

The Washington Post

SUNDAY, FEBRUARY 17, 2019

BUSINESS

Pet project: Dog devotee Steve Cohen is investing in what he knows and loves

One of the most difficult things I have done in life was putting to sleep my yellow Labrador retriever. He was my friend and companion for 11 years.

A decade on, I am still not over losing Babe. I haven't replaced the "Little Guy," as my wife and I called him. He was irreplaceable. You pet owners out there understand.



Value Added

THOMAS HEATH

My wife, Polly, and I became part of the dog-based subculture in my old neighborhood, thanks to Babe. We all loved our pets, gathering every weekend in a park to let our dogs run wild. I knew neighbors solely based on their dog's name. "You're Frisbee's dad," I said to one friend.

I am telling you this because there is nothing I wouldn't have done for Babe. No price point was too great. When his joints failed him, I boosted him by his rear end into the back seat of my Honda every weekend, and we drove 45 minutes to an indoor dog swimming pool, where he could paddle around and get exercise without pain. (I wrote about that, too.) As he declined, I spent whatever it took to make him feel better.

I have never regretted spending a cent.

Steve Cohen knows there are millions of people like me. He has created a financial instrument — known as an exchange-traded fund, or ETF — specifically to invest in pet industry companies.

"While pets are great companions, they are also big business," said Cohen, a fellow dog-lover and card-carrying member of the



SARAH L. VOISIN/THE WASHINGTON POST

Steve Cohen and his Boykin spaniel and Weimaraner at a park in Chevy Chase, Md. Cohen helped start the fund ProShares Pet care ETF.

Chevy Chase dog subculture.

Steve is a managing director at ProShares, a Bethesda-based ETF company. He is 58, and has two dogs: an 11-year-old Boykin spaniel named Willy and a 2-year-old Weimaraner, appropriately named Greta for her Germanic heritage.

Pet Care ETF might sound gimmicky — its ticker is PAWZ — but finance is full of off-the-wall moneymakers.

"There's definitely a great deal of interest from the investment community looking for exposure to the pet space," said

Joe Altobello, a pet industry analyst with Raymond James. "You're looking at \$90 billion spent in the U.S. annually. And it is growing nicely, for a number of reasons. Pet ownership is rising, and with an aging population, there are a lot of empty-nesters. People are treating pets more like humans, and pets are living longer."

An exchange-traded fund is much like a mutual fund, in that it contains, in this case, stock shares representing a group of publicly held companies. An ETF investor gets a small piece of each company when he

or she buys into the fund. Unlike a mutual fund, however, ETFs can be bought and sold throughout the day like stocks and bonds. Mutual funds can be bought or sold only at the end of each trading day.

The ProShares Pet Care ETF went public in November. It has \$19.8 million invested in 24 companies around the globe as of Dec. 31, 2018, according to the ProShares website. It is listed as an “index,” which means it has broad holdings meant to mimic the overall returns of the pet business.

The average market cap of its companies is \$17.9 billion. There are some familiar brand names in Pet Care ETF. I had no idea that chocolate giant Nestle sells Purina Dog Chow. And hot-fudge maker J.M. Smucker Co. owns Milk-Bone. Even toothpaste company Colgate-Palmolive has a pet business making nutritional dog food.

“We have picked out 24 companies catering to this market,” said Cohen, who is himself an investor.

Pet Care ETF isn’t cheap. It charges clients 0.5 percent annually — or one-half of 1 percent of the amount you have invested in the fund. That means a \$10,000 investment will cost \$50 a year in fees. By contrast, mutual fund giant Vanguard Group, with \$5.3 trillion in assets, averages 0.1 percent in fees.

My wife and I do not own any ETFs. We own mostly mutual index funds, boring vanilla investments that are supercheap. We also own a handful of stocks.

I asked Daniel P. Wiener, chairman of Adviser Investments, a Newton, Mass.-based firm that manages \$5 billion in assets, what he thought of a pet care ETF.

“It’s a niche,” said Wiener, who also edits the Independent Adviser for Vanguard Investors, a monthly newsletter. “ETFs focused on niche markets are ‘let’s throw it against the wall and see if it sticks’ products,” he said.

Cohen said the Pet Care ETF appeals to people’s passion and connects them to something they love and know firsthand.

“You know how you walk into Starbucks and see all your friends and think, ‘I should probably invest in that.’ This is the same thing,” Cohen said. “You go to a dog park, you are spending all this money. People are talking about spending \$100 on dog food.”

When he described his Pet Care fund idea to friends at the dog park, “they said it was a no-brainer.”

