The **PACER PERSPECTIVE**

February 2023

Sailing Abroad: Identifying International Value Investing Opportunities

– Danke Wang, Portfolio Manager

Most investors admit they don't have enough international exposure in their portfolios. However, many believe there may be a significant opportunity in the international space going forward.

Key Takeaways

- US equities' outperformance compared to international stocks over the past 15 years does not justify continuing to overweight US stocks in the future.
- With headwinds facing US equities, international markets may offer better growth, valuation, and income-potential.
- A recent strong US dollar has contributed negatively to international investing. A weaker dollar could reverse the currency impact and favor investing globally.
- High free cash flow yielding stocks in the international space provide a unique opportunity because of their high income-potential and cheap valuation.[1]

International vs. Domestic Stocks Historically

The table below shows the equity allocation of US stocks relative to international stocks among investors of different age groups. On average, US investors still allocate more than 80% of their equity holdings to the US stocks.

Age	U.S. Stocks	International Stocks
20s	85.2%	14.8%
30s	81.7%	18.3%
40s	81.8%	18.2%
50s	82.2%	17.8%
60s	81.8%	18.2%
70s	83.5%	16.5%
80s	85.0%	15.0%
90s	88.5%	11.5%

https://www.personalcapital.com/blog/investing-markets/average-portfolio-mix-by-investor-age/ July 6, 2021

This overconcentration of US equities is sometimes explained as home country bias or the tendency of equity investors to favor domestic stocks over stocks based in foreign countries.

(1)Free cash flow yield (free cash flow/enterprise value) is an internal statistic and does not constitute investor yield.

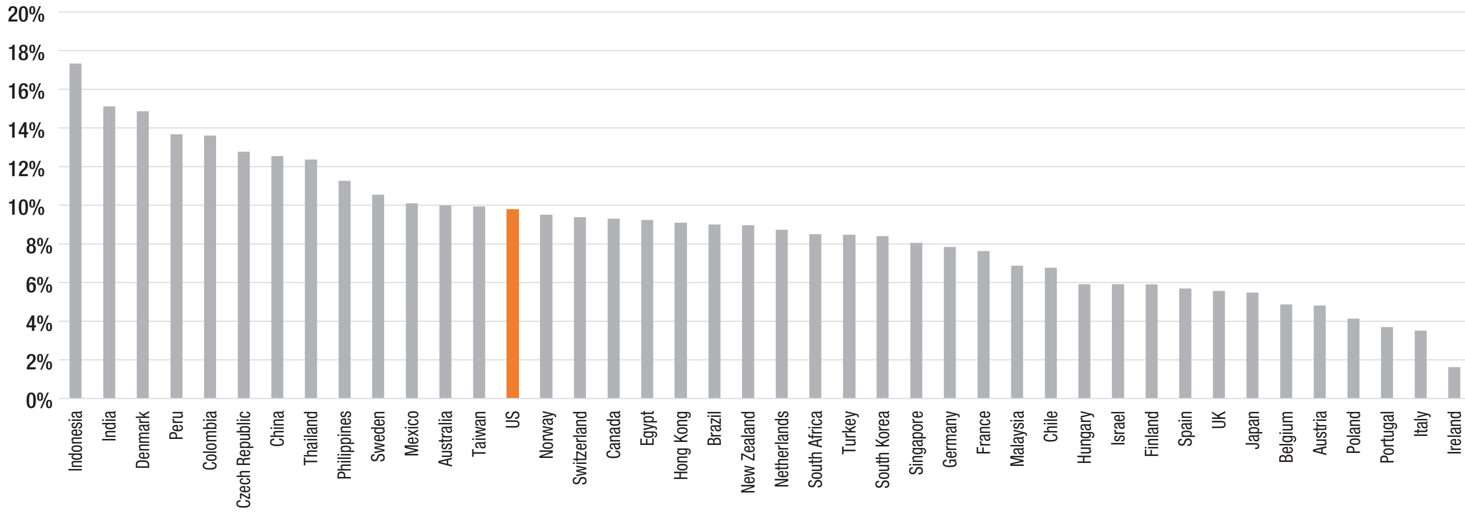
PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. YOU CANNOT INVEST IN AN INDEX.

