

**Pacer Wealthshield ETF (PWS)**  
a series of Pacer Funds Trust

Supplement dated May 4, 2023 to the  
Statement of Additional Information (“SAI”)  
dated August 31, 2022, as previously supplemented

The following paragraph supplements the section of the SAI entitled “PURCHASE AND REDEMPTION OF SHARES IN CREATION UNITS — Procedures for Purchase of Creation Units”:

During periods when the Deposit Securities for PWS consist of U.S. Treasury bonds maturing in 20 or more years, the order cut-off time for orders to purchase Shares of PWS for cash is expected to be 12:00 p.m. Eastern Time, which time may be modified by a Fund from time-to-time by amendment to the Participant Agreement and/or applicable order form.

The following paragraph supplements the section of the SAI entitled “PURCHASE AND REDEMPTION OF SHARES IN CREATION UNITS — Procedures for Redemption of Creation Units”:

During periods when the Fund Securities for PWS consist of U.S. Treasury bonds maturing in 20 or more years, the order cut-off time for orders to redeem Shares of PWS for cash is expected to be 12:00 p.m. Eastern Time, which time may be modified by a Fund from time-to-time by amendment to the Participant Agreement and/or applicable order form.

**Please retain this Supplement with your SAI for future reference.**

|      |   |      |   |
|------|---|------|---|
| PTLC | Pacer Trendpilot <sup>®</sup> US Large Cap ETF          | GCOW | Pacer Global Cash Cows Dividend ETF                     |
| PTMC | Pacer Trendpilot <sup>®</sup> US Mid Cap ETF            |      |   |
| PTNQ | Pacer Trendpilot <sup>®</sup> 100 ETF                   | COWZ | Pacer US Cash Cows 100 ETF                              |
| PTEU | Pacer Trendpilot <sup>®</sup> European Index ETF        | CALF | Pacer US Small Cap Cash Cows 100 ETF                    |
|      |   | ICOW | Pacer Developed Markets International Cash Cows 100 ETF |
| PAEU | Pacer Autopilot Hedged European Index ETF               | VIRS | Pacer BioThreat Strategy ETF                            |
| PIEL | Pacer International Export Leaders ETF                  |      |   |
| PWS  | Pacer WealthShield ETF                                  |      |   |
| SZNG | Pacer CFRA-Stovall Global Seasonal Rotation ETF         | AFTY | Pacer CSOP FTSE China A50 ETF                           |
| SZNE | Pacer CFRA-Stovall Equal Weight Seasonal Rotation ETF   | PTBD | Pacer Trendpilot <sup>®</sup> US Bond ETF               |
| ROOM | Pacer Hotel & Lodging Real Estate ETF                   | PTIN | Pacer Trendpilot <sup>®</sup> International ETF         |
| RXRE | Pacer Healthcare Real Estate ETF                        | TRND | Pacer Trendpilot <sup>®</sup> Fund of Funds ETF         |
| INDS | Pacer Industrial Real Estate ETF                        | BUL  | Pacer US Cash Cows Growth ETF                           |
| SRVR | Pacer Data & Infrastructure Real Estate ETF             | ALTL | Pacer Lunt Large Cap Alternator ETF                     |
| PAD  | Pacer Apartments & Residential Real Estate ETF          | PAMC | Pacer Lunt MidCap Multi-Factor Alternator ETF           |
| PEXL | Pacer US Export Leaders ETF                             | PALC | Pacer Lunt Large Cap Multi-Factor Alternator ETF        |
| FLRT | Pacer Pacific Asset Floating Rate High Income ETF       |      |   |
| TRPL | Pacer Metaurus US Large Cap Dividend Multiplier 300 ETF |      |   |
| QDPL | Pacer Metaurus US Large Cap Dividend Multiplier 400 ETF |      |   |
| ECOW | Pacer Emerging Markets Cash Cows 100 ETF                | HERD | Pacer Cash Cows Fund of Funds ETF                       |

(the “Funds”)

**Supplement dated April 27, 2023 to the  
Statement of Additional Information (“SAI”), dated August 31, 2022,  
as previously supplemented**

*Effective April 17, 2023, Justin Dausch resigned from his role as Chief Compliance Officer and AML Officer of Pacer Funds Trust (the “Trust”). All references to Mr. Dausch should be disregarded. Effective April 27, 2023, the Board elected Liam Clarke as Chief Compliance Officer and AML Officer of the Trust. Accordingly, the table in the “Principal Officers of the Trust” section of the SAI is hereby removed and replaced with the following:*

**Principal Officers of the Trust.** The officers of the Trust conduct and supervise its daily business. The address of each officer of the Trust, unless otherwise indicated below, is c/o Pacer Advisors, Inc., 500 Chesterfield Parkway, Malvern, Pennsylvania 19355.

| Name and Year of Birth  | Position(s) Held with Funds                                   | Term of Office and Length of Time Served | Principal Occupation(s) During Past Five Years   |
|---|---|--|--|
| Joe M. Thomson<br>Born: 1944  | Trustee, Chairman, President, and Principal Executive Officer | Indefinite Term; since 2014              | Founder/President, Pacer Advisors, Inc. (since 2005); President and Chief Compliance Officer, Pacer Financial, Inc. (since 2004)     |
| Sean E. O’Hara<br>Born: 1962  | Treasurer and Principal Financial Officer                     | Indefinite Term; since 2014              | Director, Index Design Group (since 2015); Director, Pacer Financial, Inc. (since 2007); Director, Pacer Advisors, Inc. (since 2007) |
| Bruce Kavanaugh<br>Born: 1964   | Secretary and Portfolio Manager                               | Indefinite Term; since 2016              | Vice President, Pacer Advisors, Inc. (since 2005); Vice President, Pacer Financial, Inc. (since 2004)                                |
| Liam Clarke<br>Gateway Corporate Center<br>Suite 216<br>223 Wilmington West Chester Pike<br>Chadds Ford, PA 19317<br>Born: 1996 | Chief Compliance Officer and AML Officer                      | Indefinite Term; since 2023              | Director, Vigilant, (since 2021); Financial Services Assurance Experienced Associate, PricewaterhouseCoopers, (2018-2021)            |

**Please retain this Supplement with your SAI for future reference.**

**Supplement Dated  
March 9, 2023  
to the  
Pacer Pacific Asset Floating Rate High Income ETF (FLRT)  
a series of Pacer Funds Trust (the “Trust”)**

Summary Prospectus, Prospectus, and Statement of Additional Information (“SAI”),  
each dated August 31, 2022

**Notice of Change in Investment Sub-Adviser**

Pacific Asset Management LLC (“PacificAM”) currently serves as the investment sub-adviser to the Pacer Pacific Asset Floating Rate High Income ETF (the “Fund”). PacificAM is a wholly-owned subsidiary of Pacific Life Insurance Company (“Pacific Life”). In October 2022, Pacific Life entered into a definitive agreement with Aristotle Capital Management, LLC (“Aristotle Capital”), pursuant to which Aristotle Capital will, subject to customary closing conditions, acquire PacificAM (the “Transaction”). The Transaction is expected to be completed by or before the first half of 2023 (the “Closing Date”), at which time PacificAM will become a subsidiary of Aristotle Capital and will be renamed Aristotle Pacific Capital, LLC (“Aristotle Pacific” or the “Sub-Adviser”).

The change in ownership of PacificAM constitutes a change in control of PacificAM that will trigger the automatic termination of the existing investment sub-advisory agreement between the Trust, on behalf of the Fund, PacificAM, and Pacer Advisors, Inc. (“Pacer” or the “Adviser”) dated as of October 14, 2021 (the “Existing Investment Sub-Advisory Agreement”). If the Fund’s shareholders approve the New Investment Sub-Advisory Agreement, Aristotle Pacific (formerly known as PacificAM) will continue to serve as the Fund’s investment sub-adviser effective upon the close of the Transaction. **This change has no impact on Pacer, and Pacer will continue to serve as the Fund’s investment adviser.**

In anticipation of the termination of the Existing Investment Sub-Advisory Agreement, Pacer is seeking to enter into a new investment sub-advisory agreement among the Adviser, the Sub-Adviser, and the Trust, on behalf of the Fund. At a meeting of the Board of Trustees (the “Board”) of the Trust held on March 6, 2023, the Board, including a majority of Trustees who are not “interested persons,” as that term is defined under the Investment Company Act of 1940, as amended (the “1940 Act”) (the “Independent Trustees”), voted unanimously to approve the proposed New Investment Sub-Advisory Agreement, pursuant to which Aristotle Pacific would continue to serve as the investment sub-adviser to the Fund, subject to oversight of Pacer and the Board. The Board also voted unanimously to recommend that shareholders approve the New Investment Sub-Advisory Agreement (the “Proposal”).

Approval of the New Investment Sub-Advisory Agreement is not expected to have any effect on the Fund’s investment policies, strategies, and risks. Bob Boyd, Portfolio Manager and Managing Director of the Sub-Adviser, and Ying Qiu, CFA, Portfolio Manager and Managing Director of the Sub-Adviser, will continue to serve as the primary persons responsible for the day-to-day management of the Fund. In addition, approval of the New Investment Sub-Advisory Agreement by the Fund’s shareholders will not affect the fees or expenses payable by the Fund. Under the New Investment Sub-Advisory Agreement, the Sub-Adviser will continue to be compensated by the Adviser, and not by the Fund.

The Board approved the submission of the Proposal to the Fund’s shareholders for approval. A special meeting of Fund shareholders will be held to consider and vote on the Proposal. Proxy materials will be sent to Fund shareholders with more information about the shareholder meeting and the Proposal.

Please read the Proxy Statement when it is available because it contains important information.

You can obtain free copies of the Fund’s Proxy Statement (when available), Prospectus and Statement of Additional Information, as well as the Fund’s Annual Report, by contacting the Fund, c/o U.S. Bank Global Fund Services, P.O. Box 701, Milwaukee, WI 53201-0701 or calling (800) 617-0004. The Fund’s Proxy Statement will also be available at the Securities and Exchange Commission website at [www.sec.gov](http://www.sec.gov).

**Please retain this Supplement for future reference.**

**Pacer BioThreat Strategy ETF (VIRS)**  
(the “Fund”)

**December 9, 2022**

**Supplement to the Statement of Additional Information (“SAI”) dated August 31, 2022**

As of December 12, 2022, the size of Creation Units (as defined in the SAI) for the Fund will be 25,000 shares. This Supplement pertains only to the Fund and does not affect the size of Creation Units for any other fund, including other funds offered in the Fund’s current SAI.

**Please retain this Supplement with your SAI for future reference.**

**Pacer Industrial Real Estate ETF (INDS)**  
(the “Fund”)

**November 1, 2022**

**Supplement to the  
Summary Prospectus, Prospectus, and Statement of Additional Information (“SAI”),  
each dated August 31, 2022, as previously supplemented**

Effective November 1, 2022, Pacer Advisors, Inc. (the “Adviser”), the investment adviser to the Fund, has contractually agreed to waive 5 basis points (0.05%) of its management fee for the Fund until October 31, 2023. The fee waiver agreement may only be terminated prior to October 31, 2023 with the consent of the Adviser and the Fund’s Board of Trustees, and may be renewed by the Adviser in its sole discretion. All references to the Fund’s management fee in the Summary Prospectus, Prospectus, and Statement of Additional Information are hereby supplemented to reflect the aforementioned contractual fee waiver.

*The following information replaces the sections of the Summary Prospectus and Prospectus entitled “Fees and Expenses of the Fund” and “Example”:*

**Fees and Expenses of the Fund**

The following table describes the fees and expenses you may pay if you buy, hold, and sell shares of the Fund (“Shares”). **You may pay other fees, such as brokerage commissions and other fees to financial intermediaries, which are not reflected in the table and Example below.**

| <b>Annual Fund Operating Expenses</b> (expenses that you pay each year as a percentage of the value of your investment) |                |
|---|----------------|
| Management Fees   | 0.60%          |
| Distribution and/or Service (12b-1) Fees  | None           |
| Other Expenses  | 0.00%          |
| Total Annual Fund Operating Expenses <sup>1</sup>   | <u>0.60%</u>   |
| Less Fee Waiver   | <u>(0.05)%</u> |
| <b>Total Annual Fund Operating Expenses After Fee Waiver<sup>2</sup></b>  | <b>0.55%</b>   |

<sup>1</sup> Total Annual Fund Operating Expenses do not correlate to the expense ratios in the Fund’s Financial Highlights because the Financial Highlights include non-recurring proxy expense incurred at April 30, 2022 of 0.02%.

<sup>2</sup> The Fund’s investment adviser has agreed to waive 5 basis points (0.05%) of its management fee for the Fund until October 31, 2023. The fee waiver agreement may only be terminated prior to October 31, 2023 with the consent of the Adviser and the Fund’s Board of Trustees, and may be renewed by the Adviser in its sole discretion.

**Example**

The following example is intended to help retail investors compare the cost of investing in the Fund with the cost of investing in other funds. It illustrates the hypothetical expenses that such investors would incur over various periods if they were to invest \$10,000 in the Fund for the time periods indicated and then redeem all of the Shares at the end of those periods. This example assumes that the Fund provides a return of 5% a year and that operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

| <b>1 Year</b> | <b>3 Years</b> | <b>5 Years</b> | <b>10 Years</b> |
|---------------|----------------|----------------|-----------------|
| \$56          | \$187          | \$330          | \$745           |

**Please retain this Supplement with your Summary Prospectus, Prospectus, and SAI for future reference.**

**Pacer Data & Infrastructure Real Estate ETF (SRVR)**  
(the “Fund”)

**November 1, 2022**

**Supplement to the  
Summary Prospectus, Prospectus, and Statement of Additional Information (“SAI”),  
each dated August 31, 2022, as previously supplemented**

Effective November 1, 2022, Pacer Advisors, Inc. (the “Adviser”), the investment adviser to the Fund, has contractually agreed to waive 5 basis points (0.05%) of its management fee for the Fund until October 31, 2023. The fee waiver agreement may only be terminated prior to October 31, 2023 with the consent of the Adviser and the Fund’s Board of Trustees, and may be renewed by the Adviser in its sole discretion. All references to the Fund’s management fee in the Summary Prospectus, Prospectus, and Statement of Additional Information are hereby supplemented to reflect the aforementioned contractual fee waiver.

*The following information replaces the sections of the Summary Prospectus and Prospectus entitled “Fees and Expenses of the Fund” and “Example”:*

**Fees and Expenses of the Fund**

The following table describes the fees and expenses you may pay if you buy, hold, and sell shares of the Fund (“Shares”). **You may pay other fees, such as brokerage commissions and other fees to financial intermediaries, which are not reflected in the table and Example below.**

| <b>Annual Fund Operating Expenses</b> (expenses that you pay each year as a percentage of the value of your investment) |              |
|---|--------------|
| Management Fees   | 0.60%        |
| Distribution and/or Service (12b-1) Fees  | None         |
| Other Expenses  | 0.00%        |
| Total Annual Fund Operating Expenses <sup>1</sup>   | 0.60%        |
| Less Fee Waiver   | (0.05)%      |
| <b>Total Annual Fund Operating Expenses After Fee Waiver<sup>2</sup></b>  | <b>0.55%</b> |

<sup>1</sup> Total Annual Fund Operating Expenses do not correlate to the expense ratios in the Fund’s Financial Highlights because the Financial Highlights include non-recurring proxy expense incurred at April 30, 2022 of 0.02%.

<sup>2</sup> The Fund’s investment adviser has agreed to waive 5 basis points (0.05%) of its management fee for the Fund until October 31, 2023. The fee waiver agreement may only be terminated prior to October 31, 2023 with the consent of the Adviser and the Fund’s Board of Trustees, and may be renewed by the Adviser in its sole discretion.

**Example**

The following example is intended to help retail investors compare the cost of investing in the Fund with the cost of investing in other funds. It illustrates the hypothetical expenses that such investors would incur over various periods if they were to invest \$10,000 in the Fund for the time periods indicated and then redeem all of the Shares at the end of those periods. This example assumes that the Fund provides a return of 5% a year and that operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

| <b>1 Year</b> | <b>3 Years</b> | <b>5 Years</b> | <b>10 Years</b> |
|---------------|----------------|----------------|-----------------|
| \$56          | \$187          | \$330          | \$745           |

**Please retain this Supplement with your Summary Prospectus, Prospectus, and SAI for future reference.**

**Pacer Trendpilot 100 ETF (PTNQ)  
(the “Fund”)**

**October 18, 2022**

**Supplement to the Summary Prospectus, Prospectus,  
and Statement of Additional Information (“SAI”),  
each dated August 31, 2022**

Effective November 1, 2022, the Fund will transfer its primary listing to The Nasdaq Stock Market, LLC and will no longer be listed on the Cboe BZX Exchange, Inc. All references in the Fund’s Summary Prospectus, Prospectus, and SAI to the Fund’s shares being listed on the Cboe BZX Exchange, Inc. will be hereby changed to refer to The Nasdaq Stock Market, LLC.

**Please retain this Supplement with your Summary Prospectus, Prospectus, and SAI for future reference.**

**Pacer Benchmark Hotel & Lodging Real Estate SCTR ETF (ROOM)**  
**Pacer Benchmark Healthcare Real Estate SCTR ETF (RXRE)**  
**Pacer Benchmark Industrial Real Estate SCTR ETF (INDS)**  
**Pacer Benchmark Data & Infrastructure Real Estate SCTR ETF (SRVR)**  
**Pacer Benchmark Apartments & Residential Real Estate SCTR ETF (PAD)**

each a series of Pacer Funds Trust  
 (each, a “Fund” and together, the “Funds”)

**October 14, 2022**

**Supplement to the**  
**Summary Prospectus, Prospectus, and Statement of Additional Information (“SAI”),**  
**each dated August 31, 2022, as previously supplemented**

Effective as of October 31, 2022, Pacer Advisors, Inc. (the “Adviser”) has accepted the termination by Kelly Benchmark Indexes (the “Index Provider”) of its services as the Index Provider. Accordingly, effective as of November 1, 2022 (the “Index Change Date”), each of the Fund’s name and underlying index will change as follows and all references to “Benchmark,” “Kelly Benchmark Indexes,” “Benchmark ETF,” and “Benchmark ETFs” will be removed:

| <b>Current Fund Name</b>                                      | <b>New Fund Name</b>                           | <b>Current Index Name</b>                             | <b>New Index Name</b>                                 |
|---|--|---|---|
| Pacer Benchmark Hotel & Lodging Real Estate SCTR ETF          | Pacer Hotel & Lodging Real Estate ETF          | Kelly Hotel & Lodging Real Estate SCTR Index          | Pacer Hotel & Lodging Real Estate Index               |
| Pacer Benchmark Healthcare Real Estate SCTR ETF               | Pacer Healthcare Real Estate ETF               | Kelly Healthcare Real Estate SCTR Index               | Pacer Healthcare Real Estate Index                    |
| Pacer Benchmark Industrial Real Estate SCTR ETF               | Pacer Industrial Real Estate ETF               | Kelly Industrial Real Estate Index                    | Solactive GPR Industrial Real Estate Index            |
| Pacer Benchmark Data & Infrastructure Real Estate SCTR ETF    | Pacer Data & Infrastructure Real Estate ETF    | Kelly Data Center & Tech Infrastructure Index         | Solactive GPR Data & Infrastructure Real Estate Index |
| Pacer Benchmark Apartments & Residential Real Estate SCTR ETF | Pacer Apartments & Residential Real Estate ETF | Kelly Apartments & Residential Real Estate SCTR Index | Pacer Apartments & Residential Real Estate Index      |

**Please retain this Supplement with your Summary Prospectus, Prospectus, and SAI for future reference.**



# PACER ETFs

## PACER FUNDS TRUST

|      |  |      |   |
|------|--|------|---|
| PTLC | Pacer Trendpilot <sup>®</sup> US Large Cap ETF   | GCOW | Pacer Global Cash Cows Dividend ETF                     |
| PTMC | Pacer Trendpilot <sup>®</sup> US Mid Cap ETF     | COWZ | Pacer US Cash Cows 100 ETF                              |
| PTNQ | Pacer Trendpilot <sup>®</sup> 100 ETF            | CALF | Pacer US Small Cap Cash Cows 100 ETF                    |
| PTEU | Pacer Trendpilot <sup>®</sup> European Index ETF | ICOW | Pacer Developed Markets International Cash Cows 100 ETF |
| PAEU | Pacer Autopilot Hedged European Index ETF        | VIRS | Pacer BioThreat Strategy ETF                            |
| PIEL | Pacer International Export Leaders ETF           |      |   |
| PWS  | Pacer WealthShield ETF                           |      |   |

*each of the above is listed on Cboe BZX Exchange, Inc.*

|      |   |      |  |
|------|---|------|--|
| SZNG | Pacer CFRA-Stovall Global Seasonal Rotation ETF                             | AFTY | Pacer CSOP FTSE China A50 ETF                    |
| SZNE | Pacer CFRA-Stovall Equal Weight Seasonal Rotation ETF                       | PTBD | Pacer Trendpilot <sup>®</sup> US Bond ETF        |
| ROOM | Pacer Benchmark Hotel & Lodging Real Estate SCTR <sup>SM</sup> ETF          | PTIN | Pacer Trendpilot <sup>®</sup> International ETF  |
| RXRE | Pacer Benchmark Healthcare Real Estate SCTR <sup>SM</sup> ETF               | TRND | Pacer Trendpilot <sup>®</sup> Fund of Funds ETF  |
| INDS | Pacer Benchmark Industrial Real Estate SCTR <sup>SM</sup> ETF               | BUL  | Pacer US Cash Cows Growth ETF                    |
| SRVR | Pacer Benchmark Data & Infrastructure Real Estate SCTR <sup>SM</sup> ETF    | ALTL | Pacer Lunt Large Cap Alternator ETF              |
| PAD  | Pacer Benchmark Apartments & Residential Real Estate SCTR <sup>SM</sup> ETF | PAMC | Pacer Lunt MidCap Multi-Factor Alternator ETF    |
| PEXL | Pacer US Export Leaders ETF   | PALC | Pacer Lunt Large Cap Multi-Factor Alternator ETF |
| FLRT | Pacer Pacific Asset Floating Rate High Income ETF                           |      |  |
| TRPL | Pacer Metaurus US Large Cap Dividend Multiplier 300 ETF                     |      |  |
| QDPL | Pacer Metaurus US Large Cap Dividend Multiplier 400 ETF                     |      |  |

*each of the above is listed on the NYSE Arca, Inc.*

|      |  |      |                                   |
|------|--|------|-----------------------------------|
| ECOW | Pacer Emerging Markets Cash Cows 100 ETF | HERD | Pacer Cash Cows Fund of Funds ETF |
|------|--|------|-----------------------------------|

*each of the above is listed on the Nasdaq Stock Market LLC*

## STATEMENT OF ADDITIONAL INFORMATION

**August 31, 2022**

This Statement of Additional Information (“SAI”) is not a Prospectus. It should be read in conjunction with the current Prospectus, as may be revised from time to time (“Prospectus”), for the exchange traded funds (“ETFs”) listed above (each a “Fund” and collectively the “Funds”), each a separate series of Pacer Funds Trust (the “Trust”). The current Prospectus for the Funds is dated August 31, 2022. Capitalized terms used herein that are not defined have the same meaning as in the Prospectus, unless otherwise noted. A copy of the Prospectus for the Funds may be obtained, without charge, by calling 1-800-617-0004, visiting [www.PacerETFs.com](http://www.PacerETFs.com), or writing to Pacer Funds Trust, c/o U.S. Bank Global Fund Services, P.O. Box 701, Milwaukee, Wisconsin 53201-0701.

For Funds other than the Pacer Autopilot Hedged European Index ETF, Pacer Benchmark Apartments & Residential Real Estate SCTR<sup>SM</sup> ETF, Pacer Benchmark Healthcare Real Estate SCTR<sup>SM</sup> ETF, Pacer Benchmark Hotel & Lodging Real Estate SCTR<sup>SM</sup> ETF, Pacer CFRA Global Seasonal Rotation ETF, and Pacer International Export Leaders ETF, the audited financial statements for the fiscal year ended April 30, 2022 are incorporated herein by reference to the Funds’ [Annual Report](#) dated April 30, 2022 (File No. 811-23024). A copy of the Funds’ Annual Report may be obtained without charge by contacting the Funds at the address or phone number noted above.

*An investment in a Fund is not a deposit of any bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation, or any other government agency or any bank. An investment in the Fund involves investment risks, including possible loss of principal.*

## TABLE OF CONTENTS

|  |     |
|--|-----|
| GENERAL DESCRIPTION OF THE TRUST AND THE FUNDS .....             | 2   |
| INVESTMENT STRATEGIES AND RISKS .....                            | 3   |
| GENERAL RISKS .....  | 3   |
| SPECIFIC INVESTMENT STRATEGIES .....                             | 5   |
| INVESTMENT LIMITATIONS .....                                     | 41  |
| PORTFOLIO HOLDINGS DISCLOSURE POLICIES AND PROCEDURES .....      | 43  |
| CONTINUOUS OFFERING .....  | 44  |
| MANAGEMENT OF THE TRUST .....                                    | 44  |
| INVESTMENT ADVISER & SUB-ADVISERS .....                          | 62  |
| THE ADMINISTRATOR, TRANSFER AGENT, AND INDEX RECEIPT AGENT ..... | 69  |
| THE CUSTODIAN .....  | 71  |
| SECURITIES LENDING ACTIVITIES .....                              | 71  |
| THE DISTRIBUTOR .....  | 74  |
| LEGAL COUNSEL .....  | 76  |
| INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM .....              | 76  |
| BROKERAGE TRANSACTIONS .....                                     | 76  |
| ADDITIONAL INFORMATION CONCERNING THE TRUST .....                | 80  |
| LIMITATION OF TRUSTEES' LIABILITY .....                          | 81  |
| PURCHASE AND REDEMPTION OF SHARES IN CREATION UNITS .....        | 82  |
| DETERMINATION OF NAV .....                                       | 91  |
| DIVIDENDS AND DISTRIBUTIONS .....                                | 91  |
| FEDERAL INCOME TAXES .....                                       | 92  |
| FINANCIAL STATEMENTS .....                                       | 100 |
| APPENDIX A .....   | A-1 |
| APPENDIX B .....   | B-1 |
| APPENDIX C .....   | C-1 |

## GENERAL DESCRIPTION OF THE TRUST AND THE FUNDS

The Trust was organized as a Delaware statutory trust on August 12, 2014 and is authorized to issue multiple series or portfolios. The Trust is an open-end, management investment company, registered under the Investment Company Act of 1940, as amended (the “1940 Act”). The offering of the Trust’s shares is registered under the Securities Act of 1933, as amended (the “Securities Act”). Each Fund’s ticker symbol appears on the cover of this SAI, and references to specific Funds in the sections below will refer to such Funds by their ticker symbol.

The Funds described in this SAI seek to track the total return performance, before fees and expenses, of their respective indices (each, an “Index”).

Pacer Advisors, Inc. (“Pacer” or the “Adviser”) is the investment adviser to the Funds. Pacer Financial, Inc. is the distributor (the “Distributor”) of the shares of the Funds and is an affiliate of the Adviser. CSOP Asset Management Limited (“CSOP Asset Management”) serves as sub-adviser to AFTY, Pacific Asset Management LLC (“Pacific Asset Management”) serves as sub-adviser to FLRT, Metaurus Advisors LLC (“Metaurus”) serves as sub-adviser to TRPL and QDPL, and Vident Investment Advisory, LLC (“VIA” and collectively with CSOP Asset Management, Pacific Asset Management, and Metaurus, the “Sub-Advisers”) serves as sub-adviser to PTBD.

The Funds issue and redeem shares (“Shares”) at net asset value per share (“NAV”) only in large blocks of Shares (“Creation Units” or “Creation Unit Aggregations”). Currently, Creation Units generally consist of the following number of shares:

| <b>Name of Fund</b> | <b>Creation Unit Size</b> |
|---------------------|---------------------------|
| FLRT                | 20,000                    |
| TRPL                | 25,000                    |
| QDPL                | 30,000                    |
| PTBD                | 100,000                   |
| All other Funds     | 50,000                    |

These amounts may change from time to time. These transactions are usually in exchange for a basket of securities included in its portfolio and an amount of cash. As a practical matter, only institutions or large investors (authorized participants) who have entered into agreements with the Trust’s distributor, can purchase or redeem Creation Units. Except when aggregated in Creation Units, Shares of the Funds are not redeemable securities.

Shares of the Funds are listed on a national securities exchange, such as Cboe BZX Exchange, Inc., NYSE Arca, Inc., or The Nasdaq Stock Market LLC (individually or collectively, the “Exchange”), as indicated on the cover of this SAI, and trade throughout the day on the Exchange and other secondary markets at market prices that may differ from NAV. As in the case of other publicly traded securities, brokers’ commissions on transactions will be based on negotiated commission rates at customary levels.

The Trust reserves the right to adjust the prices of Shares in the future to maintain convenient trading ranges for investors. Any adjustments would be accomplished through stock splits or reverse stock splits, which would have no effect on the net assets of the applicable Fund.

Prior to November 1, 2017, the Pacer Trendpilot US Large Cap ETF was known as the Pacer Trendpilot 750 ETF and the Pacer Trendpilot US Mid Cap ETF was known as the Pacer Trendpilot 450 ETF.

AFTY is the successor to the investment performance and financial history of the CSOP FTSE China A50 ETF, a series of CSOP ETF Trust (the “Predecessor CSOP Fund”), as a result of the reorganization of the Predecessor CSOP Fund into AFTY on January 22, 2020.

FLRT is the successor in interest to the Pacific Global Senior Loan ETF, a series of Pacific Global ETF Trust, which was managed by Pacific Global Advisors LLC and sub-advised by Pacific Asset Management LLC, and has the substantially similar investment objective, strategies, and policies as those of the Pacific Global Senior Loan ETF since the Fund’s inception in February 28, 2015, with the exception of the Fund’s 80% policy and related risks. On October 20, 2021, the shareholders of the Pacific Global Senior Loan ETF approved the reorganization of the Pacific Global Senior Loan ETF into FLRT and, effective as of the close of business on October 22, 2021, the assets and liabilities of the Pacific Global Senior Loan ETF were transferred to FLRT in exchange for shares of the Pacer Pacific Asset Floating Rate High Income ETF. Previously, the Pacific Global Senior Loan ETF, a series of Pacific Global ETF Trust, acquired all of the assets and liabilities of the AdvisorShares Pacific Asset Enhanced Floating Rate ETF, a series of AdvisorShares Trust, in a tax-free reorganization on December 27, 2019 (together, the “Predecessor FLRT Fund”). Accordingly, the Pacific Global Senior Loan ETF was the successor to the investment performance of the AdvisorShares Pacific Asset Enhanced Floating Rate ETF, as a result of the December 27, 2019 reorganization.

The below table illustrates the inception date for each Fund.

| <b>Name of Fund</b> | <b>Inception Date</b> | <b>Name of Fund</b> | <b>Inception Date</b> |
|---------------------|-----------------------|---------------------|-----------------------|
| PTLC                | June 11, 2015         | GCOW                | February 22, 2016     |
| PTMC                | June 11, 2015         | COWZ                | December 16, 2016     |
| PTNQ                | June 11, 2015         | CALF                | June 16, 2017         |
| PTEU                | December 14, 2015     | ICOW                | June 16, 2017         |
| PAEU                | —                     | PEXL                | July 23, 2018         |
| PIEL                | —                     | AFTY                | March 10, 2015        |
| PWS                 | December 11, 2017     | PTBD                | October 22, 2019      |
| SZNG                | —                     | PTIN                | May 2, 2019           |
| SZNE                | July 23, 2018         | TRND                | May 3, 2019           |
| ROOM                | —                     | BUL                 | May 2, 2019           |
| RXRE                | —                     | HERD                | May 3, 2019           |
| INDS                | May 14, 2018          | VIRS                | June 24, 2020         |
| SRVR                | May 15, 2018          | ALTL                | June 24, 2020         |
| PAD                 | —                     | PAMC                | June 24, 2020         |
| ECOW                | May 2, 2019           | PALC                | June 24, 2020         |
| FLRT                | February 18, 2015     | TRPL                | July 12, 2021         |
| QDPL                | July 12, 2021         |                     |                       |

## **INVESTMENT STRATEGIES AND RISKS**

Each Fund’s investment objective, principal investment strategies and associated risks are described in the Funds’ Prospectus. The sections below supplement these principal investment strategies and risks and describe each Fund’s additional investment policies and the different types of investments that may be made by a Fund as a part of its non-principal investment strategies. With respect to each Fund’s investments, unless otherwise noted, if a percentage limitation on investment is adhered to at the time of investment or contract, a subsequent increase or decrease as a result of market movement or redemption will not result in a violation of such investment limitation.

Each Fund intends to qualify each year as a regulated investment company (a “RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”), so that it will not be subject to federal income tax on income and gains that are timely distributed to Fund shareholders. The Funds will seek to invest their assets, and otherwise conduct their operations, in a manner that is intended to satisfy the qualifying income, diversification and distribution requirements necessary to establish and maintain RIC qualification under Subchapter M of the Code.

## **GENERAL RISKS**

An investment in the Funds should be made with an understanding that the value of each Fund’s portfolio securities may fluctuate in accordance with changes in the financial condition of an issuer or counterparty, changes in specific economic, political, public health, or cyber conditions that affect a particular security or issuer and changes in general economic, political, public health, or cyber conditions. An investor in each Fund could lose money over short or long periods of time.

An investment in the Funds should also be made with an understanding of the risks inherent in an investment in equity securities, including the risk that the financial condition of issuers may become impaired or that the general condition of the stock market may deteriorate (either of which may cause a decrease in the value of each Fund’s portfolio securities and therefore a decrease in the value of Shares of each Fund). Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence and perceptions change. These investor perceptions are based on various and unpredictable factors, including expectations regarding government, economic, monetary and fiscal policies; inflation and interest rates; economic expansion or contraction; and global or regional political, economic, public health, cyber, or banking crises.

Holders of common stocks incur more risk than holders of preferred stocks and debt obligations because common stockholders, as owners of the issuer, generally have inferior rights to receive payments from the issuer in comparison with the rights of creditors or holders of debt obligations or preferred stocks. Further, unlike debt securities, which typically have a stated principal amount payable

at maturity (whose value, however, is subject to market fluctuations prior thereto), or preferred stocks, which typically have a liquidation preference and which may have stated optional or mandatory redemption provisions, common stocks have neither a fixed principal amount nor a maturity. Common stock values are subject to market fluctuations as long as the common stock remains outstanding.

Although all of the equity securities in the Indexes are listed on major U.S. and non-U.S. stock exchanges, there can be no guarantee that a liquid market for the securities held by a Fund will be maintained. The existence of a liquid trading market for certain securities may depend on whether dealers will make a market in such securities. There can be no assurance that a market will be made or maintained or that any such market will be or remain liquid. The price at which securities may be sold and the value of each Fund's Shares will be adversely affected if trading markets for each Fund's portfolio securities are limited or absent, or if bid/ask spreads are wide.

*Cyber Security Risk.* As the use of technology has become more prevalent in the course of business, the Funds may be more susceptible to operational and financial risks associated with cyber security, including: theft, loss, misuse, improper release, corruption and destruction of, or unauthorized access to, confidential or highly restricted data relating to a Fund and its shareholders; and compromises or failures to systems, networks, devices and applications relating to the operations of a Fund and its service providers. Cyber security risks may result in financial losses to a Fund and its shareholders; the inability of a Fund to transact business with its shareholders; delays or mistakes in the calculation of a Fund's NAV or other materials provided to shareholders; the inability to process transactions with shareholders or other parties; violations of privacy and other laws; regulatory fines, penalties and reputational damage; and compliance and remediation costs, legal fees and other expenses. A Fund's service providers (including, but not limited to, its investment adviser, any sub-advisers, administrator, transfer agent, and custodian or their agents), financial intermediaries, companies in which a Fund invests and parties with which a Fund engages in portfolio or other transactions also may be adversely impacted by cyber security risks in their own businesses, which could result in losses to a Fund or its shareholders. While measures have been developed which are designed to reduce the risks associated with cyber security, there is no guarantee that those measures will be effective, particularly since the Funds do not directly control the cyber security defenses or plans of their service providers, financial intermediaries and companies in which they invest or with which they do business.

*Pandemic Risk.* Beginning in the first quarter of 2020, financial markets in the United States and around the world experienced extreme and, in many cases, unprecedented volatility and severe losses due to the global pandemic caused by COVID-19, a novel coronavirus. The pandemic resulted in a wide range of social and economic disruptions, including closed borders, voluntary or compelled quarantines of large populations, stressed healthcare systems, reduced or prohibited domestic or international travel, and supply chain disruptions affecting the United States and many other countries. Some sectors of the economy and individual issuers have experienced particularly large losses as a result of these disruptions, and such disruptions may continue for an extended period of time or reoccur in the future to a similar or greater extent. In response, the U.S. government and the Federal Reserve have taken extraordinary actions to support the domestic economy and financial markets. Many countries, including the U.S., are subject to few restrictions related to the spread of COVID-19. It is unknown how long circumstances related to the pandemic will persist, whether they will reoccur in the future, whether efforts to support the economy and financial markets will be successful, and what additional implications may follow from the pandemic. The impact of these events and other epidemics or pandemics in the future could adversely affect Fund performance.

A discussion of some of the other risks associated with investments in the Funds is contained in the Funds' Prospectus.

## **Index Calculation**

To minimize any potential for conflicts caused by the fact that Index Design Group, an affiliate of the Adviser, acts as Index provider ("IDG") to certain Funds, as described in the Prospectus (collectively, the "IDG Funds"), the Adviser has retained an unaffiliated third party to calculate each such Index (the "Calculation Agent"). The Calculation Agent, using the applicable rules-based methodology, will calculate, maintain, and disseminate each such Index on a daily basis. IDG will monitor the results produced by the Calculation Agent to help ensure that each such Index is being calculated in accordance with the rules-based methodologies. In addition, IDG and the Adviser have established policies and procedures designed to prevent non-public information about pending changes to such Indexes from being used or disseminated in an improper manner. Furthermore, IDG and the Adviser have established policies and procedures designed to prevent improper use and dissemination of non-public information about each Fund's portfolio strategies.

## **DIVERSIFICATION**

Each of PTLT, PTMC, PTEU, GCOW, COWZ, CALF, ICOW, PWS, PEXL, SZNE, PTBD, and AFTY (collectively, the "Diversified Funds") is "diversified" within the meaning of the 1940 Act. Under applicable federal laws, to qualify as a diversified fund, a Fund, with respect to 75% of its total assets, may not invest greater than 5% of its total assets in any one issuer and may not hold greater than 10% of the securities of one issuer, other than investments in cash and cash items (including receivables), U.S. government securities, and securities of other investment companies. The remaining 25% of such Fund's total assets does not need to be "diversified" and may be invested in securities of a single issuer, subject to other applicable laws. The diversification of a Fund's holdings is measured

at the time the Fund purchases a security. However, if the Fund purchases a security and holds it for a period of time, the security may become a larger percentage of the Fund's total assets due to movements in the financial markets. If the market affects several securities held by a Fund, the Fund may have a greater percentage of its assets invested in securities of a single issuer or a small number of issuers.

AFTY is "diversified," but may invest more of its assets in the securities of a single issuer or small number of issuers than would otherwise be permitted for a diversified fund solely where the additional issuer weightings result from the index weighting of one or more FTSE China A50 Net Total Return Index constituents.

## **NON-DIVERSIFICATION**

Each Fund other than the Diversified Funds (collectively, the "Non-Diversified Funds") is classified as a non-diversified investment company under the 1940 Act. A "non-diversified" classification means that a Fund is not limited by the 1940 Act with regard to the percentage of its total assets that may be invested in the securities of a single issuer. This means that a Fund may invest a greater portion of its total assets in the securities of a single issuer or a small number of issuers than if it was a diversified fund. The securities of a particular issuer may constitute a greater portion of the Index and, therefore, those securities may constitute a greater portion of a Fund's portfolio. This may have an adverse effect on a Fund's performance or subject a Fund's Shares to greater price volatility than more diversified investment companies. Moreover, in pursuing its objective, a Fund may hold the securities of a single issuer in an amount exceeding 10% of the value of the outstanding securities of the issuer, subject to restrictions imposed by the Code. In particular, as a Fund's size grows and its assets increase, it will be more likely to hold more than 10% of the securities of a single issuer if the issuer has a relatively small public float as compared to other components in the Index.

Although each Non-Diversified Fund is non-diversified for purposes of the 1940 Act, each Non-Diversified Fund intends to maintain the required level of diversification and otherwise conduct its operations so as to qualify as a RIC for purposes of the Code, and to relieve the Fund of any liability for federal income tax to the extent that its earnings are distributed to shareholders. Compliance with the diversification requirements of the Code may limit the investment flexibility of a Fund and may make it less likely that a Fund will meet its investment objectives. See "Federal Income Taxes" in this SAI for further discussion.

## **SPECIFIC INVESTMENT STRATEGIES**

The following are descriptions of the Funds' permitted investments and investment practices and the associated risk factors. A Fund will only invest in any of the following instruments or engage in any of the following investment practices if such investment or activity is consistent with a Fund's investment objective and permitted by a Fund's stated investment policies.

**BORROWING.** While the Funds do not intend to borrow for investment purposes, the Funds reserves the right to do so. Borrowing for investment purposes is a form of leverage. Leveraging investments, by purchasing securities with borrowed money, is a speculative technique that increases investment risk, but also increases investment opportunity. The Funds also may enter into certain transactions, including reverse repurchase agreements, which can be viewed as constituting a form of leveraging by the Funds. Leveraging will exaggerate the effect on the net asset value per share ("NAV") of the Funds of any increase or decrease in the market value of the Funds' portfolio. Because substantially all of the Funds' assets will fluctuate in value, whereas the interest obligations on borrowings may be fixed, the NAV of the Funds will increase more when the Funds' portfolio assets increase in value and decrease more when the Funds' portfolio assets decrease in value than would otherwise be the case. Moreover, interest costs on borrowings may fluctuate with changing market rates of interest and may partially offset or exceed the returns on the borrowed funds. Under adverse conditions, the Funds might have to sell portfolio securities to meet interest or principal payments at a time when investment considerations would not favor such sales. Generally, the Funds would use this form of leverage during periods when the Advisor believes that the Funds' investment objective would be furthered. Borrowing will tend to exaggerate the effect on NAV of any increase or decrease in the market value of a Fund's portfolio. Money borrowed will be subject to interest costs that may or may not be recovered by earnings on the securities purchased. A Fund also may be required to maintain minimum average balances in connection with a borrowing or to pay a commitment or other fee to maintain a line of credit; either of these requirements would increase the cost of borrowing over the stated interest rate.

The Funds also may borrow money to facilitate management of the Funds' portfolio by enabling the Funds to meet redemption requests when the liquidation of portfolio instruments would be inconvenient or disadvantageous. Such borrowing is not for investment purposes and will be repaid by the Funds promptly. As required by the 1940 Act, the Funds must maintain continuous asset coverage (total assets, including assets acquired with borrowed funds, less liabilities exclusive of borrowings) of 300% of all amounts borrowed. If, at any time, the value of the Funds' assets should fail to meet this 300% coverage test, the Funds, within three days (not including Sundays and holidays), will reduce the amount of the Funds' borrowings to the extent necessary to meet this 300% coverage requirement. Maintenance of this percentage limitation may result in the sale of portfolio securities at a time when investment considerations otherwise indicate that it would be disadvantageous to do so.

In addition to the foregoing, the Funds are authorized to borrow money as a temporary measure for extraordinary or emergency purposes in amounts not in excess of 5% of the value of the Funds' total assets. Borrowings for extraordinary or emergency purposes are not subject to the foregoing 300% asset coverage requirement. While the Funds do not anticipate doing so, the Funds are authorized to pledge (*i.e.*, transfer a security interest in) portfolio securities in an amount up to one-third of the value of the Funds' total assets in connection with any borrowing.

**COMMERCIAL PAPER.** The Funds may invest in high-quality, short-term commercial paper. Commercial paper is the term used to designate unsecured, short-term promissory notes issued by corporations and other entities. Maturities on these issues vary from a few days up to 270 days. The Funds may invest up to 20% of its net assets in commercial paper.

**CONCENTRATION.** The Funds may concentrate its investments in a particular industry or group of industries, as described in the Prospectus. The securities of issuers in particular industries may dominate the Funds' Index and consequently the Funds' portfolio. This may adversely affect the Funds' performance or subject its shares to greater price volatility than that experienced by less concentrated investment companies.

**CURRENCY TRANSACTIONS.** The Funds may enter into foreign currency forward and foreign currency futures contracts for the purpose of hedging against declines in the value of a Fund's total assets that are denominated in one or more foreign currencies, to facilitate local securities settlements, or to protect against currency exposure in connection with distributions to shareholders.

**Forward Foreign Currency Contracts.** A forward foreign currency exchange contract ("forward contract") involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. These contracts are principally traded in the interbank market conducted directly between currency traders (usually large commercial banks) and their customers. Forward contracts are contracts between parties in which one party agrees to make a payment to the other party (the counterparty) based on the market value or level of a specified currency. In return, the counterparty agrees to make payment to the first party based on the return of a different specified currency. A forward contract generally has no margin deposit requirement, and no commissions are charged at any stage for trades. These contracts typically are settled by physical delivery of the underlying currency or currencies in the amount of the full contract value.

A non-deliverable forward contract is a forward contract where there is no physical settlement of two currencies at maturity. Non-deliverable forward contracts will usually be done on a net basis, with the Funds receiving or paying only the net amount of the two payments. The net amount of the excess, if any, of a Fund's obligations over its entitlements with respect to each non-deliverable forward contract is accrued on a daily basis and an amount of cash or highly liquid securities having an aggregate value at least equal to the accrued excess is maintained in an account at the Fund's custodian bank. The risk of loss with respect to non-deliverable forward contracts generally is limited to the net amount of payments that a Fund is contractually obligated to make or receive.

**Foreign Currency Futures Contracts.** A foreign currency futures contract is a contract involving an obligation to deliver or acquire the specified amount of a specific currency, at a specified price and at a specified future time. Futures contracts may be settled on a net cash payment basis rather than by the sale and delivery of the underlying currency.

Currency exchange transactions involve a significant degree of risk and the markets in which currency exchange transactions are effected are highly volatile, highly specialized and highly technical. Significant changes, including changes in liquidity and prices, can occur in such markets within very short periods of time, often within minutes. Currency exchange trading risks include, but are not limited to, exchange rate risk, maturity gap, interest rate risk, and potential interference by foreign governments through regulation of local exchange markets, foreign investment or particular transactions in foreign currency. If a Fund utilizes foreign currency transactions at an inappropriate time, such transactions may not serve their intended purpose of improving the correlation of the Fund's return with the performance of its underlying Index and may lower the Fund's return. A Fund could experience losses if the value of any currency forwards and futures positions is poorly correlated with its other investments or if it could not close out its positions because of an illiquid market. Such contracts are subject to the risk that the counterparty will default on its obligations. In addition, the Funds will incur transaction costs, including trading commissions, in connection with certain foreign currency transactions.

**DEPOSITARY RECEIPTS.** To the extent the Funds invest in stocks of foreign corporations, a Fund's investment in securities of foreign companies may be in the form of depositary receipts or other securities convertible into securities of foreign issuers. American Depositary Receipts ("ADRs") are dollar-denominated receipts representing interests in the securities of a foreign issuer, which securities may not necessarily be denominated in the same currency as the securities into which they may be converted. ADRs are receipts typically issued by United States banks and trust companies which evidence ownership of underlying securities issued by a foreign corporation. Generally, ADRs in registered form are designed for use in domestic securities markets and are traded on exchanges or over-the-counter in the United States. Depositary receipts will not necessarily be denominated in the same currency as their underlying securities.

The Funds will not invest in any unlisted Depository Receipts or any Depository Receipt that the Adviser deems to be illiquid or for which pricing information is not readily available. In addition, all Depository Receipts generally must be sponsored; however, the Funds may invest in unsponsored Depository Receipts under certain limited circumstances. The issuers of unsponsored Depository Receipts are not obligated to disclose material information in the United States, and, therefore, there may be less information available regarding such issuers and there may not be a correlation between such information and the market value of the Depository Receipts. The use of Depository Receipts may increase tracking error relative to an underlying Index.

**DERIVATIVES.** A Fund may use derivative instruments as part of its investment strategies. Generally, derivatives are financial contracts whose value depends upon, or is derived from, the value of an underlying asset, reference rate, or index, and may relate to bonds, interest rates, currencies, commodities, and related indexes. To the extent the Fund's use of derivative instruments creates liabilities for the Fund, such derivative instruments will be underpinned by investments in short-term, high-quality instruments, such as U.S. money market securities.

The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. The use of derivatives can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, which may be magnified by certain features of the derivatives. In addition, when the Fund invests in certain derivative securities, the Fund is effectively leveraging its investments which could result in exaggerated changes in the net asset value of the Fund's shares and can result in losses that exceed the amount originally invested. The success of the derivatives strategies will depend on the ability to assess and predict the impact of market or economic developments on the underlying asset, index or rate and the derivative itself, without the benefit of observing the performance of the derivative under all possible market conditions. Liquidity risk exists when a security cannot be purchased or sold at the time desired, or cannot be purchased or sold without adversely affecting the price. Certain specific risks associated with an investment in derivatives may include: market risk, credit risk, correlation risk, liquidity risk, legal risk and systemic or "interconnection" risk, as specified below.

Rule 18f-4 under the 1940 Act permits the Fund to enter into Derivatives Transactions (as defined below) and certain other transactions notwithstanding the restrictions on the issuance of "senior securities" under Section 18 of the 1940 Act. Section 18 of the 1940 Act, among other things, prohibits open-end funds, including the Funds, from issuing or selling any "senior security," other than borrowing from a bank (subject to a requirement to maintain 300% "asset coverage").

Under Rule 18f-4, "Derivatives Transactions" include the following: (1) any swap, security-based swap (including a contract for differences), futures contract, forward contract, option (excluding purchased options), any combination of the foregoing, or any similar instrument, under which the Fund is or may be required to make any payment or delivery of cash or other assets during the life of the instrument or at maturity or early termination, whether as margin or settlement payment or otherwise; (2) any short sale borrowing; (3) reverse repurchase agreements and similar financing transactions (e.g., recourse and non-recourse tender option bonds, and borrowed bonds), if the Fund elects to treat these transactions as Derivatives Transactions under Rule 18f-4; and (4) when-issued or forward-settling securities (e.g., firm and standby commitments, including to-be-announced ("TBA") commitments, and dollar rolls) and non-standard settlement cycle securities, unless the Fund intends to physically settle the transaction and the transaction will settle within 35 days of its trade date (the "Delayed-Settlement Securities Provision").

Unless the Fund is relying on the Limited Derivatives User Exception (as defined below), the Fund must comply with Rule 18f-4 with respect to its Derivatives Transactions. Rule 18f-4, among other things, requires the Fund to adopt and implement a comprehensive written derivatives risk management program ("DRMP") and comply with a relative or absolute limit on Fund leverage risk calculated based on value-at-risk ("VaR"). The DRMP is administered by a "derivatives risk manager," who is appointed by the Board, including a majority of Independent Trustees, and periodically reviews the DRMP and reports to the Board.

Rule 18f-4 provides an exception from the DRMP, VaR limit and certain other requirements if the Fund's "derivatives exposure" (as defined in Rule 18f-4) is limited to 10% of its net assets (as calculated in accordance with Rule 18f-4) and the Fund adopts and implements written policies and procedures reasonably designed to manage its derivatives risks (the "Limited Derivatives User Exception").

Rule 18f-4 under the 1940 Act permits a Fund to enter into reverse repurchase agreements and similar financing transactions (e.g., recourse and non-recourse tender option bonds, borrowed bonds) notwithstanding the limitation on the issuance of senior securities in Section 18 of the 1940 Act, provided that the Fund either (i) complies with the 300% asset coverage ratio with respect to such transactions and any other borrowings in the aggregate, or (ii) treats such transactions as Derivatives Transactions under Rule 18f-4. See "—Regulation Regarding Derivatives" above.

Certain trading practices and investments, such as reverse repurchase agreements, may be considered to be borrowings or involve leverage and thus are subject to the 1940 Act restrictions. In accordance with Rule 18f-4 under the 1940 Act, when the Fund engages in reverse repurchase agreements and similar financing transactions, the Fund may either (i) maintain asset coverage of at least 300% with respect to such transactions and any other borrowings in the aggregate, or (ii) treat such transactions as "derivatives transactions" and comply with Rule 18f-4 with respect to such transactions. Short-term credits necessary for the settlement of securities transactions

and arrangements with respect to securities lending will not be considered to be borrowings under the policy. Practices and investments that may involve leverage but are not considered to be borrowings are not subject to the policy.

- *Market Risk.* Market risk is the risk that the value of the underlying assets may go up or down. Adverse movements in the value of an underlying asset can expose the Fund to losses. Derivative instruments may include elements of leverage and, accordingly, fluctuations in the value of the derivative instrument in relation to the underlying asset may be magnified. The successful use of derivative instruments depends upon a variety of factors, particularly the ability to predict movements of the securities markets, which may be different than the ability to predict changes in the prices of individual securities. There can be no assurance that any particular strategy adopted will succeed. A decision to engage in a derivative transaction will reflect a judgment that the derivative transaction will provide value to the Fund and its shareholders and is consistent with such Fund's objective, investment limitations, and operating policies.
- *Credit Risk/Counterparty Risk.* Credit risk is the risk that a loss may be sustained as a result of the failure of a counterparty to comply with the terms of a derivative instrument. With respect to exchange-traded derivatives, there is less counterparty risk, because generally a clearing agency, which is the issuer or counterparty to each exchange-traded instrument, provides a guarantee of performance. For privately negotiated instruments, there is no similar clearing agency guarantee. In all transactions, the Fund will bear the risk that the counterparty will default, and this could result in a loss of the expected benefit of the derivative transactions and possibly other losses to the Fund. The Fund will enter into transactions in derivative instruments only with counterparties that the reasonably believes are capable of performing under the contract.
- *Correlation Risk.* Correlation risk is the risk that there might be an imperfect correlation, or even no correlation, between price movements of a derivative instrument and price movements of investments being hedged. When a derivative transaction is used to completely hedge another position, changes in the market value of the combined position (the derivative instrument plus the position being hedged) result from an imperfect correlation between the price movements of the two instruments. With a perfect hedge, the value of the combined position remains unchanged with any change in the price of the underlying asset. With an imperfect hedge, the value of the derivative instrument and its hedge are not perfectly correlated. The effectiveness of hedges using instruments on indices will depend, in part, on the degree of correlation between price movements in the index and the price movements in the investments being hedged.
- *Liquidity Risk.* Liquidity risk is the risk that a derivative instrument cannot be sold, closed out or replaced quickly at or very close to its fundamental value. Generally, exchange contracts are very liquid because the exchange clearinghouse is the counterparty of every contract. The Fund might be required by applicable regulatory requirements to make margin payments when taking positions in derivative instruments involving obligations to third parties. If the Fund is unable to close out its positions in such instruments, it might be required to continue to maintain such assets or accounts or make such payments until the position expires, matures or is closed out. These requirements might impair the Fund's ability to sell a security or make an investment at a time when it would otherwise be favorable to do so, or require that the Fund sell a portfolio security at a disadvantageous time. The Fund's ability to sell or close out a position in an instrument prior to expiration or maturity depends upon the existence of a liquid secondary market or, in the absence of such a market, the ability and willingness of the counterparty to enter into a transaction closing out the position. Due to liquidity risk, there is no assurance that any derivatives position can be sold or closed out at a time and price that is favorable to the Fund.

With regard to the Funds, the Adviser will claim relief from the definition of commodity pool operator ("CPO") under revised U.S. Commodity Futures Trading Commission ("CFTC") Rule 4.5. Specifically, pursuant to CFTC Rule 4.5, the Adviser may claim exclusion from the definition of CPO, and thus from having to register as a CPO, with regard to a Fund that enters into commodity futures, commodity options, or swaps solely for "bona fide hedging purposes," or that limits its investment in commodities to a "de minimis" amount, as defined in CFTC rules, so long as the Shares of a Fund are not marketed as interests in a commodity pool or other vehicle for trading in commodity futures, commodity options, or swaps. It is expected that the Funds will be able to operate pursuant to the limitations under the revised CFTC Rule 4.5 without materially adversely affecting its ability to achieve its investment objective. If, however, these limitations were to make it difficult for a Fund to achieve its investment objective in the future, the Trust may determine to operate a Fund as a regulated commodity pool pursuant to the Adviser's CPO registration or to reorganize or close the Fund or to materially change the Fund's investment objective and strategy.

**Futures and Options.** Futures contracts and options may from time to time be used by the Funds to facilitate trading or to reduce transaction costs. The Fund may enter into futures contracts and options that are traded on a U.S. or non-U.S. exchange. The Funds will not use futures or options for speculative purposes.

**Risk of Futures and Options.** There are several risks accompanying the utilization of futures contracts and options on futures contracts. A position in futures contracts and options on futures contracts may be closed only on the exchange on which the contract was made (or a linked exchange). While the Fund plans to utilize futures contracts only if an active market exists for such contracts, there is no guarantee that a liquid market will exist for the contract at a specified time. In the event of adverse price

movements, the Fund would continue to be required to make daily cash payments to maintain its required margin. In such situations, if the Fund has insufficient cash, it may have to sell portfolio securities to meet daily margin requirements at a time when it may be disadvantageous to do so. In addition, the Fund may be required to deliver the instruments underlying the futures contracts it has sold.

