Six health-care ETFs that could add some immunity to your portfolio

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Health care is a growing sector with aging baby boomers driving demand for medical products and services, while innovation offers new technologies and treatments. The sector is also considered less sensitive to market downturns, as people continue to get sick and age regardless of the economic environment.

Canadians seeking a diversified way to play the health-care sector are turning to exchange-traded funds (ETFs). There are few homegrown options, but plenty of choices in the United States and globally. The Globe asked three experts for their top ETF picks in the health-care sector:

MIKE PHILBRICK, PRESIDENT OF RESOLVE MANAGEMENT

The aging population, rising demand for health care products and services and strong financials among companies in the sector are reflected in ETF prices today, Mr. Philbrick says. "Be careful that all of that growth is not already accounted for," he says. The health-care sector is more robust in times of economic weakness, he adds, "but that doesn't mean there's no circularity." Health care can be subject to the "political whims of the day," Mr. Philbrick says, and cost-cutting by governments. At the same time, he sees "a tremendous amount of innovation in the way we currently deliver health care."

The pick: Harvest Healthcare Leaders Income ETF (HHL-T)

A Canada-based fund with a portfolio of 20 major stocks that are global in nature, Harvest Healthcare Leaders Income provides significant yield, Mr. Philbrick says. At the same time, its managers write covered call options against up to one-third of each of the stocks in the portfolio to generate extra income for distributions, a strategy that is a hedge against potential downturns. There is a hefty management fee, for an ETF, of 0.85 per cent, but it costs much more for investors to do covered-call writing outside of such a fund, he says.

The pick: First Trust U.S. Health Care Sector Index ETF (FHH-T)

Mr. Philbrick likes funds like this that include small and mid-size capitalizations and small positions in companies, which means they "have an opportunity for greater growth and should provide greater returns." This ETF will appeal to those with a "long term view of investing," he says. It has a fee of 0.70 per cent and has been underperforming in the last five years, he notes, but he's not put off because its management "thinks of where the puck might go to."

ELISABETH KASHNER, DIRECTOR OF ETF RESEARCH AND ANALYTICS AT FACTSET

The health-care ETF field is divided into broad-based and niche markets, Ms. Kashner says, which each have their attributes for investors. "The U.S. offers cheaper access than Canada at this time," she says. At the same time, many ETFs south of the border include international holdings.

The pick: Vanguard Health Care ETF (VHT-A)

A broad-based fund that has a low degree of active risk, the massive Vanguard Health Care ETF "does the best job of the funds in reflecting the entirety of the U.S. health care market," Ms. Kashner says, while its holdings are also 37.5 per cent international. This low-priced ETF, with a management fee of just 0.10 per cent, includes small and mid-caps as well as large caps. "You shouldn't narrow down the opportunity unless you have a good reason to do it," she says.

The pick: VanEck Victors Biotech ETF (BBH-Q)

This isn't the biggest or best-known niche biotech fund out there, Ms. Kashner says, but it "does a good job of reflecting the global biotech market." It has a reasonable management fee of 0.35 per cent (tied for the lowest among biotech ETFs) and includes mostly U.S. securities. It has some global revenue exposure, as well as a reasonably large exposure to pharmaceuticals. "The line between biotech and traditional health care is getting more blurred all the time," she says.

JOHN HOOD, PRESIDENT AND PORTFOLIO MANAGER OF J.C. HOOD INVESTMENT COUNSEL

Health care "is a demographic play," says Mr. Hood, who looks for diversification in health care ETFs. With most of the action in the U.S., "I'm avoiding big pharma, simply because of litigation," he says. "Everybody's suing everybody down there." He especially likes ETFs in the sector that emphasize health-care providers as well as equipment providers, and that come with as low a cost as possible.

The pick: BMO Equal Weight US Healthcare Hedged to CAD ETF (ZUH-T)

Mr. Hood likes the significant growth available in the BMO Equal Weight US Healthcare ETF. "It has very good diversification and it's also U.S.-dollar hedged," he says. He appreciates ETFs that come at an even lower cost than the fee of 0.35 per cent charged here. "But I will pay up for some of them if I think they're worth it."

The pick: U.S. Medical Devices iShares ETF (IHI-A)

The U.S. Medical Devices iShares ETF has targeted exposure to U.S. companies that manufacture and distribute medical devices, which is a growing side of the health care market, Mr. Hood says. This ETF has an expense fee of 0.43 per cent, which makes it relatively expensive in Mr. Hood's books. "But medical devices have actually done quite well of late," he says.

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