Since the financial crisis in 2008, US equities have outperformed international stocks by a large margin. Such outperformance almost justifies investors' focus on the US market. Because if you haven't allocated most of your money to US stocks over the past 10+ years, you may be lagging behind your peers who have.

However, looking at the past 20 years of stock market performance by country, the US is not even in the top 10.

Stock Market Performance by Country

2003 - 2022



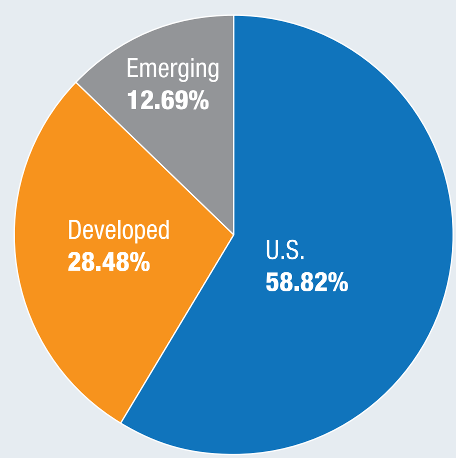
Source: https://novelinvestor.com/historical-returns/

Furthermore, in the FTSE All-World Index, 40%+ of its holdings are international (28% developed market, 12% emerging market).

Frankly, the opportunity set in the international equities is too big to ignore.

FTSE All World Index Weight by Region

as of 1/31/2023

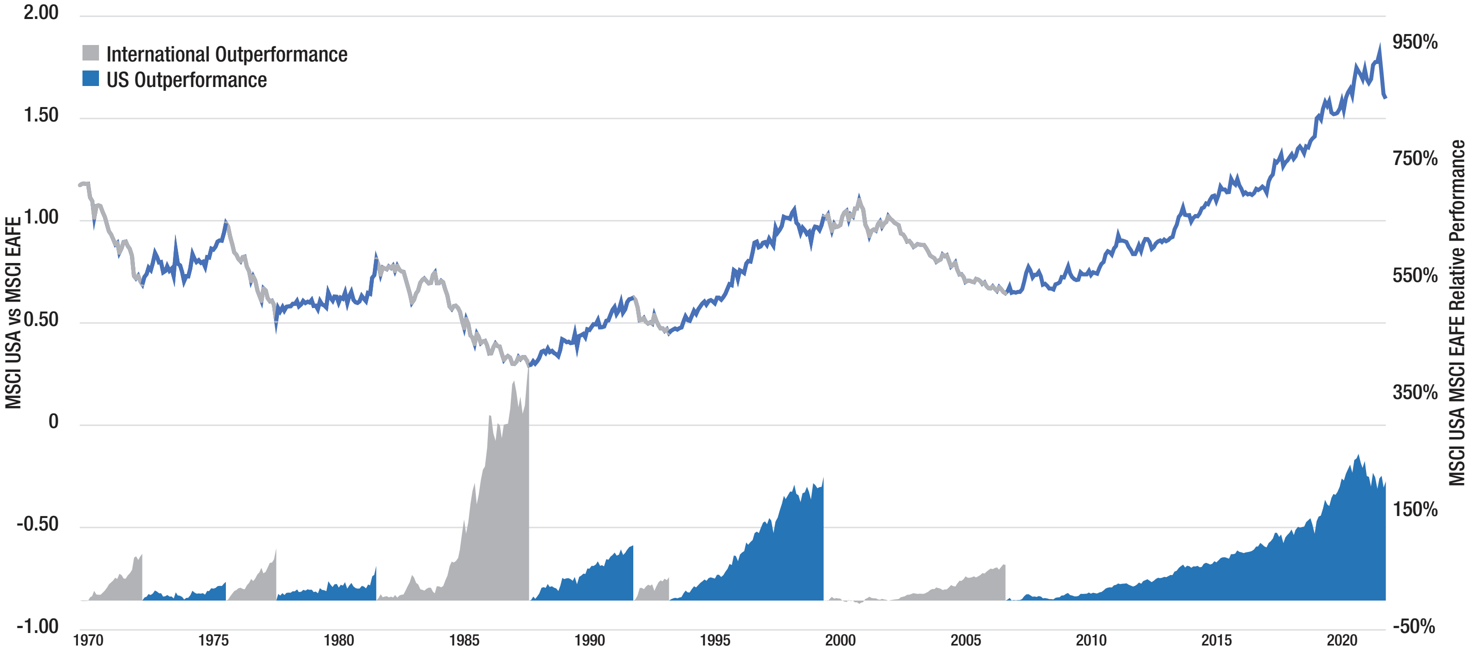


Source: FactSet

Historically, the relative performance of US versus international equities has been cyclical. Those cycle durations range from as short as 1.5 years to 15 years, with the latter being the most recent US outperforming cycle. However, historically the average cycle lasts about five years.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. YOU CANNOT INVEST IN AN INDEX.