The risk of loss in trading futures contracts or uncovered call options in some strategies (e.g., selling uncovered stock index futures contracts) is potentially unlimited. The Fund does not plan to use futures and options contracts in this way. The risk of a futures position may still be large as traditionally measured due to the low margin deposits required. In many cases, a relatively small price movement in a futures contract may result in immediate and substantial loss or gain to the investor relative to the size of a required margin deposit. The Fund, however, intends to utilize futures and options contracts in a manner designed to limit their risk exposure to levels comparable to a direct investment in the types of stocks in which they invest.

There is a risk of loss by the Fund of the initial and variation margin deposits in the event of bankruptcy of the FCM with which the Fund has an open position in a futures contract. The assets of the Fund may not be fully protected in the event of the bankruptcy of the FCM or central counterparty because the Fund might be limited to recovering only a pro rata share of all available funds and margin segregated on behalf of an FCM's customers. If the FCM does not provide accurate reporting, the Fund is also subject to the risk that the FCM could use the Fund's assets, which are held in an omnibus account with assets belonging to the FCM's other customers, to satisfy its own financial obligations or the payment obligations of another customer to the central counterparty.

Utilization of futures and options on futures by the Fund involves the risk of imperfect or even negative correlation to its underlying index if the index underlying the futures contract differs from the underlying index. There is also the risk of loss of margin deposits in the event of bankruptcy of a broker with whom the Fund has an open position in the futures contract or option. The purchase of put or call options will be based upon predictions by the Adviser as to anticipated trends, which predictions could prove to be incorrect.

Because the futures market generally imposes less burdensome margin requirements than the securities market, an increased amount of participation by speculators in the futures market could result in price fluctuations. Certain financial futures exchanges limit the amount of fluctuation permitted in futures contract prices during a single trading day. The daily limit establishes the maximum amount by which the price of a futures contract may vary either up or down from the previous day's settlement price at the end of a trading session. Once the daily limit has been reached in a particular type of contract, no trades may be made on that day at a price beyond that limit. It is possible that futures contract prices could move to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of futures positions and subjecting the Fund to substantial losses. In the event of adverse price movements, the Fund would be required to make daily cash payments of variation margin.

**Futures.** Futures contracts provide for the future sale by one party and purchase by another party of a specified amount of a specific asset, currency, rate or index at a specified future time and at a specified price. Stock index futures are based on investments that reflect the market value of common stock of the firms included in an underlying index. The Fund may enter into futures contracts to purchase securities indexes when the Adviser anticipates purchasing the underlying securities and believes prices will rise before the purchase will be made. To the extent required by law, liquid assets committed to futures contracts will be maintained.

Futures contracts may be bought and sold on U.S. and non-U.S. exchanges. Futures contracts in the U.S. have been designed by exchanges that have been designated "contract markets" by the CFTC and must be executed through a futures commission merchant ("FCM"), which is a brokerage firm that is a member of the relevant contract market. Each exchange guarantees performance of the contracts as between the clearing members of the exchange, thereby reducing the risk of counterparty default. Futures contracts may also be entered into on certain exempt markets, including exempt boards of trade and electronic trading facilities, available to certain market participants. Because all transactions in the futures market are made, offset or fulfilled by an FCM through a clearinghouse associated with the exchange on which the contracts are traded, the Fund will incur brokerage fees when it buys or sells futures contracts.

Upon entering into a futures contract, the Fund will be required to deliver to an account controlled by the FCM an amount of cash or cash equivalents known as "initial margin," which is in the nature of a performance bond or good faith deposit on the contract and is returned to the Fund upon termination of the futures contract, assuming all contractual obligations have been satisfied. Subsequent payments, known as "variation margin," to and from the FCM will be made daily as the price of the instrument or index underlying the futures contract fluctuates, making the long and short positions in the futures contract more or less valuable, a process known as "marking-to-market."

At any time prior to the expiration of a futures contract, the Fund may elect to close the position by taking an opposite position, which will operate to terminate the Fund's existing position in the contract. This transaction, which is effected through a member

of an exchange, cancels the obligation to make or take delivery of the underlying instrument or asset. Although some futures contracts by their terms require the actual delivery or acquisition of the underlying instrument or asset, some require cash settlement.

A call option gives a holder the right to purchase a specific security at a specified price ("exercise price") within a specified period of time. A put option gives a holder the right to sell a specific security at a specified exercise price within a specified period of time. The initial purchaser of a call option pays the "writer" a premium, which is paid at the time of purchase and is retained by the writer whether or not such option is exercised. The Fund may purchase put options to hedge its portfolio against the risk of a decline in the market value of securities held and may purchase call options to hedge against an increase in the price of securities it is committed to purchase. The Fund may write put and call options along with a long position in options to increase its ability to hedge against a change in the market value of the securities it holds or is committed to purchase.

**Options.** An option on a futures contract, as contrasted with the direct investment in such a contract, gives the purchaser the right, but not the obligation, in return for the premium paid, to assume a position in the underlying futures contract at a specified exercise price at any time prior to the expiration date of the option. The writer of the option becomes contractually obligated to take the opposite futures position specified in the option.

Upon exercise of an option on a futures contract, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer's futures margin account that represents the amount by which the market price of the futures contract exceeds (in the case of a call) or is less than (in the case of a put) the exercise price of the option on the futures contract. The potential for loss related to the purchase of an option on a futures contract is limited to the premium paid for the option plus transaction costs. Because the value of the option is fixed at the point of sale, there are no daily cash payments by the purchaser to reflect changes in the value of the underlying contract; however, the value of the option changes daily and that change would be reflected in the NAV per Share of the Fund.

The Fund may purchase and write put and call options on futures contracts that are traded on an exchange as a hedge against changes in value of its portfolio securities, or in anticipation of the purchase of securities, and may enter into closing transactions with respect to such options to terminate existing positions. There is no guarantee that such closing transactions can be effected.

The Fund's use of options on futures contracts is subject to the risks related to derivative instruments generally. In addition, the amount of risk the Fund assumes when it purchases an option on a futures contract is the premium paid for the option plus related transaction costs. The purchase of an option also entails the risk that changes in the value of the underlying futures contract will not be fully reflected in the value of the option purchased. The writer of an option on a futures contract is subject to the risk of having to take a possibly adverse futures position if the purchaser of the option exercises its rights. If the writer were required to take such a position, it could bear substantial losses. The potential for loss related to writing call options is unlimited. The potential for loss related to writing put options is limited to the agreed upon price per share, also known as the "strike price," less the premium received from writing the put.

**Swaps.** The Funds may enter into swap agreements, including interest rate swaps and currency swaps. A typical interest rate swap involves the exchange of a floating interest rate payment for a fixed interest payment. A typical foreign currency swap involves the exchange of cash flows based on the notional differences among two or more currencies (e.g., the U.S. dollar and the euro). Swap agreements may be used to hedge or achieve exposure to, for example, currencies, interest rates, and money market securities without actually purchasing such currencies or securities. A Fund may use swap agreements to invest in a market without owning or taking physical custody of the underlying securities in circumstances in which direct investment is restricted for legal reasons or is otherwise impracticable. Swap agreements will tend to shift a Fund's investment exposure from one type of investment to another or from one payment stream to another. Depending on their structure, swap agreements may increase or decrease a Fund's exposure to long- or short-term interest rates (in the United States or abroad), foreign currencies, corporate borrowing rates, or other factors, and may increase or decrease the overall volatility of a Fund's investments and its share price.

OTC swap agreements are contracts between parties in which one party agrees to make payments to the other party based on the change in market value or level of a specified index or asset. In return, the other party agrees to make payments to the first party based on the return of a different specified index or asset. Although OTC swap agreements entail the risk that a party will default on its payment obligations thereunder, the Fund seeks to reduce this risk by entering into agreements that involve payments no less frequently than quarterly. The net amount of the excess, if any, of the Fund's obligations over its entitlements with respect to each swap is accrued on a daily basis and an amount of cash or highly liquid securities having an aggregate value at least equal to the accrued excess is maintained in an account at the Trust's custodian bank.

The use of such swap agreements involves certain risks. For example, if the counterparty, under a swap agreement, defaults on its obligation to make payments due from it as a result of its bankruptcy or otherwise, the Fund may lose such payments altogether or collect only a portion thereof, which collection could involve costs or delays.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and related regulatory developments require the eventual clearing and exchange-trading of many standardized OTC derivative instruments that the CFTC and Securities and Exchange Commission (“SEC”) recently defined as “swaps” and “security-based swaps,” respectively. Mandatory exchange-trading and clearing is occurring on a phased-in basis based on the type of market participant and CFTC approval of contracts for central clearing and exchange trading. In a cleared swap, the Fund’s ultimate counterparty is a central clearinghouse rather than a brokerage firm, bank or other financial institution. The Fund initially will enter into cleared swaps through an executing broker. Such transactions will then be submitted for clearing and, if cleared, will be held at regulated futures commission merchants (“FCMs”) that are members of the clearinghouse that serves as the central counterparty. When the Fund enters into a cleared swap, it must deliver to the central counterparty (via an FCM) an amount referred to as “initial margin.” Initial margin requirements are determined by the central counterparty, but an FCM may require additional initial margin above the amount required by the central counterparty. During the term of the swap agreement, a “variation margin” amount may also be required to be paid by the Fund or may be received by the Fund in accordance with margin controls set for such accounts, depending upon changes in the price of the underlying reference asset subject to the swap agreement. At the conclusion of the term of the swap agreement, if the Fund has a loss equal to or greater than the margin amount, the margin amount is paid to the FCM along with any loss in excess of the margin amount. If the Fund has a loss of less than the margin amount, the excess margin is returned to the Fund. If the Fund has a gain, the full margin amount and the amount of the gain is paid to the Fund.

Central clearing is designed to reduce counterparty credit risk compared to uncleared swaps because central clearing interposes the central clearinghouse as the counterparty to each participant's swap, but it does not eliminate those risks completely. There is also a risk of loss by the Fund of the initial and variation margin deposits in the event of bankruptcy of the FCM with which the Fund has an open position in a swap contract. The assets of the Fund may not be fully protected in the event of the bankruptcy of the FCM or central counterparty because the Fund might be limited to recovering only a pro rata share of all available Funds and margin segregated on behalf of an FCM's customers. If the FCM does not provide accurate reporting, the Fund is also subject to the risk that the FCM could use the Fund's assets, which are held in an omnibus account with assets belonging to the FCM's other customers, to satisfy its own financial obligations or the payment obligations of another customer to the central counterparty. Exchange trading is expected to increase liquidity of swaps trading.

In addition, with respect to cleared swaps, the Fund may not be able to obtain as favorable terms as it would be able to negotiate for an uncleared swap. In addition, an FCM may unilaterally impose position limits or additional margin requirements for certain types of swaps in which the Fund may invest. Central counterparties and FCMs generally can require termination of existing cleared swap transactions at any time, and can also require increases in margin above the margin that is required at the initiation of the swap agreement. Margin requirements for cleared swaps vary on a number of factors, and the margin required under the rules of the clearinghouse and FCM may be in excess of the collateral required to be posted by the Fund to support its obligations under a similar uncleared swap. However, regulators are expected to adopt rules imposing certain margin requirements, including minimums, on uncleared swaps in the near future, which could change this comparison.

The Fund is also subject to the risk that, after entering into a cleared swap with an executing broker, no FCM or central counterparty is willing or able to clear the transaction. In such an event, the central counterparty would void the trade. Before the Fund can enter into a new trade, market conditions may become less favorable to the Fund.

The Adviser will continue to monitor developments regarding trading and execution of cleared swaps on exchanges, particularly to the extent regulatory changes affect the Fund’s ability to enter into swap agreements and the costs and risks associated with such investments.

**U.S. Federal Tax Treatment of Futures Contracts.** The Fund may be required for federal income tax purposes to mark-to-market and recognize as income for each taxable year its net unrealized gains and losses on certain futures contracts or options contracts as of the end of the year as well as those actually realized during the year. Gain or loss from futures contracts or options contracts on broad-based indexes required to be marked-to-market will be 60% long-term and 40% short-term capital gain or loss. Application of this rule may alter the timing and character of distributions to shareholders. The Fund may be required to defer the recognition of losses on futures contracts or options contracts to the extent of any unrecognized gains on related positions held by the Fund.

In order for the Fund to continue to qualify for U.S. federal income tax treatment as a “regulated investment company” under Section 851 of the Code, at least 90% of the Fund’s gross income for a taxable year must be derived from qualifying sources, including, dividends, interest, income derived from loans of securities, gains from the sale of securities or of foreign currencies or other income derived with respect to the Fund’s business of investing in securities. It is anticipated that any net gain realized from the closing out of futures contracts or options contracts will be considered gain from the sale of securities and, therefore, will be qualifying income for purposes of the 90% requirement.

The Fund intends to distribute to shareholders annually any net capital gains that have been recognized for U.S. federal income tax purposes (including unrealized gains at the end of the Fund's fiscal year) on futures transactions and certain options contracts. Such distributions are combined with distributions of capital gains realized on the Fund's other investments, and shareholders are advised on the nature of the distributions.

**Leverage Risk.** Leverage is investment exposure that exceeds the initial amount invested. The loss on a leveraged investment may far exceed the Fund's principal amount invested. Leverage can magnify the Fund's gains and losses and, therefore, increase its volatility. There is no guarantee that the Fund leveraging strategy will be successful. The Fund cannot guarantee that the use of leverage will produce a high return on an investment. The use of leverage may result in the Fund having to liquidate holdings when it may not be advantageous to do so in order to satisfy its obligation or to meet segregation requirements.

**EQUITY SECURITIES.** Equity securities, such as the common stocks of an issuer, are subject to stock market fluctuations and therefore may experience volatile changes in value as market conditions, consumer sentiment or the financial condition of the issuers change. A decrease in value of the equity securities in the Fund's portfolio may also cause the value of Shares to decline.

An investment in a Fund should be made with an understanding of the risks inherent in an investment in equity securities, including the risk that the financial condition of issuers may become impaired or that the general condition of the stock market may deteriorate (either of which may cause a decrease in the value of a Fund's portfolio securities and therefore a decrease in the value of Shares). Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence and perceptions change. These investor perceptions are based on various and unpredictable factors, including expectations regarding government, economic, monetary and fiscal policies; inflation and interest rates; economic expansion or contraction; and global or regional political, economic, public health, cyber or banking crises.

All countries are vulnerable economically to the impact of a public health crisis, which could depress consumer demand, reduce economic output, and potentially lead to market closures, travel restrictions, and quarantines, all of which would negatively impact the country's economy and could affect the economies of its trading partners.

Holders of common stocks incur more risk than holders of preferred stocks and debt obligations because common stockholders, as owners of the issuer, generally have inferior rights to receive payments from the issuer in comparison with the rights of creditors or holders of debt obligations or preferred stocks. Further, unlike debt securities, which typically have a stated principal amount payable at maturity (whose value, however, is subject to market fluctuations prior thereto), or preferred stocks, which typically have a liquidation preference and which may have stated optional or mandatory redemption provisions, common stocks have neither a fixed principal amount nor a maturity. Common stock values are subject to market fluctuations as long as the common stock remains outstanding.

*When-Issued Securities* – A when-issued security is one whose terms are available and for which a market exists, but which has not been issued. When a Fund engages in when-issued transactions, it relies on the other party to consummate the sale. If the other party fails to complete the sale, a Fund may miss the opportunity to obtain the security at a favorable price or yield.

When purchasing a security on a when-issued basis, a Fund assumes the rights and risks of ownership of the security, including the risk of price and yield changes. At the time of settlement, the value of the security may be more or less than the purchase price. The yield available in the market when the delivery takes place also may be higher than those obtained in the transaction itself. Because a Fund does not pay for the security until the delivery date, these risks are in addition to the risks associated with its other investments.

Decisions to enter into "when-issued" transactions will be considered on a case-by-case basis when necessary to maintain continuity in a company's index membership.

#### **Types of Equity Securities:**

*Common Stocks* — Common stocks represent units of ownership in a company. Common stocks usually carry voting rights and earn dividends. Unlike preferred stocks, which are described below, dividends on common stocks are not fixed but are declared at the discretion of the company's board of directors.

*Preferred Stocks* — Preferred stocks are also units of ownership in a company. Preferred stocks normally have preference over common stock in the payment of dividends and the liquidation of the company. However, in all other respects, preferred stocks are subordinated to the liabilities of the issuer. Unlike common stocks, preferred stocks are generally not entitled to vote on corporate matters. Types of preferred stocks include adjustable-rate preferred stock, fixed dividend preferred stock, perpetual preferred stock, and sinking fund preferred stock.

Generally, the market values of preferred stock with a fixed dividend rate and no conversion element vary inversely with interest rates and perceived credit risk.

*Rights and Warrants* — A right is a privilege granted to existing shareholders of a corporation to subscribe to shares of a new issue of common stock before it is issued. Rights normally have a short life of usually two to four weeks, are freely transferable and entitle the holder to buy the new common stock at a lower price than the public offering price. Warrants are securities that are usually issued together with a debt security or preferred stock and that give the holder the right to buy proportionate amount of common stock at a specified price. Warrants are freely transferable and are traded on major exchanges. Unlike rights, warrants normally have a life that is measured in years and entitles the holder to buy common stock of a company at a price that is usually higher than the market price at the time the warrant is issued. Corporations often issue warrants to make the accompanying debt security more attractive.

An investment in warrants and rights may entail greater risks than certain other types of investments. Generally, rights and warrants do not carry the right to receive dividends or exercise voting rights with respect to the underlying securities, and they do not represent any rights in the assets of the issuer. In addition, their value does not necessarily change with the value of the underlying securities, and they cease to have value if they are not exercised on or before their expiration date. Investing in rights and warrants increases the potential profit or loss to be realized from the investment as compared with investing the same amount in the underlying securities.

*Smaller Companies* — The securities of small- and mid-capitalization companies may be more vulnerable to adverse issuer, market, political, public health, cyber, or economic developments than securities of larger-capitalization companies. The securities of small- and mid-capitalization companies generally trade in lower volumes and are subject to greater and more unpredictable price changes than larger capitalization stocks or the stock market as a whole. Some small- or mid-capitalization companies have limited product lines, markets, and financial and managerial resources and tend to concentrate on fewer geographical markets relative to larger capitalization companies. There is typically less publicly available information concerning small- and mid-capitalization companies than for larger, more established companies. Small- and mid-capitalization companies also may be particularly sensitive to changes in interest rates, government regulation, borrowing costs, and earnings.

*Tracking Stocks* — The Funds may invest in tracking stocks. A tracking stock is a separate class of common stock whose value is linked to a specific business unit or operating division within a larger company and which is designed to “track” the performance of such business unit or division. The tracking stock may pay dividends to shareholders independent of the parent company. The parent company, rather than the business unit or division, generally is the issuer of tracking stock. However, holders of the tracking stock may not have the same rights as holders of the company’s common stock.

**ETFs.** ETFs are pooled investment vehicles whose ownership interests are purchased and sold on a securities exchange. ETFs may be structured investment companies, depositary receipts or other pooled investment vehicles. As shareholders of an ETF, the Funds will bear their pro rata portion of any fees and expenses of the ETFs. Although shares of ETFs are traded on an exchange, shares of certain ETFs may not be redeemable to the ETF. In addition, ETFs may trade at a price below their net asset value (also known as a discount).

The Funds may use ETFs to help replicate their respective indexes. By way of example, ETFs may be structured as broad based ETFs that invest in a broad group of stocks from different industries and market sectors; select sectors; or market ETFs that invest in debt securities from a select sector of the economy (e.g., Treasury securities) a single industry or related industries; other types of ETFs continue to be developed and the Funds may invest in them to the extent consistent with their investment objectives, policies and restrictions. The ETFs in which the Funds invest are subject to the risks applicable to the types of securities and investments used by the ETFs.

ETFs may be actively managed or index-based. Actively managed ETFs are subject to management risk and may not achieve their objective if the ETF’s manager’s expectations regarding particular securities or markets are not met. An index based ETF’s objective is to track the performance of a specified index. Index based ETFs invest in a securities portfolio that includes substantially all of the securities in substantially the same amount as the securities included in the designated index. Because passively managed ETFs are designed to track an index, securities may be purchased, retained and sold at times when an actively managed ETF would not do so. As a result, shareholders of a Fund that invest in such an ETF can expect greater risk of loss (and a correspondingly greater prospect of gain) from changes in the value of securities that are heavily weighted in the index than would be the case if ETF were not fully invested in such securities. This risk is increased if a few component securities represent a highly concentrated weighting in the designated index.

Unless permitted by the 1940 Act or a rule issued by the SEC (see “Investment Companies” below for more information), the Funds’ investments in unaffiliated ETFs that are structured as investment companies as defined in the 1940 Act are subject to certain percentage limitations of the 1940 Act regarding investments in other investment companies. As a general matter, these percentage limitations currently require a Fund to limit its investments in any one issue of ETFs to 5% of the Fund’s total assets and 3% of the outstanding voting securities of the ETF issue. Moreover, a Fund’s investments in all ETFs may not currently exceed 10% of the Fund’s total assets under the 1940 Act, when aggregated with all other investments in investment companies. ETFs that are not structured as investment companies as defined in the 1940 Act are not subject to these percentage limitations. Registered investment

companies are permitted to invest in a Fund beyond the limits set forth in Section 12(d)(1) subject to certain terms and conditions set forth in Rule 12d1-4 under the 1940 Act, including that such investment companies enter into a fund of funds agreement with the Fund.

**EXCHANGE-TRADED NOTES.** The Funds may invest in exchange-traded notes (“ETNs”). ETNs generally are senior, unsecured, unsubordinated debt securities issued by a sponsor, such as an investment bank. ETNs are traded on exchanges and the returns are linked to the performance of market indexes. In addition to trading ETNs on exchanges, investors may redeem ETNs directly with the issuer on a periodic basis, typically in a minimum amount of 50,000 units, or hold the ETNs until maturity. The value of an ETN may be influenced by time to maturity, level of supply and demand for the ETN, volatility and lack of liquidity in the underlying market, changes in the applicable interest rates, and economic, legal, political or geographic events that affect the referenced market. Because ETNs are debt securities, they are subject to credit risk. If the issuer has financial difficulties or goes bankrupt, a Fund may not receive the return it was promised. If a rating agency lowers an issuer’s credit rating, the value of the ETN may decline and a lower credit rating reflects a greater risk that the issuer will default on its obligation. There may be restrictions on a Fund’s right to redeem its investment in an ETN. There are no periodic interest payments for ETNs, and principal is not protected. A Fund’s decision to sell its ETN holdings may be limited by the availability of a secondary market.

**FIXED INCOME SECURITIES.** The Funds may invest in fixed income securities. Even though interest-bearing securities are investments that promise a stable stream of income, the prices of such securities are affected by changes in interest rates. In general, fixed income security prices rise when interest rates fall and fall when interest rates rise. Securities with shorter maturities, while offering lower yields, generally provide greater price stability than longer term securities and are less affected by changes in interest rates. The values of fixed income securities also may be affected by changes in the credit rating or financial condition of the issuing entities. Once the rating of a portfolio security has been changed, the Funds will consider all circumstances deemed relevant in determining whether to continue to hold the security.

Fixed income investments bear certain risks, including credit risk, or the ability of an issuer to pay interest and principal as they become due. Generally, higher yielding bonds are subject to more credit risk than lower yielding bonds. Interest rate risk refers to the fluctuations in value of fixed income securities resulting from the inverse relationship between the market value of outstanding fixed income securities and changes in interest rates. An increase in interest rates will generally reduce the market value of fixed income investments and a decline in interest rates will tend to increase their value.

Call risk is the risk that an issuer will pay principal on an obligation earlier than scheduled or expected, which would accelerate cash flows from, and shorten the average life of, the security. Bonds are typically called when interest rates have declined because the issuer can refinance at a lower rate, similar to a homeowner refinancing a mortgage. In the event of a bond being called, the Adviser or applicable Sub-Adviser may have to reinvest the proceeds in lower yielding securities to the detriment of the Funds.

Extension risk is the risk that an issuer may pay principal on an obligation slower than expected, having the effect of extending the average life and duration of the obligation. This typically happens when interest rates have increased.

Duration is a calculation that seeks to measure the price sensitivity of a debt security, or a Fund that invests in debt securities, to changes in interest rates. It measures sensitivity more accurately than maturity because it takes into account the time value of cash flows generated over the life of a debt security. Future interest payments and principal payments are discounted to reflect their present value and then are multiplied by the number of years they will be received to produce a value expressed in years – the duration. Effective duration takes into account call features and sinking Fund prepayments that may shorten the life of a debt security. A number of factors, including changes in a central bank’s monetary policies or general improvements in the economy, may cause interest rates to rise. Fixed income securities with longer durations are more sensitive to interest rate changes than securities with shorter durations, making them more volatile. This means their prices are more likely to experience a considerable reduction in response to a rise in interest rates.

When investing in fixed income securities, the Funds may purchase securities regardless of their rating, including fixed income securities rated below investment grade – securities rated below investment grade are often referred to as high yield securities or “junk bonds.” High yield securities or “junk bonds,” are usually issued by smaller, less credit-worthy and/or highly leveraged (indebted companies) and involve special risks in addition to the risks associated with investments in higher rated fixed income securities. While offering a greater potential opportunity for capital appreciation and higher yields, high yield securities may be subject to greater levels of interest rate, credit and liquidity risk, may entail greater potential price volatility, and may be less liquid than higher rated fixed income securities. High yield securities may be regarded as predominantly speculative with respect to the issuer’s continuing ability to meet principal and interest payments. They may also be more susceptible to real or perceived adverse economic and competitive industry conditions than higher rated securities. Fixed income securities rated in the lowest investment grade categories by the rating agencies may also possess speculative characteristics. If securities are in default with respect to the payment of interest or the repayment of principal, or present an imminent risk of default with respect to such payments, the issuer of such securities may fail to resume principal or interest payments, in which case a Fund may lose its entire investment in the high yield security. In addition, to the

extent that there is no established retail secondary market, there may be thin trading of high yield securities, and this may have an impact on a Fund's ability to accurately value high yield securities and the Fund's assets and on the Fund's ability to dispose of the securities. Adverse publicity and investor perception, whether or not based on fundamental analysis, may decrease the values and liquidity of high yield securities especially in a thinly traded market. The following risks apply to FLRT's investments in fixed income securities:

**Creditor Liability and Participation on Creditors' Committees.** Generally, when the Fund holds bonds or other similar fixed income securities of an issuer, the Fund becomes a creditor of the issuer. If the Fund is a creditor of an issuer it, may be subject to challenges related to the securities that it holds, either in connection with the bankruptcy of the issuer or in connection with another action brought by other creditors of the issuer, shareholders of the issuer or the issuer itself. The Fund may from time to time participate on committees formed by creditors to negotiate with the management of financially troubled issuers of securities held by the Fund. Such participation may subject the Fund to expenses such as legal fees and may make the Fund an "insider" of the issuer for purposes of the federal securities laws, and therefore may restrict the Fund's ability to trade in or acquire additional positions in a particular security when it might otherwise desire to do so. Participation by the Fund on such committees also may expose the Fund to potential liabilities under the federal bankruptcy laws or other laws governing the rights of creditors and debtors. The Fund will participate on such committees only when its Adviser believes that such participation is necessary or desirable to enforce the Fund's rights as a creditor or to protect the value of securities held by the Fund. Further, the Adviser or Sub-Adviser has the authority to represent the Trust, or the Fund, on creditors' committees or similar committees and generally with respect to challenges related to the securities held by the Fund relating to the bankruptcy of an issuer or in connection with another action brought by other creditors of the issuer, shareholders of the issuer or the issuer itself.

**Variable and Floating Rate Securities.** Variable and floating rate instruments involve certain obligations that may carry variable or floating rates of interest, and may involve a conditional or unconditional demand feature. Such instruments bear interest at rates which are not fixed, but which vary with changes in specified market rates or indices. The interest rates on these securities may be reset daily, weekly, quarterly, or some other reset period, and may have a set floor or ceiling on interest rate changes. There is a risk that the current interest rate on such obligations may not accurately reflect existing market interest rates. A demand instrument with a demand notice exceeding seven days may be considered illiquid if there is no secondary market for such security.

**Asset-Backed Securities.** The Fund may invest in asset-backed securities ("ABSs"), which are bonds backed by pools of loans or other receivables. ABSs are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans. ABSs are issued through special purpose vehicles that are bankruptcy remote from the issuer of the collateral. The credit quality of an ABS transaction depends on the performance of the underlying assets. To protect ABS investors from the possibility that some borrowers could miss payments or even default on their loans, ABSs include various forms of credit enhancement. Some ABSs, particularly home equity loan transactions, are subject to interest-rate risk and prepayment risk. A change in interest rates can affect the pace of payments on the underlying loans, which in turn, affects total return on the securities. ABSs also carry credit or default risk. If many borrowers on the underlying loans default, losses could exceed the credit enhancement level and result in losses to investors in an ABS transaction. Finally, ABSs have structure risk due to a unique characteristic known as early amortization, or early payout, risk. Built into the structure of most ABSs are triggers for early payout, designed to protect investors from losses. These triggers are unique to each transaction and can include a big rise in defaults on the underlying loans, a sharp drop in the credit enhancement level, or even the bankruptcy of the originator. Once early amortization begins, all incoming loan payments (after expenses are paid) are used to pay investors as quickly as possible based upon a predetermined priority of payment. Consistent with the Fund's investment objectives and policies, the Adviser also may invest in other types of ABSs.

**Bank Loans.** Bank loans (also known as floating rate loans) are usually rated below investment grade. The market for floating rate loans may be subject to irregular trading activity, wide bid/ask spreads, and extended trade settlement periods. In addition, a significant portion of floating rate loans may be "covenant lite" loans that may contain fewer or less restrictive covenants on the borrower or may contain other borrower-friendly characteristics. The Fund's investment in loans may take the form of a participation or an assignment. Loan participations typically represent direct participation in a loan to a borrower, and generally are offered by financial institutions or lending syndicates. The Fund may participate in such syndications, or can buy part of a loan, becoming a part lender. When purchasing loan participations, the Fund assumes the credit risk associated with the borrower and may assume the credit risk associated with an interposed financial intermediary. If the lead lender in a typical lending syndicate becomes insolvent, enters Federal Deposit Insurance Corporation ("FDIC") receivership or, if not FDIC insured, enters into bankruptcy, the Fund may incur certain costs and delays in receiving payment or may suffer a loss of principal and/or interest. When the Fund is a purchaser of an assignment, it succeeds to all the rights and obligations under the loan agreement of the assigning bank or other financial intermediary and becomes a lender under the loan agreement with the same rights and obligations as the assigning bank or other financial intermediary.

For example, if a loan is foreclosed, the Fund could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral.

**Bank Obligations.** Bank obligations may include certificates of deposit, bankers' acceptances, and fixed time deposits. Certificates of deposit are negotiable certificates issued against funds deposited in a commercial bank for a definite period of time and earning a specified return. Bankers' acceptances are negotiable drafts or bills of exchange, normally drawn by an importer or exporter to pay for specific merchandise, which are "accepted" by a bank, meaning, in effect, that the bank unconditionally agrees to pay the face value of the instrument on maturity. Fixed time deposits are bank obligations payable at a stated maturity date and bearing interest at a fixed rate. Fixed time deposits may be withdrawn on demand by the investor, but may be subject to early withdrawal penalties which vary depending upon market conditions and the remaining maturity of the obligation. There are no contractual restrictions on the right to transfer a beneficial interest in a fixed time deposit to a third party, although there is no market for such deposits. The Fund will not invest in fixed time deposits which (1) are not subject to prepayment or (2) provide for withdrawal penalties upon prepayment (other than overnight deposits) if, in the aggregate, more than 15% of its net assets would be invested in such deposits, repurchase agreements with remaining maturities of more than seven days and other illiquid assets. Subject to the Trust's limitation on concentration, as described in the "Investment Restrictions" section below, there is no limitation on the amount of the Fund's assets which may be invested in obligations of foreign banks which meet the conditions set forth herein.

Obligations of foreign banks involve somewhat different investment risks than those affecting obligations of U.S. banks, including the possibilities that their liquidity could be impaired because of future political and economic developments, that their obligations may be less marketable than comparable obligations of U.S. banks, that a foreign jurisdiction might impose withholding taxes on interest income payable on those obligations, that foreign deposits may be seized or nationalized, that foreign governmental restrictions such as exchange controls may be adopted which might adversely affect the payment of principal and interest on those obligations and that the selection of those obligations may be more difficult because there may be less publicly available information concerning foreign banks or the accounting, auditing and financial reporting standards, practices and requirements applicable to foreign banks may differ from those applicable to United States banks. Foreign banks are not generally subject to examination by any United States Government agency or instrumentality.

**Below Investment-Grade Debt Securities.** The Fund may invest in below investment-grade securities. Below investment-grade securities, also referred to as "high yield securities" or "junk bonds," are debt securities that are rated lower than the four highest rating categories by a nationally recognized statistical rating organization (for example, lower than Baa3 by Moody's Investors Service, Inc. or ("Moody's") lower than BBB- by Standard & Poor's ("S&P")) or are determined to be of comparable quality by the Fund's Sub-Adviser. These securities are generally considered to be, on balance, predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation, and will generally involve more credit risk than securities in the investment-grade categories. Investment in these securities generally provides greater income and increased opportunity for capital appreciation than investments in higher quality securities, but they also typically entail greater price volatility and principal and income risk.

Analysis of the creditworthiness of issuers of high yield securities may be more complex than for issuers of investment-grade securities. Thus, reliance on credit ratings in making investment decisions entails greater risks for high yield securities than for investment-grade debt securities. The success of the Fund Sub-Adviser in managing the Fund's high yield securities is more dependent upon its own credit analysis than is the case with investment-grade securities.

Some high yield securities are issued by smaller, less-seasoned companies, while others are issued as part of a corporate restructuring, such as an acquisition, merger, or leveraged buyout. Companies that issue high yield securities are often highly leveraged and may not have available to them more traditional methods of financing. Therefore, the risk associated with acquiring the securities of such issuers generally is greater than is the case with investment-grade securities. Some high yield securities were once rated as investment-grade but have been downgraded to junk bond status because of financial difficulties experienced by their issuers.

The market values of high yield securities tend to reflect individual issuer developments to a greater extent than do investment-grade securities, which in general react to fluctuations in the general level of interest rates. High yield securities also tend to be more sensitive to economic conditions than are investment-grade securities. A projection of an economic downturn or of a period of rising interest rates, for example, could cause a decline in junk bond prices because the advent of a recession could lessen the ability of a highly leveraged company to make principal and interest payments on its debt securities. If an issuer of high yield securities defaults, in addition to risking payment of all or a portion of interest and principal, the Fund investing in such securities may incur additional expenses to seek recovery.

The secondary market on which high yield securities are traded may be less liquid than the market for investment-grade securities. Less liquidity in the secondary trading market could adversely affect the ability of the Fund to sell a high yield

security or the price at which the Fund could sell a high yield security, and could adversely affect the daily NAV of Fund shares. When secondary markets for high yield securities are less liquid than the market for investment-grade securities, it may be more difficult to value the securities because such valuation may require more research, and elements of judgment may play a greater role in the valuation because there is less reliable, objective data available.

The Fund will not necessarily dispose of a security if a credit-rating agency downgrades the rating of the security below its rating at the time of purchase. However, its Sub-Adviser will monitor the investment to determine whether continued investment in the security is in the best interest of shareholders.

**Collateralized Bond Obligations, Collateralized Loan Obligations, and Other Collateralized Debt Obligations.** The Fund may invest in each of collateralized bond obligations (“CBOs”), collateralized loan obligations (“CLOs”), other collateralized debt obligations (“CDOs”) and other similarly structured securities. CBOs, CLOs and other CDOs are types of asset-backed securities. A CBO is a trust which is often backed by a diversified pool of high risk, below investment-grade fixed income securities. The collateral can be from many different types of fixed income securities such as high yield debt, residential privately issued mortgage-related securities, commercial privately issued mortgage-related securities, trust preferred securities and emerging market debt. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment-grade or equivalent unrated loans. Other CDOs are trusts backed by other types of assets representing obligations of various parties. CBOs, CLOs and other CDOs may charge management fees and administrative expenses.

For CBOs, CLOs and other CDOs, the cash flows from the trust are split into two or more portions, called tranches, varying in risk and yield. The riskiest portion is the "equity" tranche which bears the bulk of defaults from the bonds or loans in the trust and serves to protect the other, more senior tranches from default in all but the most severe circumstances. Since they are partially protected from defaults, senior tranches from a CBO trust, CLO trust or trust of another CDO typically have higher ratings and lower yields than their underlying securities, and can be rated investment-grade. Despite the protection from the equity tranche, CBO, CLO or other CDO tranches can experience substantial losses due to actual defaults, increased sensitivity to defaults due to collateral default and disappearance of protecting tranches, market anticipation of defaults, as well as aversion to CBO, CLO or other CDO securities as a class.

The risks of an investment in a CBO, CLO or other CDO depend largely on the type of the collateral securities and the class of the instrument in which the Fund invests. Normally, CBOs, CLOs and other CDOs are privately offered and sold, and thus, are not registered under the securities laws. As a result, investments in CBOs, CLOs and other CDOs may be characterized by the Fund as illiquid securities, however, an active dealer market may exist for CBOs, CLOs and other CDOs allowing them to qualify for Rule 144A transactions. In addition to the normal risks associated with fixed income securities discussed elsewhere in this SAI and the Fund Prospectus (e.g., fixed income risk and credit risk), CBOs, CLOs and other CDOs carry additional risks including, but are not limited to, (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments, (ii) the quality of the collateral may decline in value or default, (iii) the risk that the Fund may invest in CBOs, CLOs or other CDOs that are subordinate to other classes, and (iv) the possibility that the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

**Commercial Paper.** The Fund may invest in commercial paper. Commercial paper is a short-term obligation with a maturity ranging from one to 270 days issued by banks, corporations and other borrowers. Such investments are unsecured and usually discounted. The Fund may invest in commercial paper rated A-1 or A-2 by S&P or Prime-1 or Prime-2 by Moody's.

**Corporate Debt Securities.** The Fund may invest in corporate debt securities representative of one or more high yield bond or credit derivative indices, which may change from time to time. Selection will generally be dependent on independent credit analysis or fundamental analysis performed by the Fund's Adviser or Sub-Adviser. The Fund may invest in all grades of corporate debt securities, including below investment-grade securities, as discussed below. See [Appendix A](#) for a description of corporate bond ratings. The Fund also may invest in unrated securities.

Corporate debt securities are typically fixed-income securities issued by businesses to finance their operations. Notes, bonds, debentures and commercial paper are the most common types of corporate debt securities. The primary differences between the different types of corporate debt securities are their maturities and secured or unsecured status. Commercial paper has the shortest term and is usually unsecured. The broad category of corporate debt securities includes debt issued by domestic or foreign companies of all kinds, including those with small-, mid- and large-capitalizations. Corporate debt may be rated investment-grade or below investment-grade and may carry variable or floating rates of interest.

Because of the wide range of types, and maturities, of corporate debt securities, as well as the range of creditworthiness of its issuers, corporate debt securities have widely varying potentials for return and risk profiles. For example, commercial paper

issued by a large established domestic corporation that is rated investment-grade may have a modest return on principal, but carries relatively limited risk. On the other hand, a long-term corporate note issued by a small foreign corporation from an emerging market country that has not been rated may have the potential for relatively large returns on principal, but carries a relatively high degree of risk.

Corporate debt securities carry both credit risk and interest rate risk. Credit risk is the risk that the Fund could lose money if the issuer of a corporate debt security is unable to pay interest or repay principal when it is due. Some corporate debt securities that are rated below investment-grade are generally considered speculative because they present a greater risk of loss, including default, than higher quality debt securities. The credit risk of a particular issuer's debt security may vary based on its priority for repayment. For example, higher ranking (senior) debt securities have a higher priority than lower-ranking (subordinated) securities. This means that the issuer might not make payments on subordinated securities while continuing to make payments on senior securities. In addition, in the event of bankruptcy, holders of higher-ranking senior securities may receive amounts otherwise payable to the holders of more junior securities. Interest rate risk is the risk that the value of certain corporate debt securities will tend to fall when interest rates rise. In general, corporate debt securities with longer terms tend to fall more in value when interest rates rise than corporate debt securities with shorter terms.

**Inflation-Indexed Bonds.** The Fund may invest in inflation-indexed bonds, which are fixed income securities whose principal value is periodically adjusted according to the rate of inflation. Two structures are common. The U.S. Treasury and some other issuers use a structure that accrues inflation into the principal value of the bond. Most other issuers pay out the Consumer Price Index ("CPI") accruals as part of a semiannual coupon.

Inflation-indexed securities issued by the U.S. Treasury have maturities of five, ten or thirty years, although it is possible that securities with other maturities will be issued in the future. U.S. Treasury securities pay interest on a semi-annual basis, equal to a fixed percentage of the inflation-adjusted principal amount. For example, if the Fund purchased an inflation-indexed bond with a par value of \$1,000 and a 3% real rate of return coupon (payable 1.5% semi-annually), and inflation over the first six months was 1%, the mid-year par value of the bond would be \$1,010 and the first semi-annual interest payment would be \$15.15 (\$1,010 times 1.5%). If inflation during the second half of the year resulted in the whole year's inflation equaling 3%, the end-of-year par value of the bond would be \$1,030 and the second semi-annual interest payment would be \$15.45 (\$1,030 times 1.5%).

If the periodic adjustment rate measuring inflation falls, the principal value of inflation-indexed bonds will be adjusted downward, and consequently the interest payable on these securities (calculated with respect to a smaller principal amount) will be reduced. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed in the case of U.S. Treasury inflation-indexed bonds, even during a period of deflation. However, the current market value of the bonds is not guaranteed, and will fluctuate. The Fund also may invest in other inflation related bonds which may or may not provide a similar guarantee. If a guarantee of principal is not provided, the adjusted principal value of the bond repaid at maturity may be less than the original principal.

The value of inflation-indexed bonds is expected to change in response to changes in real interest rates. Real interest rates are tied to the relationship between nominal interest rates and the rate of inflation. Therefore, if inflation were to rise at a faster rate than nominal interest rates, real interest rates might decline, leading to an increase in value of inflation-indexed bonds. In contrast, if nominal interest rates increased at a faster rate than inflation, real interest rates might rise, leading to a decrease in value of inflation-indexed bonds.

While these securities are expected to be protected from long-term inflationary trends, short-term increases in inflation may lead to a decline in value. If interest rates rise due to reasons other than inflation (for example, due to changes in currency exchange rates), investors in these securities may not be protected to the extent that the increase is not reflected in the bond's inflation measure.

The periodic adjustment of U.S. inflation-indexed bonds is tied to the Consumer Price Index for All Urban Consumers ("CPI-U"), which is calculated monthly by the U.S. Bureau of Labor Statistics. The CPI-U is a measurement of changes in the cost of living, made up of components such as housing, food, transportation and energy. Inflation-indexed bonds issued by a foreign government are generally adjusted to reflect a comparable inflation index, calculated by that government. There can be no assurance that the CPI-U or any foreign inflation index will accurately measure the real rate of inflation in the prices of goods and services. Moreover, there can be no assurance that the rate of inflation in a foreign country will be correlated to the rate of inflation in the United States.

Any increase in the principal amount of an inflation-indexed bond will be considered taxable ordinary income, even though investors do not receive their principal until maturity.

**Structured Notes.** A structured note is a derivative security for which the amount of principal repayment and/or interest payments is based on the movement of one or more “factors.” These factors include, but are not limited to, currency exchange rates, interest rates (such as the prime lending rate, the London Interbank Offered Rate (“LIBOR”), or the Secured Overnight Funding Rate (“SOFR”)), referenced bonds, and stock indices. Some of these factors may or may not correlate to the total rate of return on one or more underlying instruments referenced in such notes. Investments in structured notes involve risks including interest rate risk, credit risk and market risk. Depending on the factor(s) used and the use of multipliers or deflators, changes in interest rates and movement of such factor(s) may cause significant price fluctuations. Structured notes may be less liquid than other types of securities and more volatile than the reference factor underlying the note.

**Unrated Debt Securities.** The Fund may invest in unrated debt securities. Unrated debt, while not necessarily lower in quality than rated securities, may not have as broad a market. Because of the size and perceived demand for the issue, among other factors, certain issuers may decide not to pay the cost of getting a rating for their bonds. The creditworthiness of the issuer, as well as any financial institution or other party responsible for payments on the security, will be analyzed to determine whether to purchase unrated bonds.

**Zero Coupon Bonds.** The Fund may invest in U.S. Treasury zero coupon bonds. These securities are U.S. Treasury bonds which have been stripped of their un-matured interest coupons, the coupons themselves, and receipts or certificates representing interests in such stripped debt obligations and coupons. Interest is not paid in cash during the term of these securities, but is accrued and paid at maturity. Such obligations have greater price volatility than coupon obligations and other normal interest-paying securities, and the value of zero coupon securities reacts more quickly to changes in interest rates than do coupon bonds. Because dividend income is accrued throughout the term of the zero coupon obligation, but is not actually received until maturity, the Fund may have to sell other securities to pay said accrued dividends prior to maturity of the zero coupon obligation. Unlike regular U.S. Treasury bonds, which pay semi-annual interest, U.S. Treasury zero coupon bonds do not generate semi-annual coupon payments. Instead, zero coupon bonds are purchased at a substantial discount from the maturity value of such securities, the discount reflecting the current value of the deferred interest; this discount is amortized as interest income over the life of the security, and is taxable even though there is no cash return until maturity. Zero coupon U.S. Treasury issues originally were created by government bond dealers who bought U.S. Treasury bonds and issued receipts representing an ownership interest in the interest coupons or in the principal portion of the bonds. Subsequently, the U.S. Treasury began directly issuing zero coupon bonds with the introduction of STRIPS. While zero coupon bonds eliminate the reinvestment risk of regular coupon issues, that is, the risk of subsequently investing the periodic interest payments at a lower rate than that of the security held, zero coupon bonds fluctuate much more sharply than regular coupon-bearing bonds. Thus, when interest rates rise, the value of zero coupon bonds will decrease to a greater extent than will the value of regular bonds having the same interest rate.

**Collateral Risk.** A loan may not be fully collateralized and can decline significantly in value. In addition, the Fund’s access to collateral may be limited by bankruptcy or other insolvency laws. Further, loans held by the Fund may not be considered securities and, therefore, purchasers, such as the Fund, may not be entitled to rely on the anti-fraud protections of the federal securities laws.

**Counterparty Risk.** The Fund may invest in financial instruments involving counterparties for the purpose of attempting to gain exposure to a particular group of securities, index or asset class without actually purchasing those securities or investments, or to hedge a position. Such financial instruments may include, among others, total return, index, interest rate, and credit default swap agreements. The use of swap agreements and similar instruments exposes the Funds to risks that are different than those associated with ordinary portfolio securities transactions. For example, the Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. If a counterparty defaults on its payment obligations to the Fund, this default will cause the value of your investment in the Fund to decrease. In addition, the Fund may enter into swap agreements with a limited number of counterparties, which may increase the Fund’s exposure to counterparty credit risk. Similarly, if the credit quality of an issuer or guarantor of a debt instrument improves, this change may adversely affect the value of the Fund’s investment.

**Credit Risk.** Credit risk is the risk that the Fund could lose money if an issuer or guarantor of a debt instrument becomes unwilling or unable to make timely principal and/or interest payments, or to otherwise meet its obligations. The Fund is also subject to the risk that its investment in a debt instrument could decline because of concerns about the issuer's credit quality or perceived financial condition. Fixed income securities are subject to varying degrees of credit risk, which are sometimes reflected in credit ratings.

**High Yield Securities Risk.** Securities rated “BB” or below by S&P or “Ba” or below by Moody's are known as high yield securities and are commonly referred to as “junk bonds.” Such securities entail greater price volatility and credit and interest rate risk than investment-grade securities. Analysis of the creditworthiness of high yield issuers is more complex than for

higher-rated securities, making it more difficult for the Sub-Adviser to accurately predict risk. There is a greater risk with high yield fixed income securities that an issuer will not be able to make principal and interest payments when due. If the Fund pursues missed payments, there is a risk the Fund expenses could increase. In addition, lower-rated securities may not trade as often and may be less liquid than higher-rated securities, especially during periods of economic uncertainty or change. As a result of all of these factors, these securities are generally considered to be speculative.

**Income Risk.** The market value of fixed income investments changes in response to interest rate changes and other factors. The Fund's income could decline due to falling market interest rates. This is because, in a falling interest rate environment, the Fund generally will have to invest the proceeds from sales of Fund shares, as well as the proceeds from maturing portfolio securities in lower-yielding securities. During periods of falling interest rates, the values of outstanding fixed income securities generally rise. Moreover, while securities with longer maturities tend to produce higher yields, the prices of longer maturity securities are also subject to greater market fluctuations as a result of changes in interest rates. During periods of falling interest rates, certain debt obligations with high interest rates may be prepaid (or "called") by the issuer prior to maturity.

**Interest Rate Risk.** The values of fixed rate debt securities usually rise and fall in response to changes in interest rates. Declining interest rates generally increase the value of existing debt instruments, and rising interest rates generally decrease the value of existing debt instruments. Changes in a debt instrument's value usually will not affect the amount of interest income paid to the Fund, but will affect the value of the Fund's shares. Interest rate risk is generally greater for investments with longer maturities. Certain securities pay interest at variable or floating rates. Variable rate securities reset at specified intervals, while floating rate securities reset whenever there is a change in a specified index rate. In most cases, these reset provisions reduce the effect of changes in market interest rates on the value of the security. However, some securities do not track the underlying index directly, but reset based on formulas that can produce an effect similar to leveraging; others may also provide for interest payments that vary inversely with market rates. The market prices of these securities may fluctuate significantly when interest rates change.

Some investments give the issuer the option to call or redeem an investment before its maturity date. If an issuer calls or redeems an investment during a time of declining interest rates, the Fund might have to reinvest the proceeds in an investment offering a lower yield, and therefore it might not benefit from any increase in value as a result of declining interest rates.

**Other Floating Rate Loan Risks.** Floating rate loans generally are subject to restrictions on transfer, and the Fund may be unable to sell its bank loans at a time when it may otherwise be desirable to do so or may be able to sell them only at prices that are less than their fair market value. The Fund may find it difficult to establish a fair value for loans it holds. Further, the trading market for floating rate loans could be impacted by regulatory action or reforms around the manner in which floating interest rates are determined. If a published rate is unavailable, the rate of interest on a floating rate loan could effectively become fixed, which would in turn adversely affect the value of the floating rate loan. In addition, floating rate loans generally are subject to extended settlement periods in excess of seven days, which may impair the Fund's ability to sell or realize the full value of its loans in the event of a need to liquidate such loans.

If the Fund acquires a participation in a loan, the Fund may not be able to control the exercise of remedies that the lender would have under the loan and likely would not have any rights against the borrower directly. A loan participation agreement involves the purchase of a share of a loan made by a bank to a company in return for a corresponding share of borrower's principal and interest payments. The principal credit risk associated with acquiring loan participation interests is the credit risk associated with the underlying corporate borrower. There is also a risk that there may not be a readily available market for loan participation interests and, in some cases, this could result in the Fund disposing of such securities at a substantial discount from face value or holding such securities until maturity.

Loans made to finance highly leveraged corporate acquisitions may be especially vulnerable to adverse changes in economic or market conditions. A loan may also be in the form of a bridge loan, which are designed to provide temporary or "bridge" financing to a borrower, pending the sale of identified assets or the arrangement of longer-term loans or the issuance and sale of debt obligations. A borrower's use of a bridge loan involves a risk that the borrower may be unable to locate permanent financing to replace the bridge loan, which may impair the borrower's perceived creditworthiness.

Floating rate loans, like other debt securities, may be paid off early if the issuer of a security can repay principal prior to the maturity date. If interest rates are falling, the Fund may have to reinvest the unanticipated proceeds at lower interest rates, resulting in a decline in the Fund's income.

A loan may be a senior loan or a junior loan. Senior loans typically provide lenders with a first right to cash flows or proceeds from the sale of a borrower's collateral if the borrower becomes insolvent (subject to certain limitations of bankruptcy law). However, there can be no assurance that liquidation of such collateral would satisfy the borrower's obligation in the event of a

default or that such collateral could be readily liquidated. In addition, senior loans are subject to the risk that a court could subordinate such senior loans to presently existing or future indebtedness of the borrower, or take other action detrimental to the holders of senior loans including, in certain circumstances, invalidating such senior loans or causing interest previously paid to be refunded to the borrower. Any such actions could negatively affect the Fund's performance. To the extent the Fund invests in junior loans, these loans involve a higher degree of overall risk than senior loans of the same borrower because of their lower place in the borrower's capital structure and possible unsecured status.

The loans in which the Fund will invest will generally be secured and senior to other indebtedness of the borrower. Each loan generally will be secured by collateral such as accounts receivable, inventory, equipment, real estate, intangible assets such as trademarks, copyrights and patents, and securities of subsidiaries or affiliates. Collateral also may include guarantees or other credit support by affiliates of the borrower. The value of the collateral generally will be determined by reference to financial statements of the borrower, by an independent appraisal, by obtaining the market value of such collateral, in the case of cash or securities if readily ascertainable, or by other customary valuation techniques considered appropriate by the Adviser or Sub-Adviser. The value of collateral may decline after the Fund's investment, and collateral may be difficult to sell in the event of default. Consequently, the Fund may not receive all the payments to which it is entitled. The loan agreement may or may not require the borrower to pledge additional collateral to secure the senior loan if the value of the initial collateral declines. In certain circumstances, the loan agreement may authorize the agent to liquidate the collateral and to distribute the liquidation proceeds pro rata among the lenders. By virtue of their senior position and collateral, senior loans typically provide lenders with the first right to cash flows or proceeds from the sale of a borrower's collateral if the borrower becomes insolvent (subject to the limitations of bankruptcy law, which may provide higher priority to certain claims such as employee salaries, employee pensions, and taxes). This means senior loans generally are repaid before unsecured bank loans, corporate bonds, subordinated debt, trade creditors, and preferred or common stockholders. To the extent that the Fund invests in unsecured loans, if the borrower defaults on such loan, there is no specific collateral on which the lender can foreclose. If the borrower defaults on a subordinated loan, the collateral may not be sufficient to cover both the senior and subordinated loans. In addition, if the loan is foreclosed, the Fund could become part owner of any collateral and could bear the costs and liabilities of owning and disposing of the collateral.

Senior loans generally are arranged through private negotiations between a borrower and several financial institutions represented by an agent who is usually one of the originating lenders. In larger transactions, it is common to have several agents; however, generally only one such agent has primary responsibility for ongoing administration of a senior loan. Agents typically are paid fees by the borrower for their services.

The agent is responsible primarily for negotiating the loan agreement which establishes the terms and conditions of the senior loan and the rights of the borrower and the lenders. The agent is paid a fee by the borrower for its services. The agent generally is required to administer and manage the senior loan on behalf of other lenders. The agent also is responsible for monitoring collateral and for exercising remedies available to the lenders such as foreclosure upon collateral. The agent may rely on independent appraisals of specific collateral. The agent need not, however, obtain an independent appraisal of assets pledged as collateral in all cases. The agent generally also is responsible for determining that the lenders have obtained a perfected security interest in the collateral securing a senior loan. The Fund normally relies on the agent to collect principal of and interest on a senior loan. The Fund also relies in part on the agent to monitor compliance by the borrower with the restrictive covenants in the loan agreement and to notify the Fund (or the lender from whom the Fund has purchased a participation) of any adverse change in the borrower's financial condition. Insolvency of the agent or other persons positioned between the Fund and the borrower could result in losses for the Fund.

Loan agreements may provide for the termination of the agent's agency status in the event that it fails to act as required under the relevant loan agreement, becomes insolvent, enters FDIC receivership or, if not FDIC insured, enters into bankruptcy. Should such an agent, lender or assignor, with respect to an assignment interpositioned between the Fund and the borrower, become insolvent or enter FDIC receivership or bankruptcy, any interest in the senior loan of such person and any loan payment held by such person for the benefit of the Fund should not be included in such person's or entity's bankruptcy estate. If, however, any such amount were included in such person's or entity's bankruptcy estate, the fund would incur certain costs and delays in realizing payment or could suffer a loss of principal or interest. In this event, the fund could experience a decrease in its NAV.

Most borrowers pay their debts from cash flow generated by their businesses. If a borrower's cash flow is insufficient to pay its debts, it may attempt to restructure its debts rather than sell collateral. Borrowers may try to restructure their debts by filing for protection under the federal bankruptcy laws or negotiating a work-out. If a borrower becomes involved in a bankruptcy proceeding, access to collateral may be limited by bankruptcy and other laws. If a court decides that access to collateral is limited or void, the fund may not recover the full amount of principal and interest that is due.

