectors.

"From our research, this seems to be the only one of its kind that is this diversified," he says. "We feel very fortunate. When it started trading, it was getting good activity and inquiries. The concept is a natural one for people to think about: travel, flights, cruises, hotels – something everyone is looking forward to doing again."

On its launch date, the fund was 24% airlines, 31.8% hotels and resorts, and 8.6% cruise lines. The cruise industry is an interesting subsector, not only because it has been hit hard by the pandemic, but also because it is dominated by only a few companies.

"The cruise industry was hammered, but that will change as the industry comes back and the vaccination protocol picks up," Kovacs says. "There are only three cruise companies in the fund: Royal Caribbean, Carnival and Norwegian. They control 72% of the global cruise industry by passenger capacity. They are dominant in the industry. They are global businesses, though North American-listed, like many names in the fund."

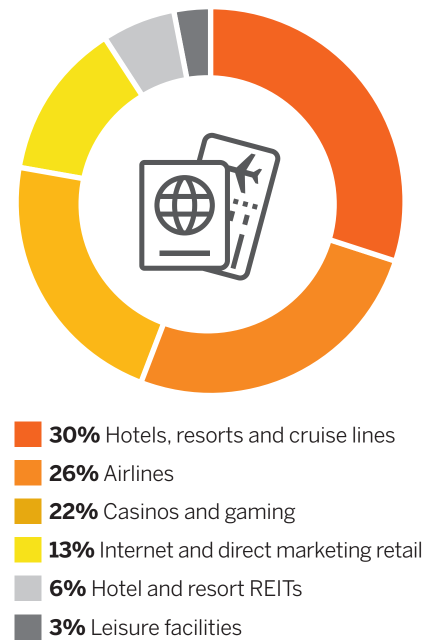
Despite the well-recognized names that make up the fund, there was a bit of trepidation around when to launch it, Kovacs says. As things began to settle down, he recognized that after the first wave of the virus, rebounds in the travel industry would start to emerge.

"We could see some of the rebounds starting to occur in baseline traffic in airlines," he says. "Cruises were shut down, but hotels and casinos started to come back. We knew there was a potential for a second wave, but we thought getting into 2021, we would at some point be at the back end of this pandemic, so the best time to launch would be winter of 2021 as the sectors and markets move before recoveries. It was an opportune time – with some stocks down 50% from pre-pandemic highs, some have moved back to where they were before, but many are still down quite a bit."

The cruise subsector is the one Harvest is keeping a close eye on – not because of any fears, but rather the timing of recovery.

"The cruise lines will be the longest to recover," Kovacs predicts. "We expect airlines to recover by the second half of this year, when you will start to see travel pick up. They are still operating at just 30% compared to pre-pandemic. Cruise lines we see as a 2022 story before it picks up."

TRVL'S SUBSECTOR ALLOCATION



Source: Harvest Portfolios; as of February 4, 2021

While investors might see risks in putting money into the travel industry right now, Kovacs notes that TRVL has the same sector equity risk any fund focusing on one area would have.

"It is a smaller position in a portfolio, something you put in as a position on a rebound in the industry," he says. "These are your top 30 companies in the world for market capitalization, the leaders in the space, so we are comfortable with them. It is just the timing as they rebound and come back as travel picks up."

As for why advisors should consider incorporating TRVL in their portfolios, Kovacs points to a couple factors. "Diversification – it is a consumer discretionary recovery play as the consumer gets back out there," he says. "They will use some new savings towards travel. It is also a growth opportunity with long-term demographic winds in its sails. Eventually, travel and leisure will get back to its longer-term growth trends."

Harvest ETFs are managed by Harvest Portfolios Group Inc.