US and Non-US Equity Markets Change Leadership Position
12/31/1970 - 1/31/2023



Source: Bloomberg, Pacer Advisors

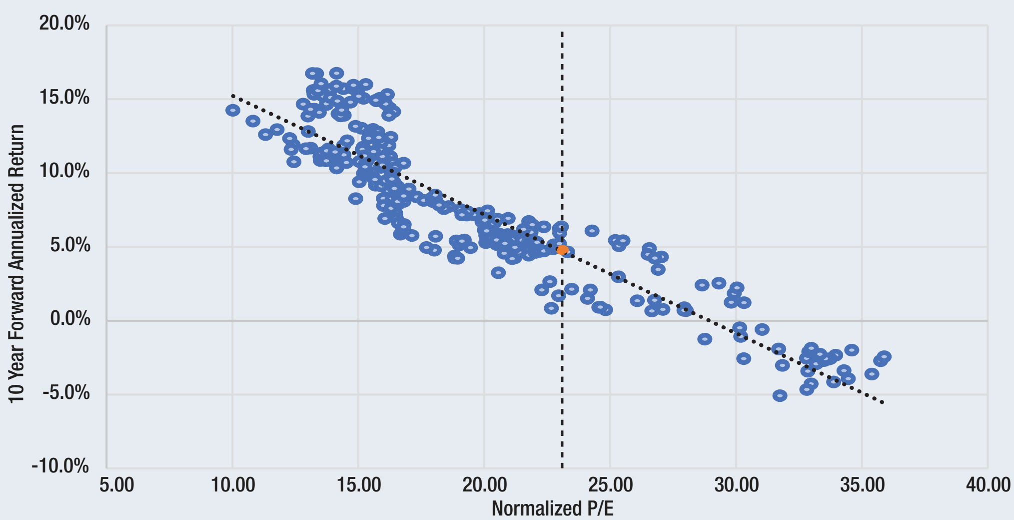
In the past 15 years, the S&P 500 has had an annualized return of 8.8%. The higher relative strength of US stocks can be explained by a relatively strong economy, low interest rates, and leadership in high-growth companies.

Now, after the Fed's most aggressive rate hikes in 2022 and with the long-duration growth companies facing headwinds, people may be wondering if this is the beginning of a new cycle. Notably, US corporations are vulnerable to earnings downgrades in 2023 (we have seen more downside revisions since Q2 2022), indicating that US equities are still expensive.

The current S&P 500 normalized price/earnings ([P/E ratio based on the long-term earnings per share trend]) of 23x implies 5% yearly annualized returns over the next ten years based on the historical relationship of valuations and forward returns. (However, we can't predict future performance.)

Source: Bloomberg, Pacer Advisors

10-Year Forward Return vs Valuation
12/31/1987 - 1/31/2023



PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. YOU CANNOT INVEST IN AN INDEX.

Are The Tides Changing?

While it is almost impossible to predict the exact timing of a trend reversal, certain features make international markets more appealing.

Specifically, international equities have more attractive valuations based on dividends, earnings, and free cash flow (FCF).