A borrower must comply with certain restrictive covenants contained in the loan agreement. In addition to requiring the scheduled payment of principal and interest, these covenants may include restrictions on the payment of dividends and other distributions to the borrower's shareholders, provisions requiring compliance with specific financial ratios, and limits on total indebtedness. The agreement also may require the prepayment of the loans from excess cash flow. A breach of a covenant that is not waived by the agent (or lenders directly) is normally an event of default, which provides the agent and lenders the right to call for repayment of the outstanding loan.

In the process of buying, selling and holding senior loans, the fund may receive and/or pay certain fees. These fees are in addition to interest payments received and may include facility fees, commitment fees, commissions and prepayment penalty fees. Facility fees are paid to lenders when a senior loan is originated. Commitment fees are paid to lenders on an ongoing basis based on the unused portion of a senior loan commitment. Lenders may receive prepayment penalties when a borrower prepays a senior loan. Whether the fund receives a facility fee in the case of an assignment, or any fees in the case of a participation, depends on negotiations between the Fund and the lender selling such interests. When the fund buys an assignment, it may be required to pay a fee to the lender selling the assignment, or to forgo a portion of interest and fees payable to the Fund. Occasionally, the assignor pays a fee to the assignee. A person selling a participation to the fund may deduct a portion of the interest and any fees payable to the Fund as an administrative fee.

Notwithstanding its intention in certain situations not to receive material, non-public information with respect to its management of investments in loans, the Adviser or the Sub-Adviser may from time to time come into possession of material, non-public information about the issuers of loans that may be held in the Fund's portfolio. Possession of such information may in some instances occur despite the Adviser's or the Sub-Adviser's efforts to avoid such possession, but in other instances the Adviser or the Sub-Adviser may choose to receive such information (for example, in connection with participation in a creditors' committee with respect to a financially distressed issuer). The Adviser's or the Sub-Adviser's ability to trade in these loans for the account of the fund could potentially be limited by its possession of such information. Such limitations on the Adviser's or the Sub-Adviser's ability to trade could have an adverse effect on the fund by, for example, preventing the Fund from selling a loan that is experiencing a material decline in value. In some instances, these trading restrictions could continue in effect for a substantial period of time.

Although the overall size and number of participants in the market for floating rate loans (or bank loans) has grown over the past decade, floating rate loans continue to trade in an unregulated inter-dealer or inter-bank secondary market. Purchases and sales of floating rate loans are generally subject to contractual restrictions that must be satisfied before a floating rate loan can be bought or sold. These restrictions may impede the Fund's ability to buy or sell floating rate loans, negatively impact the transaction price, and impede the Fund's ability to timely vote or otherwise act with respect to floating rate loans. As a result, it may take longer than seven days for transactions in floating rate loans to settle, which make it more difficult for the Fund to raise cash to pay investors when they redeem their shares in the Fund. The Fund may be adversely affected by having to sell other investments at an unfavorable time and/or under unfavorable conditions, hold cash, temporarily borrow from banks or other lenders or take other actions to meet short-term liquidity needs in order to satisfy redemption requests from Fund shareholders. These actions may impact the Fund's performance (in the case of holding cash or selling securities) or increase the Fund's expenses (in the case of borrowing).

It is also unclear whether the U.S. federal securities laws, which afford certain protections against fraud and misrepresentation in connection with the offering or sale of a security, as well as against manipulation of trading markets for securities, would be available to the Fund's investments in a loan. This is because a loan may not be deemed to be a security in certain circumstances. In these instances, the Fund may need to rely on contractual provisions in the loan documents for some protections and also avail itself of common law fraud protections under applicable state law, which could increase the risk and expense to the Fund of investing in loans. In addition, holders of such loans may from time to time receive confidential information about the borrower. In certain circumstances, this confidential information may be considered material non-public information. Because U.S. laws and regulations generally prohibit trading in securities of issuers while in possession of material, non-public information, the Fund that receives confidential information about a borrower for loan investments might be unable to trade securities or other instruments issued by the borrower when it would otherwise be advantageous to do so and, as such, could incur a loss. For this reason, the Fund or its Manager may determine not to receive confidential information about a borrower for loan investments, which may disadvantage the Fund relative to other investors who do receive such information.

Some covenant lite loans may be in the market from time to time which tend to have fewer or no financial maintenance covenants and restrictions. A covenant lite loan typically contains fewer clauses which allow an investor to proactively enforce financial covenants or prevent undesired actions by the borrower/issuer.

Covenant lite loans also generally provide fewer investor protections if certain criteria are breached. The Fund may experience losses or delays in enforcing its rights on its holdings of covenant lite loans.

**Prepayment/Extension Risk.** Floating rate loans are also subject to prepayment risk (also called extension risk). Borrowers may pay off their loans sooner than expected particularly when interest rates are falling. The Fund investing in such securities will be forced to reinvest this money at lower yields, which can reduce the Fund's returns. Similarly, debt obligations with call features have the risk that an issuer will exercise the right to pay an obligation (such as a mortgage-backed security) earlier than expected. Pre-payment and call risk typically occur when interest rates are declining. Conversely, when interest rates are rising, the duration of such securities tends to extend, making them more sensitive to changes in interest rates.

**FIXED-INCOME SECURITIES RATINGS.** Nationally recognized statistical rating organizations (together, rating agency) publish ratings based upon their assessment of the relative creditworthiness of rated fixed-income securities. Generally, a lower rating indicates higher credit risk, and higher yields are ordinarily available from fixed-income securities in the lower rating categories to compensate investors for the increased credit risk. Any use of credit ratings in evaluating fixed-income securities can involve certain risks. For example, ratings assigned by the rating agencies are based upon an analysis completed at the time of the rating of the obligor's ability to pay interest and repay principal, typically relying to a large extent on historical data. Rating agencies typically rely to a large extent on historical data which may not accurately represent present or future circumstances. Ratings do not purport to reflect to risk of fluctuations in market value of the fixed-income security and are not absolute standards of quality and only express the rating agency's current opinion of an obligor's overall financial capacity to pay its financial obligations. A credit rating is not a statement of fact or a recommendation to purchase, sell or hold a fixed-income obligation. Also, credit quality can change suddenly and unexpectedly, and credit ratings may not reflect the issuer's current financial condition or events since the security was last rated. Rating agencies may have a financial interest in generating business, including the arranger or issuer of the security that normally pays for that rating, and a low rating might affect future business. While rating agencies have policies and procedures to address this potential conflict of interest, there is a risk that these policies will fail to prevent a conflict of interest from impacting the rating. Additionally, legislation has been enacted in an effort to reform rating agencies. The SEC has also adopted rules to require rating agencies to provide additional disclosure and reduce conflicts of interest, and further reform has been proposed. It is uncertain how such legislation or additional regulation might impact the ratings agencies business and the Adviser's or Sub-Adviser's investment process.

Prepayment risk occurs when a fixed-income investment held by a Fund may be repaid in whole or in part prior to its maturity. The amount of prepayable obligations a Fund invests in from time to time may be affected by general business conditions, market interest rates, borrowers' financial conditions and competitive conditions among lenders. In a period of declining interest rates, borrowers may repay investments more quickly than anticipated, reducing the yield to maturity and the average life of the relevant investment. Moreover, when a Fund reinvests the proceeds of a prepayment in these circumstances, it will likely receive a rate of interest that is lower than the rate on the security that was prepaid. To the extent that a Fund purchases a relevant investment at a premium, prepayments may result in a loss to the extent of the premium paid. If a Fund buys such investments at a discount, both scheduled payments and unscheduled prepayments will increase current and total returns and unscheduled prepayments will also accelerate the recognition of income. In a period of rising interest rates, prepayments of investments may occur at a slower than expected rate, creating maturity extension risk. This particular risk may effectively change an investment that was considered short- or intermediate-term at the time of purchase into a longer-term investment. Since the value of longer-term investments generally fluctuates more widely in response to changes in interest rates than short-term investments, maturity extension risk could increase the volatility of a Fund. When interest rates decline, the value of an investment with prepayment features may not increase as much as that of other fixed-income securities and, as noted above, changes in market rates of interest may accelerate or delay prepayments and thus affect maturities.

**FOREIGN CURRENCY TRANSACTIONS.** The Funds may invest directly and indirectly in foreign currencies. The Fund may conduct foreign currency transactions on a spot (*i.e.*, cash) or forward basis *i.e.*, by entering into forward contracts to purchase or sell foreign currencies). Currency transactions made on a spot basis are for cash at the spot rate prevailing in the currency exchange market for buying or selling currency. Although foreign exchange dealers generally do not charge a fee for such conversions, they do realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer may offer to sell a foreign currency at one rate, while offering a lesser rate of exchange should the counterparty desire to resell that currency to the dealer. When used for hedging purposes, forward currency contracts tend to limit any potential gain that may be realized if the value of the Fund's foreign holdings increases because of currency fluctuations.

Investments in foreign currencies are subject to numerous risks, not the least of which is the fluctuation of foreign currency exchange rates with respect to the U.S. dollar. Exchange rates fluctuate for a number of reasons.

- *Inflation.* Exchange rates change to reflect changes in a currency's buying power. Different countries experience different inflation rates due to different monetary and fiscal policies, different product and labor market conditions, and a host of other factors.
- *Trade Deficits.* Countries with trade deficits tend to experience a depreciating currency. Inflation may be the cause of a trade deficit, making a country's goods more expensive and less competitive and so reducing demand for its currency.

- *Interest Rates.* High interest rates may raise currency values in the short term by making such currencies more attractive to investors. However, since high interest rates are often the result of high inflation, long-term results may be the opposite.
- *Budget Deficits and Low Savings Rates.* Countries that run large budget deficits and save little of their national income tend to suffer a depreciating currency because they are forced to borrow abroad to finance their deficits. Payments of interest on this debt can inundate the currency markets with the currency of the debtor nation. Budget deficits also can indirectly contribute to currency depreciation if a government chooses inflationary measures to cope with its deficits and debts.
- *Political Factors.* Political instability in a country can cause a currency to depreciate. Demand for a certain currency may fall if a country appears a less desirable place in which to invest and do business.
- *Government Control.* Through their own buying and selling of currencies, the world's central banks sometimes manipulate exchange rate movements. In addition, governments occasionally issue statements to influence people's expectations about the direction of exchange rates, or they may instigate policies with an exchange rate target as the goal. The value of the Fund's investments is calculated in U.S. dollars each day that the New York Stock Exchange ("NYSE") is open for business. As a result, to the extent that the Fund's assets are invested in instruments denominated in foreign currencies and the currencies appreciate relative to the U.S. dollar, the Fund's NAV as expressed in U.S. dollars (and, therefore, the value of your investment) should increase. If the U.S. dollar appreciates relative to the other currencies, the opposite should occur. The currency-related gains and losses experienced by the Fund will be based on changes in the value of portfolio securities attributable to currency fluctuations only in relation to the original purchase price of such securities as stated in U.S. dollars. Gains or losses on shares of the Fund will be based on changes attributable to fluctuations in the NAV of such shares, expressed in U.S. dollars, in relation to the original U.S. dollar purchase price of the shares. The amount of appreciation or depreciation in the Fund's assets also will be affected by the net investment income generated by the money market instruments in which the Fund invests and by changes in the value of the securities that are unrelated to changes in currency exchange rates.

The Funds may incur currency exchange costs when it sells instruments denominated in one currency and buys instruments denominated in another.

#### *Currency-Related Derivatives and Other Financial Instruments*

The Funds may use currency transactions in order to hedge the value of portfolio holdings denominated in particular currencies against fluctuations in relative value. Currency transactions include forward currency contracts, exchange-listed currency futures and options thereon, exchange-listed and over-the-counter ("OTC") options on currencies, and currency swaps. A forward currency contract involves a privately negotiated obligation to purchase or sell (with delivery generally required) a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. These contracts are traded in the interbank market conducted directly between currency traders (usually large, commercial banks) and their customers. A forward foreign currency contract generally has no deposit requirement, and no commissions are charged at any stage for trades. A currency swap is an agreement to exchange cash flows based on the notional difference among two or more currencies and operates similarly to an interest rate swap, which is described below. The Fund may enter into currency transactions with counterparties which have received (or the guarantors of the obligations of which have received) a short-term credit rating of A-1 or P-1 by S&P or Moody's, respectively, or that have an equivalent rating from a Nationally Recognized Statistical Rating Organization ("NRSRO") or (except for OTC currency options) are determined to be of equivalent credit quality by the Adviser.

A Fund's dealings in forward currency contracts and other currency transactions such as futures, options on futures, options on currencies and swaps will be limited to hedging involving either specific transactions ("Transaction Hedging") or portfolio positions ("Position Hedging"). Transaction Hedging is entering into a currency transaction with respect to specific assets or liabilities of the Fund or an underlying Fund, which will generally arise in connection with the purchase or sale of its portfolio securities or the receipt of income therefrom. The Fund may be able to protect itself against possible losses resulting from changes in the relationship between the U.S. dollar and foreign currencies during the period between the date the security is purchased or sold and the date on which payment is made or received by entering into a forward contract for the purchase or sale, for a fixed amount of dollars, of the amount of the foreign currency involved in the underlying security transactions.

Position Hedging is entering into a currency transaction with respect to portfolio security positions denominated or generally quoted in that currency. The Fund may enter into a forward foreign currency contract to sell, for a fixed amount of dollars, the amount of foreign currency approximating the value of some or all of its portfolio securities denominated in such foreign currency. The precise matching of the forward foreign currency contract amount and the value of the portfolio securities involved may not have a perfect correlation since the future value of the securities hedged will change as a consequence of the market between the date the forward contract is entered into and the date it matures. The projection of short-term currency market movement is difficult, and the successful execution of this short-term hedging strategy is uncertain.

A Fund will not enter into a transaction to hedge currency exposure to an extent greater, after netting all transactions intended wholly or partially to offset other transactions, than the aggregate market value (at the time of entering into the transaction) of the securities held in its portfolio that are denominated or generally quoted in or currently convertible into such currency.

A Fund in which it invests may also cross-hedge currencies by entering into transactions to purchase or sell one or more currencies that are expected to decline in value relative to other currencies to which the Fund has or in which the Fund expects to have portfolio exposure.

Currency hedging involves some of the same risks and considerations as other transactions with similar instruments. Currency transactions can result in losses to the Fund if the currency being hedged fluctuates in value to a degree or in a direction that is not anticipated. If the Fund enters into a currency hedging transaction, the Fund will “cover” its position so as not to create a “senior security” as defined in Section 18 of the 1940 Act.

Currency transactions are subject to risks different from those of other portfolio transactions. Because currency control is of great importance to the issuing governments and influences economic planning and policy, purchase and sales of currency and related instruments can be negatively affected by government exchange controls, blockages, and manipulations or exchange restrictions imposed by governments. These actions can result in losses to the Fund if it is unable to deliver or receive currency or funds in settlement of obligations and could also cause hedges it has entered into to be rendered useless, resulting in full currency exposure as well as incurring transaction costs. Buyers and sellers of currency futures are subject to the same risks that apply to the use of futures generally. Furthermore, settlement of a currency futures contract for the purchase of most currencies must occur at a bank based in the issuing nation. Trading options on currency futures is relatively new, and the ability to establish and close out positions on such options is subject to the maintenance of a liquid market, which may not always be available. Currency exchange rates may fluctuate based on factors extrinsic to that country’s economy. Although forward foreign currency contracts and currency futures tend to minimize the risk of loss due to a decline in the value of the hedged currency, at the same time they tend to limit any potential gain which might result should the value of such currency increase.

The Funds are not required to enter into forward currency contracts for hedging purposes and it is possible that the Fund may not be able to hedge against a currency devaluation that is so generally anticipated that the Fund is unable to contract to sell the currency at a price above the devaluation level it anticipates. It also is possible that, under certain circumstances, the Fund may have to limit its currency transactions to qualify as a regulated investment company under the U.S. Internal Revenue Code of 1986, as amended (the “Code”).

**GEOGRAPHIC CONCENTRATION IN CHINA** (*AFTY only*). Funds that are less diversified across countries or geographic regions are generally riskier than more geographically diversified funds. Because the Fund focuses on a single country, China, the Fund is more exposed to China’s economic cycles, currency exchange rates, stock market valuations and political risks, among other issues, than a more geographically diversified fund.

*Government Intervention and Restriction Risk.* Governments and regulators may intervene in the financial markets, such as by the imposition of trading restrictions, a ban on “naked” short selling or the suspension of short selling for certain stocks. This may affect the operation and market making activities of the Fund, and may have an unpredictable impact on the Fund. Furthermore, such market interventions may have a negative impact on the market sentiment which may in turn affect the performance of the Index and as a result the performance of the Fund.

Recently, the A-Shares market has experienced considerable volatility and been subject to frequent and extensive trading halts and suspensions. These trading halts and suspensions have, among other things, contributed to uncertainty in the markets and reduced the liquidity of the securities subject to such trading halts and suspensions, including a number of securities held by the Fund. If the trading in a significant number of the Fund’s A-Share holdings is halted or suspended, the Fund’s portfolio could become illiquid. In such event, the Fund may have difficulty selling its portfolio positions until the trading halt or suspension is lifted, or may not be able to sell such securities at all. As a result, the Fund may need to sell other more liquid portfolio holdings at a loss or at times when it otherwise would not do so in order to generate sufficient cash to satisfy redemption requests. This could have a negative impact on the Fund’s performance and increase the tracking error of the Fund against its Index. If a significant number of securities held by the Fund are suspended or unavailable for sale, the Fund is permitted to delay settlement of redemption requests up to seven days, as further discussed below. Trading halts or suspensions may make it difficult for the Fund to obtain prices for such securities and may cause the Fund to “fair-value” a portion of its portfolio holdings. Furthermore, trading halts or suspensions of the Fund’s underlying portfolio securities may also have a negative impact on secondary market trading of Fund shares in U.S. market.

**ILLIQUID INVESTMENTS.** Each Fund may invest up to an aggregate amount of 15% of its net assets in illiquid investments, as such term is defined by Rule 22e-4 under the 1940 Act. A Fund may not invest in illiquid investments if, as a result of such investment, more than 15% of a Fund’s net assets would be invested in illiquid investments. Illiquid investments include securities subject to contractual or other restrictions on resale and other instruments that lack readily available markets. The inability of a Fund to dispose of illiquid investments readily or at a reasonable price could impair the Fund’s ability to raise cash for redemptions or other

purposes. The liquidity of securities purchased by a Fund which are eligible for resale pursuant to Rule 144A, except for certain 144A bonds, will be monitored by the Fund on an ongoing basis. In the event that more than 15% of a Fund's net assets are invested in illiquid investments, a Fund, in accordance with Rule 22e-4(b)(1)(iv), will report the occurrence to both the Board and the SEC and seek to reduce its holdings of illiquid investments within a reasonable period of time. Pursuant to Rule 22e-4 under the 1940 Act, each Fund has adopted a liquidity risk management program to assess and manage its liquidity risk. This program is intended to reduce liquidity risk, but may not achieve the desired results. Analyses and judgments made under the program may be incorrect, and changes in market conditions, which may be rapid and unexpected, may adversely affect the program.

**INVESTMENT COMPANIES.** The Funds may invest in the securities of other investment companies, including ETFs and money market funds, subject to applicable limitations under Section 12(d)(1) of the 1940 Act and Rule 12d1-4 under the 1940 Act. Investing in another pooled vehicle exposes a Fund to all the risks of that pooled vehicle. Pursuant to Section 12(d)(1), a Fund may invest in the securities of another investment company (the "acquired company") provided that such Fund, immediately after such purchase or acquisition, does not own in the aggregate: (i) more than 3% of the total outstanding voting stock of the acquired company; (ii) securities issued by the acquired company having an aggregate value in excess of 5% of the value of the total assets of such Fund; or (iii) securities issued by the acquired company and all other investment companies (other than treasury stock of such Fund) having an aggregate value in excess of 10% of the value of the total assets of the applicable Fund. To the extent allowed by law or regulation, the Funds may invest their assets in securities of investment companies that are money market funds in excess of the limits discussed above.

If a Fund invests in and, thus, is a shareholder of, another investment company, the Fund's shareholders will indirectly bear the Fund's proportionate share of the fees and expenses paid by such other investment company, including advisory fees, in addition to both the management fees payable directly by the Fund to the Fund's own investment adviser and the other expenses that the Fund bears directly in connection with the Fund's own operations.

Section 12(d)(1) of the 1940 Act restricts investments by registered investment companies in securities of other registered investment companies, including the Funds. The acquisition of a Fund's Shares by registered investment companies is subject to the restrictions of Section 12(d)(1) of the 1940 Act, except as may be permitted by exemptive rules under the 1940 Act that allow registered investment companies to invest in the Fund beyond the limits of Section 12(d)(1), subject to certain terms and conditions, including that the registered investment company enter into an agreement with the Fund regarding the terms of the investment.

The Funds may rely on Section 12(d)(1)(F) and Rule 12d1-3 under the 1940 Act, which provide an exemption from Section 12(d)(1) that allows a Fund to invest all of its assets in other registered funds, including ETFs, if, among other conditions: (a) the Fund, together with its affiliates, acquires no more than three percent of the outstanding voting stock of any acquired fund, and (b) the sales load charged on the Fund's Shares is no greater than the limits set forth in Rule 2341 of the Rules of the Financial Industry Regulatory Authority, Inc. ("FINRA"). Additionally, the Funds may rely on Rule 12d1-4 under the 1940 Act to invest in such other funds in excess of the limits of Section 12(d)(1) if the Funds comply with the terms and conditions of such rule.

**INVESTMENTS IN CHINA A-SHARES AND H-SHARES** (*AFTY only*). A-Shares and H-Shares are each a specific classification of equity securities issued by companies incorporated in the People's Republic of China ("China" or the "PRC"). H-Shares are denominated and traded in Hong Kong dollars and are traded on the Hong Kong Stock Exchange. A company incorporated in China may issue both A-Shares and H-Shares, however the prices that such shares trade at may differ. A-Shares are denominated and traded in RMB, the official currency of the PRC, on the Shenzhen and Shanghai Stock Exchanges.

Since November of 2014, foreign investors have been permitted to invest in eligible China A-Shares listed on Shanghai Stock Exchange through the Shanghai-Hong Kong Stock Connect program. The Shanghai-Hong Kong Stock Connect program, which was launched in 2014, established a securities trading and clearing program which enables mutual stock market access between mainland China and Hong Kong. Investors should note that the Shanghai and Shenzhen Stock Exchanges on which China A-Shares are traded are undergoing development and the market capitalization of, and trading volumes on, those exchanges may be lower than those in more developed financial markets. Market volatility and settlement difficulties in the China A-Shares markets may result in significant fluctuation in the prices of the securities traded on such markets and thereby changes in the Net Asset Value of the Fund. The China A-Shares markets are considered volatile and unstable (with the risk of suspension of a particular stock or government intervention).

The Shanghai and Shenzhen Stock Exchanges divide listed shares into two classes: A-Shares and B-Shares. Companies whose shares are traded on the Shanghai and Shenzhen Stock Exchanges that are incorporated in mainland China may issue both A-Shares and B-Shares. In China, the A-Shares and B-Shares of an issuer may only trade on one exchange. A-Shares and B-Shares may both be listed on either the Shanghai Stock Exchange or the Shenzhen Stock Exchange. Both classes represent an ownership interest comparable to a share of common stock, and all shares are entitled to substantially the same rights and benefits associated with ownership.

Through the Shanghai-Hong Kong Stock Connect program, foreign investors, such as the Fund, can trade eligible China A-Shares, subject to trading limits and rules and regulations as may be issued from time to time. More recently, in December of 2016, foreign investors also are permitted to invest in eligible China A-Shares listed on the Shenzhen Stock Exchange through the Shenzhen-Hong

Kong Stock Connect program. While the Fund may access China A-Shares through the Shenzhen-Hong Kong Stock Connect program in the future, it has no immediate plans to do so.

**Investing Through the Shanghai-Hong Kong Stock Connect Program** — The Fund invests in eligible securities listed and traded on the Shanghai Stock Exchange through the Shanghai-Hong Kong Stock Connect program, a securities trading and clearing program developed by The Stock Exchange of Hong Kong Limited, the Shanghai Stock Exchange, Hong Kong Securities Clearing Company Limited and the CSDCC for the establishment of mutual market access between The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange. Unlike other programs for foreign investment in Chinese securities, no individual investment quotas or licensing requirements apply to investors investing via the Shanghai-Hong Kong Stock Connect program. In addition, there are no lock-up periods or restrictions on the repatriation of principal and profits.

Among other restrictions, investors in securities obtained via the Shanghai-Hong Kong Stock Connect program are generally subject to Chinese securities regulations and Shanghai Stock Exchange rules. Thus, investors in Stock Connect securities are generally subject to Chinese securities regulations and SSE listing rules, among other restrictions. Securities obtained via the Shanghai-Hong Kong Stock Connect program generally may only be sold, purchased or otherwise transferred through the Shanghai-Hong Kong Stock Connect program in accordance with applicable rules. Although the Fund is not subject to individual investment quotas, daily investment quotas designed to limit the maximum daily net purchases on any particular day apply to all participants in the Shanghai-Hong Kong Stock Connect program. These daily investment quotas which may restrict or preclude the ability of any Fund to invest in securities obtained via the program. The Shanghai-Hong Kong Stock Connect program is newly-established and further developments are likely. It is unclear whether or how such developments may restrict or affect the Fund. Additionally, how the laws and regulations of Hong Kong and China, as well as the rules, policies or guidelines of relevant regulators and exchanges, will be interpreted or applied with respect to the Shanghai-Hong Kong Stock Connect program is uncertain.

**MASTER LIMITED PARTNERSHIPS (“MLPs”).** MLPs are limited partnerships in which the ownership units are publicly traded. MLP units are registered with the SEC and are freely traded on a securities exchange or in the OTC market. MLPs often own several properties or businesses (or own interests) that are related to real estate development and oil and gas industries, but they also may finance motion pictures, research and development and other projects. Generally, an MLP is operated under the supervision of one or more managing general partners. Limited partners are not involved in the day-to-day management of the partnership.

The risks of investing in an MLP are generally those involved in investing in a partnership as opposed to a corporation. For example, state law governing partnerships is often less restrictive than state law governing corporations. Accordingly, there may be fewer protections afforded investors in an MLP than investors in a corporation. Additional risks involved with investing in an MLP are risks associated with the specific industry or industries in which the partnership invests, such as the risks of investing in real estate, or oil and gas industries.

MLPs are generally treated as partnerships for U.S. federal income tax purposes. When a Fund invests in the equity securities of an MLP or any other entity that is treated as a partnership for U.S. federal income tax purposes, the Fund will be treated as a partner in the entity for tax purposes. Accordingly, in calculating a Fund’s taxable income, it will be required to take into account its allocable share of the income, gains, losses, deductions, and credits recognized by each such entity, regardless of whether the entity distributes cash to the Fund. Distributions from such an entity to a Fund are not generally taxable unless the cash amount (or, in certain cases, the fair market value of marketable securities) distributed to a Fund exceeds the Fund’s adjusted tax basis in its interest in the entity. In general, a Fund’s allocable share of such an entity’s net income will increase the Fund’s adjusted tax basis in its interest in the entity, and distributions to a Fund from such an entity and the Fund’s allocable share of the entity’s net losses will decrease the Fund’s adjusted basis in its interest in the entity, but not below zero. A Fund may receive cash distributions from such an entity in excess of the net amount of taxable income the Fund is allocated from its investment in the entity. In other circumstances, the net amount of taxable income a Fund is allocated from its investment in such an entity may exceed cash distributions received from the entity. Thus, a Fund’s investments in such an entity may lead a Fund to make distributions in excess of its earnings and profits, or a Fund may be required to sell investments, including when not otherwise advantageous to do so, in order to satisfy the distribution requirements applicable to RICs under the Code.

Depreciation or other cost recovery deductions passed through to a Fund from any investments in MLPs in a given year will generally reduce the Fund’s taxable income, but those deductions may be recaptured in the Fund’s income in one or more subsequent years. When recognized and distributed, recapture income will generally be taxable to a Fund’s shareholders at the time of the distribution at ordinary income tax rates, even though those shareholders might not have held Shares in the Fund at the time the deductions were taken, and even though those shareholders may not have corresponding economic gain on their Shares at the time of the recapture. To distribute recapture income or to fund redemption requests, a Fund may need to liquidate investments, which may lead to additional taxable income.

**MONEY MARKET INSTRUMENTS.** The Funds may invest a portion of its assets in high-quality money market instruments or in money market mutual funds on an ongoing basis to provide liquidity or for other reasons. The instruments in which a Fund or money market mutual fund may invest include: (i) short-term obligations issued by the U.S. Government; (ii) negotiable certificates of deposit (“CDs”), fixed time deposits and bankers’ acceptances of U.S. and foreign banks and similar institutions; (iii) commercial paper rated at the date of purchase “Prime-1” by Moody’s or “A-1+” or “A-1” by Standard & Poor’s (“S&P”) or, if unrated, of comparable quality as determined by the Fund; and (iv) repurchase agreements. CDs are short-term negotiable obligations of commercial banks. Time deposits are non-negotiable deposits maintained in banking institutions for specified periods of time at stated interest rates. Banker’s acceptances are time drafts drawn on commercial banks by borrowers, usually in connection with international transactions.

**MORTGAGE-RELATED SECURITIES (FLRT Only).** The Funds may invest in mortgage-related and asset-backed securities. Mortgage-related securities are interests in pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Pools of mortgage loans are assembled as securities for sale to investors by various governmental, government-related and private organizations. See “Mortgage Pass-Through Securities.” A Fund also may invest in debt securities which are secured with collateral consisting of mortgage-related securities (see “Collateralized Mortgage Obligations”).

The 2008 financial downturn, particularly the increase in delinquencies and defaults on residential mortgages, falling home prices, and unemployment, adversely affected the market for mortgage-related securities. In addition, various market and governmental actions may impair the ability to foreclose on or exercise other remedies against underlying mortgage holders, or may reduce the amount received upon foreclosure. These factors have caused certain mortgage-related securities to experience lower valuations and reduced liquidity. There is also no assurance that the U.S. government will take action to support the mortgage-related securities industry, as it has in the past, should the economy experience another downturn. Further, future government actions may significantly alter the manner in which the mortgage-related securities market functions. Each of these factors could ultimately increase the risk that a Fund could realize losses on mortgage-related securities.

#### *Mortgage Pass-Through Securities*

The Funds may invest in mortgage pass-through securities. Interests in pools of mortgage-related securities differ from other forms of debt securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or specified call dates. Instead, these securities provide a monthly payment which consists of both interest and principal payments. In effect, these payments are a “pass-through” of the monthly payments made by the individual borrowers on their residential or commercial mortgage loans, net of any fees paid to the issuer or guarantor of such securities. Additional payments are caused by repayments of principal resulting from the sale of the underlying property, refinancing or foreclosure, net of fees or costs which may be incurred. Some mortgage-related securities (such as securities issued by the Government National Mortgage Association (“Ginnie Mae”)) are described as “modified pass-through.” These securities entitle the holder to receive all interest and principal payments owed on the mortgage pool, net of certain fees, at the scheduled payment dates regardless of whether or not the mortgagor actually makes the payment.

The rate of pre-payments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may have the effect of shortening or extending the effective duration of the security relative to what was anticipated at the time of purchase. To the extent that unanticipated rates of pre-payment on underlying mortgages increase the effective duration of a mortgage-related security, the volatility of such security can be expected to increase. The residential mortgage market in the United States recently has experienced difficulties that may adversely affect the performance and market value of certain of the Funds’ mortgage-related investments. Delinquencies and losses on residential mortgage loans (especially subprime and second-lien mortgage loans) generally have increased recently and may continue to increase, and a decline in or flattening of housing values (as has recently been experienced and may continue to be experienced in many housing markets) may exacerbate such delinquencies and losses. Borrowers with adjustable rate mortgage loans are more sensitive to changes in interest rates, which affect their monthly mortgage payments, and may be unable to secure replacement mortgages at comparably low interest rates. Also, a number of residential mortgage loan originators have experienced serious financial difficulties or bankruptcy. Owing largely to the foregoing, reduced investor demand for mortgage loans and mortgage-related securities and increased investor yield requirements have caused limited liquidity in the secondary market for certain mortgage-related securities, which can adversely affect the market value of mortgage-related securities. It is possible that such limited liquidity in such secondary markets could continue or worsen.

#### *Agency Mortgage-Related Securities*

The Funds may invest in agency mortgage-related securities. The principal governmental guarantor of mortgage-related securities is Ginnie Mae. Ginnie Mae is a wholly owned United States government corporation within the Department of Housing and Urban Development. Ginnie Mae is authorized to guarantee, with the full faith and credit of the United States government, the timely payment of principal and interest on securities issued by institutions approved by Ginnie Mae (such as savings and loan institutions,

commercial banks and mortgage bankers) and backed by pools of mortgages insured by the Federal Housing Administration (the “FHA”), or guaranteed by the Department of Veterans Affairs (the “VA”).

Government-related guarantors (i.e., not backed by the full faith and credit of the United States government) include the Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”). Fannie Mae is a government-sponsored corporation. Fannie Mae purchases conventional (i.e., not insured or guaranteed by any government agency) residential mortgages from a list of approved seller/servicers which include state and federally chartered savings and loan associations, mutual savings banks, commercial banks and credit unions and mortgage bankers. Pass-through securities issued by Fannie Mae are guaranteed as to timely payment of principal and interest by Fannie Mae, but are not backed by the full faith and credit of the United States government. Freddie Mac was created by Congress in 1970 for the purpose of increasing the availability of mortgage credit for residential housing. It is a government-sponsored corporation that issues Participation Certificates (“PCs”), which are pass-through securities, each representing an undivided interest in a pool of residential mortgages. Freddie Mac guarantees the timely payment of interest and ultimate collection of principal, but PCs are not backed by the full faith and credit of the United States government.

On September 6, 2008, the Federal Housing Finance Agency (“FHFA”) placed Fannie Mae and Freddie Mac into conservatorship. As the conservator, FHFA succeeded to all rights, titles, powers and privileges of Fannie Mae and Freddie Mac and of any stockholder, officer or director of Fannie Mae and Freddie Mac with respect to Fannie Mae and Freddie Mac and the assets of Fannie Mae and Freddie Mac. FHFA selected a new chief executive officer and chairman of the board of directors for each of Fannie Mae and Freddie Mac.

In connection with the conservatorship, the U.S. Treasury entered into a Senior Preferred Stock Purchase Agreement with each of Fannie Mae and Freddie Mac pursuant to which the U.S. Treasury will purchase a limited amount of each of Fannie Mae and Freddie Mac to maintain a positive net worth in each enterprise. The SPAs contain various covenants that severely limit each enterprise’s operations. In exchange for entering into these agreements, the U.S. Treasury received \$1 billion of each enterprise’s senior preferred stock and warrants to purchase 79.9% of each enterprise’s common stock. Please see “U.S. Government Securities” for additional information on these agreements.

Fannie Mae and Freddie Mac are continuing to operate as going concerns while in conservatorship and each remain liable for all of its obligations, including its guaranty obligations, associated with its mortgage-backed securities. The FHFA has indicated that the conservatorship of each enterprise will end when the director of FHFA determines that FHFA’s plan to restore the enterprise to a safe and solvent condition has been completed.

Under the Federal Housing Finance Regulatory Reform Act of 2008 (the “Reform Act”), which was included as part of the Housing and Economic Recovery Act of 2008, FHFA, as conservator or receiver, has the power to repudiate any contract entered into by Fannie Mae or Freddie Mac prior to FHFA’s appointment as conservator or receiver, as applicable, if FHFA determines, in its sole discretion, that performance of the contract is burdensome and that repudiation of the contract promotes the orderly administration of Fannie Mae’s or Freddie Mac’s affairs. The Reform Act requires FHFA to exercise its right to repudiate any contract within a reasonable period of time after its appointment as conservator or receiver.

FHFA, in its capacity as conservator, has indicated that it has no intention to repudiate the guaranty obligations of Fannie Mae or Freddie Mac because FHFA views repudiation as incompatible with the goals of the conservatorship. However, in the event that FHFA, as conservator or if it is later appointed as receiver for Fannie Mae or Freddie Mac, were to repudiate any such guaranty obligation, the conservatorship or receivership estate, as applicable, would be liable for actual direct compensatory damages in accordance with the provisions of the Reform Act. Any such liability could be satisfied only to the extent of Fannie Mae’s or Freddie Mac’s assets available therefor.

In the event of repudiation, the payments of interest to holders of Fannie Mae or Freddie Mac mortgage-backed securities would be reduced if payments on the mortgage loans represented in the mortgage loan groups related to such mortgage-backed securities are not made by the borrowers or advanced by the servicer. Any actual direct compensatory damages for repudiating these guaranty obligations may not be sufficient to offset any shortfalls experienced by such mortgage-backed security holders.

Further, in its capacity as conservator or receiver, FHFA has the right to transfer or sell any asset or liability of Fannie Mae or Freddie Mac without any approval, assignment or consent. Although FHFA has stated that it has no present intention to do so, if FHFA, as conservator or receiver, were to transfer any such guaranty obligation to another party, holders of Fannie Mae or Freddie Mac mortgage-backed securities would have to rely on that party for satisfaction of the guaranty obligation and would be exposed to the credit risk of that party.

In addition, certain rights provided to holders of mortgage-backed securities issued by Fannie Mae and Freddie Mac under the operative documents related to such securities may not be enforced against FHFA, or enforcement of such rights may be delayed, during the conservatorship or any future receivership. The operative documents for Fannie Mae and Freddie Mac mortgage-backed securities may provide (or with respect to securities issued prior to the date of the appointment of the conservator may have provided)

that upon the occurrence of an event of default on the part of Fannie Mae or Freddie Mac, in its capacity as guarantor, which includes the appointment of a conservator or receiver, holders of such mortgage-backed securities have the right to replace Fannie Mae or Freddie Mac as trustee if the requisite percentage of mortgage-backed securities holders consent. The Reform Act prevents mortgage-backed security holders from enforcing such rights if the event of default arises solely because a conservator or receiver has been appointed. The Reform Act also provides that no person may exercise any right or power to terminate, accelerate or declare an event of default under certain contracts to which Fannie Mae or Freddie Mac is a party, or obtain possession of or exercise control over any property of Fannie Mae or Freddie Mac, or affect any contractual rights of Fannie Mae or Freddie Mac, without the approval of FHFA, as conservator or receiver, for a period of 45 or 90 days following the appointment of FHFA as conservator or receiver, respectively.

In addition, in a February 2011 report to Congress from the Treasury Department and the Department of Housing and Urban Development, the Obama administration provided a plan to reform America's housing finance market. The plan would reduce the role of and eventually eliminate Fannie Mae and Freddie Mac. Notably, the plan does not propose similar significant changes to Ginnie Mae, which guarantees payments on mortgage-related securities backed by federally insured or guaranteed loans such as those issued by the Federal Housing Association or guaranteed by the Department of Veterans Affairs. The report also identified three proposals for Congress and the administration to consider for the long-term structure of the housing finance markets after the elimination of Fannie Mae and Freddie Mac, including implementing (i) a privatized system of housing finance that limits government insurance to very limited groups of creditworthy low- and moderate-income borrowers, (ii) a privatized system with a government backstop mechanism that would allow the government to insure a larger share of the housing finance market during a future housing crisis, and (iii) a privatized system where the government would offer reinsurance to holders of certain highly-rated mortgage-related securities insured by private insurers and would pay out under the reinsurance arrangements only if the private mortgage insurers were insolvent.

#### *Collateralized Mortgage Obligations ("CMOs")*

The Funds may invest in CMOs, which are debt obligations of a legal entity that are collateralized by mortgages and divided into classes. Similar to a bond, interest and prepaid principal is paid, in most cases, on a monthly basis. CMOs may be collateralized by whole mortgage loans or private mortgage bonds, but are more typically collateralized by portfolios of mortgage pass-through securities guaranteed by Ginnie Mae, Freddie Mac, or Fannie Mae, and their income streams.

CMOs are structured into multiple classes, often referred to as "tranches," with each class bearing a different stated maturity and entitled to a different schedule for payments of principal and interest, including pre-payments. Actual maturity and average life will depend upon the prepayment experience of the collateral. In the case of certain CMOs (known as "sequential pay" CMOs), payments of principal received from the pool of underlying mortgages, including pre-payments, are applied to the classes of CMOs in the order of their respective final distribution dates. Thus, no payment of principal will be made to any class of sequential pay CMOs until all other classes having an earlier final distribution date have been paid in full.

In a typical CMO transaction, a corporation ("issuer") issues multiple series (*e.g.*, A, B, C, Z) of CMO bonds ("Bonds"). Proceeds of the Bond offering are used to purchase mortgages or mortgage pass-through certificates ("Collateral"). The Collateral is pledged to a third-party trustee as security for the Bonds. Principal and interest payments from the Collateral are used to pay principal on the Bonds in the order A, B, C, Z. The Series A, B, and C Bonds all bear current interest. Interest on the Series Z Bond is accrued and added to principal and a like amount is paid as principal on the Series A, B, or C Bond currently being paid off. When the Series A, B, and C Bonds are paid in full, interest and principal on the Series Z Bond begins to be paid currently. CMOs may be less liquid and may exhibit greater price volatility than other types of mortgage- or asset-backed securities.

As CMOs have evolved, some classes of CMO bonds have become more common. For example, the Funds may invest in parallel-pay and planned amortization class ("PAC") CMOs and multi-class pass-through certificates. Parallel-pay CMOs and multi-class pass-through certificates are structured to provide payments of principal on each payment date to more than one class. These simultaneous payments are taken into account in calculating the stated maturity date or final distribution date of each class, which, as with other CMO and multi-class pass-through structures, must be retired by its stated maturity date or final distribution date but may be retired earlier. PACs generally require payments of a specified amount of principal on each payment date. PACs are parallel-pay CMOs with the required principal amount on such securities having the highest priority after interest has been paid to all classes. Any CMO or multi-class pass-through structure that includes PAC securities must also have support tranches-known as support bonds, companion bonds or non-PAC bonds which lend or absorb principal cash flows to allow the PAC securities to maintain their stated maturities and final distribution dates within a range of actual prepayment experience. These support tranches are subject to a higher level of maturity risk compared to other mortgage-related securities, and usually provide a higher yield to compensate investors. If principal cash flows are received in amounts outside a pre-determined range such that the support bonds cannot lend or absorb sufficient cash flows to the PAC securities as intended, the PAC securities are subject to heightened maturity risk. Consistent with a Fund's investment objectives and policies, its Adviser may invest in various tranches of CMO bonds, including support bonds.

### *Commercial Mortgage-Backed Securities*

The Funds may invest in commercial mortgage-backed securities, which include securities that reflect an interest in, and are secured by, mortgage loans on commercial real property. Many of the risks of investing in commercial mortgage-backed securities reflect the risks of investing in the real estate securing the underlying mortgage loans. These risks reflect the effects of local and other economic conditions on real estate markets, the ability of tenants to make loan payments, and the ability of a property to attract and retain tenants. Commercial mortgage-backed securities may be less liquid and exhibit greater price volatility than other types of mortgage- or asset-backed securities.

### *Other Mortgage-Related Securities*

The Funds may invest in other mortgage-related securities, which include securities other than those described above that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property, including mortgage dollar rolls, CMO residuals or stripped mortgage-backed securities ("SMBS"). Other mortgage-related securities may be equity or debt securities issued by agencies or instrumentalities of the U.S. government or by private originators of, or investors in, mortgage loans, including savings and loan associations, homebuilders, mortgage banks, commercial banks, investment banks, partnerships, trusts and special purpose entities of the foregoing.

### *CMO Residuals*

The Funds may invest in CMO residuals, which are mortgage securities issued by agencies or instrumentalities of the U.S. government or by private originators of, or investors in, mortgage loans, including savings and loan associations, homebuilders, mortgage banks, commercial banks, investment banks and special purpose entities of the foregoing.

The cash flow generated by the mortgage assets underlying a series of CMOs is applied first to make required payments of principal and interest on the CMOs and second to pay the related administrative expenses and any management fee of the issuer. The residual in a CMO structure generally represents the interest in any excess cash flow remaining after making the foregoing payments. Each payment of such excess cash flow to a holder of the related CMO residual represents income and/or a return of capital. The amount of residual cash flow resulting from a CMO will depend on, among other things, the characteristics of the mortgage assets, the coupon rate of each class of CMO, prevailing interest rates, the amount of administrative expenses and the pre-payment experience on the mortgage assets. In particular, the yield to maturity on CMO residuals is extremely sensitive to pre-payments on the related underlying mortgage assets, in the same manner as an interest-only ("IO") class of stripped mortgage-backed securities. See "Other Mortgage-Related Securities — Stripped Mortgage-Backed Securities." In addition, if a series of a CMO includes a class that bears interest at an adjustable rate, the yield to maturity on the related CMO residual will also be extremely sensitive to changes in the level of the index upon which interest rate adjustments are based. As described below with respect to stripped mortgage-backed securities, in certain circumstances a Fund may fail to recoup fully its initial investment in a CMO residual.

CMO residuals are generally purchased and sold by institutional investors through several investment banking firms acting as brokers or dealers. Transactions in CMO residuals are generally completed only after careful review of the characteristics of the securities in question. In addition, CMO residuals may, or pursuant to an exemption therefrom, may not have been registered under the Securities Act of 1933, as amended ("Securities Act"). CMO residuals, whether or not registered under the Securities Act, may be subject to certain restrictions on transferability, and may be deemed "illiquid" and subject to a Fund's limitations on investment in illiquid securities.

### *Adjustable Rate Mortgage-Backed Securities ("ARMBSs")*

The Funds may invest in ARMBSs, which have interest rates that reset at periodic intervals. Acquiring ARMBSs permits the Funds to participate in increases in prevailing current interest rates through periodic adjustments in the coupons of mortgages underlying the pool on which ARMBSs are based. Such ARMBSs generally have higher current yield and lower price fluctuations than is the case with more traditional fixed income debt securities of comparable rating and maturity. In addition, when prepayments of principal are made on the underlying mortgages during periods of rising interest rates, a Fund can reinvest the proceeds of such prepayments at rates higher than those at which they were previously invested. Mortgages underlying most ARMBSs, however, have limits on the allowable annual or lifetime increases that can be made in the interest rate that the mortgagor pays. Therefore, if current interest rates rise above such limits over the period of the limitation, a Fund, when holding an ARMBS, does not benefit from further increases in interest rates. Moreover, when interest rates are in excess of coupon rates (i.e., the rates being paid by mortgagors) of the mortgages, ARMBSs behave more like fixed income securities and less like adjustable rate securities and are subject to the risks associated with fixed income securities. In addition, during periods of rising interest rates, increases in the coupon rate of adjustable rate mortgages generally lag current market interest rates slightly, thereby creating the potential for capital depreciation on such securities.

### *Stripped Mortgage-Backed Securities (“SMBSs”)*

The Funds may invest in SMBS, which are derivative multi-class mortgage securities. SMBSs may be issued by agencies or instrumentalities of the U.S. government, or by private originators of, or investors in, mortgage loans, including savings and loan associations, mortgage banks, commercial banks, investment banks and special purpose entities of the foregoing.

SMBSs are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. A common type of SMBS will have one class receiving some of the interest and most of the principal from the mortgage assets, while the other class will receive most of the interest and the remainder of the principal. In the most extreme case, one class will receive all of the interest (the “IO” class), while the other class will receive all of the principal (the principal-only or “PO” class). The yield to maturity on an IO class is extremely sensitive to the rate of principal payments (including pre-payments) on the related underlying mortgage assets, and a rapid rate of principal payments may have a material adverse effect on a Fund yield to maturity from these securities. If the underlying mortgage assets experience greater than anticipated pre-payments of principal, the Funds may fail to recoup some or all of its initial investment in these securities even if the security is in one of the highest rating categories.

**NON-U.S. SECURITIES.** The Funds may invest in non-U.S. securities. Investments in non-U.S. securities involve certain risks that may not be present in investments in U.S. securities. For example, non-U.S. securities may be subject to currency risks or to political, social, or economic instability. There may be less information publicly available about a non-U.S. issuer than about a U.S. issuer, and a foreign issuer may or may not be subject to uniform accounting, auditing and financial reporting standards and practices comparable to those in the U.S. Investments in non-U.S. securities may be subject to withholding or other taxes and may be subject to additional trading, settlement, custodial, and operational risks. Other risks of investing in such securities include political, social, or economic instability in the country involved, the difficulty of predicting international trade patterns and the possibility of imposition of exchange controls. The prices of such securities may be more volatile than those of domestic securities. With respect to certain foreign countries, there is a possibility of expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments, difficulty in obtaining and enforcing judgments against foreign entities or diplomatic developments which could affect investment in these countries. Losses and other expenses may be incurred in converting between various currencies in connection with purchases and sales of foreign securities. Because foreign exchanges may be open on days when the Funds do not price their Shares, the value of the securities in a Fund’s portfolio may change on days when shareholders will not be able to purchase or sell Shares. Conversely, Shares may trade on days when foreign exchanges are closed. Each of these factors can make investments in the Funds more volatile and potentially less liquid than other types of investments.

Non-U.S. stock markets may not be as developed or efficient as, and may be more volatile than, those in the U.S. While the volume of shares traded on non-U.S. stock markets generally has been growing, such markets usually have substantially less volume than U.S. markets. Therefore, a Fund’s investment in non-U.S. equity securities may be less liquid and subject to more rapid and erratic price movements than comparable securities listed for trading on U.S. exchanges. Non-U.S. equity securities may trade at price/earnings multiples higher than comparable U.S. securities and such levels may not be sustainable. There may be less government supervision and regulation of foreign stock exchanges, brokers, banks and listed companies abroad than in the U.S. Moreover, settlement practices for transactions in foreign markets may differ from those in U.S. markets. Such differences may include delays beyond periods customary in the U.S. and practices, such as delivery of securities prior to receipt of payment, that increase the likelihood of a failed settlement, which can result in losses to the Funds. The value of non-U.S. investments and the investment income derived from them may also be affected unfavorably by changes in currency exchange control regulations. Foreign brokerage commissions, custodial expenses and other fees are also generally higher than for securities traded in the U.S. This may cause the Funds to incur higher portfolio transaction costs than domestic equity funds. Fluctuations in exchange rates may also affect the earning power and asset value of the foreign entity issuing a security, even one denominated in U.S. dollars. Dividend and interest payments may be repatriated based on the exchange rate at the time of disbursement, and restrictions on capital flows may be imposed.

Investing in emerging markets can have more risk than investing in developed foreign markets. The risks of investing in these markets may be exacerbated relative to investments in foreign markets. Governments of developing and emerging market countries may be more unstable as compared to more developed countries. Developing and emerging market countries may have less developed securities markets or exchanges, and legal and accounting systems. It may be more difficult to sell securities at acceptable prices and security prices may be more volatile than in countries with more mature markets. Currency values may fluctuate more in developing or emerging markets. Developing or emerging market countries may be more likely to impose government restrictions, including confiscatory taxation, expropriation or nationalization of a company’s assets, and restrictions on foreign ownership of local companies. In addition, emerging markets may impose restrictions on the Funds’ ability to repatriate investment income or capital and thus, may adversely affect the operations of the Funds. Certain emerging markets may impose constraints on currency exchange and some currencies in emerging markets may have been devalued significantly against the U.S. dollar. For these and other reasons, the prices of securities in emerging markets can fluctuate more significantly than the prices of securities of companies in developed countries. The less developed the country, the greater effect these risks may have on the Funds.

Set forth below for certain markets in which the Funds may invest are brief descriptions of some of the conditions and risks in each such market.

**Investments in Europe.** Most developed countries in Western Europe are members of the European Union (“EU”), and many are also members of the European Monetary Union (EMU), which requires compliance with restrictions on inflation rates, deficits, and debt levels. Unemployment in certain European nations is historically high and several countries face significant debt problems. These conditions can significantly affect every country in Europe. The euro is the official currency of the EU. Each Fund, through its investments in Europe, may have significant exposure to the euro and events affecting the euro. Recent market events affecting several of the EU member countries have adversely affected the sovereign debt issued by those countries, and ultimately may lead to a decline in the value of the euro. A significant decline in the value of the euro may produce unpredictable effects on trade and commerce generally and could lead to increased volatility in financial markets worldwide.

The UK formally exited from the EU on January 31, 2020 (known as “Brexit”), and effective December 31, 2020, the UK ended a transition period during which it continued to abide by the EU’s rules and the UK’s trade relationships with the EU were generally unchanged. Following this transition period, the impact on the UK and European economies and the broader global economy could be significant, resulting in negative impacts, such as increased volatility and illiquidity, potentially lower economic growth on markets in the UK, Europe, and globally, and changes in legal and regulatory regimes to which certain Fund assets are or become subject, any of which may adversely affect the value of Fund investments. The effects of Brexit will depend, in part, on agreements the UK negotiates to retain access to EU markets, including, but not limited to, current trade and finance agreements. Brexit could lead to legal and tax uncertainty and potentially divergent national laws and regulations, as the UK determines which EU laws to replace or replicate. The extent of the impact of the withdrawal negotiations in the UK and in global markets, as well as any associated adverse consequences, remain unclear, and the uncertainty may have a significant negative effect on the value of a Fund investments. If one or more other countries were to exit the EU or abandon the use of the euro as a currency, the value of investments tied to those countries or the euro could decline significantly and unpredictably.

**Investments in Russia and other Eastern European Countries.** Many formerly communist, eastern European countries have experienced significant political and economic reform over the past decade. However, the democratization process is still relatively new in a number of the smaller states and political turmoil and popular uprisings remain threats. Investments in these countries are particularly subject to political, economic, legal, market and currency risks. The risks include uncertain political and economic policies and the risk of nationalization or expropriation of assets, short-term market volatility, poor accounting standards, corruption and crime, an inadequate regulatory system, unpredictable taxation, the imposition of capital controls and/or foreign investment limitations by a country and the imposition of sanctions on an Eastern European country by other countries, such as the United States. Adverse currency exchange rates are a risk, and there may be a lack of available currency hedging instruments.

These securities markets, as compared to U.S. markets, have significant price volatility, less liquidity, a smaller market capitalization and a smaller number of exchange-traded securities. A limited volume of trading may result in difficulty in obtaining accurate prices and trading. There is little publicly available information about issuers. Settlement, clearing, and registration of securities transactions are subject to risks because of insufficient registration systems that may not be subject to effective government supervision. This may result in significant delays or problems in registering the transfer of shares. It is possible that a Fund's ownership rights could be lost through fraud or negligence. While applicable regulations may impose liability on registrars for losses resulting from their errors, it may be difficult for a Fund to enforce any rights it may have against the registrar or issuer of the securities in the event of loss of share registration.

Political risk in Russia remains high, and steps that Russia may take to assert its geopolitical influence may increase the tensions in the region and affect economic growth. Russia’s economy is heavily dependent on exportation of natural resources, which may be particularly vulnerable to economic sanctions by other countries during times of political tension or crisis.

In response to recent political and military actions undertaken by Russia, the United States and certain other countries, as well as the European Union, have instituted economic sanctions against certain Russian individuals and companies. The political and economic situation in Russia, and the current and any future sanctions or other government actions against Russia, may result in the decline in the value and liquidity of Russian securities, devaluation of Russian currency, a downgrade in Russia’s credit rating, the inability to freely trade sanctioned companies (either due to the sanctions imposed or related operational issues) and/or other adverse consequences to the Russian economy, any of which could negatively impact a Fund’s investments in Russian securities. Sanctions could result in the immediate freeze of Russian securities, impairing the ability of a Fund to buy, sell, receive, or deliver those securities. Both the current and potential future sanctions or other government actions against Russia also could result in Russia taking counter measures or retaliatory actions, which may impair further the value or liquidity of Russian securities and negatively impact a Fund. Any or all of these potential results could lead Russia’s economy into a recession.

**Investments in Japan.** A significant portion of a Fund's assets may be invested in Japanese securities. To the extent a Fund invests in Japanese securities, it will be subject to risks related to investing in Japan. The Japanese economy may be subject to considerable degrees of economic, political and social instability, which could have a negative impact on Japanese securities. Since the year 2000, Japan's economic growth rate has remained relatively low and it may remain low in the future. In addition, Japan is subject to the risk of natural disasters, such as earthquakes, volcanoes, typhoons and tsunamis. Additionally, decreasing U.S. imports, new trade regulations, changes in the U.S. dollar exchange rates, a recession in the United States or continued increases in foreclosure rates may have an adverse impact on the economy of Japan. Japan also has few natural resources, and any fluctuation or shortage in the commodity markets could have a negative impact on Japanese securities.

**Investments in Canada.** The U.S. is Canada's largest trading partner and foreign investor. As a result, changes to the U.S. economy may significantly affect the Canadian economy. The Canadian economy is reliant on the sale of natural resources and commodities, which can pose risks such as the fluctuation of prices and the variability of demand for exportation of such products. Canada is a major producer of commodities such as zinc, uranium, forest products, metals, agricultural products, and energy related products like oil, gas, and hydroelectricity. Changes in spending on Canadian products by the economies of other countries or changes in any of these economies may cause a significant impact on the Canadian economy.

**PRC BROKER AND PRC CUSTODIAN RISK** (*AFTY only*). The Sub-Adviser is responsible for selecting a PRC Broker(s) to execute transactions for the Fund in the PRC markets. In its selection of a PRC Broker(s), the Sub-Adviser, will consider factors such as the competitiveness of commission rates, size of the relevant orders and execution standards.