Like any smart investor, Cohen and his team have run the numbers and done their homework. For example, 84.6 million households, about 68 percent of the United States, have pets. Most pet owners, 95 percent, consider their pet part of the family.

“The thing that is going to make this more profitable is the millennials,” said Bob Vetere, president of the American Pet Products Association. “Millennials are turning to pets as practice families, so if they have pets and can keep it going, then they can probably do it with kids. Some

millennials are shying away from kids and committing themselves completely to pets. That kind of momentum is going to make up for us baby boomers.”

Cohen said the creation of Pet Care ETF is in keeping with the dictum of legendary investor Peter Lynch, who ran the Magellan Fund at Fidelity Investments from 1977 to 1990.

“Lynch said invest in what you know,” Cohen said.

Cohen knows dogs.

Greta, the Weimaraner, is partial to peanut-butter-stuffed Kongs and Go Dog toys. She loves running through Rock Creek Park, staring out the window at squirrels and passersby while eagerly awaiting her owner’s return.

Cohen and Willy are inseparable. Willy has even accompanied his owner on business trips to New York, where the spaniel stays with him at the historic Algonquin Hotel.

For his 50th birthday, Cohen was given a portrait of him and Willy, rather than his human family of wife and three kids. Willy has a tennis ball in his mouth.

Willy knows some good tricks, too.

“He can sneeze on command,” Cohen said, proudly. He will also lick his owner’s face on command. The smooching is why Willy gets a fancy toothpaste: Nylabone Advanced Oral Care, chicken-flavored.

What could be better?

thomas.heath@washpost.com

Disclosure:

Any forward-looking statements herein are based on expectations of ProShare Advisors LLC at this time. Whether or not actual results and developments will conform to ProShare Advisors LLC's expectations and predictions, however, is subject to a number of risks and uncertainties, including general economic, market and business conditions, changes in laws or regulations or other actions made by governmental authorities or regulatory bodies, and other world economic and political developments. ProShare Advisors LLC undertakes no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Shares of the fund are bought and sold at market price (not NAV) and are not individually redeemed from the fund. Brokerage commissions will reduce returns.

There is no guarantee any ProShares ETF will achieve its investment objective.

Investing involves risk, including the possible loss of principal. This ProShares ETF is non-diversified and entails certain risks, including imperfect benchmark correlation and market price variance, that may decrease performance. Please see summary and full [prospectuses](#) for a more complete description of risks.

The fund is subject to the risks faced by companies in the pet care industry. Although the pet care industry has historically seen steady growth and has been resilient to economic downturns, these trends may not continue or may reverse. Consumer tastes and preferences are difficult to forecast. Changing consumer preferences could have a negative impact on the revenue streams of companies in the pet care industry. Many companies in the pet care industry are small, independent producers and retailers.

Investments in smaller companies typically exhibit higher volatility. Smaller company stocks also may trade at greater spreads or lower trading volumes, and may be less liquid than stocks of larger companies.

The fund concentrates its investments in certain sectors. Narrowly focused investments typically exhibit higher volatility.

ProShares does not actively select stock holdings for the ProShares Pet Care ETF ("PAWZ"). Rather, PAWZ seeks investment results, before fees and expenses, that track the performance of the FactSet Pet Care Index, which is owned and administered by FactSet Research Systems, Inc.

PAWZ has holdings in Colgate-Palmolive (4.35%), Nestle (4.57%) and JM Smucker (1.66%) as of 2/28/2019. For a complete list of holdings, please click [here](#).

The "FactSet Pet Care Index" and "FactSet" are trademarks of FactSet Research Systems Inc. and have been licensed for use by ProShares. ProShares have not been passed on by these entities or their affiliates as to their legality or suitability. ProShares based on the FactSet Pet Care Index are not sponsored, endorsed, sold, or promoted by FactSet Research Systems Inc., and it makes no representation regarding the advisability of investing in ProShares. THIS ENTITY AND ITS AFFILIATES MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO PROSHARES. FactSet Research Systems Inc. does not guarantee the accuracy and/or the completeness of the FactSet Pet Care Index or any data included therein, and FactSet Research Systems Inc. shall have no liability for any errors, omissions, or interruptions therein.

Carefully consider the investment objectives, risks, charges and expenses of ProShares before investing. This and other information can be found in their summary and full [prospectuses](#). Read them carefully before investing.

ProShares are distributed by SEI Investments Distribution Co., which is not affiliated with the fund's advisor.
© 2019 PSA RE-2019-1659