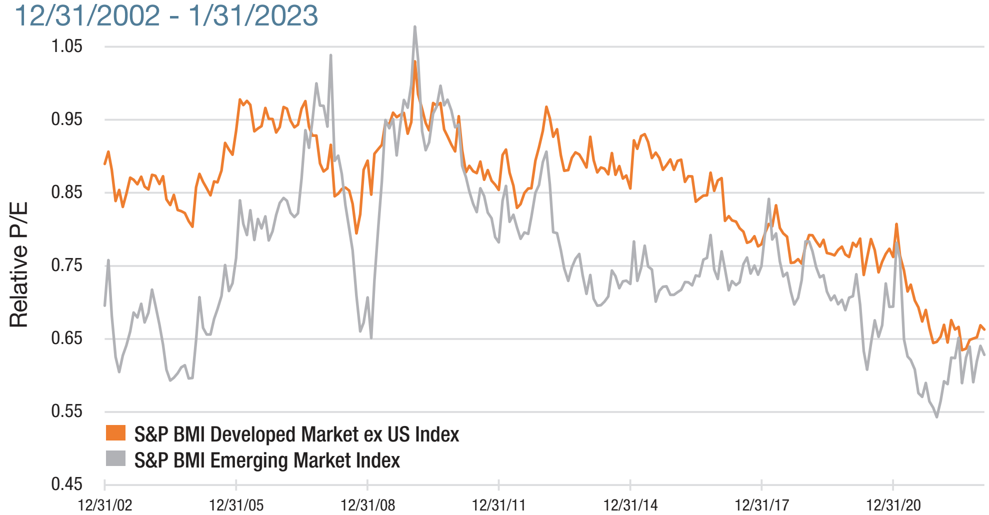
As of 1/31/2023, international equities are trading at close to the largest discount to the US since the early 2000s. International equities offer more than a 1.5% yield premium relative to the US, highlighting that income-seeking investors may want to [search for yield abroad].

Though we have seen some early signs of US equity earnings weakness, international equity earnings are showing greater potential. Particularly China's reopening, the peak of the Fed's rate policy, and a potential weak dollar may support higher growth in the emerging markets.

As we emerge from the pandemic, the cyclical tailwinds for international equities and support from valuations could fuel a period of international outperformance ahead (though we can't predict future performance).

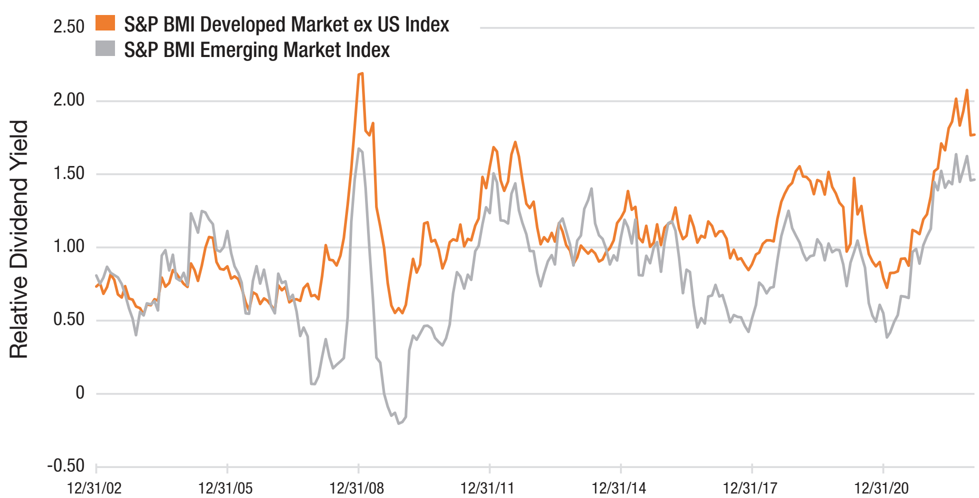
International Forward P/E relative to the US