The Sub-Adviser is responsible for selecting a custodian in the PRC (the "PRC Custodian") to maintain its assets pursuant to local Chinese laws and regulations. According to the RQFII regulations and market practice, the securities and cash accounts for the Fund in the PRC are to be maintained by the PRC Custodian in the joint names of the Sub-Adviser as the RQFII holder and the Fund. The Fund's PRC Custodian is HSBC Bank (China) Company Limited. The PRC Custodian maintains the Fund's RMB deposit accounts and oversees each Fund's investments in A-Shares in the PRC to ensure their compliance with the rules and regulations of the CSRC, the SAFE and the People's Bank of China (the "PBOC"). A-Shares that are traded on the Shanghai or Shenzhen Stock Exchanges are dealt and held in book-entry form through the China Securities Depository and Clearing Corporation Limited ("CSDCC").

The assets held or credited in the Fund's securities trading account(s) maintained by the PRC Custodian are segregated and independent from the proprietary assets of the PRC Custodian. However, under PRC law, cash deposited in the Fund's cash account(s) maintained with the PRC Custodian will not be segregated, but will be a debt owed from the PRC Custodian to the Fund as a depositor. Such cash will be co-mingled with cash that the PRC Custodian has received from other clients or creditors of the PRC Custodian. In the event of bankruptcy or liquidation of the PRC Custodian, the Fund will not have any proprietary rights to the cash deposited in such cash account(s), and the Fund will become an unsecured creditor, ranking *pari passu* with all other unsecured creditors, of the PRC Custodian.

There is a risk that the Fund may suffer losses from the default, bankruptcy or disqualification of the PRC Broker(s) or the PRC Custodian. In such event, the Fund may be adversely affected in the execution of any transaction, face difficulty and/or encounter delays in recovering its assets, or may not be able to recover its assets in full or at all. The Fund may also incur losses due to the acts or omissions of the PRC Broker(s) and/or the PRC Custodian in the execution or settlement of any transaction or in the transfer of any funds or securities. Subject to the applicable laws and regulations in the PRC, the Sub-Adviser will make arrangements to ensure that the PRC Broker(s) and the PRC Custodian have appropriate procedures to properly safe-keep the Fund's assets.

**Economic, Political and Social Risks of the PRC** — The economy of China, which has been in a state of transition from a planned economy to a more market oriented economy, differs from the economies of most developed countries in many respects, including the level of government involvement, its state of development, its growth rate, control of foreign exchange, protection of intellectual property rights and allocation of resources.

Although the majority of productive assets in China are still owned by the government of the PRC at various levels, in recent years, the PRC has implemented economic reform measures emphasizing utilization of market forces in the development of the economy of China and a high level of management autonomy. The economy of China has experienced significant growth in the past 20 years, but growth has been uneven both geographically and among various sectors of the economy. Economic growth has also been accompanied by periods of high inflation. The PRC has implemented various measures from time to time to control inflation and restrain the rate of economic growth.

For more than 20 years, the PRC has carried out economic reforms to achieve decentralization and utilization of market forces to develop the economy of the PRC. These reforms have resulted in significant economic growth and social progress. There can, however, be no assurance that the PRC will continue to pursue such economic policies or, if it does, that those policies will continue to be successful. Any such adjustment and modification of those economic policies may have an adverse impact on the securities market in the PRC as well as the portfolio securities of the Fund. Further, the PRC may from time to time adopt corrective measures to control the growth of the PRC's economy, which may also have an adverse impact on the capital growth

and performance of the Fund. Political changes, social instability and adverse diplomatic developments in the PRC could result in the imposition of additional government restrictions including expropriation of assets, confiscatory taxes or nationalization of some or all of the property held by the underlying issuers of the Fund's portfolio securities.

**PRC Laws and Regulations Risk** — The regulatory and legal framework for capital markets and joint stock companies in the PRC may not be as well developed as those of developed countries. PRC laws and regulations affecting securities markets are relatively new and evolving, and because of the limited volume of published cases, judicial interpretations and their non-binding nature, interpretation and enforcement of these regulations involve significant uncertainties. In addition, as the PRC's legal system develops, no assurance can be given that changes in such laws and regulations, their interpretation or their enforcement will not have a material adverse effect on their business operations.

**Taxation Risk** — Uncertainties in the PRC tax rules governing taxation of income and gains from investments in A-Shares could result in unexpected tax liabilities for the Fund. The Fund's investments in securities, including A-Shares, issued by PRC companies may cause the Fund to become subject to withholding and other taxes imposed by the PRC.

If the Trust or the Fund were considered to be a tax resident enterprise of the PRC, it would be subject to PRC corporate income tax at the rate of 25% on its worldwide taxable income. If the Trust or the Fund were considered to be a non-tax resident enterprise with a "permanent establishment" in the PRC, it would be subject to PRC corporate income tax on the profits attributable to the permanent establishment. The Adviser and Sub-Adviser intend to operate the Trust and the Fund in a manner that will prevent them from being treated as tax resident enterprises of the PRC and from having a permanent establishment in the PRC. It is possible, however, that the PRC could disagree with that conclusion, or that changes in PRC tax law could affect the PRC corporate income tax status of the Trust or the Fund.

Unless reduced or exempted by the applicable tax treaties, the PRC generally imposes withholding income tax at the rate of 10% on dividends, premiums, interest and capital gains originating in the PRC and paid to a company that is not a resident of the PRC for tax purposes and that has no permanent establishment in China. The State Administration of Taxation has confirmed the application to a QFII of the withholding income tax on dividends, premiums and interest. Effective as of November 17, 2014, Chinese authorities issued two circulars (Caishui [2014] 79 and Caishui [2014] 81) clarifying the corporate income tax policy of China with respect to QFIIs and RQFIIs and investments through the Shanghai-Hong Kong Stock Connect program. Pursuant to the circulars, the Fund is expected to be temporarily exempt from withholding tax on capital gains out of trading in A-Shares. Since there is no indication how long the temporary exemption will remain in effect, it is possible the Fund may be subject to such withholding tax in future. If in the future China begins applying tax rules regarding the taxation of income from A-Shares investment to QFIIs and RQFIIs or investments through the Shanghai-Hong Kong Stock Connect program, and/or begins collecting capital gains taxes on such investments, the Fund could be subject to withholding tax liability if the Fund determines that such liability cannot be reduced or eliminated by applicable tax treaties. The negative impact of any such tax liability the Fund's return could be substantial.

The Adviser, the Sub-Adviser, or the Fund may also potentially be subject to PRC value added tax at the rate of 6% on capital gains derived from trading of A-Shares and interest income (if any). Existing guidance provides a temporary value added tax exemption for QFIIs and RQFIIs in respect of their gains derived from the trading of PRC securities. Since there is no indication of how long the temporary exemption will remain in effect, it is possible the Fund may be subject to such value added tax in the future. In addition, urban maintenance and construction tax (currently at rates ranging from 1% to 7%), educational surcharge (currently at the rate of 3%) and local educational surcharge (currently at the rate of 2%) (collectively, the "surtaxes") are imposed based on value added tax liabilities, so if the Adviser, the Sub-Adviser, or the Fund were liable for value added tax it would also be required to pay the applicable surtaxes.

The PRC rules for taxation of RQFIIs and QFIIs are evolving, and the tax regulations to be issued by the PRC State Administration of Taxation and/or PRC Ministry of Finance to clarify the subject matter may apply retrospectively, even if such rules are adverse to a Fund and its shareholders.

As described below under "Taxes," the Fund may elect, for U.S. federal income tax purposes, to treat PRC taxes (including withholding taxes) paid by the Fund as paid by its shareholders. Even if a Fund is qualified to make that election and does so, however, your ability to claim a credit for certain PRC taxes may be limited under general U.S. tax principles.

**RMB Exchange Controls and Restrictions Risk** — It should be noted that the RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies and repatriation restrictions imposed by the PRC government. There is no assurance that there will always be RMB available in sufficient amounts for the Fund to remain fully invested. Since 1994, the conversion of RMB into U.S. dollars has been based on rates set by the PBOC, which are set daily based on the previous day's PRC interbank foreign exchange market rate. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. In addition, a market maker system was introduced to the interbank spot foreign exchange market. In

July 2008, China announced that its exchange rate regime was further transformed into a managed floating mechanism based on market supply and demand. Given the domestic and overseas economic developments, the PBOC decided to further improve the RMB exchange rate regime in June 2010 to enhance the flexibility of the RMB exchange rate. In March 2014, the PBOC decided to take a further step to increase the flexibility of the RMB exchange rate by expanding the daily trading band from +/-1% to +/-2%.

However, it should be noted that the PRC government's policies on exchange control and repatriation restrictions are subject to change, and any such change may adversely impact the Fund. There can be no assurance that the RMB exchange rate will not fluctuate widely against the U.S. dollar or any other foreign currency in the future. Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, currently continue to be subject to significant foreign exchange controls and require the approval of the SAFE. On the other hand, the existing PRC foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade- and service-related foreign exchange transactions and payment of dividends. Nevertheless, the Adviser and/or Sub-Adviser cannot predict whether the PRC government will continue its existing foreign exchange policy, or when the PRC government will allow free conversion of the RMB to foreign currency.

**RMB Trading and Settlement Risk** — The trading and settlement of RMB-denominated securities are recent developments in Hong Kong, and there is no assurance that problems will not be encountered with the systems or that other logistical problems will not arise.

**Future Movements in RMB Exchange Rates Risk** — The exchange rate of RMB ceased to be pegged to U.S. dollars on July 21, 2005, resulting in a more flexible RMB exchange rate system. The China Foreign Exchange Trading System, authorized by the PBOC, promulgates the central parity rate of RMB against U.S. dollars, Euros, Yen, pounds sterling and Hong Kong dollars at 9:15 a.m. on each business day, which will be the daily central parity rate for transactions on the Inter-bank Spot Foreign Exchange Market and over-the-counter transactions of banks. The exchange rate of RMB against the above-mentioned currencies fluctuates within a range above or below such central parity rate. As the exchange rates are based primarily on market forces, the exchange rates for RMB against other currencies, including U.S. dollars and Hong Kong dollars, are susceptible to movements based on external factors. There can be no assurance that such exchange rates will not fluctuate widely against U.S. dollars, Hong Kong dollars or any other foreign currency in the future. From 1994 to July 2005, the exchange rate for RMB against the U.S. dollar and the Hong Kong dollar was relatively stable. Since July 2005, the appreciation of RMB has begun to accelerate. But since August 2015, the depreciation of RMB has begun to accelerate. Although the PRC government has constantly reiterated its intention to maintain the stability of RMB, it may introduce measures (such as a reduction in the rate of export tax refund) to address the concerns of the PRC's trading partners. Therefore, the possibility that the depreciation of RMB will be further accelerated cannot be dismissed. On the other hand, there can be no assurance that RMB will not be subject to appreciation.

**Offshore RMB Market Risk** — The onshore RMB ("CNY") is the only official currency of the PRC and is used in all financial transactions between individuals, state and corporations in the PRC. Hong Kong is the first jurisdiction to allow accumulation of RMB deposits outside the PRC. Since June 2010, the offshore RMB ("CNH") is traded officially, regulated jointly by the Hong Kong Monetary Authority and the PBOC. While both CNY and CNH represent RMB, they are traded in different and separated markets. The two RMB markets operate independently where the flow between them is highly restricted. Though the CNH is a proxy of the CNY, they do not necessarily have the same exchange rate and their movement may not be in the same direction. This is because these currencies act in separate jurisdictions, which leads to separate supply and demand conditions for each, and therefore separate but related currency markets.

Currently, the amount of RMB-denominated financial assets outside the PRC is limited. As of the end of October 2017, the total amount of RMB (CNH) deposits held by institutions authorized to engage in RMB banking business in Hong Kong amounted to approximately RMB 540 billion. In addition, participating authorized institutions are also required by the Hong Kong Monetary Authority to maintain a total amount of RMB (in the form of cash and its settlement account balance with a Renminbi clearing bank) of no less than 25% of their RMB deposits, which further limits the availability of RMB that participating authorized institutions can utilize for conversion services for their customers such as the Fund. RMB business participating banks do not have direct RMB liquidity support from PBOC. Only the Renminbi clearing bank has access to onshore liquidity support from PBOC (subject to annual and quarterly quotas imposed by PBOC) to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for individual customers of up to RMB20,000 per Hong Kong resident person per day. The Renminbi clearing bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services, and the participating banks will need to source RMB (CNH) from the offshore market to square such open positions. Although it is expected that the offshore RMB (CNH) market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC

regulations will not be promulgated or that the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting availability of RMB (CNH) offshore.

**OTHER SHORT-TERM INSTRUMENTS.** In addition to repurchase agreements, a Fund may invest in short-term instruments, including money market instruments, on an ongoing basis to provide liquidity or for other reasons. Money market instruments are generally short-term investments that may include but are not limited to: (i) shares of money market funds; (ii) obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities (including government-sponsored enterprises); (iii) negotiable certificates of deposit (“CDs”), bankers’ acceptances, fixed time deposits and other obligations of U.S. and foreign banks (including foreign branches) and similar institutions; (iv) commercial paper rated at the date of purchase “Prime-1” by Moody’s or “A-1” by S&P or, if unrated, of comparable quality as determined by the Sub-Adviser; (v) non-convertible corporate debt securities (e.g., bonds and debentures) with remaining maturities at the date of purchase of not more than 397 days and that satisfy the rating requirements set forth in Rule 2a-7 under the 1940 Act; and (vi) short-term U.S. dollar-denominated obligations of foreign banks (including U.S. branches) that, in the opinion of the Sub-Adviser, are of comparable quality to obligations of U.S. banks which may be purchased by the Fund. Any of these instruments may be purchased on a current or a forward-settled basis. Money market instruments also include shares of money market funds. Time deposits are non-negotiable deposits maintained in banking institutions for specified periods of time at stated interest rates. Bankers’ acceptances are time drafts drawn on commercial banks by borrowers, usually in connection with international transactions.

**REAL ESTATE SECTOR.** Companies in the real estate sector include companies that invest in real estate, such as a REIT or a real estate holding company (collectively, “Real Estate Companies”). Investing in Real Estate Companies exposes investors to the risks of owning real estate directly, as well as to risks that relate specifically to the way in which Real Estate Companies are organized and operated. The real estate industry is highly sensitive to general and local economic conditions and developments, and characterized by intense competition and periodic overbuilding. Investing in Real Estate Companies involves various risks. Some risks that are specific to Real Estate Companies are discussed in greater detail below.

*Interest Rate Risk.* Rising interest rates could result in higher costs of capital for Real Estate Companies, which could negatively impact a Real Estate Company’s ability to meet its payment obligations. Declining interest rates could result in increased prepayment on loans and require redeployment of capital in less desirable investments.

*Leverage Risk.* Real Estate Companies may use leverage (and some may be highly leveraged), which increases investment risk and could adversely affect a Real Estate Company’s operations and market value in periods of rising interest rates. Real Estate Companies are also exposed to the risks normally associated with debt financing. Financial covenants related to a Real Estate Company’s leverage may affect the ability of the Real Estate Company to operate effectively. In addition, real property may be subject to the quality of credit extended and defaults by borrowers and tenants. If the properties do not generate sufficient income to meet operating expenses, including, where applicable, debt service, ground lease payments, tenant improvements, third-party leasing commissions and other capital expenditures, the income and ability of a Real Estate Company to make payments of any interest and principal on its debt securities will be adversely affected.

*Loan Foreclosure Risk.* Real Estate Companies may foreclose on loans that the Real Estate Company originated or acquired. Foreclosure may generate negative publicity for the underlying property that affects its market value. In addition to length and expense, foreclosure proceedings may not fully uphold the validity of all of the terms of the applicable loan. Claims and defenses asserted by borrowers or other lenders may interfere with the enforcement of rights by a Real Estate Company. Parallel proceedings, such as bankruptcy, may also delay resolution and limit the amount of recovery on a foreclosed loan by a Real Estate Company even where the property underlying the loan is liquidated.

*Property Risk.* Real Estate Companies may be subject to risks relating to functional obsolescence or reduced desirability of properties; extended vacancies due to economic conditions and tenant bankruptcies; catastrophic events such as earthquakes, hurricanes and terrorist acts; and casualty or condemnation losses. Real estate income and values also may be greatly affected by demographic trends, such as population shifts or changing tastes and values, or increasing vacancies or declining rents resulting from legal, cultural, technological, global or local economic developments.

*Distressed Investment Risk.* Real Estate Companies may invest in distressed, defaulted or out-of-favor bank loans. Identification and implementation by a Real Estate Company of loan modification and restructure programs involves a high degree of uncertainty. Even successful implementation may still require adverse compromises and may not prevent bankruptcy. Real Estate Companies may also invest in other debt instruments that may become non-performing, including the securities of companies with higher credit and market risk due to financial or operational difficulties. Higher risk securities may be less liquid and more volatile than the securities of companies not in distress.

*Underlying Investment Risk.* Real Estate Companies make investments in a variety of debt and equity instruments with varying risk profiles. For instance, Real Estate Companies may invest in debt instruments secured by commercial property that have high risks of delinquency and foreclosure than loans on single family homes due to a variety of factors associated with commercial property,

including the tie between income available to service debt and productive use of the property. Real Estate Companies may also invest in debt instruments and preferred equity that are junior in an issuer's capital structure and that involve privately negotiated structures. Subordinated debt investments, such as B-Notes and mezzanine loans, involve a greater credit risk of default due to the need to service more senior debt of the issuer. Similarly, preferred equity investments involve a greater risk of loss than conventional debt financing due to their non-collateralized nature and subordinated ranking. Investments in commercial mortgage-backed securities may also be junior in priority in the event of bankruptcy or similar proceedings. Investments in senior loans may be effectively subordinated if the senior loan is pledged as collateral. The ability of a holder of junior claims to proceed against a defaulting issuer is circumscribed by the terms of the particular contractual arrangement, which vary considerably from transaction to transaction.

*Management Risk.* Real Estate Companies are dependent upon management skills and may have limited financial resources. Real Estate Companies are generally not diversified and may be subject to heavy cash flow dependency, default by borrowers and voluntary liquidation. In addition, transactions between Real Estate Companies and their affiliates may be subject to conflicts of interest, which may adversely affect a Real Estate Company's shareholders. A Real Estate Company may also have joint venture investments in certain of its properties, and, consequently, its ability to control decisions relating to such properties may be limited.

*Liquidity Risk.* Investing in Real Estate Companies may involve risks similar to those associated with investing in small-capitalization companies. Real Estate Company securities, like the securities of small-capitalization companies, may be more volatile than, and perform differently from, shares of large-capitalization companies. There may be less trading in Real Estate Company shares, which means that buy and sell transactions in those shares could have a magnified impact on share price, resulting in abrupt or erratic price fluctuations. In addition, real estate is relatively illiquid, and, therefore, a Real Estate Company may have a limited ability to vary or liquidate properties in response to changes in economic or other conditions.

*Concentration Risk.* Real Estate Companies may own a limited number of properties and concentrate their investments in a particular geographic region or property type. Economic downturns affecting a particular region, industry or property type may lead to a high volume of defaults within a short period.

*U.S. Tax Risk.* Certain U.S. Real Estate Companies are subject to special U.S. federal tax requirements. A REIT that fails to comply with such tax requirements may be subject to U.S. federal income taxation, which may affect the value of the REIT and the characterization of the REIT's distributions. The U.S. federal tax requirement that a REIT distribute substantially all of its net income to its shareholders may result in a REIT having insufficient capital for future expenditures. A REIT that successfully maintains its qualification may still become subject to U.S. federal, state and local taxes, including excise, penalty, franchise, payroll, mortgage recording, and transfer taxes, both directly and indirectly through its subsidiaries.

*Regulatory Risk.* Real estate income and values may be adversely affected by such factors as applicable domestic and foreign laws (including tax laws). Government actions, such as tax increases, zoning law changes or environmental regulations, also may have a major impact on real estate. In addition, quarterly compliance with regulation limiting the proportion of asset types held by a REIT may force certain Real Estate Companies to liquidate or restructure otherwise attractive investments.

**REAL ESTATE INVESTMENT TRUSTS.** The Funds may invest in the securities of real estate investment trusts ("REITs") to the extent allowed by law. Risks associated with investments in securities of REITs include decline in the value of real estate, risks related to general and local economic conditions, overbuilding and increased competition, increases in property taxes and operating expenses, changes in zoning laws, casualty or condemnation losses, variations in rental income, changes in neighborhood values, the appeal of properties to tenants, and increases in interest rates. REITs are dependent upon management skills, may not be diversified and are subject to the risks of financing projects. If an issuer of debt securities collateralized by real estate defaults, it is conceivable that the REITs could end up holding the underlying real estate. A REIT is a corporation or business trust (that would otherwise be taxed as a corporation) which meets the definitional requirements of the Code. The Code permits a qualifying REIT to deduct from taxable income the dividends paid, thereby effectively eliminating corporate level federal income tax. To meet the definitional requirements of the Code, a REIT must, among other things: invest substantially all of its assets in interests in real estate (including mortgages and other REITs), cash and government securities; derive most of its income from rents from real property or interest on loans secured by mortgages on real property; and, in general, distribute annually 90% or more of its taxable income (other than net capital gains) to shareholders.

REITs are sometimes informally characterized as Equity REITs and Mortgage REITs. An Equity REIT invests primarily in the fee ownership or leasehold ownership of land and buildings (e.g., commercial equity REITs and residential equity REITs); a Mortgage REIT invests primarily in mortgages on real property, which may secure construction, development or long-term loans.

REITs may be affected by changes in underlying real estate values, which may have an exaggerated effect to the extent that REITs in which the Fund invests may concentrate investments in particular geographic regions or property types. Additionally, rising interest rates may cause investors in REITs to demand a higher annual yield from future distributions, which may in turn decrease market prices for equity securities issued by REITs. Rising interest rates also generally increase the costs of obtaining financing, which could cause the value of the Fund's investments to decline. During periods of declining interest rates, certain Mortgage REITs may hold

mortgages that the mortgagors elect to prepay, which prepayment may diminish the yield on securities issued by such Mortgage REITs. In addition, Mortgage REITs may be affected by the ability of borrowers to repay when due the debt extended by the REIT and Equity REITs may be affected by the ability of tenants to pay rent.

Certain REITs have relatively small market capitalization, which may tend to increase the volatility of the market price of securities issued by such REITs. Furthermore, REITs are dependent upon specialized management skills, have limited diversification and are, therefore, subject to risks inherent in operating and financing a limited number of projects. By investing in REITs indirectly through the Fund, a shareholder will bear not only his or her proportionate share of the expenses of the Fund, but also, indirectly, similar expenses of the REITs. REITs depend generally on their ability to generate cashflow to make distributions to shareholders.

In addition to these risks, Equity REITs may be affected by changes in the value of the underlying property owned by the trusts, while Mortgage REITs may be affected by the quality of any credit extended. Further, Equity and Mortgage REITs are dependent upon management skills and generally may not be diversified. Equity and Mortgage REITs are also subject to heavy cashflow dependency defaults by borrowers and self-liquidation. In addition, Equity and Mortgage REITs could possibly fail to qualify for the favorable U.S. federal income tax treatment generally available to REITs under the Code or fail to maintain their exemptions from registration under the 1940 Act. The above factors may also adversely affect a borrower's or a lessee's ability to meet its obligations to the REIT. In the event of default by a borrower or lessee, the REIT may experience delays in enforcing its rights as a mortgagee or lessor and may incur substantial costs associated with protecting its investments.

**REPURCHASE AGREEMENTS.** Each Fund may enter into repurchase agreements with counterparties that are deemed to present acceptable credit risks. A repurchase agreement is a transaction in which the Fund purchases securities or other obligations from a bank or securities dealer (or its affiliate) and simultaneously commits to resell them to a counterparty at an agreed-upon date or upon demand and at a price reflecting a market rate of interest unrelated to the coupon rate or maturity of the purchased obligations. The Fund maintains custody of the underlying obligations prior to their repurchase, either through its regular custodian or through a special "tri-party" custodian or sub-custodian that maintains separate accounts for both the Fund and its counterparty. Thus, the obligation of the counterparty to pay the repurchase price on the date agreed to or upon demand is, in effect, secured by such obligations.

Repurchase agreements carry certain risks not associated with direct investments in securities, including a possible decline in the market value of the underlying obligations. If their value becomes less than the repurchase price, plus any agreed-upon additional amount, the counterparty must provide additional collateral so that at all times the collateral is at least equal to the repurchase price plus any agreed-upon additional amount. The difference between the total amount to be received upon repurchase of the obligations and the price that was paid by the Fund upon acquisition is accrued as interest and included in its net investment income. Repurchase agreements involving obligations other than U.S. Government securities (such as commercial paper and corporate bonds) may be subject to special risks and may not have the benefit of certain protections in the event of the counterparty's insolvency. If the seller or guarantor becomes insolvent, the Fund may suffer delays, costs and possible losses in connection with the disposition of collateral.

**REVERSE REPURCHASE AGREEMENTS.** The Funds may enter into reverse repurchase agreements, which involve the sale of securities held by a Fund subject to its agreement to repurchase the securities at an agreed-upon date or upon demand and at a price reflecting a market rate of interest. Reverse repurchase agreements are subject to a Fund's limitation on borrowings and may be entered into only with banks or securities dealers or their affiliates. While a reverse repurchase agreement is outstanding, a Fund will maintain the segregation, either on its records or with the Trust's custodian, of cash or other liquid securities, marked-to-market daily, in an amount at least equal to its obligations under the reverse repurchase agreement.

Reverse repurchase agreements involve the risk that the buyer of the securities sold by a Fund might be unable to deliver them when that Fund seeks to repurchase. If the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the buyer or trustee or receiver may receive an extension of time to determine whether to enforce a Fund's obligation to repurchase the securities, and the Fund's use of the proceeds of the reverse repurchase agreement may effectively be restricted pending such decision.

**SECURITIES LENDING.** Each Fund may lend portfolio securities to certain creditworthy borrowers, including the Fund's securities lending agent. Loans of portfolio securities provide a Fund with the opportunity to earn additional income on the Fund's portfolio securities. All securities loans will be made pursuant to agreements requiring the loans to be continuously secured by collateral in cash, or money market instruments, or money market funds at least equal at all times to the market value of the loaned securities. The borrower pays to the Fund an amount equal to any dividends or interest received on loaned securities. The Fund retains all or a portion of the interest received on investment of cash collateral or receives a fee from the borrower. Lending portfolio securities involves risks of delay in recovery of the loaned securities or in some cases loss of rights in the collateral should the borrower fail financially. Furthermore, because of the risks of delay in recovery, the Fund may lose the opportunity to sell the securities at a desirable price. The Fund will generally not have the right to vote securities while they are being loaned.

**SHORT SALES** (*FLRT only*). The Fund may engage regularly in short sales transactions in which the Fund sells a security it does not own. To complete such a transaction, the Fund must borrow or otherwise obtain the security to make delivery to the buyer. The Fund

then is obligated to replace the security borrowed by purchasing the security at the market price at the time of replacement. The price at such time may be more or less than the price at which the security was sold by the Fund. Until the security is replaced, the Fund is required to pay to the lender amounts equal to any dividends or interest, which accrue during the period of the loan. To borrow the security, the Fund also may be required to pay a premium, which would increase the cost of the security sold. The Fund may also use repurchase agreements to satisfy delivery obligations in short sales transactions. The proceeds of the short sale will be retained by the broker, to the extent necessary to meet the margin requirements, until the short position is closed out. Any short sales conducted by the Fund will comply with the requirements of Rule 18f-4 of the 1940 Act.

**TAX RISKS.** As with any investment, you should consider how your investment in Shares will be taxed. The tax information in the Prospectus and this SAI is provided as general information. You should consult your own tax professional about the tax consequences of an investment in Shares.

The Funds invest in partnerships that elect to be classified as corporations for U.S. federal income tax purposes. Such entities are required to pay U.S. federal income tax on its taxable income. This has the effect of reducing the amount of cash available for distribution to a Fund, which may result in a reduction of the value of your investment in the Fund, as compared to if such entity were not taxed as a corporation.

Unless your investment in Shares is made through a tax-exempt entity or tax-deferred retirement account, such as an individual retirement account, you need to be aware of the possible tax consequences when the Fund makes distributions or you sell Shares.

**U.S. GOVERNMENT SECURITIES.** A Fund may invest in U.S. government securities to the extent consistent with its investment objective and strategies. Not all U.S. government obligations carry the same credit support. Although many U.S. government securities in which the fund may invest, such as those issued by Fannie Mae and Freddie Mac may be chartered or sponsored by Acts of Congress, their securities are neither issued nor guaranteed by the U.S. Treasury and, therefore, are not backed by the full faith and credit of the United States. Some, such as those of Ginnie Mae, are supported by the full faith and credit of the U.S. Treasury. Other obligations, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Treasury; and others are supported by the discretionary authority of the U.S. government to purchase the agency's obligations. Still others are supported only by the credit of the instrumentality or sponsored enterprise. The maximum potential liability of the issuers of some U.S. government securities held by the fund may greatly exceed their current resources, including their legal right to support from the U.S. Treasury. It is possible that these issuers will not have the funds to meet their payment obligations in the future. No assurance can be given that the U.S. government would provide financial support to its agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law.

As agency of the U.S. government has placed Fannie Mae and Freddie Mac into conservatorship, a statutory process with the objective of returning the entities to normal business operations. It is unclear what effect this conservatorship will have on the securities issued or guaranteed by Fannie Mae or Freddie Mac. As a result, these securities are subject to more credit risk than U.S. government securities that are supported by the full faith and credit of the United States (e.g., U.S. Treasury bonds).

To the extent the Fund invests in debt instruments or securities of non-U.S. government entities that are backed by the full faith and credit of the United States, there is a possibility that such guarantee may be discontinued or modified at a later date.

The total public debt of the United States as a percentage of gross domestic product has grown rapidly since the beginning of the 2008–2009 financial downturn. Although high debt levels do not necessarily indicate or cause economic problems, they may create certain systemic risks if sound debt management practices are not implemented. A high national debt can raise concerns that the U.S. government will not be able to make principal or interest payments when they are due. This increase has also necessitated the need for the U.S. Congress to negotiate adjustments to the statutory debt limit to increase the cap on the amount the U.S. government is permitted to borrow to meet its existing obligations and finance current budget deficits. In August 2011, S&P lowered its long-term sovereign credit rating on the U.S. In explaining the downgrade at that time, S&P cited, among other reasons, controversy over raising the statutory debt limit and growth in public spending. An increase in national debt levels may also necessitate the need for the U.S. Congress to negotiate adjustments to the statutory debt ceiling to increase the cap on the amount the U.S. Government is permitted to borrow to meet its existing obligations and finance current budget deficits. Future downgrades could increase volatility in domestic and foreign financial markets, result in higher interest rates, lower prices of U.S. Treasury securities and increase the costs of different kinds of debt. Any controversy or ongoing uncertainty regarding the statutory debt ceiling negotiations may impact the U.S. long-term sovereign credit rating and may cause market uncertainty. As a result, market prices and yields of securities supported by the full faith and credit of the U.S. government may be adversely affected.

**FUTURE DEVELOPMENTS.** The Trust's Board of Trustees (the "Board") may, in the future, authorize a Fund to invest in securities contracts and investments other than those listed in this SAI and in the Fund's Prospectus, provided they are consistent with the Fund's investment objective and do not violate any investment restrictions or policies.

## INVESTMENT LIMITATIONS

The Trust has adopted the following investment restrictions as fundamental policies with respect to the Funds. These restrictions cannot be changed with respect to a Fund without the approval of the holders of a majority of the Fund's outstanding voting securities. For the purposes of the 1940 Act, a "majority of outstanding shares" means the vote of the lesser of: (1) 67% or more of the voting securities of the Fund present at the meeting if the holders of more than 50% of the Fund's outstanding voting securities are present or represented by proxy; or (2) more than 50% of the outstanding voting securities of the Fund.

**Except with the approval of a majority of the outstanding voting securities, each Fund (other than FLRT, TRPL, and QDPL) may not:**

1. Concentrate its investments (*i.e.*, hold more than 25% of its total assets) in any industry or group of related industries, except that the Fund will concentrate to approximately the same extent that its Index concentrates in the securities of such particular industry or group of related industries. For purposes of this limitation, securities of the U.S. government (including its agencies and instrumentalities), registered investment companies, repurchase agreements collateralized by U.S. government securities and tax-exempt securities of state or municipal governments and their political subdivisions are not considered to be issued by members of any industry.

**Except with the approval of a majority of the outstanding voting securities, each of TRPL and QDPL may not:**

1. Concentrate its investments (*i.e.*, hold more than 25% of its total assets) in any industry or group of related industries. For purposes of this limitation, securities of the U.S. government (including its agencies and instrumentalities), repurchase agreements collateralized by U.S. government securities, registered investment companies, and tax-exempt securities of state or municipal governments and their political subdivisions are not considered to be issued by members of any industry.

**In addition, except with the approval of a majority of the outstanding voting securities, each Fund (other than FLRT) may not:**

2. Borrow money or issue senior securities (as defined under the 1940 Act), except to the extent permitted under the 1940 Act.
3. Make loans, except to the extent permitted under the 1940 Act.
4. Purchase or sell real estate unless acquired as a result of ownership of securities or other instruments, except to the extent permitted under the 1940 Act. This shall not prevent the Fund from investing in securities or other instruments backed by real estate, real estate investment trusts or securities of companies engaged in the real estate business.
5. Purchase or sell physical commodities unless acquired as a result of ownership of securities or other instruments, except to the extent permitted under the 1940 Act. This shall not prevent the Fund from purchasing or selling options and futures contracts or from investing in securities or other instruments backed by physical commodities.
6. Underwrite securities issued by other persons, except to the extent permitted under the 1940 Act.
7. Each Diversified Fund will not, with respect to 75% of its total assets, purchase the securities of any one issuer if, immediately after and as a result of such purchase, (a) the value of the Fund's holdings in the securities of such issuer exceeds 5% of the value of the Fund's total assets, or (b) the Fund owns more than 10% of the outstanding voting securities of the issuer (with the exception that this restriction does not apply to the Fund's investments in the securities of the U.S. government, or its agencies or instrumentalities, or other investment companies).

With respect to FLRT, the Trust has adopted the following investment restrictions as fundamental policies with respect to the Fund. These restrictions cannot be changed with respect to the Fund without the approval of the holders of a majority of the Fund's outstanding voting securities. For the purposes of the 1940 Act, a "majority of outstanding shares" means the vote of the lesser of: (1) 67% or more of the voting securities of the Fund present at the meeting if the holders of more than 50% of the Fund's outstanding voting securities are present or represented by proxy; or (2) more than 50% of the outstanding voting securities of the Fund.

**Under these restrictions:**

1. FLRT may not make loans, except that the Fund may: (i) lend portfolio securities; (ii) enter into repurchase agreements; (iii) purchase all or a portion of an issue of debt securities, bank loan or participation interests, bank certificates of deposit, bankers' acceptances, debentures or other securities, whether or not the purchase is made upon the original issuance of the securities; and (iv) participate in an interfund lending program with other registered investment companies;
2. FLRT may not borrow money, except as permitted under the 1940 Act, and as interpreted or modified by regulation from time to time;

3. FLRT may not issue senior securities, except as permitted under the 1940 Act, and as interpreted or modified by regulation from time to time;
4. FLRT may not purchase or sell real estate, except that the Fund may: (i) invest in securities of issuers that invest in real estate or interests therein; (ii) invest in mortgage-related securities and other securities that are secured by real estate or interests therein; and (iii) hold and sell real estate acquired by the Fund as a result of the ownership of securities;
5. FLRT may not engage in the business of underwriting securities issued by others, except to the extent that the Fund may be considered an underwriter within the meaning of the Securities Act, in the disposition of restricted securities or in connection with its investments in other investment companies;
6. FLRT may not purchase or sell commodities, unless acquired as a result of owning securities or other instruments, but it may purchase, sell or enter into financial options and futures, forward and spot currency contracts, swap transactions and other financial contracts or derivative instruments and may invest in securities or other instruments backed by commodities; and
7. FLRT may not purchase any security if, as a result of that purchase, more than 25% of the Fund net assets would be invested in securities of issuers having their principal business activities in the same industry or group of industries. This limit does not apply to securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.

**In addition to the investment restrictions adopted as fundamental policies as set forth above, the Funds observe the following restrictions, which may be changed without a shareholder vote.**

1. Each Fund will not hold illiquid investments in excess of 15% of its net assets. An illiquid investment is any investment that the Fund reasonably expects cannot be sold or disposed of in current market conditions in seven calendar days or less without the sale or disposition significantly changing the market value of the investment.
2. Under normal circumstances, at least 80% of PTBD's net assets, plus borrowings for investment purposes, will be invested in bonds denominated in U.S. dollars.
3. Under normal circumstances, ALTL and PALC will invest at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in securities of large cap companies. The Fund considers a company to be a "large cap company" at the time of purchase if it was included in the S&P 500 at any time within the prior twelve months.
4. Under normal circumstances, PAMC will invest at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in securities of mid cap companies. The Fund considers a company to be a "mid cap company" at the time of purchase if it was included in the S&P MidCap 400 at any time within the prior twelve months.
5. Under normal circumstances, ROOM will invest at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in companies in the hotel and lodging real estate sector. The Fund defines the hotel and lodging real estate sector as consisting of companies that derive at least 50% of their revenues or profits from owning or managing hotels, motels, resorts, or other lodging properties that rent space to guests.
6. Under normal circumstances, PAD will invest at least 80% of the value of its net assets, plus the amount of any borrowings for investment purposes, in companies in the apartments and residential real estate sector. The Fund defines the apartments and residential real estate sector as consisting of companies that derive at least 50% of their revenues or profits from owning or managing apartment buildings, student housing, manufactured homes, and single-family homes.
7. Under normal circumstances, RXRE will invest at least 80% of the value of its net assets, plus the amount of any borrowings for investment purposes, in companies in the healthcare real estate sector. The Fund defines the healthcare real estate sector as consisting of companies that derive at least 50% of their revenues or profits from owning or managing healthcare real estate (e.g., senior living facilities, hospitals, medical office buildings, skilled nursing facilities).
8. Under normal circumstances, INDS will invest at least 80% of the value of its net assets, plus the amount of any borrowings for investment purposes, in companies the industrial real estate sector. The Fund defines the industrial real estate sector as consisting of companies that derive at least 50% of their revenues or profits from owning or managing land or buildings used for industrial purposes (e.g., warehouses, distribution facilities, storage or self-storage facilities).
9. Under normal circumstances, SRVR will invest at least 80% of the value of its net assets, plus the amount of any borrowings for investment purposes, in companies the data and infrastructure real estate sector. The Fund defines the data and infrastructure real estate sector as consisting of companies that derive at least 50% of their revenues or profits from owning or managing real estate used to store, compute, or transmit large amounts of data (e.g., data centers, communications towers).
10. Under normal circumstances, FLRT will invest at least 80% of its net assets (plus any borrowings for investment purposes) in senior secured floating rate loans and other adjustable rate securities. Other adjustable rate securities will typically include

collateralized loan obligations, asset-backed securities, and commercial mortgage backed securities (collectively, “Adjustable Rate Securities”). The Fund may not purchase any security if, as a result of that purchase, more than 25% of the Fund net assets would be invested in securities of issuers having their principal business activities in the same industry or group of industries. This limit does not apply to securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.

11. Under normal circumstances, at least 80% of TRPL and QDPL’s net assets, plus borrowings for investment purposes, will be invested in large cap equity securities that are principally traded in the United States and derivatives based on those securities.
12. With the exception of PTNQ, PWS, VIRS, SZNE, ROOM, RXRE, INDS, SRVR, PAD, PALC, ALTL, PAMC, and PTBD, each Fund has adopted a policy to invest, under normal circumstances, at least 80% of the Fund’s total assets (exclusive of collateral held from securities lending) in the component securities of its Index. In addition to investments in the component securities of the applicable Index, the following investments will count towards such 80% policy:
  - i. investments that have economic characteristics that are substantially identical to the economic characteristics of such component securities (*e.g.*, depositary receipts);
  - ii. ETFs that seek to track the performance of some or all of the component securities of the applicable Index in the same approximate weight as such component securities; and
  - iii. if one or more component securities are other ETFs (“Underlying ETFs”), the underlying holdings of such Underlying ETFs in the same approximate weight as such holdings are assigned in the applicable Underlying ETF, adjusted to reflect the weight of such Underlying ETF in the Fund’s Index (*i.e.*, a Fund that is a fund-of-funds may invest in either the Underlying ETFs comprising the Fund’s Index or directly in such Underlying ETFs’ underlying holdings).

If a percentage limitation is adhered to at the time of investment or contract, a later increase or decrease in percentage resulting from any change in value or total or net assets will not result in a violation of such restriction, except with respect to the borrowing of money. With respect to the limitation on illiquid securities, in the event that a subsequent change in net assets or other circumstances cause a Fund to exceed its limitation, the Fund will take steps to bring the aggregate amount of illiquid instruments back within the limitations as soon as reasonably practicable. With respect to the limitation on borrowing, in the event that a subsequent change in net assets or other circumstances cause a Fund to exceed its limitation, the Fund will take steps to bring the aggregate amount of borrowing back within the limitations within three days thereafter (not including Sundays and holidays).

## **PORTFOLIO HOLDINGS DISCLOSURE POLICIES AND PROCEDURES**

The Trust’s Board of Trustees has adopted a policy regarding the disclosure of information about the Funds’ security holdings. As an ETF, information about each Fund’s portfolio holdings is made available on a daily basis in accordance with the provisions of an Order of the SEC applicable to the Funds, regulations of the Exchange and other applicable SEC regulations, orders and no-action relief. Such information typically reflects all or a portion of each Fund’s anticipated portfolio holdings as of the next Business Day. A “Business Day” is any day on which the Exchange is open for business. As of the date of this SAI, the Exchange observes the following holidays: New Year’s Day, Martin Luther King, Jr. Day, Presidents’ Day, Good Friday, Memorial Day (observed), Juneteenth National Independence Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day. This information is used in connection with the creation and redemption process and is disseminated on a daily basis through the Exchange, the National Securities Clearing Corporation (“NSCC”) and/or third-party service providers.

The Funds will disclose on their website at the start of each Business Day the identities and quantities of the securities and other assets held by each Fund that will form the basis of the Fund’s calculation of its NAV on that Business Day. The portfolio holdings so disclosed will be based on information as of the close of business on the prior Business Day and/or trades that have been completed prior to the opening of business on that Business Day and that are expected to settle on that Business Day.

Each Fund may disclose its complete portfolio holdings or a portion of its portfolio holdings online at [www.PacerETFs.com](http://www.PacerETFs.com). Each Fund will disclose its complete portfolio holdings schedule in public filings with the SEC on a quarterly basis, based on the Fund’s fiscal year, within sixty (60) days of the end of the quarter, and will provide that information to shareholders, as required by federal securities laws and regulations thereunder.

The Trust’s portfolio holdings policy provides that neither the Funds nor their Adviser, Sub-Advisers, distributor or any agent, or any employee thereof (“Fund Representative”) will disclose a Fund’s portfolio holdings information to any person other than in accordance with the policy. For purposes of the policy, “portfolio holdings information” means a Fund’s non-public actual portfolio holdings, as well as non-public information about its trading strategies or pending transactions including the portfolio holdings, trading strategies or pending transactions of any commingled fund portfolio which contains identical holdings as the Fund. Under the policy, neither a Fund nor any Fund Representative may solicit or accept any compensation or other consideration in connection with the disclosure of portfolio holdings information. A Fund Representative may provide portfolio holdings information to third parties if such

information has been included in a Fund's public filings with the SEC or is disclosed on the Fund's publicly accessible website. Information posted on a Fund's website may be separately provided to any person commencing the day after it is first published on the Fund's website.

Under the policy, each business day each Fund's portfolio holdings information will be provided to the distributor or other agent for dissemination through the facilities of the NSCC and/or other fee based subscription services to NSCC members and/or subscribers to those other fee based subscription services, including Authorized Participants (defined below), and to entities that publish and/or analyze such information in connection with the process of purchasing or redeeming Creation Units or trading Shares of Funds in the secondary market. The distributor may also make available portfolio holdings information to other institutional market participants and entities that provide information services. This information typically reflects each Fund's anticipated holdings on the following business day. "Authorized Participants" are generally large institutional investors that have been authorized by the distributor to purchase and redeem large blocks of Shares (known as Creation Units) pursuant to legal requirements to which the Funds offer and redeem Shares.

Other than portfolio holdings information made available in connection with the creation/redemption process, as discussed above, portfolio holdings information that is not filed with the SEC or posted on the publicly available website may be provided to third parties only in limited circumstances. Third-party recipients will be required to keep all portfolio holdings information confidential and prohibited from trading on the information they receive. Disclosure to such third parties must be approved in advance by the Trust's President or one of the principal officers of the Adviser. Disclosure to providers of auditing, custody, proxy voting and other similar services for the Funds, as well as rating and ranking organizations, will generally be permitted; however, information may be disclosed to other parties (including, without limitation, individuals, institutional investors, and Authorized Participants that sell Shares of a Fund) only upon approval by the Trust's President or one of the principal officers of the Adviser, who must first determine that the Fund has a legitimate business purpose for doing so. In general, each recipient of non-public portfolio holding information must sign a confidentiality and non-trading agreement, although this requirement will not apply when the recipient is otherwise subject to a duty of confidentiality as determined by the Trust's President or one of the principal officers of the Adviser.

## CONTINUOUS OFFERING

The method by which Creation Unit Aggregations of Shares are created and traded may raise certain issues under applicable securities laws. Because new Creation Unit Aggregations of Shares are issued and sold on an ongoing basis, at any point a "distribution," as such term is used in the Securities Act, may occur. Broker-dealers and other persons are cautioned that some activities on their part may, depending on the circumstances, result in their being deemed participants in a distribution in a manner which could render them statutory underwriters and subject them to the prospectus delivery requirement and liability provisions of the Securities Act.

For example, a broker-dealer firm or its client may be deemed a statutory underwriter if it takes Creation Unit Aggregations after placing an order with the Trust's Distributor, breaks them down into constituent Shares, and sells such Shares directly to customers, or if it chooses to couple the creation of a supply of new Shares with an active selling effort involving solicitation of secondary market demand for Shares. A determination of whether one is an underwriter for purposes of the Securities Act must take into account all the facts and circumstances pertaining to the activities of the broker-dealer or its client in the particular case, and the examples mentioned above should not be considered a complete description of all the activities that could lead to a categorization as an underwriter.

Broker-dealer firms should also note that dealers who are not "underwriters" but are effecting transactions in Shares, whether or not participating in the distribution of Shares, generally are required to deliver a prospectus. This is because the prospectus delivery exemption in Section 4(a)(3) of the Securities Act is not available in respect of such transactions as a result of Section 24(d) of the 1940 Act. Firms that incur a prospectus delivery obligation with respect to Shares of a Fund are reminded that, pursuant to Rule 153 under the Securities Act, a prospectus delivery obligation under Section 5(b)(2) of the Securities Act owed to an exchange member in connection with the sale on the Listing Exchange is satisfied by the fact that the prospectus is available at the Listing Exchange upon request. The prospectus delivery mechanism provided in Rule 153 is only available with respect to transactions on an exchange.

## MANAGEMENT OF THE TRUST

**Board Responsibilities.** The management and affairs of the Trust and its series are overseen by a Board of Trustees. The Board elects the officers of the Trust who are responsible for administering the day-to-day operations of the Trust and the Funds. The Board has approved contracts, as described below, under which certain companies provide essential services to the Trust.

Like most ETFs, the day-to-day business of the Trust, including the management of risk, is performed by third party service providers, such as the Adviser, the Sub-Advisers, the Distributor and the Administrator. The Trustees are responsible for overseeing the Trust's service providers and, thus, have oversight responsibility with respect to risk management performed by those service providers. Risk management seeks to identify and address risks, *i.e.*, events or circumstances that could have material adverse effects on the business, operations, shareholder services, investment performance or reputation of the Funds. The Funds and their service providers employ a variety of processes, procedures and controls to identify various of those possible events or circumstances, in an attempt to lessen the

probability of their occurrence and/or to mitigate the effects of such events or circumstances if they do occur. Each service provider is responsible for one or more discrete aspects of the Trust's business (e.g., the Adviser, or applicable Sub-Adviser, is responsible for the day-to-day management of the Funds' portfolio investments) and, consequently, for managing the risks associated with that business. The Board has emphasized to the Funds' service providers the importance of maintaining vigorous risk management.

The Board's role in risk oversight begins before the inception of a Fund, at which time certain of the Fund's service providers present the Board with information concerning the investment objectives, strategies and risks of the Fund as well as proposed investment limitations for the Fund. Additionally, the Adviser and Sub-Advisers provide the Board with an overview of, among other things, its investment philosophy, brokerage practices and compliance infrastructure. Thereafter, the Board continues its oversight function as various personnel, including the Trust's Chief Compliance Officer, as well as personnel of the Adviser, and other service providers such as the Fund's independent accountants, make periodic reports to the Audit Committee or to the Board with respect to various aspects of risk management. The Board and the Audit Committee oversee efforts by management and service providers to manage risks to which a Fund may be exposed.

The Board is responsible for overseeing the nature, extent, and quality of the services provided to the Funds by the Adviser and Sub-Advisers and receives information about those services at its regular meetings. In addition, on an annual basis, (following the initial two-year period for new Funds), in connection with its consideration of whether to renew the Investment Advisory Agreements with the Adviser, and Sub-Advisory Agreements with the Sub-Advisers, the Board meets with the Adviser and/or Sub-Advisers to review such services. Among other things, the Board regularly considers the Adviser's adherence to the Funds' investment restrictions and compliance with various Fund policies and procedures and with applicable securities regulations. The Board also reviews information about each Fund's performance and the Fund's investments, including, for example, portfolio holdings schedules.

The Trust's Chief Compliance Officer reports regularly to the Board to review and discuss compliance issues and Fund and Adviser risk assessments. At least annually, the Trust's Chief Compliance Officer, as well as personnel of the Adviser, provides the Board with a report reviewing the adequacy and effectiveness of the Trust's policies and procedures and those of its service providers, including the Adviser and Sub-Advisers. The report addresses the operation of the policies and procedures of the Trust and each service provider since the date of the last report; any material changes to the policies and procedures since the date of the last report; any recommendations for material changes to the policies and procedures; and any material compliance matters since the date of the last report.

The Board receives reports from the Funds' service providers regarding operational risks and risks related to the valuation and liquidity of portfolio securities. Annually, the independent registered public accounting firm reviews with the Audit Committee its audit of each Fund's financial statements, focusing on major areas of risk encountered by the Fund and noting any significant deficiencies or material weaknesses in the Fund's internal controls. Additionally, in connection with its oversight function, the Board oversees Fund management's implementation of disclosure controls and procedures, which are designed to ensure that information required to be disclosed by the Trust in its periodic reports with the SEC are recorded, processed, summarized, and reported within the required time periods. The Board also oversees the Trust's internal controls over financial reporting, which comprise policies and procedures designed to provide reasonable assurance regarding the reliability of the Trust's financial reporting and the preparation of the Trust's financial statements.

From their review of these reports and discussions with the Adviser, the Sub-Advisers, the Chief Compliance Officer, the independent registered public accounting firm and other service providers, the Board and the Audit Committee learn in detail about the material risks of each Fund, thereby facilitating a dialogue about how management and service providers identify and mitigate those risks.

The Board recognizes that not all risks that may affect a Fund can be identified and/or quantified, that it may not be practical or cost-effective to eliminate or mitigate certain risks, that it may be necessary to bear certain risks (such as investment-related risks) to achieve a Fund's goals, and that the processes, procedures and controls employed to address certain risks may be limited in their effectiveness. Moreover, reports received by the Trustees as to risk management matters are typically summaries of the relevant information. Most of the Funds' investment management and business affairs are carried out by or through the Adviser, Sub-Advisers, and other service providers, each of which has an independent interest in risk management but whose policies and the methods by which one or more risk management functions are carried out may differ from a Fund's and each other's in the setting of priorities, the resources available or the effectiveness of relevant controls. As a result of the foregoing and other factors, the Board's ability to monitor and manage risk, as a practical matter, is subject to limitations.

**Members of the Board and Officers of the Trust.** There are four members of the Board of Trustees, (each, a "Trustee") three of whom are not interested persons of the Trust, as that term is defined in the 1940 Act ("Independent Trustees"). Joe M. Thomson serves as Chairman of the Board, and Deborah G. Wolk serves as the Trust's Lead Independent Trustee. The Board of Trustees is comprised of a super-majority (75 percent) of Independent Trustees. There is an Audit Committee of the Board that is chaired by an Independent Trustee and comprised solely of Independent Trustees. The Audit Committee chair presides at the Committee meetings, participates in formulating agendas for Committee meetings, and coordinates with management to serve as a liaison between the Independent

Trustees and management on matters within the scope of responsibilities of the Committee as set forth in its Board-approved charter. The Trust has determined its leadership structure is appropriate given the specific characteristics and circumstances of the Trust. The Trust made this determination in consideration of, among other things, the number of Independent Trustees that constitute the Board, the amount of assets under management in the Trust, and the number of Funds overseen by the Board. The Board also believes that its leadership structure facilitates the orderly and efficient flow of information to the Independent Trustees from Fund management.

The Board of Trustees has two standing committees: the Audit Committee and Nominating Committee. Each Committee is chaired by an Independent Trustee and composed of Independent Trustees.

The Audit Committee is comprised of all of the Independent Trustees. The function of the Audit Committee is to review the scope and results of the annual audit of the Funds and any matters bearing on the audit or a Fund's financial statements and to ensure the integrity of the Funds' financial reporting. The Audit Committee also recommends to the Board of Trustees the annual selection of the independent registered public accounting firm for the Funds and it reviews and pre-approves audit and certain non-audit services to be provided by the independent registered public accounting firm. During the fiscal year ended April 30, 2022, the Audit Committee met four times.

The Nominating Committee, comprised of all the Independent Trustees, is responsible for seeking and reviewing candidates for consideration as nominees for Trustees. The Committee meets on an as needed basis. The Nominating Committee will accept and review shareholder nominations for Trustees, which may be submitted to the Trust by sending the nomination to the Trust's Secretary, c/o Pacer Advisors, Inc., 500 Chesterfield Parkway, Malvern, Pennsylvania 19355. During the fiscal year ended April 30, 2022, the Nominating Committee met three times.

Additionally, the Trust has a Fair Value Pricing Committee, appointed by the Board, comprised of certain officers of the Trust and employees of the Adviser. The Fair Value Pricing Committee is responsible for valuing securities held by the Funds for which current and reliable market quotations are not readily available. The Fair Value Pricing Committee meets as necessary.

Additional information about each Trustee of the Trust is set forth below. The address of each Trustee of the Trust is c/o Pacer Advisors, Inc., 500 Chesterfield Parkway, Malvern, Pennsylvania 19355.

| Name and Year of Birth           | Position(s) Held with the Trust  | Term of Office and Length of Time Served | Principal Occupation(s) During Past 5 Years  | Number of Portfolios in Fund Complex Overseen By Trustee | Other Directorships held by Trustee During Past Five Years |
|----------------------------------|--|--|--|--|--|
| <b>Interested Trustee</b>        |  |  |  |  |  |
| Joe M. Thomson<br>Born: 1944     | Trustee,<br>Chairman,<br>President,<br>and Principal<br>Executive<br>Officer | Indefinite<br>Term; since<br>2014        | Founder/President at Pacer<br>Advisors, Inc. (since 2005)                            | 51   | Director, First<br>Cornerstone<br>Bank (2000–<br>2016)     |
| <b>Independent Trustees</b>      |  |  |  |  |  |
| Deborah G. Wolk<br>Born: 1950    | Lead<br>Independent<br>Trustee   | Indefinite<br>Term; since<br>2015        | Self-employed providing<br>accounting services and computer<br>modeling (since 1997) | 51   | None   |
| Jane K. Sagendorph<br>Born: 1951 | Trustee  | Indefinite<br>Term; since<br>2021        | Accountant, BluFish Designs<br>(since 2011)  | 51   | None   |
| Colin C. Lake<br>Born: 1971      | Trustee  | Indefinite<br>Term; since<br>2021        | Founder/President, Developing<br>the Next Leaders, Inc.<br>(consulting) (since 2016) | 51   | None   |

**Individual Trustee Qualifications.** The Trust has concluded that each of the Trustees should serve on the Board because of their ability to review and understand information about the Funds provided to them by management, to identify and request other information they may deem relevant to the performance of their duties, to question management and other service providers regarding material factors bearing on the management and administration of the Funds, and to exercise their business judgment in a manner that serves the best interests of each Fund's shareholders. The Trust has concluded that each of the Trustees should serve as a Trustee based on their own experience, qualifications, attributes and skills as described below.

The Trust has concluded that Mr. Thomson should serve as Trustee because of the experience he has gained as Founder and President of Pacer Advisors, Inc., Pacer Financial, Inc., and in his past roles with various registered broker-dealers and investment management

firms. In addition, he holds the Certified Financial Planner® (CFP®), Chartered Life Underwriter® (CLU®), Chartered Financial Consultant® (ChFC®), and Chartered Mutual Fund Counselor (CMFC®) designations, the FINRA General Principal’s license, and the Pennsylvania Life & Annuity Insurance license.