12/31/2002 - 1/31/2023



International Dividend Yield relative to the US

12/31/2002 - 1/31/2023



International Free Cash Flow Yield relative to the US

12/31/2002 - 1/31/2023

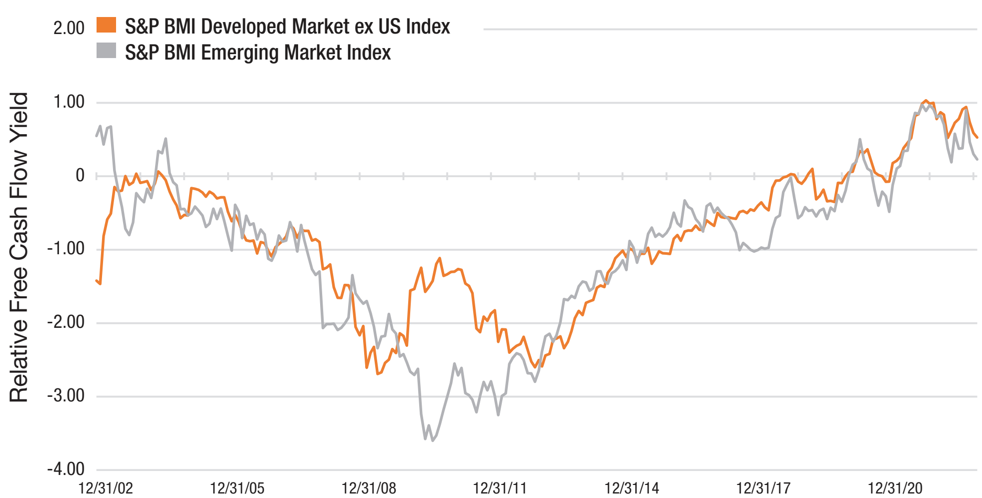
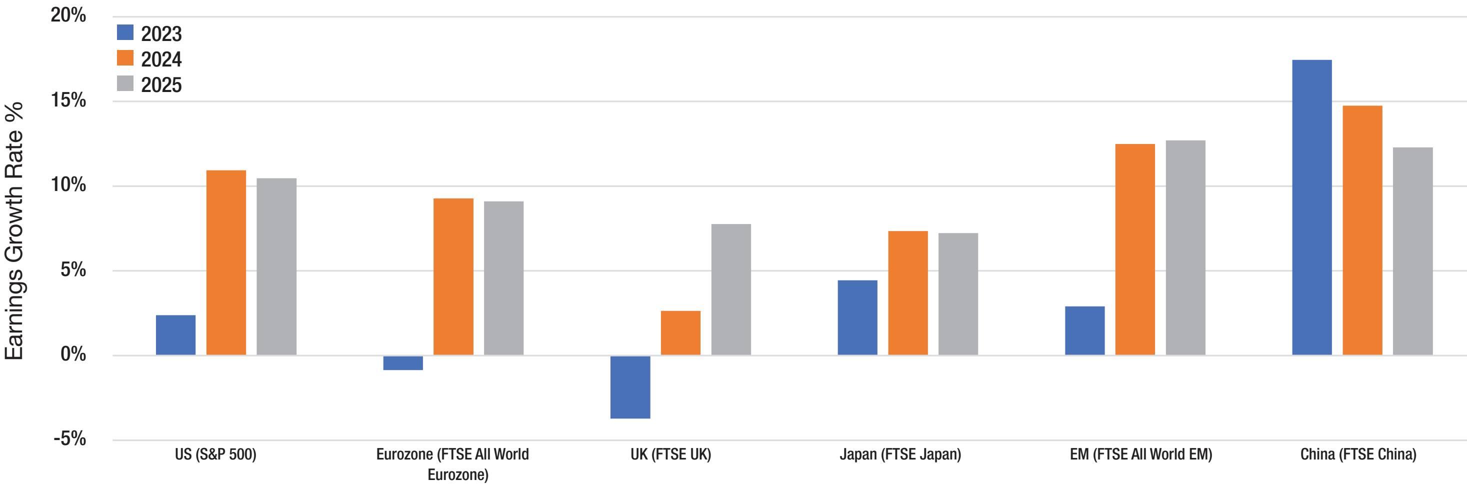


Chart source(s): Factset

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. YOU CANNOT INVEST IN AN INDEX.

Earnings Growth Estimate
as of 1/31/2023



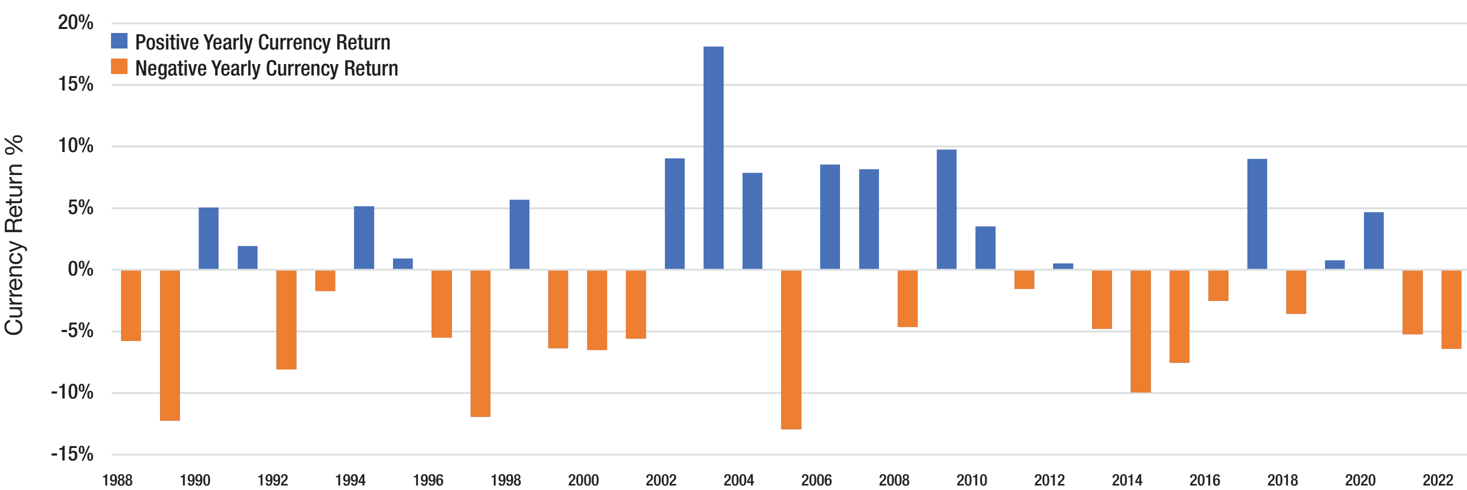
Source: Bloomberg, Pacer Advisors

The Dollar's Impact on International Investing

One of the major concerns of investing in international stocks is currency risk, or the risk from the change in price of one currency in relation to another. A strong dollar in 2021 and 2022 has resulted in a negative currency impact on a global portfolio.

The chart below shows the yearly currency impact (US Dollar return minus Local currency return) when investing in a portfolio tracking the MSCI ACWI ex-US index. The returns introduced by the currency fluctuation are not necessarily negative all the time. When the USD was weakening, the currency translation actually boosted the investment return by more than 5% a year.

Currency Return on International Investing (US Dollar return minus Local currency return)
1988 - 2022



Source: Bloomberg

After appreciating for two years, the US dollar has turned lower in Q4 2022 as the Fed's hiking cycle slowed. When international growth starts to pick up, further downside pressure could exist on the dollar, which might provide a tailwind for international investing.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. YOU CANNOT INVEST IN AN INDEX.

US Dollar Spot Index
1/31/1967 - 1/31/2023

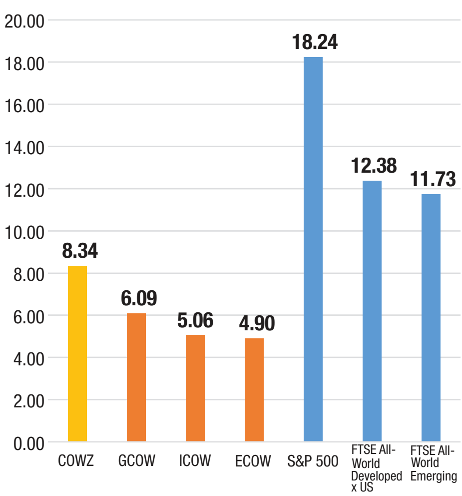
Source: Bloomberg

The Dollar's Impact on International Investing

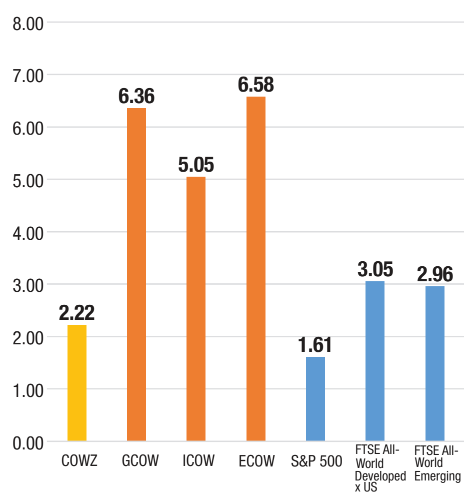
Despite the widening valuation between the US and international markets mentioned earlier, what's even more striking is how inexpensive FCF-oriented value stocks outside the US have become.