The Trust has concluded that Ms. Wolk should serve as Trustee because of the experience she has gained during the past twenty years providing accounting services and computer modeling expertise to small business clients, as well as her prior positions in the corporate finance field. In addition, she holds the Chartered Financial Consultant® (ChFC®) designation. The Trust believes that Ms. Wolk’s extensive experience in accounting and finance provides an appropriate background in areas applicable to investment company oversight.

The Trust has concluded that Ms. Sagendorph should serve as Trustee because of her extensive experience in the financial services industry as a comptroller of a financial marketing and wholesaling firm, as well as her experience providing accounting services to a small business client. The Trust believes that Ms. Sagendorph’s extensive experience in accounting and finance provides an appropriate background in areas applicable to investment company oversight.

The Trust has concluded that Mr. Lake should serve as Trustee because of his extensive experience in the financial services industry. The Trust believes that Mr. Lake’s business acumen and understanding of financial issues provide an appropriate background in areas applicable to investment company oversight.

In its periodic assessment of the effectiveness of the Board, the Board considers the complementary individual skills and experience of the individual Trustees primarily in the broader context of the Board’s overall composition so that the Board, as a body, possesses the appropriate (and appropriately diverse) skills and experience to oversee the business of the Funds.

**Principal Officers of the Trust.** The officers of the Trust conduct and supervise its daily business. The address of each officer of the Trust, unless otherwise indicated below, is c/o Pacer Advisors, Inc., 500 Chesterfield Parkway, Malvern, Pennsylvania 19355.

| Name and Year of Birth  | Position(s) Held with Funds                                   | Term of Office and Length of Time Served | Principal Occupation(s) During Past Five Years   |
|---|---|--|--|
| Joe M. Thomson<br>Born: 1944  | Trustee, Chairman, President, and Principal Executive Officer | Indefinite Term; since 2014              | Founder/President, Pacer Advisors, Inc. (since 2005); President and Chief Compliance Officer, Pacer Financial, Inc. (since 2004)     |
| Sean E. O’Hara<br>Born: 1962  | Treasurer and Principal Financial Officer                     | Indefinite Term; since 2014              | Director, Index Design Group (since 2015); Director, Pacer Financial, Inc. (since 2007); Director, Pacer Advisors, Inc. (since 2007) |
| Bruce Kavanaugh<br>Born: 1964   | Secretary and Portfolio Manager                               | Indefinite Term; since 2016              | Vice President, Pacer Advisors, Inc. (since 2005); Vice President, Pacer Financial, Inc. (since 2004)                                |
| Justin Dausch<br>Gateway Corporate Center<br>Suite 216<br>223 Wilmington West Chester Pike<br>Chadds Ford, PA 19317<br>Born: 1989 | Chief Compliance Officer and AML Officer                      | Indefinite Term; since 2021              | Director, Vigilant, since 2017; Compliance Associate, HSBC (investment banking company), 2015-2017                                   |

**Fund Shares Owned by Board Members.** The Funds are required to show the dollar amount ranges of each Trustee’s “beneficial ownership” of Shares of the Funds and each other series of the Trust as of the end of the most recently completed calendar year. Dollar amount ranges disclosed are established by the SEC. “Beneficial ownership” is determined in accordance with Rule 16a-1(a)(2) under the Exchange Act.

As of December 31, 2021, Mr. Thomson owned between \$10,000 - \$50,000 of Shares of VIRS, between \$50,000 - \$100,000 of Shares of ALTL and over \$100,000 of Shares of each of COWZ, CALF, and PEXL. No other Trustee owned Shares of the Funds as of December 31, 2021.

**Board Compensation.** Independent Trustees are paid by the Adviser from the unified management fee paid to the Adviser and not by the Funds. The Independent Trustees each receive a per meeting trustee fee of \$2,500, as well as reimbursement for travel and other out-of-pocket expenses incurred in connection with attendance at Board meetings. The Trust has no pension or retirement plan. No officer, director or employee of the Adviser, including Mr. Thomson, receives any compensation from the Funds for acting as a Trustee or officer of the Trust. The following table shows the compensation earned by each Trustee for the Funds’ fiscal year ended April 30, 2022. Trustee compensation does not include reimbursed out-of-pocket expenses in connection with attendance at meetings.

| Name                        | Aggregate Compensation From Each Fund | Total Compensation From Fund Complex Paid to Trustees |
|-----------------------------|---------------------------------------|---|
| <b>Interested Trustees</b>  |                                       |   |
| Joe M. Thomson              | \$0                                   | \$0   |
| <b>Independent Trustees</b> |                                       |   |
| Deborah G. Wolk             | \$0                                   | \$9,000   |
| Jane K. Sagendorph          | \$0                                   | \$5,000   |
| Colin C. Lake               | \$0                                   | \$2,500   |

**Control Persons and Principal Holders of Securities.** A principal shareholder is any person who owns of record or beneficially 5% or more of the outstanding Shares of a Fund. A control person is a shareholder that owns beneficially or through controlled companies more than 25% of the voting securities of a Fund or acknowledges the existence of control. Shareholders owning voting securities in excess of 25% may determine the outcome of any matter affecting and voted on by shareholders of a Fund. As of August 1, 2022, the Trustees and officers, as a group, owned approximately 8% of PEXL, and less than 1% of the Shares of the other Funds, and the following shareholders were considered to be a principal shareholder of the Funds:

**Pacer Trendpilot® US Large Cap ETF**

| Name and Address   | % Ownership | Type of Ownership |
|--|-------------|-------------------|
| Merrill Lynch Pierce, Fenner & Smith<br>4800 Deer Lake Drive East<br>Jacksonville, FL 32246-6484           | 17.55%      | Record            |
| Raymond James Financial, Inc.<br>880 Carillon Parkway<br>St. Petersburg, FL 33716                          | 14.42%      | Record            |
| Morgan Stanley Smith Barney, LLC<br>Harborside Financial Center Plaza, 23rd Floor<br>Jersey City, NJ 07311 | 13.55%      | Record            |
| Wells Fargo Clearing Services<br>2801 Market Street<br>St. Louis, MO 63103-2523                            | 9.36%       | Record            |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                                | 8.62%       | Record            |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052             | 7.60%       | Record            |
| LPL Financial<br>75 State Street, 22nd Floor<br>Boston, MA 02109   | 6.78%       | Record            |
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905                              | 6.14%       | Record            |
| UBS Financial Services, Inc.<br>1200 Harbor Boulevard<br>Weehawken, NJ 07086                               | 6.14%       | Record            |

**Pacer Trendpilot® US Mid Cap ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| Merrill Lynch Pierce, Fenner & Smith<br>4800 Deer Lake Drive East<br>Jacksonville, FL 32246-6484           | 18.31%             | Record                   |
| Raymond James Financial, Inc.<br>880 Carillon Parkway<br>St. Petersburg, FL 33716                          | 15.06%             | Record                   |
| Wells Fargo Clearing Services<br>2801 Market Street<br>St. Louis, MO 63103-2523                            | 12.64%             | Record                   |
| Morgan Stanley Smith Barney, LLC<br>Harborside Financial Center Plaza, 23rd Floor<br>Jersey City, NJ 07311 | 12.39%             | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052             | 8.81%              | Record                   |
| LPL Financial<br>75 State Street, 22nd Floor<br>Boston, MA 02109   | 7.81%              | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                                | 7.06%              | Record                   |

**Pacer Trendpilot® 100 ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| Raymond James Financial, Inc.<br>880 Carillon Parkway<br>St. Petersburg, FL 33716                          | 14.71%             | Record                   |
| Merrill Lynch Pierce, Fenner & Smith<br>4800 Deer Lake Drive East<br>Jacksonville, FL 32246-6484           | 14.39%             | Record                   |
| Morgan Stanley Smith Barney, LLC<br>Harborside Financial Center Plaza, 23rd Floor<br>Jersey City, NJ 07311 | 11.73%             | Record                   |
| Wells Fargo Clearing Services<br>2801 Market Street<br>St. Louis, MO 63103-2523                            | 11.57%             | Record                   |
| LPL Financial<br>75 State Street, 22nd Floor<br>Boston, MA 02109   | 9.55%              | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                                | 8.78%              | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052             | 8.54%              | Record                   |

**Pacer Trendpilot® European Index ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| Raymond James Financial, Inc.<br>880 Carillon Parkway<br>St. Petersburg, FL 33716                | 32.95%             | Record                   |
| Merrill Lynch Pierce, Fenner & Smith<br>4800 Deer Lake Drive East<br>Jacksonville, FL 32246-6484 | 16.68%             | Record                   |
| Wells Fargo Clearing Services<br>2801 Market Street<br>St. Louis, MO 63103-2523                  | 12.38%             | Record                   |
| LPL Financial<br>75 State Street, 22nd Floor<br>Boston, MA 02109                                 | 5.39%              | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052   | 5.12%              | Record                   |

**Pacer Trendpilot® US Bond ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| Raymond James Financial, Inc.<br>880 Carillon Parkway<br>St. Petersburg, FL 33716                          | 20.93%             | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                                | 15.07%             | Record                   |
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905                              | 12.00%             | Record                   |
| LPL Financial<br>75 State Street, 22nd Floor<br>Boston, MA 02109   | 11.46%             | Record                   |
| Morgan Stanley Smith Barney, LLC<br>Harborside Financial Center Plaza, 23rd Floor<br>Jersey City, NJ 07311 | 9.21%              | Record                   |
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226   | 8.07%              | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052             | 6.89%              | Record                   |

**Pacer Trendpilot® International ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| Raymond James Financial, Inc.<br>880 Carillon Parkway<br>St. Petersburg, FL 33716              | 27.12%             | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052 | 16.98%             | Record                   |
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905                  | 13.04%             | Record                   |
| U.S. Bank<br>60 Livingston Avenue<br>Saint Paul, MN 55107                                      | 9.87%              | Record                   |
| Wells Fargo Clearing Services<br>2801 Market Street<br>St. Louis, MO 63103-2523                | 9.03%              | Record                   |
| LPL Financial<br>75 State Street, 22nd Floor<br>Boston, MA 02109                               | 6.39%              | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                    | 5.03%              | Record                   |

**Pacer Trendpilot® Fund of Funds ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                      | 42.27%             | Record                   |
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226                                     | 13.42%             | Record                   |
| LPL Financial<br>75 State Street, 22nd Floor<br>Boston, MA 02109                                 | 11.97%             | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052   | 9.66%              | Record                   |
| Merrill Lynch Pierce, Fenner & Smith<br>4800 Deer Lake Drive East<br>Jacksonville, FL 32246-6484 | 8.42%              | Record                   |

**Pacer US Cash Cows 100 ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| Merrill Lynch Pierce, Fenner & Smith<br>4800 Deer Lake Drive East<br>Jacksonville, FL 32246-6484           | 20.44%             | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052             | 10.96%             | Record                   |
| Morgan Stanley Smith Barney, LLC<br>Harborside Financial Center Plaza, 23rd Floor<br>Jersey City, NJ 07311 | 9.88%              | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                                | 9.76%              | Record                   |
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226   | 9.16%              | Record                   |
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905                              | 8.88%              | Record                   |
| Raymond James Financial, Inc.<br>880 Carillon Parkway<br>St. Petersburg, FL 33716                          | 7.75%              | Record                   |
| LPL Financial<br>75 State Street, 22nd Floor<br>Boston, MA 02109   | 6.32%              | Record                   |
| Wells Fargo Clearing Services<br>2801 Market Street<br>St. Louis, MO 63103-2523                            | 5.93%              | Record                   |

**Pacer US Small Cap Cash Cows 100 ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| Merrill Lynch Pierce, Fenner & Smith<br>4800 Deer Lake Drive East<br>Jacksonville, FL 32246-6484           | 19.88%             | Record                   |
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905                              | 11.35%             | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052             | 10.67%             | Record                   |
| LPL Financial<br>75 State Street, 22nd Floor<br>Boston, MA 02109   | 10.18%             | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                                | 8.22%              | Record                   |
| Raymond James Financial, Inc.<br>880 Carillon Parkway<br>St. Petersburg, FL 33716                          | 8.09%              | Record                   |
| Wells Fargo Clearing Services<br>2801 Market Street<br>St. Louis, MO 63103-2523                            | 7.19%              | Record                   |
| Morgan Stanley Smith Barney, LLC<br>Harborside Financial Center Plaza, 23rd Floor<br>Jersey City, NJ 07311 | 7.03%              | Record                   |
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226   | 6.10%              | Record                   |

**Pacer US Cash Cows Growth ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226                                   | 38.09%             | Record                   |
| U.S. Bank<br>60 Livingston Avenue<br>Saint Paul, MN 55107                                      | 18.85%             | Record                   |
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905                  | 16.99%             | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                    | 10.79%             | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052 | 9.60%              | Record                   |

**Pacer Global Cash Cows Dividend ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| Morgan Stanley Smith Barney, LLC<br>Harborside Financial Center Plaza, 23rd Floor<br>Jersey City, NJ 07311 | 17.57%             | Record                   |
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905                              | 13.07%             | Record                   |
| Merrill Lynch Pierce, Fenner & Smith<br>4800 Deer Lake Drive East<br>Jacksonville, FL 32246-6484           | 12.81%             | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052             | 11.81%             | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                                | 8.72%              | Record                   |
| LPL Financial<br>75 State Street, 22nd Floor<br>Boston, MA 02109   | 7.21%              | Record                   |
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226   | 6.69%              | Record                   |
| Raymond James Financial, Inc.<br>880 Carillon Parkway<br>St. Petersburg, FL 33716                          | 6.13%              | Record                   |

**Pacer Emerging Markets Cash Cows 100 ETF**

| <b>Name and Address</b>   | <b>% Ownership</b> | <b>Type of Ownership</b> |
|---|--------------------|--------------------------|
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281   | 41.65%             | Record                   |
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226                  | 25.90%             | Record                   |
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905 | 17.70%             | Record                   |

**Pacer Developed Markets International Cash Cows 100 ETF**

| <b>Name and Address</b>   | <b>% Ownership</b> | <b>Type of Ownership</b> |
|---|--------------------|--------------------------|
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905   | 32.77%             | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281     | 21.84%             | Record                   |
| Wells Fargo Clearing Services<br>2801 Market Street<br>St. Louis, MO 63103-2523 | 11.01%             | Record                   |
| LPL Financial<br>75 State Street, 22nd Floor<br>Boston, MA 02109                | 9.99%              | Record                   |
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226                    | 5.67%              | Record                   |

**Pacer Cash Cow Fund of Funds ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905                  | 58.71%             | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052 | 21.05%             | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                    | 6.43%              | Record                   |
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226                                   | 5.44%              | Record                   |

**Pacer US Export Leaders ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226                                   | 52.84%             | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052 | 17.35%             | Record                   |
| Vanguard Brokerage Services<br>P.O. Box 1170<br>Valley Forge, PA 19482-1170                    | 11.26%             | Record                   |
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905                  | 6.64%              | Record                   |
| E*Trade Securities, LLC<br>200 Hudson Street, Suite 501<br>Jersey City, NJ 07311               | 5.40%              | Record                   |

**Pacer CSOP FTSE China A50 ETF**

| <b>Name and Address</b>   | <b>% Ownership</b> | <b>Type of Ownership</b> |
|---|--------------------|--------------------------|
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905                       | 14.73%             | Record                   |
| J.P. Morgan Chase Clearing, Corp.<br>3 Chase Metrotech Center, 7th Floor<br>Brooklyn, NY 11245-0001 | 13.05%             | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                         | 10.53%             | Record                   |
| Citibank N.A.<br>388 Greenwich Street<br>New York, NY 10013   | 9.99%              | Record                   |
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226  | 9.85%              | Record                   |
| Brown Brothers Harriman & Co.<br>140 Broadway<br>New York, NY 10005-1108                            | 7.35%              | Record                   |
| Apex Clearing Corporation<br>One Dallas Center<br>350 N. ST. Paul, Suite 1300<br>Dallas, TX 75201   | 5.50%              | Record                   |
| E*Trade Securities, LLC<br>200 Hudson Street, Suite 501<br>Jersey City, NJ 07311                    | 5.21%              | Record                   |

**Pacer Benchmark Industrial Real Estate SCTR<sup>SM</sup> ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905                              | 13.96%             | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                                | 12.85%             | Record                   |
| Merrill Lynch Pierce, Fenner & Smith<br>4800 Deer Lake Drive East<br>Jacksonville, FL 32246-6484           | 12.60%             | Record                   |
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226   | 11.58%             | Record                   |
| LPL Financial<br>75 State Street, 22nd Floor<br>Boston, MA 02109   | 9.80%              | Record                   |
| Raymond James Financial, Inc.<br>880 Carillon Parkway<br>St. Petersburg, FL 33716                          | 8.99%              | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052             | 8.55%              | Record                   |
| Morgan Stanley Smith Barney, LLC<br>Harborside Financial Center Plaza, 23rd Floor<br>Jersey City, NJ 07311 | 5.25%              | Record                   |

**Pacer Benchmark Data & Infrastructure Real Estate SCTR<sup>SM</sup> ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| Merrill Lynch Pierce, Fenner & Smith<br>4800 Deer Lake Drive East<br>Jacksonville, FL 32246-6484           | 40.24%             | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052             | 8.69%              | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                                | 8.39%              | Record                   |
| Morgan Stanley Smith Barney, LLC<br>Harborside Financial Center Plaza, 23rd Floor<br>Jersey City, NJ 07311 | 8.38%              | Record                   |
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905                              | 7.04%              | Record                   |
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226   | 6.79%              | Record                   |
| Raymond James Financial, Inc.<br>880 Carillon Parkway<br>St. Petersburg, FL 33716                          | 5.36%              | Record                   |

**Pacer WealthShield ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                      | 33.17%             | Record                   |
| Raymond James Financial, Inc.<br>880 Carillon Parkway<br>St. Petersburg, FL 33716                | 23.31%             | Record                   |
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226                                     | 14.98%             | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052   | 10.16%             | Record                   |
| Merrill Lynch Pierce, Fenner & Smith<br>4800 Deer Lake Drive East<br>Jacksonville, FL 32246-6484 | 6.17%              | Record                   |
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905                    | 6.09%              | Record                   |

**Pacer CFRA-Stovall Equal Weight Seasonal Rotation ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| RBC Capital Markets<br>3 World Financial Center<br>200 Vesey Street, 9th Floor<br>New York, NY 10281 | 21.76%             | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                          | 16.09%             | Record                   |
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905                        | 10.39%             | Record                   |
| Stifel, Nicolaus & Company, Inc.<br>501 North Broadway<br>St. Louis, MO 63102                        | 10.38%             | Record                   |
| LPL Financial<br>75 State Street, 22nd Floor<br>Boston, MA 02109                                     | 9.56%              | Record                   |
| Merrill Lynch Pierce, Fenner & Smith<br>4800 Deer Lake Drive East<br>Jacksonville, FL 32246-6484     | 8.58%              | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052       | 5.46%              | Record                   |

**Pacer BioThreat Strategy ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| RBC Capital Markets<br>3 World Financial Center<br>200 Vesey Street, 9th Floor<br>New York, NY 10281 | 39.39%             | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052       | 36.59%             | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                          | 7.86%              | Record                   |

**Pacer Lunt Large Cap Alternator ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052             | 18.33%             | Record                   |
| Merrill Lynch Pierce, Fenner & Smith<br>4800 Deer Lake Drive East<br>Jacksonville, FL 32246-6484           | 15.56%             | Record                   |
| Raymond James Financial, Inc.<br>880 Carillon Parkway<br>St. Petersburg, FL 33716                          | 14.39%             | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                                | 12.25%             | Record                   |
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226   | 10.10%             | Record                   |
| Morgan Stanley Smith Barney, LLC<br>Harborside Financial Center Plaza, 23rd Floor<br>Jersey City, NJ 07311 | 8.00%              | Record                   |
| LPL Financial<br>75 State Street, 22nd Floor<br>Boston, MA 02109   | 7.58%              | Record                   |
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905                              | 5.93%              | Record                   |

**Pacer Lunt MidCap Multi-Factor Alternator ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226                                   | 35.77%             | Record                   |
| Raymond James Financial, Inc.<br>880 Carillon Parkway<br>St. Petersburg, FL 33716              | 17.13%             | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                    | 17.06%             | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052 | 11.22%             | Record                   |
| Folio Investments Inc.<br>8180 Greensboro Drive, 8th Floor<br>McLean, VA 22102                 | 5.77%              | Record                   |
| American Enterprise Investment Services, Inc.<br>707 2nd Avenue South<br>Minneapolis, MN 55402 | 5.50%              | Record                   |

**Pacer Lunt Large Cap Multi-Factor Alternator ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                    | 17.79%             | Record                   |
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905                  | 15.86%             | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052 | 15.72%             | Record                   |
| LPL Financial<br>75 State Street, 22nd Floor<br>Boston, MA 02109                               | 15.39%             | Record                   |
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226                                   | 12.64%             | Record                   |
| Raymond James Financial, Inc.<br>880 Carillon Parkway<br>St. Petersburg, FL 33716              | 11.35%             | Record                   |

**Pacer Pacific Asset Floating Rate High Income ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| Bank of New York Mellon<br>240 Greenwich Street<br>New York, NY 10286                          | 54.65%             | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281                    | 13.22%             | Record                   |
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226                                   | 12.05%             | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052 | 5.98%              | Record                   |

**Pacer Metaurus US Large Cap Dividend Multiplier 300 ETF**

| <b>Name and Address</b>  | <b>% Ownership</b> | <b>Type of Ownership</b> |
|--|--------------------|--------------------------|
| Bofa Securities, Inc.<br>One Bryant Park<br>New York, NY 10036                                 | 54.53%             | Record                   |
| Goldman Sachs & Co., LLC<br>200 West Street<br>New York, NY 10282-2198                         | 23.36%             | Record                   |
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226                                   | 8.95%              | Record                   |
| Pershing, LLC<br>For the Benefit of Its Customers<br>PO Box 2052<br>Jersey City, NJ 07303-2052 | 6.20%              | Record                   |

**Pacer Metaurus US Large Cap Dividend Multiplier 400 ETF**

| <b>Name and Address</b>   | <b>% Ownership</b> | <b>Type of Ownership</b> |
|---|--------------------|--------------------------|
| TD Ameritrade, Inc.<br>P.O. Box 2226<br>Omaha, NE 68103-2226                      | 50.17%             | Record                   |
| Raymond James Financial, Inc.<br>880 Carillon Parkway<br>St. Petersburg, FL 33716 | 14.31%             | Record                   |
| Charles Schwab & Co., Inc.<br>211 Main Street<br>San Francisco, CA 94105-1905     | 11.91%             | Record                   |
| National Financial Services LLC<br>200 Liberty Street<br>New York, NY 10281       | 9.26%              | Record                   |

## INVESTMENT ADVISER AND SUB-ADVISERS

Pacer Advisors, Inc. serves as investment adviser to the Funds pursuant to an investment advisory agreement between the Trust, on behalf of the Funds, and the Adviser (the “Investment Advisory Agreement”). The Adviser is a Pennsylvania company located at 500 Chesterfield Parkway, Malvern, Pennsylvania 19355. The Adviser is majority owned by Joe M. Thomson.

Pursuant to the Investment Advisory Agreement, the Adviser provides investment advice to the Funds and oversees the day-to-day operations of the Funds, subject to the direction and control of the Board and the officers of the Trust. The Adviser also arranges for sub-advisory (as applicable), transfer agency, custody, fund administration and all other non-distribution-related services necessary for the Funds to operate. Each Fund pays the Adviser a fee equal to a percentage of the Fund’s average daily net assets, as follows:

| <b>Name of Fund</b>   | <b>Management Fee</b> |
|---|-----------------------|
| Pacer Trendpilot US Large Cap ETF                             | 0.60%                 |
| Pacer Trendpilot US Mid Cap ETF                               | 0.60%                 |
| Pacer Trendpilot 100 ETF                                      | 0.65%                 |
| Pacer Trendpilot European Index ETF                           | 0.65%                 |
| Pacer Trendpilot US Bond ETF                                  | 0.60%                 |
| Pacer Trendpilot International ETF                            | 0.65%                 |
| Pacer Trendpilot Fund of Funds ETF                            | 0.15%                 |
| Pacer US Cash Cows 100 ETF                                    | 0.49%                 |
| Pacer US Small Cap Cash Cows 100 ETF                          | 0.59%                 |
| Pacer US Cash Cows Growth ETF                                 | 0.60%                 |
| Pacer Global Cash Cows Dividend ETF                           | 0.60%                 |
| Pacer Emerging Markets Cash Cows 100 ETF                      | 0.70%                 |
| Pacer Developed Markets International Cash Cows 100 ETF       | 0.65%                 |
| Pacer Cash Cows Fund of Funds ETF                             | 0.15%                 |
| Pacer US Export Leaders ETF                                   | 0.60%                 |
| Pacer International Export Leaders ETF                        | 0.60%                 |
| Pacer CSOP FTSE China A50 ETF                                 | 0.70%                 |
| Pacer Benchmark Hotel & Lodging Real Estate SCTR ETF          | 0.60%                 |
| Pacer Benchmark Apartments & Residential Real Estate SCTR ETF | 0.60%                 |
| Pacer Benchmark Healthcare Real Estate SCTR ETF               | 0.60%                 |
| Pacer Benchmark Industrial Real Estate SCTR ETF               | 0.60%                 |
| Pacer Benchmark Data & Infrastructure Real Estate SCTR ETF    | 0.60%                 |
| Pacer Autopilot Hedged European Index ETF                     | 0.65%                 |
| Pacer WealthShield ETF  | 0.60%                 |
| Pacer CFRA-Stovall Global Seasonal Rotation ETF               | 0.60%                 |
| Pacer CFRA-Stovall Equal Weight Seasonal Rotation ETF         | 0.60%                 |
| Pacer BioThreat Strategy ETF                                  | 0.70%                 |
| Pacer Lunt Large Cap Alternator ETF                           | 0.60%                 |
| Pacer Lunt MidCap Multi-Factor Alternator ETF                 | 0.60%                 |
| Pacer Lunt Large Cap Multi-Factor Alternator ETF              | 0.60%                 |
| Pacer Pacific Asset Floating Rate High Income ETF             | 0.60%                 |
| Pacer Metaurus US Large Cap Dividend Multiplier 300 ETF       | 0.79%                 |
| Pacer Metaurus US Large Cap Dividend Multiplier 400 ETF       | 0.79%                 |

Under the Investment Advisory Agreement, the Adviser has agreed to pay all expenses of the Funds, except for: the fees paid to the Adviser pursuant to the Investment Advisory Agreement, interest charges on any borrowings, taxes, brokerage commissions and other expenses incurred in placing orders for the purchase and sale of securities and other investment instruments, acquired fund fees and expenses, accrued deferred tax liability, extraordinary expenses, and distribution (12b-1) fees and expenses, if any.

The Adviser, from its own resources, including profits from advisory fees received from the Funds, provided such fees are legitimate and not excessive, may make payments to broker-dealers and other financial institutions for their expenses in connection with the distribution of Fund Shares, and otherwise currently pays all distribution costs for Fund Shares.

The Investment Advisory Agreement, with respect to the Funds, continues in effect for two years from its effective date, and thereafter is subject to annual approval by (i) the Board of Trustees of the Trust or (ii) the vote of a majority of the outstanding voting securities

(as defined in the 1940 Act) of the Funds, provided that in either event such continuance also is approved by a vote of a majority of the Trustees of the Trust who are not interested persons (as defined in the 1940 Act) of the Funds, by a vote cast in person at a meeting called for the purpose of voting on such approval. If the shareholders of a Fund fail to approve the Investment Advisory Agreement, the Adviser may continue to serve in the manner and to the extent permitted by the 1940 Act and rules and regulations thereunder.

The Investment Advisory Agreement with respect to the Funds is terminable without any penalty, by vote of the Board of Trustees of the Trust or by vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Funds, or by the Adviser, in each case on not less than thirty (30) days' nor more than sixty (60) days' prior written notice to the other party; provided that a shorter notice period shall be permitted for the Funds in the event Shares are no longer listed on a national securities exchange. The Investment Advisory Agreement will terminate automatically and immediately in the event of its "assignment" (as defined in the 1940 Act).

Management fees paid by the Funds to the Adviser or previous investment adviser, as applicable, for the three most recently completed fiscal years ended April 30 were as follows:

| <b>Management Fees Paid for the Fiscal Year Ended April 30,</b> |                         |                        |                        |
|---|-------------------------|------------------------|------------------------|
| <b>Name of Fund</b>   | <b>2022</b>             | <b>2021</b>            | <b>2020</b>            |
| Pacer Trendpilot US Large Cap ETF                               | \$11,704,204            | \$12,031,964           | \$16,107,113           |
| Pacer Trendpilot US Mid Cap ETF                                 | \$2,639,914             | \$2,650,719            | \$3,798,300            |
| Pacer Trendpilot 100 ETF  | \$5,042,740             | \$5,242,752            | \$4,047,795            |
| Pacer Trendpilot European Index ETF                             | \$339,728               | \$424,871              | \$817,129              |
| Pacer Trendpilot US Bond ETF                                    | \$7,130,317             | \$2,270,355            | \$231,894 <sup>2</sup> |
| Pacer Trendpilot International ETF                              | \$901,621               | \$873,343              | \$583,490 <sup>2</sup> |
| Pacer Trendpilot Fund of Funds ETF                              | \$90,594                | \$52,792               | \$18,277 <sup>2</sup>  |
| Pacer US Cash Cows 100 ETF                                      | \$7,072,763             | \$1,181,592            | \$1,147,200            |
| Pacer US Small Cap Cash Cows 100 ETF                            | \$3,248,079             | \$432,434              | \$233,898              |
| Pacer US Cash Cows Growth ETF                                   | \$66,180                | \$13,000               | \$12,680 <sup>2</sup>  |
| Pacer Global Cash Cows Dividend ETF                             | \$1,016,723             | \$776,785              | \$1,188,131            |
| Pacer Emerging Markets Cash Cows 100 ETF                        | \$62,475                | \$14,678               | \$16,063 <sup>2</sup>  |
| Pacer Developed Markets International Cash Cows 100 ETF         | \$345,903               | \$96,706               | \$204,919              |
| Pacer Cash Cows Fund of Funds ETF                               | \$5,730                 | \$2,776                | \$2,815 <sup>2</sup>   |
| Pacer US Export Leaders ETF                                     | \$16,143                | \$9,885                | \$7,801                |
| Pacer International Export Leaders ETF                          | N/A <sup>8</sup>        | N/A <sup>6</sup>       | N/A <sup>3</sup>       |
| Pacer CSOP FTSE China A50 ETF                                   | \$62,633                | \$67,259               | \$58,123 <sup>4</sup>  |
| Pacer Benchmark Hotel & Lodging Real Estate SCTR ETF            | N/A <sup>8</sup>        | N/A <sup>6</sup>       | N/A <sup>3</sup>       |
| Pacer Benchmark Apartments & Residential Real Estate SCTR ETF   | N/A <sup>8</sup>        | N/A <sup>6</sup>       | N/A <sup>3</sup>       |
| Pacer Benchmark Healthcare Real Estate SCTR ETF                 | N/A <sup>8</sup>        | N/A <sup>6</sup>       | N/A <sup>3</sup>       |
| Pacer Benchmark Industrial Real Estate SCTR ETF                 | \$1,930,171             | \$683,492              | \$171,277              |
| Pacer Benchmark Data & Infrastructure Real Estate SCTR ETF      | \$8,615,531             | \$5,552,732            | \$1,016,781            |
| Pacer Autopilot Hedged European Index ETF                       | N/A <sup>8</sup>        | N/A <sup>1</sup>       | N/A <sup>1</sup>       |
| Pacer WealthShield ETF  | \$297,845               | \$310,038              | \$490,393              |
| Pacer CFRA-Stovall Global Seasonal Rotation ETF                 | N/A <sup>8</sup>        | N/A <sup>6</sup>       | N/A <sup>3</sup>       |
| Pacer CFRA-Stovall Equal Weight Seasonal Rotation ETF           | \$496,031               | \$361,722              | \$314,928              |
| Pacer BioThreat Strategy ETF                                    | \$42,945                | \$31,349 <sup>7</sup>  | N/A <sup>3</sup>       |
| Pacer Lunt Large Cap Alternator ETF                             | \$1,620,632             | \$268,065 <sup>7</sup> | N/A <sup>3</sup>       |
| Pacer Lunt MidCap Multi-Factor Alternator ETF                   | \$241,185               | \$94,914 <sup>7</sup>  | N/A <sup>3</sup>       |
| Pacer Lunt Large Cap Multi-Factor Alternator ETF                | \$918,753               | \$93,497 <sup>7</sup>  | N/A <sup>3</sup>       |
| Pacer Pacific Asset Floating Rate High Income ETF               | \$224,013 <sup>9</sup>  | \$201,085 <sup>5</sup> | \$176,091 <sup>5</sup> |
| Pacer Metaurus US Large Cap Dividend Multiplier 300 ETF         | \$13,034 <sup>10</sup>  | N/A <sup>6</sup>       | N/A <sup>3</sup>       |
| Pacer Metaurus US Large Cap Dividend Multiplier 400 ETF         | \$180,757 <sup>10</sup> | N/A <sup>6</sup>       | N/A <sup>3</sup>       |

<sup>1</sup> All outstanding shares of the Fund were redeemed on December 22, 2016, and shares of the Fund are not currently offered for purchase.

<sup>2</sup> Fees earned for the Fund's commencement of operation through April 30, 2020. See "General Description of the Trust and the Funds" for each Fund's inception date.

<sup>3</sup> The Fund had not commenced investment operations as of April 30, 2020.

- <sup>4</sup> For the fiscal period October 1, 2019 - January 22, 2020, \$38,472.56 was paid to the Predecessor CSOP Fund’s investment adviser, CSOP Asset Management Limited.
- <sup>5</sup> Fees earned by the Predecessor FLRT Fund’s investment adviser, Pacific Global Advisors LLC for the fiscal years ended June 30, 2020 and 2021, as applicable.
- <sup>6</sup> The Fund had not commenced investment operations as of April 30, 2021.
- <sup>7</sup> Fees earned for the Fund’s commencement of operations through April 30, 2021. See “General Description of the Trust and the Funds” for each Fund’s inception date.
- <sup>8</sup> The Fund had not commenced investment operations as of April 30, 2022.
- <sup>9</sup> For the fiscal period July 1, 2021 - October 22, 2021, \$68,621 was paid to the Predecessor FLRT Fund’s investment adviser, Pacific Global Advisors LLC.
- <sup>10</sup> Fees earned for the Fund’s commencement of operations through April 30, 2022. See “General Description of the Trust and the Funds” for each Fund’s inception date.

### **CSOP Asset Management**

The Trust, on behalf of AFTY, and the Adviser have retained CSOP Asset Management Limited (“CSOP”), located at Suite 2802, Two Exchange Square, 8 Connaught Place, Central, Hong Kong, to serve as sub-adviser for AFTY. CSOP was established in January 2008 as a subsidiary of China Southern Asset Management Co. Limited. CSOP is the first Hong Kong subsidiary set up by mainland Chinese fund houses to carry out asset management and securities advisory activities in Hong Kong. CSOP is dedicated to serving investors as a gateway for investment between China and the rest of the world, and provides discretionary management services and advisory services to both institutional investors and investment funds, including other ETFs.

Pursuant to a Sub-Advisory Agreement between the Adviser and CSOP (the “Sub-Advisory Agreement”), CSOP is responsible for trading portfolio securities on behalf of AFTY, including selecting broker-dealers to execute purchase and sale transactions as instructed by the Adviser or in connection with any rebalancing or reconstitution of AFTY’s respective Index, subject to the supervision of the Adviser and the Board. For the services it provides to AFTY, CSOP is compensated by the Adviser from the management fees paid by AFTY to the Adviser. The Sub-Advisory Agreement was approved by the Trustees (including all the Independent Trustees) and the Adviser, as sole shareholder of AFTY, in compliance with the 1940 Act. The Sub-Advisory Agreement will continue in force for an initial period of two years. Thereafter, the Sub-Advisory Agreement is renewable from year to year with respect to the Fund, so long as its continuance is approved at least annually (1) by the vote, cast in person at a meeting called for that purpose, of a majority of those Trustees who are not “interested persons” of the Trust; and (2) by the majority vote of either the full Board or the vote of a majority of the outstanding Shares. The Sub-Advisory Agreement will terminate automatically in the event of its assignment, and is terminable at any time without penalty by the Board or, with respect to AFTY, by a majority of the outstanding Shares of AFTY, on not less than 30 days’ nor more than 60 days’ written notice to CSOP, or by the Sub-Adviser on 60 days’ written notice to the Adviser and the Trust. The Sub-Advisory Agreement provides that CSOP shall not be protected against any liability to the Trust or its shareholders by reason of willful misfeasance, bad faith or gross negligence on its part in the performance of its duties or from reckless disregard of its obligations or duties thereunder.

The table below shows management fees paid by the Adviser to CSOP in relation to AFTY for the fiscal period/years ended April 30.

| <b>Fiscal Period/Year Ended</b> | <b>Sub-Advisory Fee Paid</b> |
|---------------------------------|------------------------------|
| 2020                            | \$488                        |
| 2021                            | \$5,562                      |
| 2022                            | \$4,719                      |

### **Pacific Asset Management, LLC**

The Trust, on behalf of the FLRT, and the Adviser have retained Pacific Asset Management LLC (“Pacific Asset Management”), located at 840 Newport Drive, 7<sup>th</sup> Floor, Newport Beach, California 92660, to serve as sub-adviser for FLRT. Pacific Asset Management’s fixed income investment professionals were initially established in 2007, as a business division of Pacific Life Fund Advisors LLC, under the dealing name (a “d/b/a”) Pacific Asset Management. On December 31, 2019, Pacific Life Fund Advisors LLC’s business division, Pacific Asset Management then serving as FLRT’s sub-adviser, was reorganized into Pacific Asset Management LLC, as part of an internal corporate restructuring initiative. Consequently, Pacific Life Fund Advisors LLC transferred its duties and obligations under the Predecessor Fund’s Subadvisory Agreement to Pacific Asset Management LLC as of the same date.

Pursuant to a Sub-Advisory Agreement between the Adviser and Pacific Asset Management (the “Sub-Advisory Agreement”), Pacific Asset Management is responsible for trading portfolio securities on behalf of FLRT, including selecting broker-dealers to execute purchase and sale transactions, subject to the supervision of the Adviser and the Board. For the services it provides to FLRT, Pacific Asset Management is compensated by the Adviser from the management fees paid by FLRT to the Adviser. The Sub-Advisory

Agreement was approved by the Trustees (including all the Independent Trustees) and the Adviser, as sole shareholder of FLRT, in compliance with the 1940 Act. The Sub-Advisory Agreement will continue in force for an initial period of two years. Thereafter, the Sub-Advisory Agreement is renewable from year to year with respect to FLRT, so long as its continuance is approved at least annually (1) by the vote, cast in person at a meeting called for that purpose, of a majority of those Trustees who are not “interested persons” of the Trust; and (2) by the majority vote of either the full Board or the vote of a majority of the outstanding Shares. The Sub-Advisory Agreement will terminate automatically in the event of its assignment, and is terminable at any time without penalty by the Board or, with respect to FLRT, by a majority of the outstanding Shares of the Fund, on not less than 30 days’ nor more than 60 days’ written notice to Pacific Asset Management, or by Pacific Asset Management on 60 days’ written notice to the Adviser and the Trust. The Sub-Advisory Agreement provides that Pacific Asset Management shall not be protected against any liability to the Trust or its shareholders by reason of willful misfeasance, bad faith or gross negligence on its part in the performance of its duties or from reckless disregard of its obligations or duties thereunder. The table below shows management fees paid by the Adviser to Pacific Asset Management in relation to FLRT for the fiscal period/years ended April 30.

| <b>Fiscal Period/Year Ended</b> | <b>Sub-Advisory Fee Paid</b> |
|---------------------------------|------------------------------|
| 2022                            | \$4,317                      |

#### **Metaurus Advisors LLC**

The Adviser has retained Metaurus, located at 22 Hudson Place, Third Floor, Hoboken, New Jersey 07030, to serve as sub-adviser for TRPL and QDPL. Metaurus was established in 2016 and is controlled by Metaurus LLC, a privately-held Delaware corporation.

Pursuant to a Sub-Advisory Agreement between the Adviser and Metaurus (the “Sub-Advisory Agreement”), Metaurus is responsible for trading portfolio securities on behalf of TRPL and QDPL, including selecting broker-dealers to execute purchase and sale transactions as instructed by the Adviser or in connection with any rebalancing or reconstitution of the Funds’ respective Index, subject to the supervision of the Adviser and the Board. Pursuant to the Sub-Advisory Agreement, Metaurus is entitled to receive a sub-advisory fee, which is paid by the Adviser, not TRPL or QDPL.

The Sub-Advisory Agreement was approved by the Trustees (including all the Independent Trustees) and the Adviser, as sole shareholder of TRPL and QDPL, in compliance with the 1940 Act. The Sub-Advisory Agreement will continue in force for an initial period of two years. Thereafter, the Sub-Advisory Agreement is renewable from year to year with respect to TRPL and QDPL, so long as its continuance is approved at least annually (1) by the vote, cast in person at a meeting called for that purpose, of a majority of those Trustees who are not “interested persons” of the Trust; and (2) by the majority vote of either the full Board or the vote of a majority of the outstanding Shares. The Sub-Advisory Agreement will terminate automatically in the event of its assignment, and is terminable at any time without penalty by the Board or, with respect to TRPL and QDPL, by a majority of the outstanding Shares of TRPL and QDPL, on not less than 30 days’ nor more than 60 days’ written notice to Metaurus, or by Metaurus on 60 days’ written notice to the Adviser and the Trust. The Sub-Advisory Agreement provides that Metaurus shall not be protected against any liability to the Trust or its shareholders by reason of willful misfeasance, bad faith or gross negligence on its part in the performance of its duties or from reckless disregard of its obligations or duties thereunder. The table below shows management fees paid by the Adviser to Metaurus in relation to TRPL and QDPL for the fiscal period/years ended April 30.

| <b>Sub-Advisory Fees Paid for the Fiscal Period Ended April 30,</b> |             |
|---|-------------|
| <b>Name of Fund</b>   | <b>2022</b> |
| Pacer Metaurus US Large Cap Dividend Multiplier 300 ETF             | \$3,500     |
| Pacer Metaurus US Large Cap Dividend Multiplier 400 ETF             | \$3,500     |

#### **Vident Investment Advisory, LLC**

The Trust, on behalf of PTBD, and the Adviser have retained VIA, located at 1125 Sanctuary Parkway, Suite 515, Alpharetta, GA 30009, to serve as sub-adviser for PTBD. VIA was established in 2014 and is a wholly-owned subsidiary of Vident Financial, LLC. Vident Financial, LLC was formed in 2013 to develop and license investment market solutions (indices and funds) based on strategies that combine sophisticated risk-balancing methodologies, economic freedom metrics, valuation, and investor behavior. Vident Financial, LLC is a wholly-owned subsidiary of the Vident Investors’ Oversight Trust. Vince L. Birley, Brian Shepler, and Mohammad Baki serve as the trustees of the Vident Investors’ Oversight Trust.

Pursuant to a Sub-Advisory Agreement between the Adviser and VIA (the “Sub-Advisory Agreement”), VIA is responsible for trading portfolio securities on behalf of PTBD, including selecting broker-dealers to execute purchase and sale transactions as instructed by the Adviser or in connection with any rebalancing or reconstitution of PTBD’s respective Index, subject to the supervision of the Adviser and the Board. For the services it provides to PTBD, VIA is compensated by the Adviser from the management fees paid by PTBD to the Adviser.

The Sub-Advisory Agreement was approved by the Trustees (including all the Independent Trustees) and the Adviser, as sole shareholder of PTBD, in compliance with the 1940 Act. The Sub-Advisory Agreement will continue in force for an initial period of two years. Thereafter, the Sub-Advisory Agreement is renewable from year to year with respect to PTBD, so long as its continuance is approved at least annually (1) by the vote, cast in person at a meeting called for that purpose, of a majority of those Trustees who are not “interested persons” of the Trust; and (2) by the majority vote of either the full Board or the vote of a majority of the outstanding Shares. The Sub-Advisory Agreement will terminate automatically in the event of its assignment, and is terminable at any time without penalty by the Board or, with respect to PTBD, by a majority of the outstanding Shares of PTBD, on not less than 30 days’ nor more than 60 days’ written notice to VIA, or by VIA on 60 days’ written notice to the Adviser and the Trust. The Sub-Advisory Agreement provides that VIA shall not be protected against any liability to the Trust or its shareholders by reason of willful misfeasance, bad faith or gross negligence on its part in the performance of its duties or from reckless disregard of its obligations or duties thereunder.

The table below shows management fees paid by the Adviser to VIA in relation to PTBD for the fiscal period/years ended April 30.

| <u>Fiscal Period/Year Ended</u> | <u>Sub-Advisory Fee Paid</u> |
|---------------------------------|------------------------------|
| 2020                            | \$27,399                     |
| 2021                            | \$181,733                    |
| 2022                            | \$495,561                    |

**All Funds (except AFTY, FLRT, TRPL, QDPL, and PTBD)**

**Portfolio Managers.** Each Fund employs a rules-based, passive investment strategy. The Adviser uses a committee approach to managing the Funds. Bruce Kavanaugh, Vice President of the Adviser, and Danke Wang, CFA, Portfolio Manager for the Adviser, are jointly and primarily responsible for the day-to-day management of the Funds and have served as Fund portfolio managers since each Fund’s inception.

In addition to the Funds, Mr. Kavanaugh and Mr. Wang each co-manage the following other accounts (collectively, the “Other Accounts”) as of April 30, 2022:

| <b>Type of Accounts</b>          | <b>Total Number of Accounts</b> | <b>Total Assets of Accounts (billions)</b> | <b>Total Number of Accounts with Performance Based Fees</b> | <b>Total Assets of Accounts with Performance Based Fees</b> |
|----------------------------------|---------------------------------|--|---|---|
| Registered Investment Companies  | 42                              | \$13.1                                     | 0   | \$0   |
| Other Pooled Investment Vehicles | 0                               | \$0  | 0   | \$0   |
| Other Accounts                   | 0                               | \$0  | 0   | \$0   |

**Portfolio Managers Compensation.** Mr. Kavanaugh and Mr. Wang each receive a fixed salary from the Adviser.

**Portfolio Managers Fund Ownership.** As of April 30, 2022, Mr. Kavanaugh owned \$100,001–\$500,000 shares of PTLC and PTMC, \$50,000-\$100,000 shares of COWZ, INDS, and SRVR, and \$10,001–\$50,000 of shares of GCOW, ICOW, and CALF. As of April 30, 2022, Mr. Wang owned \$1–\$10,000 shares of COWZ.

**AFTY**

The portfolio managers currently responsible for the day-to-day management of AFTY are Yi Wang and Fred Zhang, each of CSOP. Mr. Zhang has managed the Predecessor CSOP Fund and AFTY since their inception and Mr. Wang has managed AFTY since August 2021.

In addition to AFTY, Mr. Yi Wang and Mr. Zhang each co-manage the following other accounts as of April 30, 2022:

| <b>Type of Accounts</b>          | <b>Total Number of Accounts</b> | <b>Total Assets of Accounts (billions)</b> | <b>Total Number of Accounts with Performance Based Fees</b> | <b>Total Assets of Accounts with Performance Based Fees</b> |
|----------------------------------|---------------------------------|--|---|---|
| Registered Investment Companies  | 0                               | \$0  | 0   | \$0   |
| Other Pooled Investment Vehicles | 15                              | \$6.0                                      | 0   | \$0   |
| Other Accounts                   | 0                               | \$0  | 0   | \$0   |

**Portfolio Managers Compensation.** CSOP's financial arrangements with its portfolio managers reflect the importance that its management places on key resources. Compensation may include a variety of components and may vary from year to year based on a number of factors. The principal components of compensation include a base salary, a performance-based discretionary bonus and participation. Base salary is generally a fixed amount that may change as a result of an annual review, upon assumption of new duties, or when a market adjustment of the position occurs. Annual performance-based bonuses are 100% discretionary. Factors considered in bonuses include individual performance, team performance, investment performance of the associated portfolio(s) (including both short and long term returns) and qualitative behavioral factors. Other factors considered in determining the award are the asset size and revenue growth/retention of the products managed (if applicable).

**Portfolio Managers Fund Ownership.** As of April 30, 2022, Mr. Yi Wang and Mr. Zhang did not own shares of AFTY.

**FLRT**

FLRT is managed by Bob Boyd and Ying Qiu, CFA, each of Pacific Asset Management.

In addition to FLRT, Mr. Boyd and Ms. Qiu each manage the following other accounts as of April 30, 2022:

| Type of Accounts                 | Total Number of Accounts | Total Assets of Accounts (millions) | Total Number of Accounts with Performance Based Fees | Total Assets of Accounts with Performance Based Fees |
|----------------------------------|--------------------------|-------------------------------------|--|--|
| <i>Bob Boyd</i>                  |                          |                                     |  |  |
| Registered Investment Companies  | 2                        | \$1,304.3                           | 0  | \$0  |
| Other Pooled Investment Vehicles | 7                        | \$2,291.8                           | 7  | \$2,291.8  |
| Other Accounts                   | 2                        | \$1,814.9                           | 0  | \$0  |
| <i>Ying Qiu</i>                  |                          |                                     |  |  |
| Registered Investment Companies  | 6                        | \$3,450.3                           | 0  | \$0  |
| Other Pooled Investment Vehicles | 1                        | \$30.0                              | 1  | \$30.0   |
| Other Accounts                   | 11                       | \$3,490.9                           | 0  | \$0  |

**Portfolio Managers Compensation.** The portfolio managers are compensated by the Sub-Adviser. Each portfolio manager's compensation consists of a fixed annual base salary and a share of the firm's profits. Compensation of the portfolio managers is not tied directly to the Fund's performance or assets under management.

**Portfolio Managers Fund Ownership.** As of April 30, 2022, Ms. Qiu did not own shares of FLRT and Mr. Boyd owned \$10,001 - \$50,000 shares of FLRT.

**TRPL and QDPL**

TRPL and QDPL are managed by Richard P. Silva, Jr. and Brendan Greenwald, each of Metaurus.

In addition to TRPL and QDPL, Mr. Silva and Mr. Greenwald each manage the following other accounts as of April 30, 2022:

| Type of Accounts                 | Total Number of Accounts | Total Assets of Accounts (millions) | Total Number of Accounts with Performance Based Fees | Total Assets of Accounts with Performance Based Fees |
|----------------------------------|--------------------------|-------------------------------------|--|--|
| <i>Richard P. Silva, Jr.</i>     |                          |                                     |  |  |
| Registered Investment Companies  | 0                        | \$0                                 | 0  | \$0  |
| Other Pooled Investment Vehicles | 1                        | \$31.2                              | 0  | \$0  |
| Other Accounts                   | 1                        | \$27.0                              | 0  | \$0  |
| <i>Brendan Greenwald</i>         |                          |                                     |  |  |
| Registered Investment Companies  | 0                        | \$0                                 | 0  | \$0  |
| Other Pooled Investment Vehicles | 1                        | \$31.2                              | 0  | \$0  |
| Other Accounts                   | 1                        | \$27.0                              | 0  | \$0  |

**Portfolio Managers Compensation.** For services as portfolio managers to the Funds, Mr. Silva and Mr. Greenwald receive a fixed salary from the Sub-Adviser, subject to the Sub-Adviser’s discretion. The Portfolio Managers also share in the Sub-Adviser’s profits due to each Portfolio Manager’s ownership of the Sub-Adviser, and each Portfolio Manager is eligible to receive a discretionary bonus that is not tied to the performance of the Funds. Mr. Greenwald also receives equity awards of Metaurus LLC, the Sub-Adviser’s parent company.

**Portfolio Managers Fund Ownership.** As of April 30, 2022, Mr. Silva and Mr. Greenwald did not own shares of TRPL and QDPL.

**PTBD**

PTBD is managed by James Iredale, CFA, and Jeff Kernagis, CFA, each of VIA.

In addition to PTBD, Mr. Iredale and Mr. Kernagis managed the following other accounts as of April 30, 2022, none of which were subject to a performance-based management fee:

| Portfolio Manager  | Registered Investment Companies |   | Other Pooled Investment Vehicles |   | Other Accounts     |   |
|--------------------|---------------------------------|---|----------------------------------|---|--------------------|---|
|                    | Number of Accounts              | Total Assets in the Accounts (millions) | Number of Accounts               | Total Assets in the Accounts (millions) | Number of Accounts | Total Assets in the Accounts (millions) |
| Jim Iredale, CFA   | 1                               | \$382                                   | 0                                | \$0                                     | 112                | \$127                                   |
| Jeff Kernagis, CFA | 0                               | \$0                                     | 0                                | \$0                                     | 0                  | \$0                                     |

**Portfolio Managers Compensation.** Mr. Iredale and Mr. Kernagis each receive a fixed base salary and discretionary bonus that is not tied to the performance of PTBD.

**Portfolio Managers Fund Ownership.** As of April 30, 2022, Mr. Iredale and Mr. Kernagis did not own shares of PTBD.

**Description of Material Conflicts of Interest.** A potential conflict of interest may arise as a result of the portfolio managers’ management of a Fund and Other Accounts, which, in theory, may allow them to allocate investment opportunities in a way that favors Other Accounts over a Fund. This conflict of interest may be exacerbated to the extent that the Adviser, Sub-Advisers’, or a portfolio manager receives, or expects to receive, greater compensation from their management of the Other Accounts (some of which may receive a base and incentive fee) than from a Fund. Notwithstanding this theoretical conflict of interest, it is the Adviser’s and Sub-Advisers’ policy to manage each account based on its investment objectives and related restrictions, and the Adviser and Sub-Advisers have adopted policies and procedures reasonably designed to allocate investment opportunities on a fair and equitable basis over time and in a manner consistent with each account’s investment objectives and related restrictions.

**Codes of Ethics.** The Trust, the Adviser, the Sub-Advisers, and the Distributor (as defined under “The Distributor”) have each adopted a code of ethics, including an insider trading policy, pursuant to Rule 17j-1 of the 1940 Act and Rule 204A-1 of the Investment Advisors Act of 1940, as applicable. These codes of ethics are designed to prevent affiliated persons of the Trust, the Adviser, the Sub-Advisers, and the Distributor from engaging in deceptive, manipulative or fraudulent activities in connection with securities held or to be acquired by the Funds (which may also be held by persons subject to the codes of ethics).

There can be no assurance that the codes of ethics will be effective in preventing such activities. Each code of ethics may be examined at the office of the SEC in Washington, D.C. or on the Internet at the SEC’s website at <http://www.sec.gov>.

**Proxy Voting Policy.** The Funds have delegated proxy voting responsibilities to the Adviser, except for FLRT which has delegated proxy voting responsibilities to Pacific Asset Management, subject to the Board’s oversight. In delegating proxy responsibilities, the Board has directed that proxies be voted consistent with a Fund’s and its shareholders’ best interests and in compliance with all applicable proxy voting rules and regulations. The Adviser and Pacific Asset Management have adopted proxy voting policies and guidelines for this purpose (“Proxy Voting Policies”) and has engaged a third party proxy solicitation firm to assist with voting proxies in a timely manner. The Trust’s chief compliance officer is responsible for monitoring the effectiveness of the Proxy Voting Policies.

Under the Proxy Voting Policies, in the absence of specific voting guidelines from the client, the Adviser and Pacific Asset Management will vote proxies in the best interest of each particular client. The Adviser has adopted the Glass Lewis Investment Manager Guidelines (for all Funds except FLRT) attached as [Appendix B](#). They are designed to vote in a manner consistent with the Adviser’s investment decision making. The Adviser’s policy is to vote all proxies from a specific issuer the same way for each client, absent qualifying restrictions from a client. Clients are permitted to place reasonable restrictions on our voting authority in the same manner that they may place such restrictions on the actual selection of account securities. Clients may direct the vote in a particular solicitation. For FLRT, Pacific Asset Management will vote such proxies in accordance with its proxy policies and procedures, which are attached as [Appendix C](#).

Each of the Adviser and Pacific Asset Management, as applicable, will generally vote in favor of routine corporate housekeeping proposals such as the election of directors and selection of auditors absent conflicts of interest raised by an auditor's non-audit services. Each of the Adviser and Pacific Asset Management, as applicable, will generally vote against proposals that cause board members to become entrenched or cause unequal voting rights. In reviewing proposals, the Adviser and Pacific Asset Management will further consider the opinion of management, the effect on management, the effect on shareholder value and the issuer's business practices.

When available, information on how a Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 will be available (1) without charge, upon request, by calling 1-800-617-0004 and (2) on the SEC's website at [www.sec.gov](http://www.sec.gov).