Pacer Global Cash Cows Dividend ETF (GCOW), Pacer Developed Market International Cash Cows 100 ETF (ICOW), and Pacer Emerging Market Cash Cows 100 ETF (ECOW) portfolios offer high free cash flow yield (double-digit for ICOW and ECOW), P/E multiples less than 7, and dividend yields greater than 5%.

Forward P/E as of 1/31/2023



Dividend Yield as of 1/31/2023



Free Cash Flow Yield as of 1/31/2023

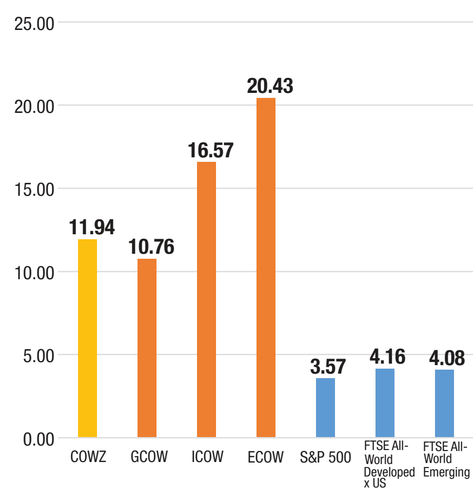


Chart Source(s): Factset. Dividends are not guaranteed.

Though US equities have outperformed international stocks for the last 15 years, tides have started to change for the investment case in the developed and emerging international markets.

GCOW, ICOW, and ECOW search for quality and value in developed and emerging international markets by screening for companies with high free cash flow yields and dividend yield (extra screen in GCOW strategy). The funds seek to offer attractive valuations and income-potential.

For investors interested in diversifying outside the US, risk mitigation in the form of valuations and income may be the way to go in the current environment.

PACER CASH COWS INDEX® ETF SERIES, INTERNATIONAL SELECTION:

GCOW

Pacer Global Cash Cows Dividend ETF

ICOW

Pacer Developed Markets International Cash Cows 100 ETF

ECOW

Pacer Emerging Markets Cash Cows 100 ETF

Performance
as of 1/31/23

					Total Returns (%) as of 1/31/23			Total Returns (%) as of 12/31/22			
	Ticker	Total Expenses	Fund Inception		1 Month	3 Month	YTD	1 Year	3 Year	5 Year	Since Fund Inception
Pacer Developed Markets International Cash Cows 100 ETF	ICOW	0.65%	6/16/17	NAV	6.69	18.58	6.69	-7.43	3.33	2.31	4.66
				Market Price	7.70	19.03	7.70	-7.90	3.27	1.74	4.63
Pacer Developed Markets International Cash Cows 100 Index					6.93	18.73	6.93	-7.23	4.17	3.14	5.56
Pacer Global Cash Cows Dividend ETF	GCOW	0.60%	2/22/16	NAV	5.87	18.03	5.87	6.09	5.04	4.71	7.69
				Market Price	6.49	18.43	6.49	5.52	4.96	4.62	7.64
Pacer Global Cash Cows Dividend Index					5.99	18.03	5.99	6.56	5.81	5.51	8.59
Pacer Global Cash Cows Dividend Price Return Index					5.87	17.31	5.87	1.52	0.78	0.67	3.88
Pacer Emerging Markets Cash Cows 100 ETF	ECOW	0.70%	5/2/19	NAV	5.95	19.51	5.95	-19.34	-5.68	N/A	-1.96
				Market Price	6.62	19.82	6.62	-19.13	-5.41	N/A	-1.78
Pacer Emerging Markets Cash Cows 100 Index					6.04	20.45	6.04	-17.72	-4.34	0.25	-0.64

Returns less than 1 year are cumulative. Returns greater than 1 year are annualized.
Performance quoted represents past performance and does not guarantee future results. Investment return and principal value will fluctuate, so shares may be worth more or less when redeemed or sold. Current performance may be lower or higher than the performance quoted. Visit http://www.paceretfs.com for the most recent month-end performance. Index returns are for illustrative purposes only. Index performance does not reflect any management fees, transaction costs, or expenses. You cannot invest directly in an index.
NAV (net asset value) is the value of one share of the Fund calculated daily. The NAV return is based on the NAV of the Fund. It may not reflect the actual return for the investor.
Market Price is the price investors can buy and sell ETF shares for in the stock market and is used to calculate market return. It is based on the price at the listed exchange market close. This is when NAV is determined for most ETFs. If shares trade at another time, the return may differ. Market and NAV returns assume that dividends and capital gain distributions have been reinvested in the Fund at Market Price and NAV respectively.

Free Cash Flow (FCF): A company's cash flow from operations minus capital expenditures (expenses, interest, taxes, and long-term investments)
Free Cash Flow Yield: FCF/EV. Measures a company's total free cash flow relative to its enterprise value. This is an internal statistic and does not constitute investor yield.
P/E: price-to-earnings ratio is the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS).
Forward P/E: Forward price-to-earnings is a version of the ratio of price-to-earnings (P/E) that uses forecasted earnings for the P/E calculation.
Dividend Yield: The dividend yield is a financial ratio (dividend/price) that shows how much a company pays out in dividends each year relative to its stock price.
Dividends are not guaranteed.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. YOU CANNOT INVEST IN AN INDEX.

Visit **www.paceretfs.com** or call **1-877-337-0500** to learn more.

Before investing you should carefully consider the Fund's investment objectives, risks, charges, and expenses. This and other information is in the prospectus. A copy may be obtained by visiting www.paceretfs.com or calling 1-877-337-0500. Please read the prospectus carefully before investing.

An investment in the Funds is subject to investment risk, including the possible loss of principal. Pacer ETF shares may be bought and sold on an exchange through a brokerage account. Brokerage commissions and ETF expenses will reduce investment returns. There can be no assurance that an active trading market for ETF shares will be developed or maintained. The risks associated with this fund are detailed in the prospectus and could include factors such as calculation methodology risk, concentration risk, equity market risk,ETF risks, high portfolio turnover risk, smaller companies risk, passive investment risk, tracking risk, sector risk, style risk, and/or special risks of exchange traded funds.

This document does not take into account any investor's particular investment objectives, strategies, tax status, or investment horizon. Please consult with your financial advisor and tax advisor before investing.

This document is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. This document represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. The user of this information assumes the entire risk of any use made of the information provided herein. There is no guarantee this strategy will be successful.

S&P Developed Ex-U.S. BMI: The index is a member of the S&P Global BMI series, and captures all companies from developed markets excluding the United States.
S&P BMI Emerging Market Index: The index is a member of the S&P Global BMI series, and captures all companies domiciled in the emerging markets within the S&P Global BMI with a float-adjusted market capitalization of at least USD 100 million meeting 6- and 12-month median value traded requirements.
S&P 500 Index: The index includes 500 leading companies and covers approximately 80% of available market capitalization.
FTSE All World Eurozone Index: The index comprises large and mid cap stocks in Eurozone markets. The index is part of FTSE All-World Index.
FTSE UK Index: The index comprises large and mid cap stocks in United Kingdom. The index is part of FTSE All-World Index.
FTSE Japan Index: The index comprises large and mid cap stocks in Japan. The index is part of FTSE All-World Index.
FTSE All World EM (Emerging Market) Index: The index comprises large and mid cap stocks in emerging market. The index is part of FTSE All-World Index.
FTSE China Index: The index comprises large and mid cap stocks in China. The index is part of FTSE All-World Index.
MSCI USA Index: The index is designed to measure the performance of the large and mid cap segments of the US market.
MSCI EAFE Index: The index captures large and mid cap representation across 21 Developed Markets countries around the world, excluding the US and Canada.
MSCI ACWI ex-US Index: The index captures large and mid cap representation across Developed Markets (DM) countries (excluding the US) and Emerging Markets (EM) countries. The index covers approximately 85% of the global equity opportunity set outside the US.

Source: FTSE International Limited ("FTSE") © FTSE 2022. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under licence. All rights in the FTSE indices and / or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and / or FTSE ratings or underlying data and no party may rely on any FTSE indices, ratings and / or data underlying data contained in this communication. No further distribution of FTSE Data is permitted without FTSE's express written consent. FTSE does not promote, sponsor or endorse the content of this communication.

Cash Cows Index® is a registered trademark of Index Design Group, LLC.

Distributor: Pacer Financial, Inc., member FINRA, SIPC, an affiliate of Pacer Advisors, Inc.

NOT FDIC INSURED I MAY LOSE VALUE I NOT BANK GUARANTEED

PCR_PPFeb23

PACER ETFs

877-337-0500 ▪ **www.paceretfs.com**