#### **THE ADMINISTRATOR, TRANSFER AGENT, AND INDEX RECEIPT AGENT**

U.S. Bancorp Fund Services, LLC, doing business as U.S. Bank Global Fund Services ("Fund Services" or the "Transfer Agent"), serves as administrator, transfer agent, and index receipt agent for the Funds. Fund Services' principal address is 615 East Michigan Street, Milwaukee, Wisconsin 53202. Pursuant to a Fund Administration Servicing Agreement and a Fund Accounting Servicing Agreement between the Trust and Fund Services, Fund Services provides the Trust with administrative and management services (other than investment advisory services) and accounting services, including portfolio accounting services, tax accounting services and furnishing financial reports. In this capacity, Fund Services does not have any responsibility or authority for the management of the Funds, the determination of investment policy, or for any matter pertaining to the distribution of Fund Shares. As compensation for the administration, accounting and management services, the Adviser pays Fund Services a fee based on each Fund's average daily net assets, subject to a minimum annual fee. Fund Services also is entitled to certain out-of-pocket expenses for the services mentioned above, including pricing expenses.

The Adviser was responsible for paying the following fees to Fund Services for services rendered to the Funds for the following fiscal years ended April 30:

| <b>Fees Paid to Fund Services for the Fiscal Year Ended April 30,</b> |                       |                       |                       |
|---|-----------------------|-----------------------|-----------------------|
| <b>Name of Fund</b>   | <b>2022</b>           | <b>2021</b>           | <b>2020</b>           |
| Pacer Trendpilot US Large Cap ETF                                     | \$306,442             | \$372,381             | \$506,679             |
| Pacer Trendpilot US Mid Cap ETF                                       | \$69,133              | \$81,935              | \$120,527             |
| Pacer Trendpilot 100 ETF  | \$122,082             | \$149,631             | \$117,406             |
| Pacer Trendpilot European Index ETF                                   | \$8,238               | \$12,162              | \$23,953              |
| Pacer Trendpilot US Bond ETF  | \$186,405             | \$69,233              | \$7,176 <sup>2</sup>  |
| Pacer Trendpilot International ETF                                    | \$21,790              | \$24,947              | \$16,764 <sup>2</sup> |
| Pacer Trendpilot Fund of Funds ETF                                    | \$9,445               | \$6,502               | \$2,269 <sup>2</sup>  |
| Pacer US Cash Cows 100 ETF  | \$219,337             | \$44,490              | \$44,530              |
| Pacer US Small Cap Cash Cows 100 ETF                                  | \$85,282              | \$13,260              | \$7,538               |
| Pacer US Cash Cows Growth ETF   | \$1,691               | \$397                 | \$405 <sup>2</sup>    |
| Pacer Global Cash Cows Dividend ETF                                   | \$26,288              | \$24,005              | \$37,639              |
| Pacer Emerging Markets Cash Cows 100 ETF                              | \$1,390               | \$384                 | \$443 <sup>2</sup>    |
| Pacer Developed Markets International Cash Cows 100 ETF               | \$8,151               | \$2,750               | \$5,995               |
| Pacer Cash Cows Fund of Funds ETF                                     | \$591                 | \$343                 | \$366 <sup>2</sup>    |
| Pacer US Export Leaders ETF   | \$417                 | \$305                 | \$246                 |
| Pacer International Export Leaders ETF                                | N/A <sup>8</sup>      | N/A <sup>6</sup>      | N/A <sup>3</sup>      |
| Pacer CSOP FTSE China A50 ETF   | \$1,416               | \$1,779               | \$73,386 <sup>4</sup> |
| Pacer Benchmark Hotel & Lodging Real Estate SCTR ETF                  | N/A <sup>8</sup>      | N/A <sup>6</sup>      | N/A <sup>3</sup>      |
| Pacer Benchmark Apartments & Residential Real Estate SCTR ETF         | N/A <sup>8</sup>      | N/A <sup>6</sup>      | N/A <sup>3</sup>      |
| Pacer Benchmark Healthcare Real Estate SCTR ETF                       | N/A <sup>8</sup>      | N/A <sup>6</sup>      | N/A <sup>3</sup>      |
| Pacer Benchmark Industrial Real Estate SCTR ETF                       | \$49,976              | \$20,956              | \$5,305               |
| Pacer Benchmark Data & Infrastructure Real Estate SCTR ETF            | \$225,306             | \$171,236             | \$31,376              |
| Pacer Autopilot Hedged European Index ETF                             | N/A <sup>8</sup>      | N/A <sup>1</sup>      | N/A <sup>1</sup>      |
| Pacer WealthShield ETF  | \$7,826               | \$9,581               | \$15,706              |
| Pacer CFRA-Stovall Global Seasonal Rotation ETF                       | N/A <sup>8</sup>      | N/A <sup>6</sup>      | N/A <sup>3</sup>      |
| Pacer CFRA-Stovall Equal Weight Seasonal Rotation ETF                 | \$12,958              | \$11,172              | \$9,704               |
| Pacer BioThreat Strategy ETF  | \$959                 | \$852 <sup>7</sup>    | N/A <sup>3</sup>      |
| Pacer Lunt Large Cap Alternator ETF                                   | \$41,286              | \$8,307 <sup>7</sup>  | N/A <sup>3</sup>      |
| Pacer Lunt MidCap Multi-Factor Alternator ETF                         | \$6,316               | \$2,936 <sup>7</sup>  | N/A <sup>3</sup>      |
| Pacer Lunt Large Cap Multi-Factor Alternator ETF                      | \$23,466              | \$2,888 <sup>7</sup>  | N/A <sup>3</sup>      |
| Pacer Pacific Asset Floating Rate High Income ETF                     | \$4,218 <sup>9</sup>  | \$76,346 <sup>5</sup> | \$99,836 <sup>5</sup> |
| Pacer Metaurus US Large Cap Dividend Multiplier 300 ETF               | \$266 <sup>10</sup>   | N/A <sup>6</sup>      | N/A <sup>3</sup>      |
| Pacer Metaurus US Large Cap Dividend Multiplier 400 ETF               | \$3,427 <sup>10</sup> | N/A <sup>6</sup>      | N/A <sup>3</sup>      |

<sup>1</sup> All outstanding shares of the Fund were redeemed on December 22, 2016, and shares of the Fund are not currently offered for purchase.

<sup>2</sup> Fees paid for the Fund's commencement of operation through April 30, 2020. See "General Description of the Trust and the Funds" for each Fund's inception date.

<sup>3</sup> The Fund had not commenced investment operations as of April 30, 2020.

<sup>4</sup> Fees paid to the Predecessor Administrator for the period October 1, 2019 through January 22, 2020 were \$72,742 and fees paid to Fund Services for the period January 23, 2020 through April 30, 2020 were \$644.

<sup>5</sup> Fees earned by the Predecessor FLRT Fund's administrator for the fiscal years ended June 30, 2020 and 2021, as applicable.

<sup>6</sup> The Fund had not commenced investment operations as of April 30, 2021.

<sup>7</sup> Fees paid to the Fund's commencement of operation through April 30, 2021. See "General Description of the Trust and the Funds" for each Fund's inception date.

<sup>8</sup> The Fund had not commenced investment operations as of April 30, 2022.

<sup>9</sup> For the fiscal period July 1, 2021 - October 22, 2021, \$12,036 was paid to the Predecessor FLRT Fund's administrator.

<sup>10</sup> Fees paid to the Fund's commencement of operation through April 30, 2022. See "General Description of the Trust and the Funds" for each Fund's inception date.

## THE CUSTODIAN

Pursuant to a Custody Agreement, U.S. Bank National Association, 1555 North Rivercenter Drive, Suite 302, Milwaukee, Wisconsin 53212, serves as the custodian of each Fund's assets. The custodian holds and administers the assets in a Fund's portfolios. Pursuant to the Custody Agreement, the custodian receives an annual fee from the Adviser based on the Trust's total average daily net assets, subject to a minimum annual fee and certain settlement charges. The custodian also is entitled to certain out-of-pocket expenses.

## SECURITIES LENDING ACTIVITIES

U.S. Bank (the "Securities Lending Agent") serves as securities lending agent to the Funds listed in the table below. The Securities Lending Agent is responsible for the implementation and administration of the applicable Funds' securities lending program pursuant to an agreement between the Trust, on behalf of the applicable Funds, and the Securities Lending Agent (the "Securities Lending Agreement"). The Securities Lending Agent acts as agent to the applicable Funds to lend available securities with any person on the Securities Lending Agent's list of approved borrowers and (i) determines whether a loan shall be made and negotiates and establishes the terms and conditions of the loan with the borrower; (ii) ensures that all substitute interest, dividends, and other distributions paid with respect to loan securities is credited to the applicable Fund's relevant account on the date such amounts are delivered by the borrower to the Securities Lending Agent; (iii) receives and holds, on the applicable Fund's behalf, collateral from borrowers to secure obligations of borrowers with respect to any loan of available securities; (iv) marks loaned securities and collateral to their market value each business day based upon the market value of the loaned securities and collateral at the close of business employing the most recently available pricing information and receives and delivers collateral to maintain the value of the collateral at no less than 100% of the market value of the loaned securities; (v) at the termination of a loan, returns the collateral to the borrower upon the return of the loaned securities to the Securities Lending Agent; (vi) invests cash collateral in accordance with the Securities Lending Agreement; and (viii) maintains such records as are reasonably necessary to account for loans that are made and the income derived therefrom and makes available to the applicable Fund a monthly statement describing the loans outstanding, including an accounting of all securities lending transactions.

The dollar amounts of gross and net income from securities lending activities received and the related fees and/or compensation paid by each applicable Fund during the period in which securities lending activities commenced through April 30, 2022 are set forth in the following table.

|  | PTLC              | PTMC              | PTNQ              |
|--|-------------------|-------------------|-------------------|
| <b>Gross Income from securities lending activities</b><br>(including income from cash collateral reinvestment)   | \$141,040         | \$83,700          | \$165,139         |
| <i>Fees and/or compensation for securities lending activities and related services</i>   |                   |                   |                   |
| Fees paid to securities lending agent from a revenue split   | \$(13,111)        | \$(7,752)         | \$(16,652)        |
| Fees paid for any cash collateral management service (including fees deducted from a pooled cash collateral reinvestment vehicle) that are not included in the revenue split | \$(25,281)        | \$(17,101)        | \$(22,825)        |
| Administrative fees not included in revenue split  | \$—               | \$—               | \$—               |
| Indemnification fee not included in revenue split  | \$—               | \$—               | \$—               |
| Rebate (paid to borrower)  | \$(50,223)        | \$(27,850)        | \$(59,049)        |
| Other fees not included in revenue split   | \$—               | \$—               | \$—               |
| <b>Aggregate fees/compensation for securities lending activities</b>   | <b>\$(88,615)</b> | <b>\$(52,703)</b> | <b>\$(98,526)</b> |
| <b>Net Income from securities lending activities</b>   | <b>\$52,425</b>   | <b>\$30,997</b>   | <b>\$66,613</b>   |

|  | PTEU             | PTIN              | PTBD               |
|--|------------------|-------------------|--------------------|
| <b>Gross Income from securities lending activities</b><br>(including income from cash collateral reinvestment)   | \$19,828         | \$55,952          | \$378,888          |
| <i>Fees and/or compensation for securities lending activities and related services</i>   |                  |                   |                    |
| Fees paid to securities lending agent from a revenue split   | \$(3,632)        | \$(10,048)        | \$(54,876)         |
| Fees paid for any cash collateral management service (including fees deducted from a pooled cash collateral reinvestment vehicle) that are not included in the revenue split | \$(975)          | \$(3,220)         | \$(49,593)         |
| Administrative fees not included in revenue split  | \$—              | \$—               | \$—                |
| Indemnification fee not included in revenue split  | \$—              | \$—               | \$—                |
| Rebate (paid to borrower)  | \$(689)          | \$(2,487)         | \$(54,891)         |
| Other fees not included in revenue split   | \$—              | \$—               | \$—                |
| <b>Aggregate fees/compensation for securities lending activities</b>   | <b>\$(5,296)</b> | <b>\$(15,755)</b> | <b>\$(159,360)</b> |
| <b>Net Income from securities lending activities</b>   | <b>\$14,532</b>  | <b>\$40,197</b>   | <b>\$219,528</b>   |

|  | COWZ               | CALF               | BUL              |
|--|--------------------|--------------------|------------------|
| <b>Gross Income from securities lending activities</b><br>(including income from cash collateral reinvestment)   | \$737,528          | \$324,953          | \$2,623          |
| <i>Fees and/or compensation for securities lending activities and related services</i>   |                    |                    |                  |
| Fees paid to securities lending agent from a revenue split   | \$(88,852)         | \$(30,757)         | \$(291)          |
| Fees paid for any cash collateral management service (including fees deducted from a pooled cash collateral reinvestment vehicle) that are not included in the revenue split | \$(69,617)         | \$(46,280)         | \$(430)          |
| Administrative fees not included in revenue split  | \$—                | \$—                | \$—              |
| Indemnification fee not included in revenue split  | \$—                | \$—                | \$—              |
| Rebate (paid to borrower)  | \$(223,645)        | \$(124,883)        | \$(750)          |
| Other fees not included in revenue split   | \$—                | \$—                | \$—              |
| <b>Aggregate fees/compensation for securities lending activities</b>   | <b>\$(382,114)</b> | <b>\$(201,920)</b> | <b>\$(1,471)</b> |
| <b>Net Income from securities lending activities</b>   | <b>\$355,414</b>   | <b>\$123,033</b>   | <b>\$1,152</b>   |

|  | <b>GCOW</b>       | <b>ECOW</b>    | <b>ICOW</b>       |
|--|-------------------|----------------|-------------------|
| <b>Gross Income from securities lending activities</b><br>(including income from cash collateral reinvestment)   | \$101,739         | \$796          | \$39,478          |
| <i>Fees and/or compensation for securities lending activities and related services</i>   |                   |                |                   |
| Fees paid to securities lending agent from a revenue split   | \$(16,425)        | \$(130)        | \$(7,021)         |
| Fees paid for any cash collateral management service (including fees deducted from a pooled cash collateral reinvestment vehicle) that are not included in the revenue split | \$(7,445)         | \$(58)         | \$(1,622)         |
| Administrative fees not included in revenue split  | \$—               | \$—            | \$—               |
| Indemnification fee not included in revenue split  | \$—               | \$—            | \$—               |
| Rebate (paid to borrower)  | \$(12,181)        | \$(86)         | \$(2,750)         |
| Other fees not included in revenue split   | \$—               | \$—            | \$—               |
| <b>Aggregate fees/compensation for securities lending activities</b>   | <b>\$(36,051)</b> | <b>\$(274)</b> | <b>\$(11,393)</b> |
| <b>Net Income from securities lending activities</b>   | <b>\$65,688</b>   | <b>\$522</b>   | <b>\$28,085</b>   |

|  | <b>PEXL</b>    | <b>INDS</b>       | <b>SRVR</b>        |
|--|----------------|-------------------|--------------------|
| <b>Gross Income from securities lending activities</b><br>(including income from cash collateral reinvestment)   | \$783          | \$64,420          | \$755,861          |
| <i>Fees and/or compensation for securities lending activities and related services</i>   |                |                   |                    |
| Fees paid to securities lending agent from a revenue split   | \$(80)         | \$(5,319)         | \$(128,820)        |
| Fees paid for any cash collateral management service (including fees deducted from a pooled cash collateral reinvestment vehicle) that are not included in the revenue split | \$(117)        | \$(9,388)         | \$(52,379)         |
| Administrative fees not included in revenue split  | \$—            | \$—               | \$—                |
| Indemnification fee not included in revenue split  | \$—            | \$—               | \$—                |
| Rebate (paid to borrower)  | \$(292)        | \$(28,438)        | \$(59,387)         |
| Other fees not included in revenue split   | \$—            | \$—               | \$—                |
| <b>Aggregate fees/compensation for securities lending activities</b>   | <b>\$(489)</b> | <b>\$(43,145)</b> | <b>\$(240,586)</b> |
| <b>Net Income from securities lending activities</b>   | <b>\$294</b>   | <b>\$21,275</b>   | <b>\$515,275</b>   |

|  | PWS              | SZNE              | VIRS           |
|--|------------------|-------------------|----------------|
| <b>Gross Income from securities lending activities</b><br>(including income from cash collateral reinvestment)   | \$9,708          | \$19,981          | \$1,620        |
| <i>Fees and/or compensation for securities lending activities and related services</i>   |                  |                   |                |
| Fees paid to securities lending agent from a revenue split   | \$(1,078)        | \$(1,871)         | \$(167)        |
| Fees paid for any cash collateral management service (including fees deducted from a pooled cash collateral reinvestment vehicle) that are not included in the revenue split | \$(1,579)        | \$(3,179)         | \$(236)        |
| Administrative fees not included in revenue split  | \$—              | \$—               | \$—            |
| Indemnification fee not included in revenue split  | \$—              | \$—               | \$—            |
| Rebate (paid to borrower)  | \$(2,741)        | \$(7,450)         | \$(540)        |
| Other fees not included in revenue split   | \$—              | \$—               | \$—            |
| <b>Aggregate fees/compensation for securities lending activities</b>   | <b>\$(5,398)</b> | <b>\$(12,500)</b> | <b>\$(943)</b> |
| <b>Net Income from securities lending activities</b>   | <b>\$4,310</b>   | <b>\$7,481</b>    | <b>\$677</b>   |

|  | ALTL              | PAMC             | PALC              |
|--|-------------------|------------------|-------------------|
| <b>Gross Income from securities lending activities</b><br>(including income from cash collateral reinvestment)   | \$39,706          | \$17,182         | \$30,986          |
| <i>Fees and/or compensation for securities lending activities and related services</i>   |                   |                  |                   |
| Fees paid to securities lending agent from a revenue split   | \$(3,610)         | \$(2,084)        | \$(2,698)         |
| Fees paid for any cash collateral management service (including fees deducted from a pooled cash collateral reinvestment vehicle) that are not included in the revenue split | \$(5,557)         | \$(2,155)        | \$(3,898)         |
| Administrative fees not included in revenue split  | \$—               | \$—              | \$—               |
| Indemnification fee not included in revenue split  | \$—               | \$—              | \$—               |
| Rebate (paid to borrower)  | \$(16,102)        | \$(4,612)        | \$(13,602)        |
| Other fees not included in revenue split   | \$—               | \$—              | \$—               |
| <b>Aggregate fees/compensation for securities lending activities</b>   | <b>\$(25,269)</b> | <b>\$(8,851)</b> | <b>\$(20,198)</b> |
| <b>Net Income from securities lending activities</b>   | <b>\$14,437</b>   | <b>\$8,331</b>   | <b>\$10,788</b>   |

## THE DISTRIBUTOR

The Trust and Pacer Financial, Inc. (the “Distributor”), an affiliate of the Adviser, are parties to a distribution agreement (“Distribution Agreement”), whereby the Distributor acts as principal underwriter for the Trust and distributes the Shares of the Funds. Shares are continuously offered for sale by the Distributor only in Creation Units. The Distributor will not distribute Shares in amounts less than a Creation Unit and does not maintain an active market in Shares. The principal business address of the Distributor is 500 Chesterfield Parkway, Malvern, Pennsylvania 19355.

Under the Distribution Agreement, the Distributor, as agent for the Trust, will solicit orders for the purchase of the Shares, provided that any subscriptions and orders will not be binding on the Trust until accepted by the Trust. The Distributor will deliver Prospectuses and, upon request, SAIs to persons purchasing Creation Units and will maintain records of orders placed with it. The Distributor is a broker-dealer registered under the Securities Exchange Act of 1934 (the “Exchange Act”) and a member of FINRA.

The Distributor may also enter into agreements with securities dealers (“Soliciting Dealers”) who will solicit purchases of Creation Units of Shares. Such Soliciting Dealers may also be Authorized Participants (as discussed in “Procedures for Purchase of Creation Units” below) or DTC participants (as defined below).

The Distribution Agreement will continue for two years from its effective date and is renewable thereafter. The continuance of the Distribution Agreement must be specifically approved at least annually (i) by the vote of the Trustees or by a vote of the shareholders of each Fund and (ii) by the vote of a majority of the Trustees who are not “interested persons” of the Trust and have no direct or

indirect financial interest in the operations of the Distribution Agreement or any related agreement, cast in person at a meeting called for the purpose of voting on such approval. The Distribution Agreement is terminable without penalty by the Trust on sixty (60) days' written notice when authorized either by majority vote of its outstanding voting Shares or by a vote of a majority of its Board (including a majority of the Independent Trustees), or by the Distributor on sixty (60) days' written notice, and will automatically terminate in the event of its assignment. The Distribution Agreement provides that in the absence of willful misfeasance, bad faith or gross negligence on the part of the Distributor, or reckless disregard by it of its obligations thereunder, the Distributor shall not be liable for any action or failure to act in accordance with its duties thereunder.

**Intermediary Compensation.** The Adviser, Sub-Advisers, or their affiliates, out of their own resources and not out of the Funds' assets (*i.e.*, without additional cost to the Funds or their shareholders), may pay certain broker dealers, banks and other financial intermediaries ("Intermediaries") for certain activities related to the Funds, including participation in activities that are designed to make Intermediaries more knowledgeable about exchange traded products, including the Funds, or for other activities, such as marketing and educational training or support. These arrangements are not financed by the Funds and, thus, do not result in increased Fund expenses. They are not reflected in the fees and expenses listed in the fees and expenses sections of the Funds' Prospectus and they do not change the price paid by investors for the purchase of Fund Shares or the amount received by a shareholder as proceeds from the redemption of Fund Shares.

Such compensation may be paid to Intermediaries that provide services to the Funds, including marketing and education support (such as through conferences, webinars and printed communications). The Adviser periodically assesses the advisability of continuing to make these payments. Payments to an Intermediary may be significant to the Intermediary, and amounts that Intermediaries pay to your adviser, broker or other investment professional, if any, may also be significant to such adviser, broker or investment professional. Because an Intermediary may make decisions about what investment options it will make available or recommend, and what services to provide in connection with various products, based on payments it receives or is eligible to receive, such payments create conflicts of interest between the Intermediary and its clients. For example, these financial incentives may cause the Intermediary to recommend the Funds over other investments. The same conflict of interest exists with respect to your financial adviser, broker or investment professionals if he or she receives similar payments from his or her Intermediary firm.

Intermediary information is current only as of the date of this SAI. Please contact your adviser, broker or other investment professional for more information regarding any payments his or her Intermediary firm may receive. Any payments made by the Adviser, Sub-Adviser, or their affiliates to an Intermediary may create the incentive for an Intermediary to encourage customers to buy Shares of the Funds.

**Distribution and Service Plan.** The Trust has adopted a Distribution and Service Plan (the "Plan") for each Fund except AFTY, in accordance with the provisions of Rule 12b-1 under the 1940 Act, which regulates circumstances under which an investment company may directly or indirectly bear expenses relating to the distribution of its Shares. No payments pursuant to the Plan are expected to be made during the twelve (12) month period from the date of this SAI. Rule 12b-1 fees to be paid by the Funds under the Plan may only be imposed after approval by the Board.

Continuance of the Plan must be approved annually by a majority of the Trustees of the Trust and by a majority of the Trustees who are not interested persons (as defined in the 1940 Act) of the Trust and have no direct or indirect financial interest in the Plan or in any agreements related to the Plan ("Qualified Trustees"). The Plan requires that quarterly written reports of amounts spent under the Plan and the purposes of such expenditures be furnished to and reviewed by the Trustees. The Plan may not be amended to increase materially the amount that may be spent thereunder without approval by a majority of the outstanding Shares of the Fund. All material amendments of the Plan will require approval by a majority of the Trustees of the Trust and of the Qualified Trustees.

The Plan provides that each Fund pays the Distributor an annual fee of up to a maximum of 0.25% of the average daily net assets of the Shares. Under the Plan, the Distributor may make payments pursuant to written agreements to financial institutions and intermediaries such as banks, savings and loan associations and insurance companies including, without limit, investment counselors, broker-dealers and the Distributor's affiliates and subsidiaries (collectively, "Agents") as compensation for services and reimbursement of expenses incurred in connection with distribution assistance. The Plan is characterized as a compensation plan since the distribution fee will be paid to the Distributor without regard to the distribution expenses incurred by the Distributor or the amount of payments made to other financial institutions and intermediaries. The Trust intends to operate the Plan in accordance with its terms and with the Financial Industry Regulatory Authority ("FINRA") rules concerning sales charges.

Under the Plan, subject to the limitations of applicable law and regulations, each Fund is authorized to compensate the Distributor up to the maximum amount to finance any activity primarily intended to result in the sale of Creation Units of the Fund or for providing or arranging for others to provide shareholder services and for the maintenance of shareholder accounts. Such activities may include, but are not limited to: (i) delivering copies of the Fund's then current reports, prospectuses, notices, and similar materials, to prospective purchasers of Creation Units; (ii) marketing and promotional services, including advertising; (iii) paying the costs of and compensating others, including Authorized Participants with whom the Distributor has entered into written Authorized Participant

Agreements, for performing shareholder servicing on behalf of a Fund; (iv) compensating certain Authorized Participants for providing assistance in distributing the Creation Units of a Fund, including the travel and communication expenses and salaries and/or commissions of sales personnel in connection with the distribution of the Creation Units of a Fund; (v) payments to financial institutions and intermediaries such as banks, savings and loan associations, insurance companies and investment counselors, broker-dealers, mutual fund supermarkets and the affiliates and subsidiaries of the Trust's service providers as compensation for services or reimbursement of expenses incurred in connection with distribution assistance; (vi) facilitating communications with beneficial owners of Shares, including the cost of providing (or paying others to provide) services to beneficial owners of Shares, including, but not limited to, assistance in answering inquiries related to Shareholder accounts; and (vii) such other services and obligations as are set forth in the Distribution Agreement.

## **LEGAL COUNSEL**

Practus, LLP, 11300 Tomahawk Creek Parkway, Suite 310, Leawood, Kansas 66211, serves as legal counsel for the Trust. Duane Morris LLP, 30 South 17th Street, Philadelphia, Pennsylvania 19103, serves as legal counsel for the Independent Trustees.

## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Sanville & Company, 1514 Old York Road, Abington, Pennsylvania 19001, serves as the independent registered public accounting firm for the Funds.

## **BROKERAGE TRANSACTIONS**

The policy of the Trust regarding purchases and sales of securities for the Funds is that primary consideration will be given to obtaining the most favorable prices and efficient executions of transactions. Consistent with this policy, when securities transactions are effected on a stock exchange, the Trust's policy is to pay commissions which are considered fair and reasonable without necessarily determining that the lowest possible commissions are paid in all circumstances. The Trust believes that a requirement always to seek the lowest possible commission cost could impede effective portfolio management and preclude the Funds from obtaining a high quality of brokerage and research services. In seeking to determine the reasonableness of brokerage commissions paid in any transaction, the Adviser and Sub-Advisers will rely upon its experience and knowledge regarding commissions generally charged by various brokers and on its judgment in evaluating the brokerage services received from the broker effecting the transaction. Such determinations are necessarily subjective and imprecise, as in most cases, an exact dollar value for those services is not ascertainable. The Trust has adopted policies and procedures that prohibit the consideration of sales of Fund Shares as a factor in the selection of a broker or dealer to execute its portfolio transactions.

The Adviser and Sub-Advisers owe a fiduciary duty to their clients to seek to provide best execution on trades effected. In selecting a broker/dealer for each specific transaction, the Adviser and Sub-Advisers choose the broker/dealer deemed most capable of providing the services necessary to obtain the most favorable execution. "Best execution" is generally understood to mean the most favorable cost or net proceeds reasonably obtainable under the circumstances. The full range of brokerage services applicable to a particular transaction may be considered when making this judgment, which may include, but is not limited to: liquidity, price, commission, timing, aggregated trades, capable floor brokers or traders, competent block trading coverage, ability to position, capital strength and stability, reliable and accurate communications and settlement processing, use of automation, knowledge of other buyers or sellers, arbitrage skills, administrative ability, underwriting and provision of information on a particular security or market in which the transaction is to occur. The specific criteria will vary depending upon the nature of the transaction, the market in which it is executed, and the extent to which it is possible to select from among multiple broker/dealers. Metaurus does not have any formal or informal soft dollar arrangements. Occasionally, Metaurus receives unsolicited research from outside sources. This information is not used in the investment decision-making process. The Adviser and Sub-Advisers will also use electronic crossing networks ("ECNs") when appropriate.

TRPL and QDPL's derivatives transactions will be entered into through a futures commission merchant ("FCM") regulated by the CFTC. Under U.S. law, an FCM is the sole type of entity that may hold collateral in respect to cleared futures. All futures entered into by a Fund will be cleared by a central counterparty that is regulated by the CFTC.

Subject to the foregoing policies, brokers or dealers selected to execute a Fund's portfolio transactions may include the Fund's Authorized Participants (as discussed in "[Procedures for Purchase of Creation Units](#)" below) or their affiliates. An Authorized Participant or its affiliates may be selected to execute a Fund's portfolio transactions in conjunction with an all-cash creation unit order or an order including "cash-in-lieu" (as described below under "Purchase and Redemption of Shares in Creation Units"), so long as such selection is in keeping with the foregoing policies. As described below under "Purchase and Redemption of Shares in Creation Units—Creation Transaction Fee" and "—Redemption Transaction Fee", a Fund may determine to not charge a variable fee on certain orders when the Adviser or Sub-Advisers have determined that doing so is in the best interests of Fund shareholders, e.g., for creation orders that facilitate the changes to a Fund's portfolio in a more tax efficient manner than could be achieved without such order, even

if the decision to not charge a variable fee could be viewed as benefiting the Authorized Participant or its affiliate selected to execute the Fund's portfolio transactions in connection with such orders.

The Adviser and Sub-Advisers may use a Fund's assets for, or participate in, third party soft dollar arrangements, in addition to receiving proprietary research from various full service brokers, the cost of which is bundled with the cost of the broker's execution services. The Adviser and Sub-Advisers do not "pay up" for the value of any such proprietary research. Section 28(e) of the Exchange Act permits the Adviser and Sub-Advisers, under certain circumstances, to cause a Fund to pay a broker or dealer a commission for effecting a transaction in excess of the amount of commission another broker or dealer would have charged for effecting the transaction in recognition of the value of brokerage and research services provided by the broker or dealer. The Adviser and Sub-Advisers may receive a variety of research services and information on many topics, which it can use in connection with its management responsibilities with respect to the various accounts over which it exercises investment discretion or otherwise provides investment advice. The research services may include qualifying order management systems, portfolio attribution and monitoring services and computer software and access charges which are directly related to investment research. Accordingly, a Fund may pay a broker commission higher than the lowest available commission in recognition of the broker's provision of such services to the Adviser and Sub-Advisers, but only if the Adviser and Sub-Advisers determine the total commission (including the soft dollar benefit) is comparable to the best commission rate that could be expected to be received from other brokers. The amount of soft dollar benefits received depends on the amount of brokerage transactions effected with the brokers. A conflict of interest exists because there is an incentive to: 1) cause clients to pay a higher commission than the firm might otherwise be able to negotiate; 2) cause clients to engage in more securities transactions than would otherwise be optimal; and 3) only recommend brokers that provide soft dollar benefits.

The Adviser and Sub-Advisers face a potential conflict of interest when it uses client trades to obtain brokerage or research services. This conflict exists because the Adviser and Sub-Advisers are able to use the brokerage or research services to manage client accounts without paying cash for such services, which reduces the Adviser's and Sub-Advisers' expenses to the extent that the Adviser and Sub-Advisers would have purchased such products had they not been provided by brokers. Section 28(e) permits the Adviser and Sub-Advisers to use brokerage or research services for the benefit of any account it manages. Certain accounts managed by the Adviser and Sub-Advisers may generate soft dollars used to purchase brokerage or research services that ultimately benefit other accounts managed by the Adviser and Sub-Advisers, effectively cross subsidizing the other accounts managed by the Adviser and Sub-Advisers that benefit directly from the product. The Adviser and Sub-Advisers may not necessarily use all of the brokerage or research services in connection with managing a Fund whose trades generated the soft dollars used to purchase such products.

The Adviser and Sub-Advisers are responsible, subject to oversight by the Board, for placing orders on behalf of the Funds for the purchase or sale of portfolio securities. If purchases or sales of portfolio securities of a Fund and one or more other investment companies or clients supervised by the Adviser and Sub-Advisers are considered at or about the same time, transactions in such securities are allocated among the several investment companies and clients in a manner deemed equitable and consistent with its fiduciary obligations to all by the Adviser and Sub-Advisers. In some cases, this procedure could have a detrimental effect on the price or volume of the security so far as a Fund is concerned. However, in other cases, it is possible that the ability to participate in volume transactions and to negotiate lower brokerage commissions will be beneficial to the Funds. The primary consideration is prompt execution of orders at the most favorable net price.

A Fund may deal with affiliates in principal transactions to the extent permitted by exemptive order or applicable rule or regulation.

**Brokerage with Fund Affiliates.** The Funds may execute brokerage or other agency transactions through registered broker-dealer affiliates of the Funds, the Adviser, and Sub-Advisers, or the Distributor for a commission in conformity with the 1940 Act, the Exchange Act and rules promulgated by the SEC. These rules require that commissions paid to the affiliate by a Fund for exchange transactions not exceed "usual and customary" brokerage commissions. The rules define "usual and customary" commissions to include amounts which are "reasonable and fair compared to the commission, fee or other remuneration received or to be received by other brokers in connection with comparable transactions involving similar securities being purchased or sold on a securities exchange during a comparable period of time." The Trustees, including those who are not "interested persons" of the Funds, have adopted procedures for evaluating the reasonableness of commissions paid to affiliates and review these procedures periodically. During the fiscal year ended April 30, 2022, the Funds did not pay brokerage commissions to any registered broker-dealer affiliates of the Funds, the Adviser, the Sub-Advisers, or the Distributor.

**Securities of "Regular Broker-Dealers."** Each Fund is required to identify any securities of its "regular brokers and dealers" (as such term is defined in the 1940 Act) which it may hold at the close of its most recent fiscal year. "Regular brokers and dealers" of the Trust are the ten brokers or dealers that, during the most recent fiscal year: (i) received the greatest dollar amounts of brokerage commissions from the Trust's portfolio transactions; (ii) engaged as principal in the largest dollar amounts of portfolio transactions of the Trust; or (iii) sold the largest dollar amounts of the Trust's Shares. As of April 30, 2022, the Funds, except those listed in the table below, did not own securities of its regular brokers or dealers.

**Aggregate Brokerage Commissions for the Fiscal Year Ended April 30,**

| <b>Name of Fund</b>                                     | <b>Broker-Dealer</b> | <b>Market Value</b> |
|---|----------------------|---------------------|
| Pacer Metaurus US Large Cap Dividend Multiplier 300 ETF | Morgan Stanley       | \$5,641             |
| Pacer Metaurus US Large Cap Dividend Multiplier 400 ETF | Morgan Stanley       | \$158,279           |

The Funds are also required to identify any brokerage transactions during their most recent fiscal year that were directed to a broker because of research services provided, along with the amount of any such transactions and any related commissions paid by the Funds. As of April 30, 2022, the Funds, except those listed in the table below, did not have any such transactions or related commissions paid for research services.

**Commissions of Research Services Provided for the Fiscal Year Ended April 30, 2022**

| <b>Name of Fund</b>                              | <b>Commissions Paid</b> | <b>Transactions Directed</b> |
|--|-------------------------|------------------------------|
| Pacer US Cash Cows 100 ETF                       | \$861,253               | \$2,196,839,922              |
| Pacer US Small Cap Cash Cows 100 ETF             | \$182,981               | \$287,806,406                |
| Pacer Lunt Large Cap Alternator ETF              | \$307,381               | \$2,286,549,141              |
| Pacer Lunt Large Cap Multi-Factor Alternator ETF | \$122,055               | \$574,928,405                |

**Brokerage Commissions.** The following aggregate brokerage commissions were paid by the Funds for the following fiscal years/ periods ended April 30, none of which were paid to affiliated brokers.

| <b>Aggregate Brokerage Commissions for the Fiscal Year Ended April 30,</b> |                           |                        |                       |
|--|---------------------------|------------------------|-----------------------|
| <b>Name of Fund</b>  | <b>2022</b>               | <b>2021</b>            | <b>2020</b>           |
| Pacer Trendpilot US Large Cap ETF  | \$381,718                 | \$206,692              | \$385,071             |
| Pacer Trendpilot US Mid Cap ETF  | \$81,221                  | \$294,732 <sup>6</sup> | \$824,584             |
| Pacer Trendpilot 100 ETF   | \$23,015                  | \$71,280               | \$56,114              |
| Pacer Trendpilot European Index ETF  | \$22,574                  | \$262,611 <sup>6</sup> | \$85,423              |
| Pacer Trendpilot US Bond ETF   | \$0                       | \$0                    | \$0 <sup>2</sup>      |
| Pacer Trendpilot International ETF   | \$185,525                 | \$207,558 <sup>6</sup> | \$72,543 <sup>2</sup> |
| Pacer Trendpilot Fund of Funds ETF   | \$1,300                   | \$5,684                | \$493 <sup>2</sup>    |
| Pacer US Cash Cows 100 ETF   | \$1,149,263 <sup>12</sup> | \$137,173              | \$141,106             |
| Pacer US Small Cap Cash Cows 100 ETF                                       | \$646,751 <sup>12</sup>   | \$74,457               | \$110,083             |
| Pacer US Cash Cows Growth ETF  | \$1,414                   | \$647                  | \$1,077 <sup>2</sup>  |
| Pacer Global Cash Cows Dividend ETF  | \$46,832                  | \$78,421 <sup>7</sup>  | \$169,169             |
| Pacer Emerging Markets Cash Cows 100 ETF                                   | \$17,113                  | \$4,120                | \$5,094 <sup>2</sup>  |
| Pacer Developed Markets International Cash Cows 100 ETF                    | \$44,280 <sup>12</sup>    | \$13,172 <sup>7</sup>  | \$53,881              |
| Pacer Cash Cows Fund of Funds ETF  | \$456                     | \$85                   | \$43 <sup>2</sup>     |
| Pacer US Export Leaders ETF  | \$511                     | \$547                  | \$650                 |
| Pacer International Export Leaders ETF                                     | N/A <sup>10</sup>         | N/A <sup>4</sup>       | N/A <sup>3</sup>      |
| Pacer CSOP FTSE China A50 ETF  | \$9,377                   | \$6,285                | \$35,074              |
| Pacer Benchmark Hotel & Lodging Real Estate SCTR ETF                       | N/A <sup>10</sup>         | N/A <sup>4</sup>       | N/A <sup>3</sup>      |
| Pacer Benchmark Apartments & Residential Real Estate SCTR ETF              | N/A <sup>10</sup>         | N/A <sup>4</sup>       | N/A <sup>3</sup>      |
| Pacer Benchmark Healthcare Real Estate SCTR ETF                            | N/A <sup>10</sup>         | N/A <sup>4</sup>       | N/A <sup>3</sup>      |
| Pacer Benchmark Industrial Real Estate SCTR ETF                            | \$57,466 <sup>12</sup>    | \$8,715                | \$4,397               |
| Pacer Benchmark Data & Infrastructure Real Estate SCTR ETF                 | \$202,173                 | \$222,657 <sup>8</sup> | \$43,624              |
| Pacer Autopilot Hedged European Index ETF                                  | N/A <sup>10</sup>         | N/A <sup>1</sup>       | N/A <sup>1</sup>      |
| Pacer WealthShield ETF   | \$26,049                  | \$33,694 <sup>9</sup>  | \$136,338             |
| Pacer CFRA-Stovall Global Seasonal Rotation ETF                            | N/A <sup>10</sup>         | N/A <sup>4</sup>       | N/A <sup>3</sup>      |
| Pacer CFRA-Stovall Equal Weight Seasonal Rotation ETF                      | \$48,022                  | \$35,172               | \$43,706              |
| Pacer BioThreat Strategy ETF   | \$202                     | \$54 <sup>5</sup>      | N/A <sup>3</sup>      |
| Pacer Lunt Large Cap Alternator ETF  | \$543,279 <sup>13</sup>   | \$52,893 <sup>5</sup>  | N/A <sup>3</sup>      |
| Pacer Lunt MidCap Multi-Factor Alternator ETF                              | \$69,877 <sup>13</sup>    | \$27,791 <sup>5</sup>  | N/A <sup>3</sup>      |
| Pacer Lunt Large Cap Multi-Factor Alternator ETF                           | \$147,746 <sup>13</sup>   | \$16,688 <sup>5</sup>  | N/A <sup>3</sup>      |
| Pacer Pacific Asset Floating Rate High Income ETF                          | \$0                       | \$0                    | \$0                   |
| Pacer Metaurus US Large Cap Dividend Multiplier 300 ETF                    | \$183 <sup>11</sup>       | N/A <sup>4</sup>       | N/A <sup>3</sup>      |
| Pacer Metaurus US Large Cap Dividend Multiplier 400 ETF                    | \$2,332 <sup>11</sup>     | N/A <sup>4</sup>       | N/A <sup>3</sup>      |

<sup>1</sup> All outstanding shares of the Fund were redeemed on December 22, 2016.

<sup>2</sup> Brokerage commissions paid during the period from the Fund's commencement of operations through April 30, 2020. See "General Description of the Trust and the Funds" for each Fund's inception date.

<sup>3</sup> The Fund had not commenced investment operations as of April 30, 2020.

<sup>4</sup> The Fund had not commenced investment operations as of April 30, 2021.

<sup>5</sup> Brokerage commissions paid during the period from the Fund's commencement of operations through April 30, 2021. See "General Description of the Trust and the Funds" for each Fund's inception date.

<sup>6</sup> Aggregate brokerage commissions paid by the Fund for the fiscal year ended April 30, 2021 were materially different from the previous fiscal year due to fewer instances of market conditions triggering a change in the underlying index from investing in equity securities to U.S. Treasury securities.

<sup>7</sup> Aggregate brokerage commissions paid by the Fund for the fiscal year ended April 30, 2021 were materially different from the previous fiscal year due the Fund's dynamic strategy and the Index's semi-annual rebalance and reconstitution.

- <sup>8</sup> Aggregate brokerage commissions paid by the Fund for the fiscal year ended April 30, 2021 were materially different from the previous fiscal year due to the Fund's increase in net assets.
- <sup>9</sup> Aggregate brokerage commissions paid by the Fund for the fiscal year ended April 30, 2021 were materially different from the previous fiscal year due to the Fund's decrease in net assets.
- <sup>10</sup> The Fund had not commenced investment operations as of April 30, 2022.
- <sup>11</sup> Brokerage commissions paid during the period from the Fund's commencement of operations through April 30, 2022. See "General Description of the Trust and the Funds" for each Fund's inception date.
- <sup>12</sup> Aggregate brokerage commissions paid by the Fund for the fiscal year ended April 30, 2022 were materially different from the previous fiscal year due to the Fund's increase in net assets.
- <sup>13</sup> Aggregate brokerage commissions paid by the Fund for the fiscal year ended April 30, 2022 were materially different from the previous fiscal year due to the Fund's strategy of rotating between the holdings of two different sub-indices.

**Directed Brokerage.** For the fiscal year ended April 30, 2022, the Funds did not pay any commissions on brokerage transactions directed to brokers pursuant to an agreement or understanding whereby the broker provides research or other brokerage services to the Adviser.

**Portfolio Turnover.** Portfolio turnover may vary from year to year, as well as within a year. High turnover rates are likely to result in comparatively greater brokerage expenses. The overall reasonableness of brokerage commissions is evaluated by the Adviser and Sub-Advisers based upon their knowledge of available information as to the general level of commissions paid by the other institutional investors for comparable services. The Funds listed below had a material increase or decrease in their portfolio turnover rate from the fiscal period/year ended April 30, 2021 to the period/year ended April 30, 2022:

| <b>Portfolio Turnover Rate for the Fiscal Periods/Years Ended April 30,</b> |             |             |
|---|-------------|-------------|
| <b>Name of Fund</b>   | <b>2022</b> | <b>2021</b> |
| Pacer Trendpilot US Mid Cap ETF <sup>1</sup>                                | 16%         | 304%        |
| Pacer Trendpilot European Index ETF <sup>1</sup>                            | 7%          | 506%        |
| Pacer Trendpilot US Bond ETF <sup>2</sup>                                   | 652%        | 55%         |
| Pacer US Cash Cows Growth ETF <sup>1</sup>                                  | 76%         | 170%        |
| Pacer WealthShield ETF <sup>2</sup>   | 448%        | 227%        |
| Pacer Lunt Large Cap Alternator ETF <sup>3</sup>                            | 722%        | 193%        |
| Pacer Lunt MidCap Multi-Factor Alternator ETF <sup>3</sup>                  | 529%        | 322%        |

- <sup>1</sup> Material decreases in the portfolio turnover rates were due to fewer instances of market conditions triggering a change in the underlying index from investing in equity securities to U.S. Treasury securities..
- <sup>2</sup> Material increases in the portfolio turnover rates were due to fewer instances of market conditions triggering a change in the underlying index from investing in equity securities to U.S. Treasury securities..
- <sup>3</sup> Material increases in the portfolio turnover rates were due to the Fund's strategy of rotating between the holdings of two different sub-indices.

#### **ADDITIONAL INFORMATION CONCERNING THE TRUST**

The Declaration of Trust authorizes the issuance of an unlimited number of funds and Shares of each Fund. Each Share of each Fund represents an equal proportionate interest in any given Fund with any given Share. Shares are entitled upon liquidation to a pro rata share in the net assets of the Funds. Shareholders have no preemptive rights. The Declaration of Trust provides that the Trustees may create additional series or classes of shares. All consideration received by the Trust for shares of any additional funds and all assets in which such consideration is invested would belong to that fund and would be subject to the liabilities related thereto. Share certificates representing shares will not be issued. Each Fund's Shares, when issued, are fully paid and non-assessable.

Each Share has one vote with respect to matters upon which a shareholder vote is required, consistent with the requirements of the 1940 Act and the rules promulgated thereunder. Shares of all funds of the Trust vote together as a single class, except that if the matter being voted on affects only a particular fund it will be voted on only by that fund and if a matter affects a particular fund differently from other funds, that fund will vote separately on such matter. As a Delaware statutory trust, the Trust is not required, and does not intend, to hold annual meetings of shareholders. Approval of shareholders will be sought, however, for certain changes in the operation of the Trust and for the election of Trustees under certain circumstances. Upon the written request of shareholders owning at least 10% of the Trust's shares, the Trust will call for a meeting of shareholders to consider the removal of one or more Trustees and other certain matters. In the event that such a meeting is requested, the Trust will provide appropriate assistance and information to the shareholders requesting the meeting.

Under the Declaration of Trust, the Trustees have the power to liquidate a Fund without shareholder approval. While the Trustees have no present intention of exercising this power, they may do so if a Fund fails to reach a viable size within a reasonable amount of time or for such other reasons as may be determined by the Board.

As described further in the Declaration of Trust, shareholders of the Trust or any Fund may not bring a derivative action to enforce the right of the Trust or an affected Fund, unless several conditions are met, including, among others, shareholders owning Shares representing no less than a majority of the then outstanding shares of the Trust or the Fund, as applicable, must join in bringing the derivative action, provided, however, the foregoing may not apply to the extent a claim arises under federal securities laws.

**Role of the Depository Trust Company (“DTC”).** DTC acts as Securities Depository for the Shares of the Trust. Shares of the Funds are represented by securities registered in the name of DTC or its nominee and deposited with, or on behalf of, DTC.

DTC, a limited-purpose trust company, was created to hold securities of its participants (“DTC Participants”) and to facilitate the clearance and settlement of securities transactions among the DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities’ certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of which (and/or their representatives) own DTC. More specifically, DTC is a subsidiary of the Depository Trust and Clearing Corporation, which is owned by its member firms, including international broker dealers, correspondent and clearing banks, mutual fund companies and investment banks. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (“Indirect Participants”).

Beneficial ownership of Shares is limited to DTC Participants, Indirect Participants and persons holding interests through DTC Participants and Indirect Participants. Ownership of beneficial interests in Shares (owners of such beneficial interests are referred to herein as “Beneficial Owners”) is shown on, and the transfer of ownership is effected only through, records maintained by DTC (with respect to DTC Participants) and on the records of DTC Participants (with respect to Indirect Participants and Beneficial Owners that are not DTC Participants). Beneficial Owners will receive from or through the DTC Participant a written confirmation relating to their purchase of Shares. No Beneficial Owner shall have the right to receive a certificate representing such Shares.

Conveyance of all notices, statements and other communications to Beneficial Owners is effected as follows. Pursuant to the Depository Agreement between the Trust and DTC, DTC is required to make available to the Trust upon request and for a fee to be charged to the Trust a listing of the Shares of the Funds held by each DTC Participant. The Trust shall inquire of each such DTC Participant as to the number of Beneficial Owners holding Shares, directly or indirectly, through such DTC Participant. The Trust shall provide each such DTC Participant with copies of such notice, statement or other communication, in such form and number and at such place as such DTC Participant may reasonably request, in order that such notice, statement or communication may be transmitted by such DTC Participant, directly or indirectly, to such Beneficial Owners. In addition, the Trust shall pay to each such DTC Participant a fair and reasonable amount as reimbursement for the expenses attendant to such transmittal, all subject to applicable statutory and regulatory requirements.

Share distributions shall be made to DTC or its nominee, Cede & Co., as the registered holder of all Shares of the Trust. DTC or its nominee, upon receipt of any such distributions, shall immediately credit DTC Participants’ accounts with payments in amounts proportionate to their respective beneficial interests in Shares of the Funds as shown on the records of DTC or its nominee. Payments by DTC Participants to Indirect Participants and Beneficial Owners of Shares held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in a “street name,” and will be the responsibility of such DTC Participants.

The Trust has no responsibility or liability for any aspect of the records relating to or notices to Beneficial Owners, or payments made on account of beneficial ownership interests in such Shares, or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests, or for any other aspect of the relationship between DTC and the DTC Participants or the relationship between such DTC Participants and the Indirect Participants and Beneficial Owners owning through such DTC Participants. DTC may decide to discontinue its service with respect to Shares of the Trust at any time by giving reasonable notice to the Trust and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, the Trust shall take action to find a replacement for DTC to perform its functions at a comparable cost.

#### **LIMITATION OF TRUSTEES’ LIABILITY**

The Declaration of Trust provides that a Trustee shall be liable only for his or her own willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of the office of Trustee, and shall not be liable for errors of judgment or mistakes of fact or law. The Declaration of Trust also provides that the Trust shall indemnify each person who is, or has been, a Trustee, officer, employee or agent of the Trust, any person who is serving or has served at the Trust’s request as a Trustee, officer, trustee, employee or agent of another organization in which the Trust has any interest as a shareholder, creditor or otherwise to the fullest extent provided by law and in the manner provided in the By-laws. However, nothing in the Declaration of Trust shall protect or indemnify a Trustee against any liability for his or her willful misfeasance, bad faith, gross negligence or reckless disregard of the

duties involved in the conduct of the office of Trustee. Nothing contained in this section attempts to disclaim a Trustee's individual liability in any manner inconsistent with the federal securities laws.

## **PURCHASE AND REDEMPTION OF SHARES IN CREATION UNITS**

The Trust issues and sells Shares of the Funds only: (i) in Creation Units on a continuous basis through the Distributor, without a sales load (but subject to transaction fees, if applicable), at their NAV per Share next determined after receipt of an order, on any Business Day, in proper form pursuant to the terms of the Authorized Participant Agreement ("Participant Agreement"); or (ii) pursuant to the Dividend Reinvestment Service (defined below). The NAV of a Fund's Shares is calculated each Business Day as of the close of regular trading on the New York Stock Exchange, generally 4:00 p.m., Eastern Time on each day that the New York Stock Exchange is open. The Funds will not issue fractional Creation Units. A "Business Day" is any day on which the New York Stock Exchange and Trust are open for business.

**Fund Deposits (each Fund other than AFTY).** The consideration for purchase of a Creation Unit of a Fund (other than AFTY) generally consists of the in-kind deposit of a designated portfolio of securities (the "Deposit Securities") per each Creation Unit and the Cash Component (defined below), computed as described below. Notwithstanding the foregoing, the Trust reserves the right to permit or require the substitution of a "cash in lieu" amount ("Deposit Cash") to be added to the Cash Component to replace any Deposit Security. When accepting purchases of Creation Units for all or a portion of Deposit Cash, a Fund may incur additional costs associated with the acquisition of Deposit Securities that would otherwise be provided by an in-kind purchaser.

**Fund Deposits (AFTY only).** The consideration for purchase of a Creation Unit of AFTY generally consists of the deposit of a designated amount of cash ("Deposit Cash"). Notwithstanding the foregoing, the Trust reserves the right to permit or require consideration consisting of a portfolio of securities (the "Deposit Securities") per each Creation Unit and the Cash Component (defined below), computed as described below or the substitution of a cash in lieu amount to be added to the Cash Component to replace any Deposit Security. When accepting purchases of Creation Units for all or a portion of Deposit Cash, the Fund may incur additional costs associated with the acquisition of Deposit Securities that would otherwise be provided by an in-kind purchaser.

Together, the Deposit Securities or Deposit Cash, as applicable, and the Cash Component constitute the "Fund Deposit," which represents the minimum initial and subsequent investment amount for a Creation Unit of a Fund. The "Cash Component" is an amount equal to the difference between the NAV of the Shares (per Creation Unit) and the market value of the Deposit Securities or Deposit Cash, as applicable. If the Cash Component is a positive number (*i.e.*, the net asset value per Creation Unit exceeds the market value of the Deposit Securities or Deposit Cash, as applicable), the Cash Component shall be such positive amount. If the Cash Component is a negative number (*i.e.*, the net asset value per Creation Unit is less than the market value of the Deposit Securities or Deposit Cash, as applicable), the Cash Component shall be such negative amount and the creator will be entitled to receive cash in an amount equal to the Cash Component. The Cash Component serves the function of compensating for any differences between the net asset value per Creation Unit and the market value of the Deposit Securities or Deposit Cash, as applicable. Computation of the Cash Component excludes any stamp duty or other similar fees and expenses payable upon transfer of beneficial ownership of the Deposit Securities, if applicable, which shall be the sole responsibility of the Authorized Participant (as defined below).

The Funds, through NSCC, will make available on each Business Day, prior to the opening of business on the Exchange (currently 9:30 a.m., Eastern Time), the list of the names and the required number of Shares of each Deposit Security or the required amount of Deposit Cash, as applicable, to be included in the current Fund Deposits (based on information at the end of the previous Business Day) for each Fund. Such Fund Deposits are subject to any applicable adjustments as described below, to effect purchases of Creation Units of a Fund until such time as the next-announced composition of the Deposit Securities or the required amount of Deposit Cash, as applicable, is made available.

The identity and number of Shares of the Deposit Securities or the amount of Deposit Cash, as applicable, required for a Fund Deposit for a Creation Unit changes as rebalancing adjustments and corporate action events are reflected from time to time by the Adviser with a view to the investment objective of a Fund. The composition of the Deposit Securities may also change in response to adjustments to the weighting or composition of the component securities of a Fund's portfolio. However, there will be no intraday changes to Deposit Securities or Deposit Cash except to correct errors in the published list.

The Trust reserves the right to permit or require the substitution of an amount of cash (that is a "cash in lieu" amount) to be added to the Cash Component to replace any Deposit Security which may not be available in sufficient quantity for delivery or that may not be eligible for transfer through the systems of DTC, the Clearing Process (discussed below), the Federal Reserve System for U.S. Treasury Securities (discussed below) or for other similar reasons. The Trust also reserves the right to permit or require a "cash in lieu" amount where the delivery of Deposit Securities by the Authorized Participant (as described below) would be restricted under the securities laws or where delivery of Deposit Securities to the Authorized Participant would result in the disposition of Deposit Securities by the Authorized Participant becoming restricted under the securities laws, and in certain other situations. The adjustments

described above will reflect changes, known to the Adviser on the date of announcement to be in effect by the time of delivery of the Fund Deposit, resulting from certain corporate actions.

On a given Business Day, the Trust may require all Authorized Participants purchasing Creation Units on that day to deposit an amount of cash (that is a “cash in lieu” amount) to replace any Deposit Security that may not be eligible for transfer through the systems of DTC or the Clearing Process (discussed below). The Trust also reserves the right to permit a “cash in lieu” to replace any Deposit Security which may not be available in sufficient quantity or which may not be eligible for trading by an Authorized Participant or the investor on whose behalf the Authorized Participant is acting (“custom orders”). The Trust may in its discretion require an Authorized Participant to purchase Creation Units of the Fund in cash, rather than in-kind. On a given Business Day, the Trust may announce before the open of trading that all purchases of Creation Units of the Fund on that day will be made entirely in cash or, upon receiving a purchase order for Creation Units of the Fund from an Authorized Participant, the Trust may determine to require that purchase to be made entirely in cash.

**Procedures for Purchase of Creation Units.** To be eligible to place orders with the Distributor to purchase a Creation Unit of the Funds, an entity must be (i) a “Participating Party”, *i.e.*, a broker-dealer or other participant in the clearing process through the Continuous Net Settlement System of the NSCC (the “Clearing Process”), a clearing agency that is registered with the SEC; or (ii) a DTC Participant (see “BOOK ENTRY ONLY SYSTEM”). In addition, each Participating Party or DTC Participant (each, an “Authorized Participant”) must execute a Participant Agreement that has been agreed to by the Distributor, and that has been accepted by the Transfer Agent and the Trust, with respect to purchases and redemptions of Creation Units. Each Authorized Participant will agree, pursuant to the terms of a Participant Agreement, on behalf of itself or any investor on whose behalf it will act, to certain conditions, including that it will pay to the Trust, an amount of cash sufficient to pay the Cash Component together with the creation transaction fee (described below) and any other applicable fees and taxes.

All orders to purchase Shares directly from the Funds must be placed for one or more Creation Units and in the manner and by the time set forth in the Participant Agreement and/or applicable order form. The date on which an order to purchase Creation Units (or an order to redeem Creation Units, as set forth below) of such Funds is received and accepted is referred to as the “Order Placement Date.”

Except as otherwise set forth in this SAI, the order cut-off time for PTEU, PAEU, GCOW, PIEL, ICOW, PTIN, ECOW, and AFTY (each a “T-1 Fund” and collectively, the “T-1 Funds”) for orders to purchase Creation Units on the same Business Day is 4:00 p.m. Eastern Time. In addition, orders to purchase Creation Units on the next Business Day may be submitted as a “Future Dated Trade” between 4:30 p.m. Eastern Time and 5:30 p.m. Eastern Time on the prior Business Day. Such times may be modified by the T-1 Funds from time-to-time by amendment to the Participant Agreement and/or applicable order form. The date on which an order to purchase Creation Units (or an order to redeem Creation Units, as set forth below) is received and accepted is referred to as the “Order Placement Date.” Future Dated Trades to purchase or redeem Creation Units will have an Order Placement Date of the Business Day following the day on which such an order is submitted.

The order cut-off time for orders to purchase Creation Units for PTBD is expected to be 12:00 p.m. Eastern Time, for TRPL and QDPL is expected to be 2:00 p.m. Eastern Time, and for FLRT is expected to be 3:00 p.m. Eastern Time, which time may be modified by the Fund from time-to-time by amendment to the Participant Agreement and/or applicable order form.

All orders to purchase Shares directly from SZNG on the next Business Day must be submitted as a “Future Dated Trade” for one or more Creation Units between 4:30 p.m. Eastern time and 5:30 p.m. Eastern time on the prior Business Day. The Business Day following the day on which such an order is submitted to purchase Creation Units (or an order to redeem Creation Units, as set forth below) of the Fund is referred to as the “Order Placement Date.”

The order cut-off time for orders to purchase Creation Units for each Fund other than the T-1 Funds, PTBD, and SZNG is expected to be 4:00 p.m. Eastern Time, which time may be modified by a Fund from time-to-time by amendment to the Participant Agreement and/or applicable order form.

The order cut-off time for orders to purchase Creation Units for each Fund other than the T-1 Funds and for any T-1 Fund when the Deposit Securities for such T-1 Fund include only U.S. Treasury bills is expected to be 4:00 p.m. Eastern Time, which time may be modified by a Fund from time-to-time by amendment to the Participant Agreement and/or applicable order form.

An Authorized Participant may require an investor to make certain representations or enter into agreements with respect to the order, (*e.g.*, to provide for payments of cash, when required). Investors should be aware that their particular broker may not have executed a Participant Agreement and that, therefore, orders to purchase Shares directly from the Funds in Creation Units have to be placed by the investor’s broker through an Authorized Participant that has executed a Participant Agreement. In such cases there may be additional charges to such investor. At any given time, there may be only a limited number of broker-dealers that have executed a Participant Agreement and only a small number of such Authorized Participants may have international capabilities.

On days when the Exchange closes earlier than normal, the Funds may require orders to create Creation Units to be placed earlier in the day. In addition, if a market or markets on which the Funds' investments are primarily traded is closed, the Funds will also generally not accept orders on such day(s). Orders must be transmitted by an Authorized Participant by telephone or other transmission method acceptable to the Distributor pursuant to procedures set forth in the Participant Agreement and in accordance with the applicable order form. On behalf of the Funds, the Distributor will notify the Custodian of such order. The Custodian will then provide such information to the appropriate local sub-custodian(s). Those placing orders through an Authorized Participant should allow sufficient time to permit proper submission of the purchase order to the Distributor by the cut-off time on such Business Day, as designated in the Participant Agreement. Economic or market disruptions or changes, or telephone or other communication failure may impede the ability to reach the Distributor or an Authorized Participant.

Fund Deposits must be delivered by an Authorized Participant through the Federal Reserve System (for cash) or through DTC (for corporate securities), through a sub-custody agent (for foreign securities) and/or through such other arrangements allowed by the Trust or its agents. With respect to foreign Deposit Securities, the Custodian shall cause the sub-custodian of the Funds to maintain an account into which the Authorized Participant shall deliver, on behalf of itself or the party on whose behalf it is acting, such Deposit Securities (or Deposit Cash for all or a part of such securities, as permitted or required), with any appropriate adjustments as advised by the Trust. Foreign Deposit Securities must be delivered to an account maintained at the applicable local sub-custodian. The Fund Deposit transfer must be ordered by the Authorized Participant in a timely fashion so as to ensure the delivery of the requisite number of Deposit Securities or Deposit Cash, as applicable, to the account of a Fund or its agents by no later than 12:00 p.m. Eastern Time (or such other time as specified by the Trust) on the Settlement Date. If a Fund or its agents do not receive all of the Deposit Securities, or the required Deposit Cash in lieu thereof, by such time, then the order may be deemed rejected and the Authorized Participant shall be liable to the Fund for losses, if any, resulting therefrom. The "Settlement Date" for a Fund is generally the next Business Day after the Order Placement Date. All questions as to the number of Deposit Securities or Deposit Cash to be delivered, as applicable, and the validity, form and eligibility (including time of receipt) for the deposit of any tendered securities or cash, as applicable, will be determined by the Trust, whose determination shall be final and binding. The amount of cash represented by the Cash Component must be transferred directly to the Custodian through the Federal Reserve Bank wire transfer system in a timely manner so as to be received by the Custodian no later than the Settlement Date. If the Cash Component and the Deposit Securities or Deposit Cash, as applicable, are not received by the Custodian in a timely manner by the Settlement Date, the creation order may be cancelled. Upon written notice to the Distributor, such canceled order may be resubmitted the following Business Day using a Fund Deposit as newly constituted to reflect the then current NAV of the Fund.

The order shall be deemed to be received on the Order Placement Date provided that the order is placed in proper form prior to the applicable cut-off time and the Deposit Cash, as applicable, and the Cash Component in the appropriate amount are deposited by 2:00 p.m. or 3:00 p.m., Eastern Time (as set forth on the applicable order form), with the Custodian on the Settlement Date. If the order is not placed in proper form as required, or Deposit Cash, as applicable, and the Cash Component in the appropriate amount are not received by 2:00 p.m. or 3:00 p.m., Eastern Time (as set forth on the applicable order form) on the Settlement Date, then the order may be deemed to be rejected and the Authorized Participant shall be liable to the Funds for losses, if any, resulting there from. A creation request is considered to be in "proper form" if all procedures set forth in the Participant Agreement, order form and this SAI are properly followed.

**Issuance of a Creation Unit.** Except as provided herein, Creation Units will not be issued until the transfer of good title to the Trust of the Deposit Securities or payment of Deposit Cash, as applicable, and the payment of the Cash Component have been completed. When the sub-custodian has confirmed to the Custodian that the required Deposit Securities (or the cash value thereof) have been delivered to the account of the relevant sub-custodian or sub-custodians, the Distributor and the Adviser shall be notified of such delivery, and the Trust will issue and cause the delivery of the Creation Units. The delivery of Creation Units so created generally will occur no later than the next Business Day following the day on which the purchase order is deemed received by the Distributor. The Authorized Participant shall be liable to a Fund for losses, if any, resulting from unsettled orders.

Creation Units may be issued in advance of receipt by the Trust of all or a portion of the applicable Deposit Securities as described below. In these circumstances, the initial deposit will have a value greater than the net asset value of the Shares on the date the order is placed in proper form since, in addition to available Deposit Securities, cash must be deposited in an amount equal to the sum of (i) the Cash Component, plus (ii) an additional amount of cash equal to a percentage of the market value as set forth in the Participant Agreement, of the undelivered Deposit Securities (the "Additional Cash Deposit"), which shall be maintained in a separate non-interest bearing collateral account. The Authorized Participant must deposit with the Custodian the Additional Cash Deposit, as applicable, by 12:00 p.m. Eastern Time (or such other time as specified by the Trust) on the Settlement Date. If a Fund or its agents do not receive the Additional Cash Deposit in the appropriate amount, by such time, then the order may be deemed rejected and the Authorized Participant shall be liable to the Fund for losses, if any, resulting therefrom. An additional amount of cash shall be required to be deposited with the Trust, pending delivery of the missing Deposit Securities to the extent necessary to maintain the Additional Cash Deposit with the Trust in an amount at least equal to the applicable percentage, as set forth in the Participant Agreement, of the daily marked to market value of the missing Deposit Securities. The Participant Agreement will permit the Trust to buy the missing

Deposit Securities at any time. Authorized Participants will be liable to the Trust for the costs incurred by the Trust in connection with any such purchases. These costs will be deemed to include the amount by which the actual purchase price of the Deposit Securities exceeds the market value of such Deposit Securities on the day the purchase order was deemed received by the Distributor plus the brokerage and related transaction costs associated with such purchases. The Trust will return any unused portion of the Additional Cash Deposit once all of the missing Deposit Securities have been properly received by the Custodian or purchased by the Trust and deposited into the Trust. In addition, a transaction fee, as described below under “Creation Transaction Fee” may be charged. The delivery of Creation Units so created generally will occur no later than the Settlement Date.

**Acceptance of Orders of Creation Units.** The Trust reserves the right to reject an order for Creation Units transmitted to it by the Distributor with respect to the Fund including, without limitation, if (a) the order is not in proper form; (b) the Deposit Securities or Deposit Cash, as applicable, delivered by the Participant are not as disseminated through the facilities of the NSCC for that date by the Custodian; (c) the investor(s), upon obtaining Shares ordered, would own 80% or more of the currently outstanding Shares; (d) the acceptance of the Fund Deposit would, in the opinion of counsel, be unlawful; (e) the acceptance or receipt of the order for a Creation Unit would, in the opinion of counsel to the Trust, be unlawful; or (f) in the event that circumstances outside the control of the Trust, the Custodian, the Transfer Agent and/or the Adviser make it for all practical purposes not feasible to process orders for Creation Units.

Examples of such circumstances include acts of God or public service or utility problems such as fires, floods, extreme weather conditions and power outages resulting in telephone, telecopy and computer failures; market conditions or activities causing trading halts; systems failures involving computer or other information systems affecting the Trust, the Distributor, the Custodian, a sub-custodian, the Transfer Agent, DTC, NSCC, Federal Reserve System, or any other participant in the creation process, and other extraordinary events. The Distributor shall notify a prospective creator of a Creation Unit and/or the Authorized Participant acting on behalf of the creator of a Creation Unit of its rejection of the order of such person. The Trust, the Transfer Agent, the Custodian, any sub-custodian and the Distributor are under no duty, however, to give notification of any defects or irregularities in the delivery of Fund Deposits nor shall either of them incur any liability for the failure to give any such notification. The Trust, the Transfer Agent, the Custodian and the Distributor shall not be liable for the rejection of any purchase order for Creation Units.

All questions as to the number of Shares of each security in the Deposit Securities and the validity, form, eligibility and acceptance for deposit of any securities to be delivered shall be determined by the Trust, and the Trust’s determination shall be final and binding.

**Creation Transaction Fee.** A fixed purchase (*i.e.*, creation) transaction fee, payable to the Funds’ custodian, may be imposed for the transfer and other transaction costs associated with the purchase of Creation Units (“Creation Order Costs”). The standard fixed creation transaction fee for each Fund, regardless of the number of Creation Units created in the transaction, are set forth in the table below. A Fund may adjust the standard fixed creation transaction fee from time to time. The fixed creation fee may be waived on certain orders if a Fund’s custodian has determined to waive some or all of the Creation Order Costs associated with the order or another party, such as the Adviser, has agreed to pay such fee.

| Name of Fund  | Fixed Creation Transaction Fee |   | Name of Fund  | Fixed Creation Transaction Fee |
|---|--------------------------------|---|---|--------------------------------|
| Pacer Trendpilot US Large Cap ETF                       | \$500                          | * | Pacer Benchmark Hotel & Lodging Real Estate SCTR ETF          | \$300                          |
| Pacer Trendpilot US Mid Cap ETF                         | \$500                          | * | Pacer Benchmark Apartments & Residential Real Estate SCTR ETF | \$300                          |
| Pacer Trendpilot 100 ETF                                | \$300                          |   | Pacer Benchmark Healthcare Real Estate SCTR ETF               | \$300                          |
| Pacer Trendpilot European Index ETF                     | \$2,000                        | * | Pacer Benchmark Industrial Real Estate SCTR ETF               | \$300                          |
| Pacer Trendpilot US Bond ETF                            | \$500                          | * | Pacer Benchmark Data & Infrastructure Real Estate SCTR ETF    | \$300                          |
| Pacer Trendpilot International ETF                      | \$8,000                        | * | Pacer Autopilot Hedged European Index ETF                     | \$5,000                        |
| Pacer Trendpilot Fund of Funds ETF                      | \$300                          |   | Pacer WealthShield ETF  | \$500                          |
| Pacer US Cash Cows 100 ETF                              | \$300                          |   | Pacer CFRA-Stovall Global Seasonal Rotation ETF               | \$3,000                        |
| Pacer US Small Cap Cash Cows 100 ETF                    | \$300                          |   | Pacer CFRA-Stovall Equal Weight Seasonal Rotation ETF         | \$500                          |
| Pacer US Cash Cows Growth ETF                           | \$300                          |   | Pacer BioThreat Strategy ETF                                  | \$300                          |
| Pacer Global Cash Cows Dividend ETF                     | \$1,500                        |   | Pacer Lunt Large Cap Alternator ETF                           | \$300                          |
| Pacer Emerging Markets Cash Cows 100 ETF                | \$1,750                        |   | Pacer Lunt MidCap Multi-Factor Alternator ETF                 | \$300                          |
| Pacer Developed Markets International Cash Cows 100 ETF | \$1,500                        |   | Pacer Lunt Large Cap Multi-Factor Alternator ETF              | \$300                          |
| Pacer Cash Cows Fund of Funds ETF                       | \$300                          |   | Pacer Pacific Asset Floating Rate High Income ETF             | \$300                          |
| Pacer US Export Leaders ETF                             | \$300                          |   | Pacer Metaurus US Large Cap Dividend Multiplier 300 ETF       | \$300                          |
| Pacer International Export Leaders ETF                  | \$2,000                        |   | Pacer Metaurus US Large Cap Dividend Multiplier 400 ETF       | \$300                          |
| Pacer CSOP FTSE China A50 ETF                           | \$300                          |   |   |                                |

\* The fixed creation transaction fee will be \$300 when the Deposit Securities include only U.S. Treasury bills. For PTBD, the standard fixed creation transaction fee is \$300 when the Deposit Securities include U.S. Treasury bills.

In addition, a variable fee, payable to a Fund, of up to a maximum of 2%, except for AFTY which has a maximum of 8%, of the value of the Creation Units subject to the transaction may be imposed for cash purchases, non-standard orders, or partial cash purchases of Creation Units. The variable charge is primarily designed to cover additional costs (e.g., brokerage, taxes) involved with buying the securities with cash. A Fund may determine to not charge a variable fee on certain orders when the Adviser has determined that doing so is in the best interests of Fund shareholders, e.g., for creation orders that facilitate changes to the Fund's portfolio in a more tax efficient manner than could be achieved without such order. Investors who use the services of a broker or other such intermediary may be charged a fee for such services. Investors are responsible for the fixed costs of transferring the Fund Securities from the Fund to their account or on their order.

**Risks of Purchasing Creation Units.** There are certain legal risks unique to investors purchasing Creation Units directly from a Fund. Because Shares may be issued on an ongoing basis, a "distribution" of Shares could be occurring at any time. Certain activities that a shareholder performs as a dealer could, depending on the circumstances, result in the shareholder being deemed a participant in the distribution in a manner that could render the shareholder a statutory underwriter and subject to the prospectus delivery and liability provisions of the Securities Act. For example, a shareholder could be deemed a statutory underwriter if it purchases Creation Units from a Fund, breaks them down into the constituent Shares, and sells those Shares directly to customers, or if a shareholder chooses to couple the creation of a supply of new Shares with an active selling effort involving solicitation of secondary-market demand for Shares. Whether a person is an underwriter depends upon all of the facts and circumstances pertaining to that person's activities, and the examples mentioned here should not be considered a complete description of all the activities that could cause you to be deemed an underwriter.

Dealers who are not “underwriters” but are participating in a distribution (as opposed to engaging in ordinary secondary-market transactions), and thus dealing with Shares as part of an “unsold allotment” within the meaning of Section 4(a)(3)(C) of the Securities Act, will be unable to take advantage of the prospectus delivery exemption provided by Section 4(a)(3) of the Securities Act.

**Redemption.** Shares may be redeemed only in Creation Units at their net asset value next determined after receipt of a redemption request in proper form by the Funds through the Transfer Agent and only on a Business Day. Redemption requests must be placed by or through an Authorized Participant. EXCEPT UPON LIQUIDATION OF A FUND, THE TRUST WILL NOT REDEEM SHARES IN AMOUNTS LESS THAN CREATION UNITS. Investors must accumulate enough Shares in the secondary market to constitute a Creation Unit to have such Shares redeemed by the Trust. There can be no assurance, however, that there will be sufficient liquidity in the public trading market at any time to permit assembly of a Creation Unit. Investors should expect to incur brokerage and other costs in connection with assembling a sufficient number of Shares to constitute a redeemable Creation Unit.

With respect to the Funds, the Custodian, through the NSCC, makes available prior to the opening of business on the Exchange (currently 9:30 a.m., Eastern Time) on each Business Day, the list of the names and Share quantities of each Fund’s portfolio securities that will be applicable (subject to possible amendment or correction) to redemption requests received in proper form (as defined below) on that day (“Fund Securities”). Fund Securities received on redemption may not be identical to Deposit Securities.

Redemption proceeds for a Creation Unit are paid either in-kind or in cash, or combination thereof, as determined by the Trust. With respect to in-kind redemptions of the Funds, redemption proceeds for a Creation Unit will consist of Fund Securities -- as announced by the Custodian on the Business Day of the request for redemption received in proper form plus cash in an amount equal to the difference between the net asset value of the Shares being redeemed, as next determined after a receipt of a request in proper form, and the value of the Fund Securities (the “Cash Redemption Amount”), less a fixed redemption transaction fee as set forth below. In the event that the Fund Securities have a value greater than the net asset value of the Shares, a compensating cash payment equal to the differential is required to be made by or through an Authorized Participant by the redeeming shareholder. Notwithstanding the foregoing, at the Trust’s discretion, an Authorized Participant may receive the corresponding cash value of the securities in lieu of the in-kind securities value representing one or more Fund Securities.

**Redemption Transaction Fee.** A fixed redemption transaction fee, payable to the Funds’ custodian, may be imposed for the transfer and other transaction costs associated with the redemption of Creation Units (“Redemption Order Costs”). The standard fixed redemption transaction fee for each Fund, regardless of the number of Creation Units redeemed in the transaction are set forth in the table below. A Fund may adjust the redemption transaction fee from time to time. The fixed redemption fee may be waived on certain orders if the Fund’s custodian has determined to waive some or all of the Redemption Order Costs associated with the order or another party, such as the Adviser, has agreed to pay such fee.

| Name of Fund  | Fixed Redemption Transaction Fee | Name of Fund  | Fixed Redemption Transaction Fee |
|---|----------------------------------|---|----------------------------------|
| Pacer Trendpilot US Large Cap ETF                       | \$500 *                          | Pacer Benchmark Hotel & Lodging Real Estate SCTR ETF          | \$300                            |
| Pacer Trendpilot US Mid Cap ETF                         | \$500 *                          | Pacer Benchmark Apartments & Residential Real Estate SCTR ETF | \$300                            |
| Pacer Trendpilot 100 ETF                                | \$300                            | Pacer Benchmark Healthcare Real Estate SCTR ETF               | \$300                            |
| Pacer Trendpilot European Index ETF                     | \$2,000 *                        | Pacer Benchmark Industrial Real Estate SCTR ETF               | \$300                            |
| Pacer Trendpilot US Bond ETF                            | \$500 *                          | Pacer Benchmark Data & Infrastructure Real Estate SCTR ETF    | \$300                            |
| Pacer Trendpilot International ETF                      | \$8,000 *                        | Pacer Autopilot Hedged European Index ETF                     | \$5,000                          |
| Pacer Trendpilot Fund of Funds ETF                      | \$300                            | Pacer WealthShield ETF  | \$500                            |
| Pacer US Cash Cows 100 ETF                              | \$300                            | Pacer CFRA-Stovall Global Seasonal Rotation ETF               | \$3,000                          |
| Pacer US Small Cap Cash Cows 100 ETF                    | \$300                            | Pacer CFRA-Stovall Equal Weight Seasonal Rotation ETF         | \$500                            |
| Pacer US Cash Cows Growth ETF                           | \$300                            | Pacer BioThreat Strategy ETF                                  | \$300                            |
| Pacer Global Cash Cows Dividend ETF                     | \$1,500                          | Pacer Lunt Large Cap Alternator ETF                           | \$300                            |
| Pacer Emerging Markets Cash Cows 100 ETF                | \$1,750                          | Pacer Lunt MidCap Multi-Factor Alternator ETF                 | \$300                            |
| Pacer Developed Markets International Cash Cows 100 ETF | \$1,500                          | Pacer Lunt Large Cap Multi-Factor Alternator ETF              | \$300                            |
| Pacer Cash Cows Fund of Funds ETF                       | \$300                            | Pacer Pacific Asset Floating Rate High Income ETF             | \$300                            |
| Pacer US Export Leaders ETF                             | \$300                            | Pacer Metaurus US Large Cap Dividend Multiplier 300 ETF       | \$300                            |
| Pacer International Export Leaders ETF                  | \$2,000                          | Pacer Metaurus US Large Cap Dividend Multiplier 400 ETF       | \$300                            |
| Pacer CSOP FTSE China A50 ETF                           | \$300                            |   |                                  |

\*The fixed redemption transaction fee will be \$300 when the Deposit Securities include only U.S. Treasury bills.

In addition, a variable fee, payable to a Fund, of up to a maximum of 2%, except for AFTY which has a maximum of 8%, of the value of the Creation Units subject to the transaction may be imposed for cash redemptions, non-standard orders, or partial cash redemptions (when cash redemptions are available) of Creation Units. The variable charge is primarily designed to cover additional costs (e.g., brokerage, taxes) involved with selling portfolio securities to satisfy a cash redemption. A Fund may determine to not charge a variable fee on certain orders when the Adviser has determined that doing so is in the best interests of Fund shareholders, e.g., for redemption orders that facilitate changes to the Fund's portfolio in a more tax efficient manner than could be achieved without such order.

Investors who use the services of a broker or other such intermediary may be charged a fee for such services. Investors are responsible for the fixed costs of transferring the Fund Securities from the Fund to their account or on their order.

**Procedures for Redemption of Creation Units.** Except as otherwise set forth in this SAI, orders to redeem Creation Units of the T-1 Funds on any Business Day must be submitted in proper form to the Transfer Agent prior to 4:00 p.m. Eastern Time. In addition, orders to redeem Creation Units on the next Business Day may be submitted as a “Future Dated Trade” between 4:30 p.m. Eastern Time and 5:30 p.m. Eastern Time on the prior Business Day. A redemption request is considered to be in “proper form” if (i) an Authorized Participant has transferred or caused to be transferred to the Trust’s Transfer Agent the Creation Unit(s) being redeemed through the book-entry system of DTC so as to be effective by the time as set forth in the Participant Agreement and (ii) a request in form satisfactory to the Trust is received by the Transfer Agent from the Authorized Participant on behalf of itself or another redeeming investor within the time periods specified in the Participant Agreement. If the Transfer Agent does not receive the investor’s Shares through DTC’s facilities by the times and pursuant to the other terms and conditions set forth in the Participant Agreement, the redemption request shall be rejected.

Orders to redeem Creation Units of PTBD must be submitted in proper form to the Transfer Agent prior to 12:00 p.m. Eastern Time, prior to 2:00 p.m. Eastern Time for TRPL and QDPL, and 3:00 p.m. Eastern Time for FLRT. A redemption request is considered to be in “proper form” if (i) an Authorized Participant has transferred or caused to be transferred to the Trust’s Transfer Agent the Creation Unit(s) being redeemed through the book-entry system of DTC so as to be effective by the time as set forth in the Participant Agreement and (ii) a request in form satisfactory to the Trust is received by the Transfer Agent from the Authorized Participant on behalf of itself or another redeeming investor within the time periods specified in the Participant Agreement. If the Transfer Agent does not receive the investor’s Shares through DTC’s facilities by the times and pursuant to the other terms and conditions set forth in the Participant Agreement, the redemption request shall be rejected.

Orders to redeem Creation Units of SZNG on the next Business Day must be submitted in proper form to the Transfer Agent as a “Future Dated Trade” for one or more Creation Units between 4:30 p.m. Eastern time and 5:30 p.m. Eastern time on the prior Business Day and in the manner set forth in the Participant Agreement and/or applicable order form.

The order cut-off time for orders to redeem Creation Units for each Fund other than the T-1 Funds, PTBD, and SZNG and for any T-1 Fund when the Deposit Securities for such T-1 Fund include only U.S. Treasury bills is expected to be 4:00 p.m. Eastern Time, which time may be modified by a Fund from time-to-time by amendment to the Participant Agreement and/or applicable order form.

A redemption request is considered to be in “proper form” if (i) an Authorized Participant has transferred or caused to be transferred to the Trust’s Transfer Agent the Creation Unit(s) being redeemed through the book-entry system of DTC so as to be effective by the time as set forth in the Participant Agreement and (ii) a request in form satisfactory to the Trust is received by the Transfer Agent from the Authorized Participant on behalf of itself or another redeeming investor within the time periods specified in the Participant Agreement. If the Transfer Agent does not receive the investor’s Shares through DTC’s facilities by the times and pursuant to the other terms and conditions set forth in the Participant Agreement, the redemption request shall be rejected.

The Authorized Participant must transmit the request for redemption, in the form required by the Trust, to the Transfer Agent in accordance with procedures set forth in the Authorized Participant Agreement. Investors should be aware that their particular broker may not have executed an Authorized Participant Agreement, and that, therefore, requests to *redeem* Creation Units may have to be placed by the investor’s broker through an Authorized Participant who has executed an Authorized Participant Agreement. Investors making a redemption request should be aware that such request must be in the form specified by such Authorized Participant. Investors making a request to redeem Creation Units should allow sufficient time to permit proper submission of the request by an Authorized Participant and transfer of the Shares to the Trust’s Transfer Agent; such investors should allow for the additional time that may be required to effect redemptions through their banks, brokers or other financial intermediaries if such intermediaries are not Authorized Participants.

**Additional Redemption Procedures.** In connection with taking delivery of Shares of Fund Securities upon redemption of Creation Units, a redeeming shareholder or Authorized Participant acting on behalf of such Shareholder must maintain appropriate custody arrangements with a qualified broker-dealer, bank or other custody providers in each jurisdiction in which any of the Fund Securities are customarily traded, to which account such Fund Securities will be delivered. Deliveries of redemption proceeds generally will be made within two business days of the trade date. The Trust may, in its discretion, exercise its option to redeem such Shares in cash, and the redeeming Shareholders will be required to receive its redemption proceeds in cash.

However, due to the schedule of holidays in certain countries, the different treatment among foreign and U.S. markets of dividend record dates and dividend ex-dates (that is the last date the holder of a security can sell the security and still receive dividends payable on the security sold), and in certain other circumstances, the delivery of in-kind redemption proceeds with respect to the certain Funds may take longer than two business days after the day on which the redemption request is received in proper form. If neither the redeeming Shareholder nor the Authorized Participant acting on behalf of such redeeming Shareholder has appropriate arrangements to take delivery of the Fund Securities in the applicable foreign jurisdiction and it is not possible to make other such arrangements, or if it is not possible to effect deliveries of the Fund Securities in such jurisdiction, the Trust may, in its discretion, exercise its option to redeem such Shares in cash, and the redeeming Shareholders will be required to receive its redemption proceeds in cash.

In addition, an investor may request a redemption in cash that a Fund may, in its sole discretion, permit. In either case, the investor will receive a cash payment equal to the NAV of its Shares based on the NAV of Shares of the Funds next determined after the redemption request is received in proper form (minus a redemption transaction fee and additional charge for requested cash redemptions specified above, to offset the Trust's brokerage and other transaction costs associated with the disposition of Fund Securities). A Fund may also, in its sole discretion, upon request of a shareholder, provide such redeemer a portfolio of securities that differs from the exact composition of the Fund Securities but does not differ in net asset value.

Redemptions of Shares for Fund Securities will be subject to compliance with applicable federal and state securities laws and each Fund (whether or not it otherwise permits cash redemptions) reserves the right to redeem Creation Units for cash to the extent that the Trust could not lawfully deliver specific Fund Securities upon redemptions or could not do so without first registering the Fund Securities under such laws. An Authorized Participant or an investor for which it is acting subject to a legal restriction with respect to a particular security included in the Fund Securities applicable to the redemption of Creation Units may be paid an equivalent amount of cash. The Authorized Participant may request the redeeming investor of the Shares to complete an order form or to enter into agreements with respect to such matters as compensating cash payment. Further, an Authorized Participant that is not a "qualified institutional buyer," ("QIB") as such term is defined under Rule 144A of the Securities Act, will not be able to receive Fund Securities that are restricted securities eligible for resale under Rule 144A. An Authorized Participant may be required by the Trust to provide a written confirmation with respect to QIB status to receive Fund Securities.

Because the portfolio securities of the Funds may trade on other exchanges on days that the Exchange is closed or are otherwise not business days for the Funds, shareholders may not be able to redeem their Shares of the Funds, or to purchase or sell Shares of the Funds on the Exchange, on days when the NAV of the Funds could be significantly affected by events in the relevant foreign markets.

The right of redemption may be suspended or the date of payment postponed with respect to each Fund (1) for any period during which the Exchange is closed (other than customary weekend and holiday closings); (2) for any period during which trading on the Exchange is suspended or restricted; (3) for any period during which an emergency exists as a result of which disposal of the Shares of the Funds or determination of the NAV of the Shares is not reasonably practicable; or (4) in such other circumstance as is permitted by the SEC.

**Chinese Holidays** (*AFTY only*). For every occurrence of one or more intervening holidays in China (including Hong Kong) that are not holidays observed in the U.S. equity market, the redemption settlement cycle may be extended by the number of such intervening holidays at the discretion of the Fund. In addition to holidays, other unforeseeable closings due to emergencies may also prevent the Trust from delivering securities within normal settlement period. The securities delivery cycles currently practicable for transferring portfolio securities to redeeming investors, coupled with non-U.S. market holiday schedules, will require a delivery process longer than seven calendar days, in certain circumstances, but in no event longer than fourteen calendar days. The holidays applicable to the Fund during such periods are listed below, as are instances where more than seven days will be needed to deliver redemption proceeds. Although certain holidays may occur on different dates in subsequent years, the number of days required to deliver redemption proceeds in any given year is not expected to exceed the maximum number of days listed below for the Fund. The proclamation of new holidays, the treatment by market participants of certain days as "informal holidays" (e.g., days on which no or limited securities transactions occur, as a result of substantially shortened trading hours), the elimination of existing holidays, or changes in local securities delivery practices, could affect the information set forth herein at some time in the future.

In the calendar year 2022, the dates of regular holidays affecting the relevant securities markets in which a Fund invests are as follows:

| Holiday Name                 | Starting Date      | Ending Date        | A-Share Resumption Date |
|------------------------------|--------------------|--------------------|-------------------------|
| New Year's Day (Observed)    | January 3, 2022    | January 3, 2022    | January 4, 2022         |
| Lunar New Year               | January 31, 2022   | February 6, 2022   | February 8, 2022        |
| Qingming Festival            | April 4, 2022      | April 5, 2022      | April 6, 2022           |
| Labour Day                   | May 2, 2022        | May 4, 2022        | May 5, 2022             |
| Dragon Boat Festival Holiday | June 3, 2022       | June 3, 2022       | June 6, 2022            |
| Mid-Autumn Festival          | September 12, 2022 | September 12, 2022 | September 13, 2022      |
| National Day                 | October 3, 2022    | October 7, 2022    | October 10, 2022        |

**Required Early Acceptance of Orders.** Notwithstanding the foregoing, as described in the Participant Agreement and/or applicable order form, a Fund may require orders to be placed or notification of orders to be received prior to the trade date, as described in the Participant Agreement or the applicable order form, to receive the trade date's net asset value. Orders to purchase Shares of the Funds that are submitted on the Business Day immediately preceding a holiday or a day (other than a weekend) that the equity markets in the relevant foreign market are closed will not be accepted. Authorized Participants may be notified that the cut-off time for an order may be earlier on a particular business day, as described in the Participant Agreement and the order form.

## DETERMINATION OF NAV

Net asset value per Share for the Funds is computed by dividing the value of the net assets of a Fund (*i.e.*, the value of its total assets less total liabilities) by the total number of Shares outstanding, rounded to the nearest cent. Expenses and fees, including the management fees, are accrued daily and taken into account for purposes of determining net asset value. The net asset value of a Fund is calculated by the Custodian and determined at the close of the regular trading session on the New York Stock Exchange (ordinarily 4:00 p.m., Eastern Time) on each day that such exchange is open, provided that fixed-income assets may be valued as of the announced closing time for trading in fixed-income instruments on any day that the Securities Industry and Financial Markets Association (“SIFMA”) announces an early closing time.

In calculating a Fund’s net asset value per Share, the Fund’s investments are generally valued using market valuations. A market valuation generally means a valuation (i) obtained from an exchange, a pricing service, or a major market maker (or dealer), (ii) based on a price quotation or other equivalent indication of value supplied by an exchange, a pricing service, or a major market maker (or dealer) or (iii) based on amortized cost. In the case of shares of other funds that are not traded on an exchange, a market valuation means such fund’s published net asset value per share. A price obtained from a pricing service based on such pricing service’s valuation matrix may be considered a market valuation. The values of non-U.S. dollar denominated securities are converted to U.S. dollars using foreign currency exchange rates generally determined as of 3:00 p.m. Hong Kong time. Any assets or liabilities denominated in currencies other than the U.S. dollar are converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

## DIVIDENDS AND DISTRIBUTIONS

The following information supplements and should be read in conjunction with the section in the Prospectus entitled “Dividends, Distributions and Taxes.”

**General Policies.** Dividends from net investment income, if any, are declared and paid, as follows:

| Name of Fund | Frequency  | Name of Fund | Frequency  | Name of Fund | Frequency |
|--------------|------------|--------------|------------|--------------|-----------|
| PTLC         | Annual     | INDS         | Quarterly  | PTBD         | Monthly   |
| PTMC         | Annual     | SRVR         | Quarterly  | PTIN         | Annual    |
| PTNQ         | Annual     | PAD          | Quarterly* | TRND         | Annual    |
| PTEU         | Annual     | ECOW         | Quarterly  | BUL          | Quarterly |
| PAEU         | Annual*    | FLRT         | Monthly    | HERD         | Quarterly |
| PIEL         | Annual*    | GCOW         | Quarterly  | VIRS         | Quarterly |
| PWS          | Quarterly  | COWZ         | Quarterly  | ALTL         | Quarterly |
| SZNG         | Quarterly* | CALF         | Quarterly  | PAMC         | Quarterly |
| SZNE         | Quarterly  | ICOW         | Quarterly  | PALC         | Quarterly |
| ROOM         | Quarterly* | PEXL         | Quarterly  | TRPL         | Quarterly |
| RXRE         | Quarterly* | AFTY         | Annual     | QDPL         | Quarterly |

\*The Fund had not commenced investment operations as of April 30, 2022.

Distributions of net realized securities gains, if any, generally are declared and paid once a year, but the Funds may make distributions on a more frequent basis for the Funds to improve index tracking or to comply with the distribution requirements of the Code, in all events in a manner consistent with the provisions of the 1940 Act.

Dividends and other distributions on Shares are distributed, as described below, on a pro rata basis to Beneficial Owners of such Shares. Dividend payments are made through DTC Participants and Indirect Participants to Beneficial Owners then of record with proceeds received from the Trust.

The Trust makes additional distributions to the extent necessary (i) to distribute the entire annual taxable income of the Funds, plus any net capital gains and (ii) to avoid imposition of the excise tax imposed by Section 4982 of the Code. Management of the Funds reserves the right to declare special dividends if, in its reasonable discretion, such action is necessary or advisable to preserve the status of each Fund as a RIC or to avoid imposition of income or excise taxes on undistributed income.

**Dividend Reinvestment Service.** The Trust will not make the DTC book-entry dividend reinvestment service available for use by Beneficial Owners for reinvestment of their cash proceeds, but certain individual broker-dealers may make available the DTC book-entry Dividend Reinvestment Service for use by Beneficial Owners of the Funds through DTC Participants for reinvestment of their dividend distributions. Investors should contact their brokers to ascertain the availability and description of these services. Beneficial Owners should be aware that each broker may require investors to adhere to specific procedures and timetables to participate in the dividend reinvestment service and investors should ascertain from their brokers such necessary details. If this service is available and used, dividend distributions of both income and realized gains will be automatically reinvested in additional whole Shares issued by the Trust of the Funds at NAV per Share. Distributions reinvested in additional Shares of the Funds will nevertheless be taxable to Beneficial Owners acquiring such additional Shares to the same extent as if such distributions had been received in cash.

## FEDERAL INCOME TAXES

The following discussion of certain U.S. federal income tax consequences of investing in the Funds is based on the Code, U.S. Treasury regulations, and other applicable authority, all as in effect as of the date of the filing of this SAI. These authorities are subject to change by legislative or administrative action, possibly with retroactive effect. Tax reform legislation commonly known as the Tax Cuts and Jobs Act (the “TCJA”) was enacted on December 22, 2017. The Tax Act made significant changes to the U.S. federal income tax rules for individuals and corporations, generally effective for taxable years beginning after December 31, 2017. The application of certain provisions of the TCJA is uncertain, and the changes in the act may have indirect effects on a Fund, its investments and its shareholders that cannot be predicted. The following discussion is only a summary of some of the important U.S. federal income tax considerations generally applicable to investments in a Fund. There may be other tax considerations applicable to particular shareholders. Shareholders should consult their own tax advisors regarding their particular situation and the possible application of foreign, state, and local tax laws.

**Qualification as a Regulated Investment Company (RIC).** Each Fund intends to elect to be treated and qualify each year as a RIC under Subchapter M of the Code. To qualify for the special tax treatment accorded RICs and their shareholders, a Fund must, among other things:

- (a) derive at least 90% of its gross income each year from (i) dividends, interest, payments with respect to certain securities loans, gains from the sale or other disposition of stock or securities or foreign currencies, or other income (including but not limited to gains from options, futures or forward contracts) derived with respect to its business of investing in such stock, securities or currencies, and (ii) net income derived from interests in “qualified publicly traded partnerships” (as defined below);
- (b) diversify its holdings so that, at the end of each quarter of its taxable year, (i) at least 50% of the market value of a Fund’s total assets consists of cash and cash items, U.S. government securities, securities of other RICs and other securities, with investments in such other securities limited with respect to any one issuer to an amount not greater than 5% of the value of a Fund’s total assets and not greater than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of a Fund’s total assets is invested in (1) the securities (other than those of the U.S. government or other RICs) of any one issuer or two or more issuers that are controlled by a Fund and that are engaged in the same, similar or related trades or businesses or (2) the securities of one or more qualified publicly traded partnerships; and
- (c) distribute with respect to each taxable year an amount at least equal to the sum of 90% of its investment company taxable income (as that term is defined in the Code without regard to the deduction for dividends paid – generally taxable ordinary income and the excess, if any, of net short-term capital gains over net long-term capital losses) and 90% of its net tax-exempt interest income.

In general, for purposes of the 90% of gross income requirement described in (a) above, income derived from a partnership will be treated as qualifying income only to the extent such income is attributable to items of income of the partnership that would be qualifying income if realized directly by a Fund. However, 100% of the net income derived from an interest in a “qualified publicly traded partnership” (generally, a partnership (i) interests in which are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof, and (ii) that derives less than 90% of its income from the qualifying income described in (a)(i) of the prior paragraph) will be treated as qualifying income. In addition, although in general the passive loss rules of the Code do not apply to RICs, such rules do apply to a RIC with respect to items attributable to an interest in a qualified publicly traded partnership.

The U.S. Treasury Department has authority to issue regulations that would exclude foreign currency gains from the 90% test described in (a) above if such gains are not directly related to a fund’s business of investing in stock or securities. Accordingly, regulations may be issued in the future that could treat some or all of a Fund’s non-U.S. currency gains as non-qualifying income, thereby potentially jeopardizing the Fund’s status as a RIC for all years to which the regulations are applicable.

Under the TCJA, “qualified REIT dividends” (*i.e.*, ordinary REIT dividends other than capital gain dividends and portions of REIT dividends designated as qualified dividend income) are treated as eligible for a 20% deduction by noncorporate taxpayers. This

deduction, if allowed in full, equates to a maximum effective tax rate of 29.6% (37% top rate applied to income after 20% deduction). The TCJA does not contain a provision permitting a RIC, such as the Fund, to pass the special character of this income through to its shareholders. Currently, direct investors in REITs will enjoy the deduction and, thus, the lower federal income tax rate, but investors in a RIC, such as certain of the Funds, that invest in such REITs will not. It is uncertain whether a future technical corrections bill or regulations issued by the IRS will address this issue to enable the Fund to pass through the special character of “qualified REIT dividends” to its shareholders.

With respect to the Benchmark ETFs, given the concentration of each Index in a relatively small number of securities, it may not be possible for each Fund to fully implement a replication strategy or a representative sampling strategy while satisfying the above diversification requirements. A Fund’s efforts to satisfy such requirements may affect such Fund’s execution of its investment strategy and may cause such Fund’s return to deviate from that of the applicable Index, and such Fund’s efforts to replicate or represent the applicable Index may cause it inadvertently to fail to satisfy the diversification requirements.

**Taxation of the Funds.** If the Funds qualify for treatment as RICs, the Funds will not be subject to federal income tax on income and gains that are distributed in a timely manner to their shareholders in the form of dividends.

If, for any taxable year, a Fund was to fail to qualify as a RIC or was to fail to meet the distribution requirement, they would be taxed in the same manner as an ordinary corporation and distributions to its shareholders would not be deductible by the Fund in computing its taxable income. In addition, a Fund’s distributions, to the extent derived from the Fund’s current and accumulated earnings and profits, including any distributions of net long-term capital gains, would be taxable to shareholders as ordinary dividend income for federal income tax purposes. However, such dividends would be eligible, subject to any generally applicable limitations, (i) to be treated as qualified dividend income in the case of shareholders taxed as individuals and (ii) for the dividends-received deduction in the case of corporate shareholders. Moreover, a Fund would be required to pay out its earnings and profits accumulated in that year to qualify for treatment as a RIC in a subsequent year. Under certain circumstances, a Fund may be able to cure a failure to qualify as a RIC, but to do so that Fund may incur significant Fund-level taxes and may be forced to dispose of certain assets. If a Fund failed to qualify as a RIC for a period greater than two taxable years, the Fund would generally be required to recognize any net built-in gains with respect to certain of its assets upon a disposition of such assets within ten years of qualifying as a RIC in a subsequent year.

The Funds intend to distribute, at least annually, substantially all of their investment company taxable income and net capital gains. Investment company taxable income that is retained by a Fund will be subject to tax at regular corporate rates. If a Fund retains any net capital gain, that gain will be subject to tax at corporate rates, but the Fund may designate the retained amount as undistributed capital gains in a notice to its shareholders who (i) will be required to include in income for federal income tax purposes, as long-term capital gain, their Shares of such undistributed amount, (ii) will be deemed to have paid their proportionate Shares of the tax paid by the Fund on such undistributed amount against their federal income tax liabilities, if any, and (iii) will be entitled to claim refunds on a properly filed U.S. tax return to the extent the credit exceeds such liabilities. For federal income tax purposes, the tax basis of Shares owned by a shareholder of a Fund will be increased by an amount equal to the difference between the amount of undistributed capital gains included in the shareholder’s gross income and the tax deemed paid by the shareholder.

If a Fund fails to distribute in a calendar year an amount at least equal to the sum of 98% of its ordinary income for such year and 98.2% of its capital gain net income for the one-year period ending October 31 of such year, plus any retained amount from the prior year, the Fund will be subject to a non-deductible 4% excise tax on the undistributed amount. For these purposes, a Fund will be treated as having distributed any amount on which it has been subject to corporate income tax for the taxable year ending within the calendar year. The Funds intend to declare and pay dividends and distributions in the amounts and at the times necessary to avoid the application of the 4% excise tax, although there can be no assurance that they will be able to do so. The Funds may in certain circumstances be required to liquidate Fund investments to make sufficient distributions to avoid federal excise tax liability at a time when the investment adviser might not otherwise have chosen to do so, and liquidation of investments in such circumstances may affect the ability of the Funds to satisfy the requirement for qualification as a RIC.

A Fund may elect to treat part or all of any “qualified late year loss” as if it had been incurred in the succeeding taxable year in determining the Fund’s taxable income, net capital gain, net short-term capital gain, and earnings and profits. A “qualified late year loss” generally includes net capital loss, net long-term capital loss, or net short-term capital loss incurred after October 31 of the current taxable year, and certain other late-year losses.

Although AFTY intends to distribute substantially all of its net investment income and may distribute its capital gains for any taxable year, AFTY will be subject to federal income taxation, to the extent any such income or gains are not distributed. If AFTY does not on a timely basis receive applicable government approvals in the PRC to repatriate funds associated with direct investment in A-Shares, AFTY may be unable to satisfy the minimum distribution requirement described above. If AFTY failed to satisfy the distribution requirement for any taxable year, it would be taxed as a regular corporation, with consequences generally similar to those described in the preceding paragraph. AFTY may designate certain amounts retained as undistributed net capital gain in a notice to its shareholders, who: (i) will be required to include in income for U.S. federal income tax purposes, as long-term capital gain, their proportionate

shares of the undistributed amount so designated; (ii) will be entitled to credit their proportionate shares of the income tax paid by AFTY on that undistributed amount against their federal income tax liabilities and to claim refunds to the extent such credits exceed their liabilities; and (iii) will be entitled to increase their tax basis, for federal income tax purposes, in their shares in AFTY by an amount equal to the excess of the amount of undistributed net capital gain included in their respective income over their respective income tax credits. AFTY is treated as a separate corporation for federal income tax purposes. AFTY therefore is considered to be a separate entity in determining its treatment under the rules for RICs described herein.

The treatment of capital loss carryovers for the Funds is similar to the rules that apply to capital loss carryovers of individuals, which provide that such losses are carried over indefinitely. If a Fund has a “net capital loss” (that is, capital losses in excess of capital gains) the excess of the Fund’s net short-term capital losses over its net long-term capital gains is treated as a short-term capital loss arising on the first day of the Fund’s next taxable year, and the excess (if any) of the Fund’s net long-term capital losses over its net short-term capital gains is treated as a long-term capital loss arising on the first day of the Fund’s next taxable year. The carryover of capital losses may be limited under the general loss limitation rules if a Fund experiences an ownership change as defined in the Code.

At April 30, 2022, the Funds had the following capital loss carryforwards which do not expire:

| <b>Name of Fund</b>   | <b>Capital Loss Carryforwards<br/>Amount (Short-Term)</b> | <b>Capital Loss Carryforwards<br/>Amount (Long-Term)</b> |
|---|---|--|
| Pacer Trendpilot US Large Cap ETF                             | \$230,987,298   | \$112,011,262  |
| Pacer Trendpilot US Mid Cap ETF                               | \$84,756,736  | \$—  |
| Pacer Trendpilot 100 ETF                                      | \$30,168,104  | \$16,475,195   |
| Pacer Trendpilot European Index ETF                           | \$40,092,832  | \$10,693,471   |
| Pacer Trendpilot US Bond ETF                                  | \$139,778,600   | \$211,121  |
| Pacer Trendpilot International ETF                            | \$19,596,784  | \$4,325,607  |
| Pacer Trendpilot Fund of Funds ETF                            | \$401,047   | \$187,857  |
| Pacer US Cash Cows 100 ETF                                    | \$20,846,980  | \$20,219,979   |
| Pacer US Small Cap Cash Cows 100 ETF                          | \$33,052,854  | \$3,096,459  |
| Pacer US Cash Cows Growth ETF                                 | \$460,683   | \$34,685   |
| Pacer Global Cash Cows Dividend ETF                           | \$12,199,255  | \$19,706,117   |
| Pacer Emerging Markets Cash Cows 100 ETF                      | \$230,544   | \$—  |
| Pacer Developed Markets International Cash Cows 100 ETF       | \$3,387,695   | \$2,045,871  |
| Pacer Cash Cows Fund of Funds ETF                             | \$—   | \$—  |
| Pacer US Export Leaders ETF                                   | \$125,091   | \$34,203   |
| Pacer International Export Leaders ETF                        | N/A   | N/A  |
| Pacer CSOP FTSE China A50 ETF                                 | \$1,253,834   | \$198,061  |
| Pacer Benchmark Hotel & Lodging Real Estate SCTR ETF          | N/A   | N/A  |
| Pacer Benchmark Apartments & Residential Real Estate SCTR ETF | N/A   | N/A  |
| Pacer Benchmark Healthcare Real Estate SCTR ETF               | N/A   | N/A  |
| Pacer Benchmark Industrial Real Estate SCTR ETF               | \$839,404   | \$—  |
| Pacer Benchmark Data & Infrastructure Real Estate SCTR ETF    | \$—   | \$—  |
| Pacer Autopilot Hedged European Index ETF                     | N/A   | N/A  |
| Pacer WealthShield ETF  | \$22,884,333  | \$—  |
| Pacer CFRA-Stovall Global Seasonal Rotation ETF               | N/A   | N/A  |
| Pacer CFRA-Stovall Equal Weight Seasonal Rotation ETF         | \$19,963,415  | \$—  |
| Pacer BioThreat Strategy ETF                                  | \$—   | \$—  |
| Pacer Lunt Large Cap Alternator ETF                           | \$40,787,957  | \$—  |
| Pacer Lunt MidCap Multi-Factor Alternator ETF                 | \$6,423,850   | \$—  |
| Pacer Lunt Large Cap Multi-Factor Alternator ETF              | \$13,582,133  | \$—  |
| Pacer Pacific Asset Floating Rate High Income ETF             | \$315,620   | \$402,062  |
| Pacer Metaurus US Large Cap Dividend Multiplier 300 ETF       | \$4,363   | \$2,099  |
| Pacer Metaurus US Large Cap Dividend Multiplier 400 ETF       | \$77,507  | \$131,436  |

**Fund Distributions.** Distributions are taxable whether shareholders receive them in cash or reinvest them in additional Shares. Moreover, distributions of a Fund’s Shares are generally subject to federal income tax as described herein to the extent they do not exceed the Fund’s realized income and gains, even though such distributions may economically represent a return of a particular shareholder’s investment. Investors may therefore wish to avoid purchasing Shares at a time when a Fund’s NAV reflects gains that

are either unrealized, or realized but not distributed. Realized gains must generally be distributed even when a Fund's NAV also reflects unrealized losses.

Dividends and other distributions are generally treated under the Code as received by the shareholders at the time the dividend or distribution is made. However, if any dividend or distribution is declared by a Fund in October, November or December of any calendar year and payable to its shareholders of record on a specified date in such a month but is actually paid during the following January, such dividend or distribution will be deemed to have been received by each shareholder on December 31 of the year in which the dividend was declared.

Distributions by a Fund of investment income is generally taxable as ordinary income. Taxes on distributions of capital gains are determined by how long a Fund owned the investments that generated those gains, rather than how long a shareholder has owned his or her Fund Shares. Sales of assets held by a Fund for more than one year generally result in long-term capital gains and losses, and sales of assets held by a Fund for one year or less generally result in short-term capital gains and losses. Distributions from a Fund's net capital gain (the excess of a Fund's net long-term capital gain over its net short-term capital loss) that are properly reported by a Fund as capital gain dividends ("Capital Gain Dividends") will be taxable as long-term capital gains. For individuals, long-term capital gains are currently subject to a reduced maximum tax rate of 20%. Distributions of gains from the sale of investments that a Fund owned for one year or less will be taxable as ordinary income.

Distributions of investment income reported by a Fund as derived from "qualified dividend income" will be taxed in the hands of non-corporate shareholders at the rates applicable to long-term capital gains, provided holding period and other requirements are met at both the shareholder and Fund level. If the aggregate qualified dividends received by a Fund during any taxable year are 95% or more of its gross income (excluding net long-term capital gain over net short-term capital loss), then 100% of the Fund's dividends (other than Capital Gain Dividends) will be eligible to be reported as qualified dividend income.

A dividend will not be treated as qualified dividend income (at either a Fund or shareholder level) (1) if the dividend is received with respect to any share of stock held for fewer than 61 days during the 121-day period beginning on the date that is 60 days before the date on which such share becomes ex-dividend with respect to such dividend (or, in the case of certain preferred stock, 91 days during the 181-day period beginning 90 days before the ex-dividend date), (2) to the extent that the recipient is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property, (3) if the recipient elects to have the dividend income treated as investment income for purposes of the limitation on deductibility of investment interest, or (4) if the dividend is received from a foreign corporation that is (a) not eligible for the benefits of a comprehensive income tax treaty with the United States (with the exception of dividends paid on stock of such a foreign corporation that is readily tradable on an established securities market in the United States) or (b) treated as a passive foreign investment company. In addition, distributions that the Funds receive from an ETF or an underlying fund taxable as a RIC will be treated as qualified dividend income only to the extent so reported by such ETF or underlying fund.

Dividends of net investment income received by corporate shareholders of a Fund will qualify for the 70%, except for AFTY which will qualify for 50%, dividends-received deduction generally available to corporations to the extent of the amount of qualifying dividends received by the Fund from domestic corporations for the taxable year. A dividend received by a Fund will not be treated as a qualifying dividend (1) if the stock on which the dividend is paid is considered to be "debt-financed" (generally, acquired with borrowed funds), (2) if it has been received with respect to any share of stock that a Fund has held for less than 46 days during the 91-day period beginning on the date that is 45 days before the date on which the share becomes ex-dividend with respect to such dividend (91 days during the 181-day period beginning 90 days before the ex-dividend date in the case of certain preferred stock) or (3) to the extent that a Fund is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property. Moreover, the dividends-received deduction may be disallowed or reduced (1) if the corporate shareholder fails to satisfy the foregoing requirements with respect to its Shares of the Fund or (2) by application of the Code.

To the extent that a Fund makes a distribution of income received by the Fund in lieu of dividends (a "substitute payment") with respect to securities on loan pursuant to a securities lending transaction, such income will not constitute qualified dividend income to individual shareholders and will not be eligible for the dividends-received deduction for corporate shareholders.

Dividends and distributions from a Fund will generally be taken into account in determining a shareholder's "net investment income" for purposes of the Medicare contribution tax applicable to certain individuals, estates and trusts.

If a Fund makes distributions to a shareholder in excess of the Fund's current and accumulated earnings and profits in any taxable year, the excess distribution will be treated as a return of capital to the extent of that shareholder's tax basis in its Shares, and thereafter as capital gain, assuming the shareholder holds his or her Shares as capital assets. A return of capital is not taxable, but reduces a shareholder's tax basis in its Shares, thus reducing any loss or increasing any gain on a subsequent taxable disposition by the shareholder of its Shares.

The Funds will inform you of the amount of your ordinary income dividends, qualified dividend income, and capital gain distributions shortly after the close of each calendar year.

**Sale or Exchange of Shares.** A sale or exchange of Shares in the Funds may give rise to a gain or loss. For tax purposes, an exchange of Shares of a Fund for shares of a different fund is the same as a sale. In general, any gain or loss realized upon a taxable disposition of Shares will be treated as long-term capital gain or loss if the Shares have been held for more than 12 months. Otherwise, the gain or loss on the taxable disposition of Shares will be treated as short-term capital gain or loss. However, any loss realized upon a taxable disposition of Shares held for six months or less will be treated as long-term, rather than short-term, to the extent of any long-term capital gain distributions received (or deemed received) by the shareholder with respect to the Shares. All or a portion of any loss realized upon a taxable disposition of Shares will be disallowed if other substantially identical Shares of the Funds are purchased within 30 days before or after the disposition. In such a case, the basis of the newly purchased Shares will be adjusted to reflect the disallowed loss.

**Tax Treatment of Complex Securities.** The Funds may invest in complex securities and these investments may be subject to numerous special and complex tax rules. These rules could affect a Fund's ability to qualify as a RIC, affect whether gains and losses recognized by the Funds are treated as ordinary income or capital gain, accelerate the recognition of income to the Funds and/or defer the Funds' ability to recognize losses, and, in limited cases, subject the Funds to U.S. federal income tax on income from certain of their foreign securities. In turn, these rules may affect the amount, timing or character of the income distributed to you by the Funds.

Some debt obligations that are acquired by a Fund may be treated as having original issue discount ("OID"). Generally, a Fund will be required to include OID in taxable income over the term of the debt security, even though payment of the OID is not received until a later time, usually when the debt security matures. If a Fund holds such debt instruments, it may be required to pay out as distributions each year an amount that is greater than the total amount of cash interest the Fund actually received. Such distributions may be made from the cash assets of the Fund or by liquidation of portfolio securities, if necessary.

A Fund may invest in inflation-linked debt securities. Any increase in the principal amount of an inflation-linked debt security will be OID, which is taxable as ordinary income and is required to be distributed, even though a Fund will not receive the principal, including any increase thereto, until maturity. If a Fund invests in securities that have OID, it may be required to liquidate other investments, including at times when it is not advantageous to do so, to satisfy its distribution requirements and to eliminate any possible taxation at a Fund level. Moreover, a Fund may realize gains or losses from such liquidations. In the event a Fund realizes net gains from such transactions, its shareholders may receive larger distributions than they would have in the absence of such transactions.

The Funds are required for federal income tax purposes to mark to market and recognize as income for each taxable year its net unrealized gains and losses on certain futures contracts as of the end of the year as well as those actually realized during the year. Gain or loss from futures contracts on broad-based indexes required to be marked to market will be 60% long-term and 40% short-term capital gain or loss. Application of this rule may alter the timing and character of distributions to shareholders. A Fund may be required to defer the recognition of losses on futures contracts to the extent of any unrecognized gains on offsetting positions held by the Fund. These provisions may also require a Fund to mark-to-market certain types of positions in its portfolios (*i.e.*, treat them as if they were closed out), which may cause a Fund to recognize income without receiving cash with which to make distributions in amounts necessary to satisfy the distribution requirement and for avoiding the excise tax discussed above. Accordingly, in order to avoid certain income and excise taxes, the Funds may be required to liquidate its investments at a time when the investment adviser might not otherwise have chosen to do so.

**Real Estate Investment Trusts.** The Funds may invest in REITs. Investments in REIT equity securities may require a Fund to accrue and distribute income not yet received. To generate sufficient cash to make the requisite distributions, a Fund may be required to sell securities in its portfolio (including when it is not advantageous to do so) that it otherwise would have continued to hold. A Fund's investments in REIT equity securities may at other times result in such Fund's receipt of cash in excess of the REIT's earnings; if the Fund distributes these amounts, these distributions could constitute a return of capital to Fund shareholders for federal income tax purposes. Dividends paid by a REIT, other than capital gain distributions, will be taxable as ordinary income up to the amount of the REIT's current and accumulated earnings and profits. Capital gain dividends paid by a REIT to a Fund will be treated as long-term capital gains by such Fund and, in turn, may be distributed by such Fund to its shareholders as a capital gain distribution. Dividends received by a Fund from a REIT generally will not constitute qualified dividend income or qualify for the dividends received deduction.

If a REIT is operated in a manner such that it fails to qualify as a REIT, an investment in the REIT would become subject to double taxation, meaning the taxable income of the REIT would be subject to federal income tax at regular corporate rates without any deduction for dividends paid to shareholders and the dividends would be taxable to shareholders as ordinary income (or possibly as qualified dividend income) to the extent of the REIT's current and accumulated earnings and profits.

The Tax Act treats “qualified REIT dividends” (i.e., ordinary REIT dividends other than capital gain dividends and portions of REIT dividends designated as qualified dividend income eligible for capital gain tax rates) as eligible for a 20% deduction by non-corporate taxpayers. This deduction, if allowed in full, equates to a maximum effective tax rate of 29.6% (37% top rate applied to income after 20% deduction). The Tax Act does not contain a provision permitting a RIC, such as a Fund, to pass the special character of this income through to its shareholders. Currently, direct investors in REITs will enjoy the lower rate, but investors in RICs that invest in such REITs will not. It is uncertain whether future technical corrections or administrative guidance will address this issue to enable a Fund to pass through the special character of “qualified REIT dividends” to shareholders.

REITs in which a Fund invests often do not provide complete and final tax information to a Fund until after the time that a Fund issues a tax reporting statement. As a result, a Fund may at times find it necessary to reclassify the amount and character of its distributions to you after it issues your tax reporting statement. When such reclassification is necessary, a Fund (or your broker) will send you a corrected, final Form 1099-DIV to reflect the reclassified information. If you receive a corrected Form 1099-DIV, use the information on this corrected form, and not the information on the previously issued tax reporting statement, in completing your tax returns.

**Backup Withholding.** A Fund (or a financial intermediary, such as a broker, through which a shareholder holds Fund Shares) generally is required to withhold and to remit to the U.S. Treasury a percentage of the taxable distributions and sale or redemption proceeds paid to any shareholder who fails to properly furnish a correct taxpayer identification number, who has under-reported dividend or interest income, or who fails to certify that he, she or it is not subject to such withholding.

**Tax-Exempt Shareholders.** Under current law, income of a RIC that would be treated as unrelated business taxable income (“UBTI”) if earned directly by a tax-exempt entity generally will not be attributed as UBTI to a tax-exempt entity that is a shareholder in the RIC. Notwithstanding this “blocking” effect, a tax-exempt shareholder could realize UBTI by virtue of its investment in a Fund if Shares in the Fund constitute debt-financed property in the hands of the tax-exempt shareholder within the meaning of Code Section 514(b).

**Non-U.S. Shareholders.** In general, dividends other than Capital Gain Dividends paid by a Fund to a shareholder that is not a “U.S. person” within the meaning of the Code (a “foreign person”) are subject to withholding of U.S. federal income tax at a rate of 30% (or lower applicable treaty rate) even if they are funded by income or gains (such as portfolio interest, short-term capital gains, or foreign-source dividend and interest income) that, if paid to a foreign person directly, would not be subject to withholding.

A beneficial holder of Shares who is a non-U.S. person is not, in general, subject to U.S. federal income tax on gains (and is not allowed a U.S. income tax deduction for losses) realized on a sale of Shares of the Funds or on Capital Gain Dividends unless (i) such gain or dividend is effectively connected with the conduct of a trade or business carried on by such holder within the United States or (ii) in the case of an individual holder, the holder is present in the United States for a period or periods aggregating 183 days or more during the year of the sale or the receipt of the Capital Gain Dividend and certain other conditions are met. A Fund may, under certain circumstances, report all or a portion of a dividend as an “interest-related dividend” or a “short-term capital gain dividend,” which would generally be exempt from this 30% U.S. withholding tax, provided certain other requirements are met. Short-term capital gain dividends received by a nonresident alien individual who is present in the U.S. for a period or periods aggregating 183 days or more during the taxable year are not exempt from this 30% withholding tax.

A U.S. withholding tax at a 30% rate will be imposed on dividends effective July 1, 2014 (and proceeds of sales in respect of Fund Shares (including certain capital gain dividends) received by Fund shareholders beginning after December 31, 2018) for shareholders who own their Shares through foreign accounts or foreign intermediaries if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. A Fund will not pay any additional amounts in respect to any amounts withheld.

For a non-U.S. person to qualify for an exemption from backup withholding, the foreign investor must comply with special certification and filing requirements. Foreign investors in the Funds should consult their tax advisors in this regard. Backup withholding is not an additional tax. Any amounts withheld may be credited against the shareholder’s U.S. federal income tax liability, provided the appropriate information is furnished to the Internal Revenue Service (“IRS”).

A beneficial holder of Shares who is a non-U.S. person may be subject to the U.S. federal estate tax in addition to the federal income tax consequences referred to above. If a shareholder is eligible for the benefits of a tax treaty, any effectively connected income or gain will generally be subject to U.S. federal income tax on a net basis only if it is also attributable to a permanent establishment maintained by the shareholder in the United States.

An Authorized Participant who exchanges securities for Creation Units generally will recognize a gain or a loss. The gain or loss will be equal to the difference between the market value of the Creation Units at the time and the sum of the exchanger’s aggregate basis in the securities surrendered plus the amount of cash paid for such Creation Units. A person who redeems Creation Units will generally recognize a gain or loss equal to the difference between the exchanger’s basis in the Creation Units and the sum of the aggregate market value of any securities received plus the amount of any cash received for such Creation Units. The IRS, however, may assert

that a loss realized upon an exchange of securities for Creation Units cannot be deducted currently under the rules governing “wash sales,” or on the basis that there has been no significant change in economic position.

Any capital gain or loss realized upon the creation of Creation Units will generally be treated as long-term capital gain or loss if the securities exchanged for such Creation Units have been held for more than one year. Any capital gain or loss realized upon the redemption of Creation Units will generally be treated as long-term capital gain or loss if the Shares comprising the Creation Units have been held for more than one year. Otherwise, such capital gains or losses will be treated as short-term capital gains or losses. Persons purchasing or redeeming Creation Units should consult their own tax advisors with respect to the tax treatment of any creation or redemption transaction.

**Section 351.** The Trust on behalf of the Funds has the right to reject an order for a purchase of Shares of the Trust if the purchaser (or any group of purchasers) would, upon obtaining the Shares so ordered, own 80% or more of the outstanding Shares of a given Fund and if, pursuant to Section 351 of the Code, that Fund would have a basis in the securities different from the market value of such securities on the date of deposit. The Trust also has the right to require information necessary to determine beneficial share ownership for purposes of the 80% determination.

**Foreign Investments.** Income received by the Funds from sources within foreign countries and U.S. possessions (including, for example, dividends or interest on stock or securities of non-U.S. issuers) may be subject to withholding and other taxes imposed by such countries and U.S. possessions that would reduce the yield on a Fund’s stock or securities. Tax treaties between certain countries and the U.S. may reduce or eliminate such taxes in some cases. Foreign countries generally do not impose taxes on capital gains with respect to investments by foreign investors.

If as of the end of the Funds’ taxable year more than 50% of the value of a Fund’s assets consist of the securities of foreign corporations, the Fund may elect to permit shareholders who are U.S. citizens, resident aliens, or U.S. corporations to claim a foreign tax credit or deduction (but not both) on their income tax returns for their pro rata portions of qualified taxes paid by the Fund during that taxable year to foreign countries in respect of foreign securities the Fund has held for at least the minimum period specified in the Code. In such a case, a Fund will treat those taxes as dividends paid to its shareholders who must include in gross income from foreign sources their pro rata shares of such taxes and must treat the amount so included as if the shareholder had paid the foreign tax directly. The shareholder may then either deduct the taxes deemed paid by him or her in computing his or her taxable income or, alternatively, use the foregoing information in calculating any foreign tax credit they may be entitled to use against the shareholders’ federal income tax. If the Fund makes the election, the Fund (or its administrative agent) will report annually to its shareholders the respective amounts per Share of the Fund’s income from sources within, and taxes paid to, foreign countries and U.S. possessions. A shareholder’s ability to claim a foreign tax credit or deduction in respect of foreign taxes paid by a Fund may be subject to certain limitations imposed by the Code, which may result in the shareholder not getting a full credit or deduction for the amount of such taxes. Shareholders who do not itemize on their federal income tax returns may claim a credit, but not a deduction, for such foreign taxes.

If a Fund owns shares in certain foreign investment entities, referred to as “passive foreign investment companies” or “PFICs,” the Fund will generally be subject to one of the following special tax regimes: (i) the Fund may be liable for U.S. federal income tax, and an additional interest charge, on a portion of any “excess distribution” from such foreign entity or any gain from the disposition of such shares, even if the entire distribution or gain is paid out by the Fund as a dividend to its shareholders; (ii) if the Fund were able and elected to treat a PFIC as a “qualified electing fund” or “QEF,” the Fund would be required each year to include in income, and distribute to shareholders in accordance with the distribution requirements set forth above, the Fund’s pro rata share of the ordinary earnings and net capital gains of the PFIC, whether or not such earnings or gains are distributed to the Fund; or (iii) the Fund may be entitled to mark-to-market annually shares of the PFIC, and in such event would be required to distribute to shareholders any such mark-to-market gains in accordance with the distribution requirements set forth above. In such instances, the Funds intend to make the appropriate tax elections, if possible, and take any additional steps that are necessary to mitigate the effect of these rules.

**Foreign Currency Transactions.** A Fund’s transactions in foreign currencies and forward foreign currency contracts will generally be subject to special provisions of the Code that, among other things, may affect the character of gains and losses realized by a Fund (*i.e.*, may affect whether gains or losses are ordinary or capital), accelerate recognition of income to a Fund and defer losses. These rules could therefore affect the character, amount and timing of distributions to shareholders. These provisions also may require a Fund to mark-to-market certain types of positions in its portfolio (*i.e.*, treat them as if they were closed out) which may cause a Fund to recognize income without receiving cash with which to make distributions in amounts necessary to satisfy the distribution requirements and for avoiding the excise tax described above. The Funds intend to monitor their transactions, intend to make the appropriate tax elections, and intend to make the appropriate entries in their books and records when they acquire any foreign currency or forward foreign currency contract in order to mitigate the effect of these rules so as to prevent disqualification of a Fund as a RIC and minimize the imposition of income and excise taxes.

The U.S. Treasury Department has authority to issue regulations that would exclude foreign currency gains from income that qualifies for a Fund to satisfy the RIC requirements of the Code described above if such gains are not directly related to a Fund's business of investing in stock or securities (or options and futures with respect to stock or securities). Accordingly, regulations may be issued in the future that could treat some or all of a Fund's non-U.S. currency gains as non-qualifying income, thereby potentially jeopardizing a Fund's status as a RIC for all years to which the regulations are applicable.

An Authorized Participant having the U.S. dollar as its functional currency for U.S. federal tax purposes that exchanges securities for Creation Units generally will recognize a gain or loss equal to the difference between (i) the sum of the market value of the Creation Units at the time of the exchange and any amount of cash received by the Authorized Participant in the exchange and (ii) the sum of the exchanger's aggregate basis in the securities surrendered and any amount of cash paid for such Creation Units. A person who redeems Creation Units will generally recognize a gain or loss equal to the difference between the exchanger's basis in the Creation Units and the sum of the aggregate U.S. dollar market value of the securities plus the amount of any cash received for such Creation Units. The IRS, however, may assert that a loss that is realized by an Authorized Participant upon an exchange of securities for Creation Units cannot be currently deducted under the rules governing "wash sales," or on the basis that there has been no significant change in economic position.

**Master Limited Partnerships.** In general, for purposes of the Qualifying Income Requirement described above, income derived from a partnership that is not a qualified publicly traded partnership (as described below) will be treated as qualifying income only to the extent such income is attributable to items of income of the partnership that would be qualifying income if realized directly by the Fund. While the rules are not entirely clear with respect to an investment in a partnership outside a master-feeder structure, for purposes of testing whether the Fund satisfies the Diversification Requirement, the Fund is generally treated as owning a pro rata share of the underlying assets of a partnership, including interests in qualified publicly traded partnerships. As described below, the Fund's investment in one or more of such qualified publicly traded partnerships is limited under the Diversification Requirement to no more than 25% of the value of the Fund's assets. However, 100% of the net income derived from an interest in a "qualified publicly traded partnership" (generally, a partnership (i) interests in which are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof, (ii) that derives at least 90% of its income from the passive income sources specified in the Internal Revenue Code section 7704(d), and (iii) that derives less than 90% of its income from the same sources as described in the Qualifying Income Requirement) will be treated as qualifying income. In addition, although in general the passive loss rules of the Internal Revenue Code do not apply to RICs, such rules do apply to a RIC with respect to items attributable to an interest in a qualified publicly traded partnership.

MLPs taxed as partnerships have historically made cash distributions to limited partners that exceed the amount of taxable income allocable to limited partners or members, due to a variety of factors, including significant non-cash deductions such as depreciation and depletion. These excess cash distributions would not be treated as income to the Fund but rather would be treated as a return of capital to the extent of the Fund's basis in the MLP. As a consequence, the Fund may make distributions that exceed its earnings and profits, which would be recharacterized as a return of capital to shareholders. A return of capital distribution will generally not be taxable but will reduce each shareholder's cost basis in Shares and result in a higher capital gain or lower capital loss when the Shares are sold. After a shareholder's basis in Shares has been reduced to zero, distributions in excess of earnings and profits in respect of those Shares will be treated as gain from the sale of the Shares.

The Fund may invest in certain MLPs which may be treated as "qualified publicly traded partnerships" (as described above). Income from qualified publicly traded partnerships is qualifying income for purposes of the Qualifying Income Requirement, but the Fund's investment in one or more of such qualified publicly traded partnerships is limited under the Diversification Requirement to no more than 25% of the value of the Fund's assets. The Fund will monitor its investment in such qualified publicly traded partnerships in order to ensure compliance with the Qualifying Income and Diversification Requirements. MLPs and other partnerships that the Fund may invest in will deliver Form K-1s to the Fund to report its share of income, gains, losses, deductions and credits of the MLP or other partnership. These Form K-1s may be delayed and may not be received until after the time that the Fund issues its tax reporting statements. As a result, the Fund may at times find it necessary to reclassify the amount and character of its distributions to you after it issues you your tax reporting statement.

The Fund may invest, directly or indirectly, in entities that are taxed as corporations for United States federal income tax purposes, including certain MLPs that elect corporate treatment. Distributions that the Fund receives from such corporations will generally be taxable to the extent of the corporations current or accumulated earnings and profits. Distributions the Fund receives from such corporations in excess of current or accumulated earnings and profits will generally not be taxable as a return of capital, but will reduce the Fund's cost basis in the shares it owns and result in a higher capital gain or lower capital loss when the Fund sells such shares. Certain corporations in which the Fund invests may accrue deferred income taxes for their future tax liability associated with an underlying investment. Such deferred tax liabilities may affect the value of the Fund's investment in such entities.

**Certain Reporting Regulations.** Under U.S. Treasury regulations, if a shareholder recognizes a loss of \$2 million or more for an individual shareholder or \$10 million or more for a corporate shareholder, the shareholder must file with the IRS a disclosure

statement on Form 8886. Direct shareholders of portfolio securities are in many cases excepted from this reporting requirement, but under current guidance, shareholders of a RIC are not excepted. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Shareholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

**Cost Basis.** Legislation passed by Congress now requires the reporting of adjusted cost basis information for covered securities, which generally include Shares of a RIC acquired to the IRS and to taxpayers. Shareholders should contact their financial intermediaries with respect to reporting of cost basis and available elections for their accounts.

**General Considerations.** The federal income tax discussion set forth above is for general information only. Shares of the Fund held in a tax-qualified retirement account will generally not be subject to federal taxation on income and capital gains distributions from a Fund until a shareholder begins receiving payments from their retirement account. Because each shareholder's tax situation is different, prospective investors should consult their tax advisors regarding the specific federal income tax consequences of purchasing, holding and disposing of Shares of the Funds, as well as the effect of state, local and foreign tax law and any proposed tax law changes.

**State Taxes.** Depending upon state and local law, distributions by a Fund to its shareholders and the ownership of Shares may be subject to state and local taxes. Rules of state and local taxation of dividend and capital gains distributions from RICs often differ from the rules for federal income taxation described above. It is expected that a Fund will not be liable for any corporate tax in Delaware if it qualifies as a RIC for federal income tax purposes.

## **FINANCIAL STATEMENTS**

The [Annual Report](#) for the Funds (other than PAEU, PAD, RXRE, ROOM, SZNG, and PIEL) for the fiscal year ended April 30, 2022 is a separate document and the respective financial statements and accompanying notes appearing therein are incorporated by reference into this SAI. You may request a copy of the Funds' Annual Report at no charge by calling 1-800-617-0004 or through the Funds' website at [www.PacerETFs.com](http://www.PacerETFs.com).

## **APPENDIX A**

### **RATINGS DEFINITIONS**

#### **S & P Global Ratings Issue Credit Rating Definitions**

An S&P Global Ratings issue credit rating is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium-term note programs and commercial paper programs). It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The opinion reflects S&P Global Ratings' view of the obligor's capacity and willingness to meet its financial commitments as they come due, and this opinion may assess terms, such as collateral security and subordination, which could affect ultimate payment in the event of default.

Issue credit ratings can be either long-term or short-term. Short-term ratings are generally assigned to those obligations considered short-term in the relevant market. Short-term ratings are also used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations. Medium-term notes are assigned long-term ratings.

#### **Short-Term Issue Credit Ratings**

##### **A-1**

A short-term obligation rated 'A-1' is rated in the highest category by S&P Global Ratings. The obligor's capacity to meet its financial commitments on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments on these obligations is extremely strong.

##### **A-2**

A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitments on the obligation is satisfactory.

##### **A-3**

A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken an obligor's capacity to meet its financial commitments on the obligation.

##### **B**

A short-term obligation rated 'B' is regarded as vulnerable and has significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties that could lead to the obligor's inadequate capacity to meet its financial commitments.

##### **C**

A short-term obligation rated 'C' is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments on the obligation.

##### **SD and D**

An obligor is rated 'SD' (selective default) or 'D' if S&P Global Ratings considers there to be a default on one or more of its financial obligations, whether long- or short-term, including rated and unrated obligations but excluding hybrid instruments classified as regulatory capital or in nonpayment according to terms. A 'D' rating is assigned when S&P Global Ratings believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. An 'SD' rating is assigned when S&P Global Ratings believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. A rating on an obligor is lowered to 'D' or 'SD' if it is conducting a distressed debt restructuring.

##### **SPUR (S&P Underlying Rating)**

A SPUR is an opinion about the stand-alone capacity of an obligor to pay debt service on a credit-enhanced debt issue, without giving effect to the enhancement that applies to it. These ratings are published only at the request of the debt issuer or obligor with the

designation SPUR to distinguish them from the credit-enhanced rating that applies to the debt issue. S&P Global Ratings maintains surveillance of an issue with a published SPUR.

## **Dual Ratings**

Dual ratings may be assigned to debt issues that have a put option or demand feature. The first component of the rating addresses the likelihood of repayment of principal and interest as due, and the second component of the rating addresses only the demand feature. The first component of the rating can relate to either a short-term or long-term transaction and accordingly use either short-term or long-term rating symbols. The second component of the rating relates to the put option and is assigned a short-term rating symbol (for example, 'AAA/A-1+' or 'A-1+/A-1'). With U.S. municipal short-term demand debt, the U.S. municipal short-term note rating symbols are used for the first component of the rating (for example, 'SP-1+/A-1+').

The analyses, including ratings, of S&P Global Ratings and its affiliates (together, S&P Global Ratings) are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or make any investment decisions. S&P Global Ratings assumes no obligation to update any information following publication. Users of ratings or other analyses should not rely on them in making any investment decision. S&P Global Ratings' opinions and analyses do not address the suitability of any security. S&P Global Ratings does not act as a fiduciary or an investment advisor except where registered as such. While S&P Global Ratings has obtained information from sources it believes to be reliable, it does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Ratings and other opinions may be changed, suspended, or withdrawn at any time.

## **Active Qualifiers**

S&P Global Ratings uses the following qualifiers that limit the scope of a rating. The structure of the transaction can require the use of a qualifier such as a 'p' qualifier, which indicates the rating addresses the principal portion of the obligation only. A qualifier appears as a suffix and is part of the rating.

### **1. Federal deposit insurance limit: 'L' qualifier**

Ratings qualified with 'L' apply only to amounts invested up to federal deposit insurance limits.

### **2. Principal: 'p' qualifier**

This suffix is used for issues in which the credit factors, the terms, or both that determine the likelihood of receipt of payment of principal are different from the credit factors, terms, or both that determine the likelihood of receipt of interest on the obligation. The 'p' suffix indicates that the rating addresses the principal portion of the obligation only and that the interest is not rated.

### **3. Preliminary ratings: 'prelim' qualifier**

Preliminary ratings, with the 'prelim' suffix, may be assigned to obligors or obligations, including financial programs, in the circumstances described below. Assignment of a final rating is conditional on the receipt by S&P Global Ratings of appropriate documentation. S&P Global Ratings reserves the right not to issue a final rating. Moreover, if a final rating is issued, it may differ from the preliminary rating.

- Preliminary ratings may be assigned to obligations, most commonly structured and project finance issues, pending receipt of final documentation and legal opinions.
- Preliminary ratings may be assigned to obligations that will likely be issued upon the obligor's emergence from bankruptcy or similar reorganization, based on late-stage reorganization plans, documentation, and discussions with the obligor. Preliminary ratings may also be assigned to the obligors. These ratings consider the anticipated general credit quality of the reorganized or post-bankruptcy issuer as well as attributes of the anticipated obligation(s).
- Preliminary ratings may be assigned to entities that are being formed or that are in the process of being independently established when, in S&P Global Ratings' opinion, documentation is close to final. Preliminary ratings may also be assigned to the obligations of these entities.
- Preliminary ratings may be assigned when a previously unrated entity is undergoing a well-formulated restructuring, recapitalization, significant financing, or other transformative event, generally at the point that investor or lender commitments are invited. The preliminary rating may be assigned to the entity and to its proposed obligation(s). These preliminary ratings consider the anticipated general credit quality of the obligor, as well as attributes of the anticipated

obligation(s), assuming successful completion of the transformative event. Should the transformative event not occur, S&P Global Ratings would likely withdraw these preliminary ratings.

- A preliminary recovery rating may be assigned to an obligation that has a preliminary issue credit rating.

#### **4. Termination structures: ‘t’ qualifier**

This symbol indicates termination structures that are designed to honor their contracts to full maturity or, should certain events occur, to terminate and cash settle all their contracts before their final maturity date.

#### **5. Counterparty instrument rating: ‘cir’ qualifier**

This symbol indicates a counterparty instrument rating (CIR), which is a forward-looking opinion about the creditworthiness of an issuer in a securitization structure with respect to a specific financial obligation to a counterparty (including interest rate swaps, currency swaps, and liquidity facilities). The CIR is determined on an ultimate payment basis; these opinions do not take into account timeliness of payment.

#### **Inactive Qualifiers**

Inactive qualifiers are no longer applied or outstanding.

##### **1. Contingent upon final documentation: ‘\*’ inactive qualifier**

This symbol indicated that the rating was contingent upon S&P Global Ratings’ receipt of an executed copy of the escrow agreement or closing documentation confirming investments and cash flows. Discontinued use in August 1998.

##### **2. Termination of obligation to tender: ‘c’ inactive qualifier**

This qualifier was used to provide additional information to investors that the bank may terminate its obligation to purchase tendered bonds if the long-term credit rating of the issuer was lowered to below an investment-grade level and/or the issuer’s bonds were deemed taxable. Discontinued use in January 2001.

##### **3. U.S. direct government securities: ‘G’ inactive qualifier**

The letter ‘G’ followed the rating symbol when a fund’s portfolio consisted primarily of direct U.S. government securities.

##### **4. Public information ratings: ‘pi’ qualifier**

This qualifier was used to indicate ratings that were based on an analysis of an issuer’s published financial information, as well as additional information in the public domain. Such ratings did not, however, reflect in-depth meetings with an issuer’s management and therefore could have been based on less comprehensive information than ratings without a ‘pi’ suffix. Discontinued use as of December 2014 and as of August 2015 for Lloyd’s Syndicate Assessments.

##### **5. Provisional ratings: ‘pr’ inactive qualifier**

The letters ‘pr’ indicate that the rating was provisional. A provisional rating assumed the successful completion of a project financed by the debt being rated and indicates that payment of debt service requirements was largely or entirely dependent upon the successful, timely completion of the project. This rating, however, while addressing credit quality subsequent to completion of the project, made no comment on the likelihood of or the risk of default upon failure of such completion.

##### **6. Quantitative analysis of public information: ‘q’ inactive qualifier**

A ‘q’ subscript indicates that the rating is based solely on quantitative analysis of publicly available information. Discontinued use in April 2001.

##### **7. Extraordinary risks: ‘r’ inactive qualifier**

The ‘r’ modifier was assigned to securities containing extraordinary risks, particularly market risks, that are not covered in the credit rating. The absence of an ‘r’ modifier should not be taken as an indication that an obligation would not exhibit extraordinary noncredit-related risks. S&P Global Ratings discontinued the use of the ‘r’ modifier for most obligations in June 2000 and for the balance of obligations (mainly structured finance transactions) in November 2002.

## **Active Identifiers**

### **1. Unsolicited: ‘unsolicited’ and ‘u’ identifier**

The ‘u’ identifier and ‘unsolicited’ designation are assigned to credit ratings initiated by parties other than the issuer or its agents, including those initiated by S&P Global Ratings.

### **2. Structured finance: ‘sf’ identifier**

The ‘sf’ identifier shall be assigned to ratings on “structured finance instruments” when required to comply with applicable law or regulatory requirement or when S&P Global Ratings believes it appropriate. The addition of the ‘sf’ identifier to a rating does not change that rating’s definition or our opinion about the issue’s creditworthiness. For detailed information on the instruments assigned the ‘sf’ identifier, please see “VII. APPENDIX: Types of Instruments Carrying The ‘sf’ Identifier”

## **Local Currency and Foreign Currency Ratings**

S&P Global Ratings’ issuer credit ratings make a distinction between foreign currency ratings and local currency ratings. An issuer’s foreign currency rating will differ from its local currency rating when the obligor has a different capacity to meet its obligations denominated in its local currency, vs. obligations denominated in a foreign currency.

## **Moody's Credit Rating Definitions**

### **Purpose**

Since John Moody devised the first bond ratings more than a century ago, Moody's rating systems have evolved in response to the increasing depth and breadth of the global capital markets. Much of the innovation in Moody's rating system is a response to market needs for clarity around the components of credit risk or to demand for finer distinctions in rating classifications.

### **Rating Symbols**

Gradations of creditworthiness are indicated by rating symbols, with each symbol representing a group in which the credit characteristics are broadly the same. There are nine symbols as shown below, from that used to designate least credit risk to that denoting greatest credit risk:

**Aaa Aa A Baa Ba B Caa Ca C**

Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa.

### **Absence of a Rating**

Where no rating has been assigned or where a rating has been withdrawn, it may be for reasons unrelated to the creditworthiness of the issue.

Should no rating be assigned, the reason may be one of the following:

1. An application was not received or accepted.
2. The issue or issuer belongs to a group of securities or entities that are not rated as a matter of policy.
3. There is a lack of essential data pertaining to the issue or issuer.
4. The issue was privately placed, in which case the rating is not published in Moody's publications.

Withdrawal may occur if new and material circumstances arise, the effects of which preclude satisfactory analysis; if there is no longer available reasonable up-to-date data to permit a judgment to be formed; if a bond is called for redemption; or for other reasons.

### **Changes in Rating**

The credit quality of most issuers and their obligations is not fixed and steady over a period of time, but tends to undergo change. For this reason changes in ratings occur so as to reflect variations in the intrinsic relative position of issuers and their obligations.

A change in rating may thus occur at any time in the case of an individual issue. Such rating change should serve notice that Moody's observes some alteration in creditworthiness, or that the previous rating did not fully reflect the quality of the bond as now seen. While because of their very nature, changes are to be expected more frequently among bonds of lower ratings than among bonds of higher ratings. Nevertheless, the user of bond ratings should keep close and constant check on all ratings — both high and low — to be able to note promptly any signs of change in status that may occur.

### **Limitations to Uses of Ratings\***

Obligations carrying the same rating are not claimed to be of absolutely equal credit quality. In a broad sense, they are alike in position, but since there are a limited number of rating classes used in grading thousands of bonds, the symbols cannot reflect the same shadings of risk which actually exist.

As ratings are designed exclusively for the purpose of grading obligations according to their credit quality, they should not be used alone as a basis for investment operations. For example, they have no value in forecasting the direction of future trends of market price. Market price movements in bonds are influenced not only by the credit quality of individual issues but also by changes in money rates and general economic trends, as well as by the length of maturity, etc. During its life even the highest rated bond may have wide price movements, while its high rating status remains unchanged.

The matter of market price has no bearing whatsoever on the determination of ratings, which are not to be construed as recommendations with respect to "attractiveness". The attractiveness of a given bond may depend on its yield, its maturity date or other factors for which the investor may search, as well as on its credit quality, the only characteristic to which the rating refers.

Since ratings involve judgements about the future, on the one hand, and since they are used by investors as a means of protection, on the other, the effort is made when assigning ratings to look at "worst" possibilities in the "visible" future, rather than solely at the past record and the status of the present. Therefore, investors using the rating should not expect to find in them a reflection of statistical factors alone, since they are an appraisal of long-term risks, including the recognition of many non-statistical factors.

Though ratings may be used by the banking authorities to classify bonds in their bank examination procedure, Moody's ratings are not made with these bank regulations in mind. Moody's Investors Service's own judgement as to the desirability or non-desirability of a bond for bank investment purposes is not indicated by Moody's ratings.

Moody's ratings represent the opinion of Moody's Investors Service as to the relative creditworthiness of securities. As such, they should be used in conjunction with the descriptions and statistics appearing in Moody's publications. Reference should be made to these statements for information regarding the issuer. Moody's ratings are not commercial credit ratings. In no case is default or receivership to be imputed unless expressly stated.

\*As set forth more fully on the copyright, credit ratings are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, selling or holding.

### **Short-Term Obligation Ratings**

Ratings assigned on Moody's global long-term and short-term rating scales are forward-looking opinions of the relative credit risks of financial obligations issues by non-financial corporates, financial institutions, structured finance vehicles, project finance vehicles, and public sector entities. Long-term ratings are assigned to issuers or obligations with an original maturity of one year or more and reflect both on the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default. Short-term ratings are assigned to obligations with an original maturity of thirteen months or less and reflect the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default.

Moody's employs the following designations to indicate the relative repayment ability of rated issuers:

#### **P-1**

Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.

#### **P-2**

Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.

#### **P-3**

Issuers (or supporting institutions) rated Prime-3 have an acceptable ability to repay short-term obligations.

#### **NP**

Issuers (or supporting institutions) rated Not Prime do not fall within any of the Prime rating categories.

The following table indicates the long-term ratings consistent with different short-term ratings when such long-term ratings exist.

SHORT-TERM VS. LONG-TERM RATINGS

| LONG-TERM RATING | SHORT-TERM CP |
|------------------|---------------|
| Aaa              | Prime-1       |
| Aa1              |               |
| Aa2              |               |
| Aa3              |               |
| A1               |               |
| A2               | Prime-2       |
| A3               |               |
| Baa1             | Prime-3       |
| Baa2             |               |
| Baa3             |               |
| Ba1, Ba2, Ba3    | Not Prime     |
| B1, B2, B3       |               |
| Caa1, Caa2, Caa3 |               |
| Ca, C            |               |

## **Fitch's National Credit Ratings**

National scale ratings express creditworthiness across the full range of the credit rating scale, using similar symbols to those used for international ratings. However, to assure differentiation between the two scales, a two- or three-letter suffix is appended to the national rating to reflect the specific nature of the national scale to the country concerned. For ease of reference, Fitch uses the suffix of (xxx) to indicate a national rating.

As creditworthiness can be expressed across the full range of the scale, a national scale can enable greater rating differentiation within a market than the international scale, particularly in highly speculative grade countries where ratings tend to cluster around the often low sovereign rating due to higher risks associated with a more volatile operating environment.

A "+" or "-" may be appended to a National Rating to denote relative status within a major rating category. Such suffixes are not added to the 'AAA(xxx)' National Rating category, to categories below 'CCC(xxx)', or to Short-Term National Ratings other than 'F1(xxx)'.

National scale ratings are assigned on the basis that the "best credits or issuers" in the country are rated 'AAA' on the national scale. National Ratings are then assessed using the full range of the national scale based on a comparative analysis of issuers rated under the same national scale to establish a relative ranking of credit worthiness.

At any given point in time, there is a certain relationship between National and International Ratings but there is not a precise translation between the scales. Fitch monitors the ratings relationship of issuers rated on both the international and national scales to ensure the consistency of rating relativities across scales. In other words, if issuer "X" is rated higher than issuer "Y" on one scale, issuer "X" cannot be rated lower than issuer "Y" on the other scale.

National Ratings for local issuers exclude the effects of sovereign and transfer risk and exclude the possibility that investors may be unable to repatriate any due interest and principal repayments. Comparisons between different national scales or between an individual national scale and the international rating scale are therefore inappropriate and potentially misleading.

In certain countries, regulators have established credit rating scales to be used within their domestic markets using specific nomenclature. In these countries, the agency's National Rating definitions may be substituted by the regulatory scales. For instance Fitch's National Short Term Ratings of 'F1+(xxx)', 'F1(xxx)', 'F2(xxx)' and 'F3(xxx)' may be substituted by the regulatory scales, e.g. 'A1+', 'A1', 'A2' and 'A3'. The below definitions thus serve as a template, but users should consult the individual scales for each country listed on Fitch's regional websites to determine if any additional or alternative category definitions apply.

Fitch maintains internal mapping tables that document the current relationship between the National and International Local Currency Ratings in each jurisdiction where we maintain a National Rating scale in order to serve as a tool for analysts. Where our National rating coverage exceeds a minimum threshold and there is external demand, these mappings will be published on this site. Presently, publicly available mappings can be accessed here. Fitch currently publishes the mapping tables for Brazil and South Africa.

### **Limitations of the National Rating Scale**

Specific limitations relevant to National Rating scale include:

- National scale ratings are only available in selected countries.
- National scale ratings are only directly comparable with other national ratings in the same country. There is a certain correlation between national and global ratings but there is not a precise translation between the scales. The implied vulnerability to default of a given national scale rating will vary over time.
- The value of default studies for National Ratings is limited. Due to the relative nature of national scales, a given national scale rating is not intended to represent a fixed amount of default risk over time. As a result, a default study using only National Ratings may not give an accurate picture of the historical relationship between ratings and default risk. Users should exercise caution in making inferences relating to the relative vulnerability to default of national scale ratings using the historical default experience with International Ratings and mapping tables to link the National and International ratings. As with ratings on any scale, the future will not necessarily follow the past.

## **National Short-Term Credit Ratings**

**F1(xxx)** Indicates the strongest capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. Under the agency's National Rating scale, this rating is assigned to the lowest default risk relative to others in the same country. Where the liquidity profile is particularly strong, a "+" is added to the assigned rating.

**F2(xxx)** Indicates a good capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. However, the margin of safety is not as great as in the case of the higher ratings.

**F3(xxx)** Indicates an adequate capacity for timely payment of financial commitments relative to other issuers or obligations in the same country or monetary union.

**B(xxx)** Indicates an uncertain capacity for timely payment of financial commitments relative to other issuers or obligations in the same country or monetary union.

**C(xxx)** Indicates a highly uncertain capacity for timely payment of financial commitments relative to other issuers or obligations in the same country or monetary union.

### **RD(xxx): Restricted default**

Indicates an entity that has defaulted on one or more of its financial commitments, although it continues to meet other financial obligations. Applicable to entity ratings only.

**D(xxx)** Indicates a broad-based default event for an entity, or the default of a short-term obligation.

### **Notes to Long-Term and Short-Term National Ratings:**

The ISO international country code is placed in parentheses immediately following the rating letters to indicate the identity of the National market within which the rating applies. For illustrative purposes, (xxx) has been used.

"+" or "-" may be appended to a National Rating to denote relative status within a major rating category. Such suffixes are not added to the 'AAA(xxx)' Long-Term National Rating category, to categories below 'CCC(xxx)', or to Short-Term National Ratings other than 'F1(xxx).'

## **LONG-TERM RATINGS**

### **S & P Global Ratings Long-Term Issue Credit Ratings**

Issue credit ratings are based, in varying degrees, on S & P Global Ratings analysis of the following considerations:

- Likelihood of payment—the capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;
- Nature of and provisions of the obligation and the promise we impute; and
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

An issue rating is an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.)

### **Long-Term Issue Credit Ratings**

#### **AAA**

An obligation rated 'AAA' has the highest rating assigned by S & P Global Ratings. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

#### **AA**

An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

## **A**

An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

## **BBB**

An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

## **BB; B; CCC; CC; and C**

Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

## **BB**

An obligation rated 'BB' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

## **B**

An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

## **CCC**

An obligation rated 'CCC' is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

## **CC**

An obligation rated 'CC' is currently highly vulnerable to nonpayment. The 'CC' rating is used when a default has not yet occurred, but S & P Global Ratings expects default to be a virtual certainty, regardless of the anticipated time to default.

## **C**

An obligation rated 'C' is currently highly vulnerable to nonpayment, and the obligation is expected to have lower relative seniority or lower ultimate recovery compared with obligations that are rated higher.

## **D**

An obligation rated 'D' is in default or in breach of an imputed promise. For non-hybrid capital instruments, the 'D' rating category is used when payments on an obligation are not made on the date due, unless S&P Global Ratings believes that such payments will be made within the next five business days in the absence of a stated grace period or within the earlier of the stated grace period or the next 30 calendar days. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. A rating on an obligation is lowered to 'D' if it is subject to a distressed debt restructuring.

Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

*See active and inactive qualifiers following S & P Global Ratings Short-Term Issue Credit Ratings beginning on pages A-2 and A-3.*

## **Moody's Long-Term Obligation Ratings**

### **Long-Term Obligation Ratings**

Long-term ratings are assigned to issuers or obligations with an original maturity of eleven months or more and reflect both on the likelihood of a default or impairment on contractual financial obligations and the expected financial loss suffered in the event of default or impairment. Short-term ratings are assigned to obligations with an original maturity of thirteen months or less and reflect both on the likelihood of a default or impairment on contractually promised payments and the expected financial loss suffered in the event of default.

### **Moody's Long-Term Rating Definitions:**

#### **Aaa**

Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.

#### **Aa**

Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

#### **A**

Obligations rated A are considered upper-medium grade and are subject to low credit risk.

#### **Baa**

Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.

#### **Ba**

Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.

#### **B**

Obligations rated B are considered speculative and are subject to high credit risk.

#### **Caa**

Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk.

#### **Ca**

Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

#### **C**

Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Additionally, a "(hyb)" indicator is appended to all ratings of hybrid securities issued by banks, insurers, finance companies, and securities firms.\*

*\* By their terms, hybrid securities allow for the omission of scheduled dividends, interest, or principal payments, which can potentially result in impairment if such an omission occurs. Hybrid securities may also be subject to contractually allowable write-downs of principal that could result in impairment. Together with the hybrid indicator, the long-term obligation rating assigned to a hybrid security is an expression of the relative credit risk associated with that security.*

## **Fitch's National Long-Term Credit Ratings**

**AAA(xxx)** 'AAA' National Ratings denote the highest rating assigned by the agency in its National Rating scale for that country. This rating is assigned to issuers or obligations with the lowest expectation of default risk relative to all other issuers or obligations in the same country or monetary union.

**AA(xxx)** 'AA' National Ratings denote expectations of very low default risk relative to other issuers or obligations in the same country or monetary union. The default risk inherent differs only slightly from that of the country's highest rated issuers or obligations.

**A(xxx)** 'A' National Ratings denote expectations of low default risk relative to other issuers or obligations in the same country or monetary union.

**BBB(xxx)** 'BBB' National Ratings denote a moderate default risk relative to other issuers or obligations in the same country or monetary union.

**BB(xxx)** 'BB' National Ratings denote an elevated default risk relative to other issuers or obligations in the same country or monetary union.

**B(xxx)** 'B' National Ratings denote a significantly elevated default risk relative to other issuers or obligations in the same country or monetary union.

**CCC(xxx)** 'CCC' National Ratings denote very high default risk relative to other issuers or obligations in the same country or monetary union.

**CC(xxx)** 'CC' National Ratings denote default risk is among the highest relative to other issuers or obligations in the same country or monetary union.

**C(xxx)** A default or default-like process has begun, or the issuer is in standstill, or for a closed funding vehicle, payment capacity is irrevocably impaired. Conditions that are indicative of a 'C' category rating for an issuer include:

- a. the issuer has entered into a grace or cure period following non-payment of a material financial obligation;
- b. the issuer has entered into a temporary negotiated waiver or standstill agreement following a payment default on a material financial obligation;
- c. the formal announcement by the issuer or their agent of a distressed debt exchange; and
- d. a closed financing vehicle where payment capacity is irrevocably impaired such that it is not expected to pay interest and/or principal in full during the life of the transaction, but where no payment default is imminent

### **RD(xxx): Restricted default.**

'RD' ratings indicated that an issuer that in Fitch Ratings' opinion has experienced an uncured payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased business. This would include:

- a. the selective payment default on a specific class or currency of debt;
- b. the uncured expiry of any applicable grace period, cure period or default forbearance period following a payment default on a bank loan, capital markets security or other material financial obligation;
- c. the extension of multiple waivers or forbearance periods upon a payment default on one or more material financial obligations either in series or in parallel; or
- d. execution of a distressed debt exchange on one or more material financial obligations.

**D(xxx)** 'D' National Ratings denote an issuer or instrument that is currently in default.

## **Notes to Long-Term and Short-Term National Ratings:**

The ISO International Country Code is placed in parentheses immediately following the rating letters to indicate the identity of the National market within which the rating applies. For illustrative purposes, (xxx) has been used.

“+” or “-” may be appended to a National Rating to denote relative status within a major rating category. Such suffixes are not added to the ‘AAA(xxx)’ Long-Term National Rating category, to categories below ‘CCC(xxx)’, or to Short-Term National Ratings other than ‘F1(xxx).’

## **MUNICIPAL NOTE RATINGS**

### **S & P Global Ratings Municipal Short-Term Note Ratings Definitions**

An S & P Global Ratings U.S. municipal note rating reflects S & P Global Ratings’ opinion about the liquidity factors and market access risks unique to the notes. Notes due in three years or less will likely receive a note rating. Notes with an original maturity of more than three years will most likely receive a long-term debt rating. In determining which type of rating, if any, to assign, S & P Global Ratings analysis will review the following considerations:

- Amortization schedule—the larger the final maturity relative to other maturities, the more likely it will be treated as a note; and
- Source of payment—the more dependent the issue is on the market for its refinancing, the more likely it will be treated as a note.

Note rating symbols are as follows:

#### **SP-1**

Strong capacity to pay principal and interest. An issue determined to possess a very strong capacity to pay debt service is given a plus (+) designation.

#### **SP-2**

Satisfactory capacity to pay principal and interest, with some vulnerability to adverse financial and economic changes over the term of the notes.

#### **SP-3**

Speculative capacity to pay principal and interest.

#### **D**

'D' is assigned upon failure to pay the note when due, completion of a distressed exchange offer, or the filing of a bankruptcy petition or the taking of similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions

*See active and inactive qualifiers following S & P Global Ratings Short-Term Issue Credit Ratings beginning on page A-2.*

## **Moody’s US Municipal Short-Term Debt And Demand Obligation Ratings**

### **Short-Term Obligation Ratings**

We use the global short-term Prime rating scale for commercial paper issued by US Municipalities and nonprofits. These commercial paper programs may be backed by external letters of credit or liquidity facilities, or by an issuer’s self-liquidity.

For other short-term municipal obligations we use one of two other short-term rating scales, the Municipal Investment Grade (MIG) and Variable Municipal Investment Grade (VMIG) scales discussed below.

We use the MIG scale for US municipal cash flow notes, bond anticipation notes and certain other short-term obligations, which typically mature in three years or less. Under certain circumstances, we use the MIG scale for bond anticipation notes with maturities of up to five years.

## MIG 1

This designation denotes superior credit quality. Excellent protection is afforded by established cash flows, highly reliable liquidity support, or demonstrated broad-based access to the market for refinancing.

## MIG 2

This designation denotes strong credit quality. Margins of protection are ample, although not as large as in the preceding group.

## MIG 3

This designation denotes acceptable credit quality. Liquidity and cash-flow protection may be narrow, and market access for refinancing is likely to be less well-established.

## SG

This designation denotes speculative-grade credit quality. Debt instruments in this category may lack sufficient margins of protection.

### Standard Linkage Between the Long-Term and MIG Short-Term Rating Scale

The following table indicates the municipal long-term ratings consistent with different MIG short-term ratings.

| LONG-TERM RATING  | EQUIVALENT SHORT-TERM MIG SCALE RATING |
|---|--|
| Aaa<br>Aa1<br>Aa2<br>Aa3<br>A1<br>A2<br>A3                | MIG 1                                  |
| Baa1<br>Baa2<br>Baa3                                      | MIG 2                                  |
| Ba1, Ba2, Ba3<br>B1, B2, B3,<br>Caa1, Caa2,<br>Caa3 Ca, C | SG                                     |

### Demand Obligation Ratings

In the case of variable rate demand obligations (VRDOs), a two-component rating is assigned. The components are a long-term rating and a short-term demand obligation rating. The long-term rating addresses the issuer's ability to meet scheduled principal and interest payments. The short-term demand obligation rating addresses the ability of the issuer or the liquidity provider to make payments associated with the purchase-price-upon-demand feature ("demand feature") of the VRDO. The short-term demand obligation rating uses the VMIG scale. VMIG ratings with liquidity support use as an input the short-term Counterparty Risk Assessment of the support provider, or the long-term rating of the underlying obligor in the absence of third party liquidity support. Transitions of VMIG ratings of demand obligations with conditional liquidity support differ from transitions on the Prime scale to reflect the risk that external liquidity support will terminate if the issuer's long-term rating drops below investment grade. Please see our methodology that discusses demand obligations with conditional liquidity support.

We typically assign the VMIG short-term demand obligation rating if the frequency of the demand feature is less than every three years. If the frequency of the demand feature is less than three years but the purchase price is payable only with remarketing proceeds, the short-term demand obligation rating is "NR".

## VMIG 1

This designation denotes superior credit quality. Excellent protection is afforded by the superior short-term credit strength of the liquidity provider and structural and legal protections that ensure the timely payment of purchase price upon demand.

## **VMIG 2**

This designation denotes strong credit quality. Good protection is afforded by the strong short-term credit strength of the liquidity provider and structural and legal protections.

## **VMIG 3**

This designation denotes acceptable credit quality. Adequate protection is afforded by the satisfactory short-term credit strength of the liquidity provider and structural and legal protections.

## **SG**

This designation denotes speculative-grade credit quality. Demand features rated in this category may be supported by a liquidity provider that does not have an investment grade short-term rating or may lack the structural and/or legal protections.

VMIG ratings of VRDBs with unconditional liquidity support reflect the short-term debt rating (or counterparty assessment) of the liquidity support provider with VMIG 1 corresponding to P-1, VMIG 2 to P-2, VMIG 3 to P-3 and SG to not prime.

Reviewed July 1, 2022

## **APPENDIX B**

The Adviser has adopted the following guidelines with respect to the Adviser's proxy voting responsibilities for all Funds except for FLRT.

### **GLASS LEWIS INVESTMENT MANAGER GUIDELINES**

The Glass Lewis Investment Manager Guidelines are designed to maximize returns for investment managers by voting in a manner consistent with such managers' active investment decision-making. The guidelines are designed to increase investor's potential financial gain through the use of the shareholder vote while also allowing management and the board discretion to direct the operations, including governance and compensation, of the firm.

The guidelines will ensure that all issues brought to shareholders are analyzed in light of the fiduciary responsibilities unique to investment advisors and investment companies on behalf of individual investor clients including mutual fund shareholders. The guidelines will encourage the maximization of return for such clients through identifying and avoiding financial, audit and corporate governance risks.

### **MANAGEMENT PROPOSALS**

#### **ELECTION OF DIRECTORS**

In analyzing directors and boards, Glass Lewis' Investment Manager Guidelines generally support the election of incumbent directors except when a majority of the company's directors are not independent or where directors fail to attend at least 75% of board and committee meetings. In a contested election, we will apply the standard Glass Lewis recommendation.

#### **AUDITOR**

The Glass Lewis Investment Manager Guidelines will generally support auditor ratification except when the non-audit fees exceed the audit fees paid to the auditor.

#### **COMPENSATION**

Glass Lewis recognizes the importance in designing appropriate executive compensation plans that truly reward pay for performance. We evaluate equity compensation plans based upon their specific features and will vote against plans that would result in total overhang greater than 20% or that allow the repricing of options without shareholder approval.

The Glass Lewis Investment Manager Guidelines will follow the general Glass Lewis recommendation when voting on management advisory votes on compensation ("say-on-pay") and on executive compensation arrangements in connection with merger transactions (*i.e.*, golden parachutes). Further, the Investment Manager Guidelines will follow the Glass Lewis recommendation when voting on the preferred frequency of advisory compensation votes.

#### **AUTHORIZED SHARES**

Having sufficient available authorized shares allows management to avail itself of rapidly developing opportunities as well as to effectively operate the business. However, we believe that for significant transactions management should seek shareholder approval to justify the use of additional shares. Therefore, shareholders should not approve the creation of a large pool of unallocated shares without some rationale of the purpose of such shares. Accordingly, where we find that the company has not provided an appropriate plan for use of the proposed shares, or where the number of shares far exceeds those needed to accomplish a detailed plan, we typically vote against the authorization of additional shares. We also vote against the creation of or increase in (i) blank check preferred shares and (ii) dual or multiple class capitalizations.

#### **SHAREHOLDER RIGHTS**

Glass Lewis Investment Manager Guidelines will generally support proposals increasing or enhancing shareholder rights such as declassifying the board, allowing shareholders to call a special meeting, eliminating supermajority voting and adopting majority voting for the election of directors. Similarly, the Investment Manager Guidelines will generally vote against proposals to eliminate or reduce shareholder rights.

#### **MERGERS/ACQUISITIONS**

Glass Lewis undertakes a thorough examination of the economic implications of a proposed merger or acquisition to determine the transaction's likelihood of maximizing shareholder return. We examine the process used to negotiate the transaction as well as the terms of the transaction in making our voting recommendation.

## **SHAREHOLDER PROPOSALS**

We review and vote on shareholder proposals on a case-by-case basis. We recommend supporting shareholder proposals if the requested action would increase shareholder value, mitigate risk or enhance shareholder rights but generally recommend voting against those that would not ultimately impact performance.

## **GOVERNANCE**

The Glass Lewis Investment Manager Guidelines will support reasonable initiatives that seek to enhance shareholder rights, such as the introduction of majority voting to elect directors, elimination in/reduction of supermajority provisions, the declassification of the board and requiring the submission of shareholder rights' plans to a shareholder vote. The guidelines generally support reasonable, well-targeted proposals to allow increased shareholder participation at shareholder meetings through the ability to call special meetings and ability for shareholders to nominate director candidates to a company's board of directors. However, the Investment Manager Guidelines will vote against proposals to require separating the roles of CEO and chairman.

## **COMPENSATION**

The Glass Lewis Investment Manager Guidelines will generally oppose any shareholder proposals seeking to limit compensation in amount or design. However, the guidelines will vote for reasonable and properly-targeted shareholder initiatives such as to require shareholder approval to reprice options, to link pay with performance, to eliminate or require shareholder approval of golden coffins, to allow a shareholder vote on excessive golden parachutes (*i.e.*, greater than 2.99 times annual compensation) and to claw back unearned bonuses. The Investment Manager Guidelines will vote against requiring companies to allow shareholders an advisory compensation vote.

## **ENVIRONMENT**

Glass Lewis' Investment Manager Guidelines vote against proposals seeking to cease a certain practice or take certain action related to a company's activities or operations with environmental. Further, the Glass Lewis' Investment Manager Guidelines generally vote against proposals regarding enhanced environment disclosure and reporting, including those seeking sustainability reporting and disclosure about company's greenhouse gas emissions, as well as advocating compliance with international environmental conventions and adherence to environmental principles like those promulgated by CERES.

## **SOCIAL**

Glass Lewis' Investment Manager Guidelines generally oppose proposals requesting companies adhere to labor or worker treatment codes of conduct, such as those espoused by the International Labor Organization, relating to labor standards, human rights conventions and corporate responsibility at large conventions and principles. The guidelines will also vote against proposals seeking disclosure concerning the rights of workers, impact on local stakeholders, workers' rights and human rights in general. Furthermore, the Investment Manager Guidelines oppose increased reporting and review of a company's political and charitable spending as well as its lobbying practices.

## APPENDIX C

Pacific Asset Management has adopted the following guidelines with respect to Pacific Asset Management's proxy voting responsibilities for FLRT.

### Summary

Investment advisers are required to implement policies and procedures reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940. In addition to SEC requirements governing advisers, PAM's proxy voting policies reflect the fiduciary standards and responsibilities for ERISA accounts set out in applicable Department of Labor guidance.

PAM's authority to vote proxies for clients is established by the Investment Management Agreement "IMA" or comparable documents. PAM manages fixed income strategies; therefore the volume of proxies is relatively low.

### Policy

PAM generally follows the voting guidelines included in this Policy; however each vote is ultimately cast on a case-by-case basis, taking into consideration the contractual obligations under the IMA or comparable document, and all other relevant facts and circumstances at the time of the vote to ensure that proxies are voted in the best interest of clients.

#### **Conflicts of Interest**

PAM takes reasonable measures to identify the existence of any material conflicts of interest related to voting proxies. A potential conflict of interest may exist when PAM votes a proxy for an issuer with whom:

- PAM maintains a material business relationship
- PAM Senior Management or Portfolio Manager(s) maintain a personal relationship

Conflicts based on material business relationships or dealings with affiliates of PAM will only be considered to the extent that PAM has actual knowledge of such material business relationships. PAM employees are periodically, and no less than annually, reminded of their obligation to be aware of the potential for conflicts of interest with respect to voting proxies both as a result of business or personal relationships and to bring potential and actual conflicts of interest to the attention of the PAM CCO. Additionally, officers of PAM, including the Portfolio Managers and Senior Managing Directors, are required to complete an annual conflicts of interest statement to self-report certain activities, relationships and personal interests that may create, or appear to create and actual or potential conflict of interest. PAM will not vote proxies relating to such issuers identified as being involved in a potential conflict of interest until it has been determined that the conflict of interest is not material or a method for resolving the conflict of interest has been agreed upon and implemented. When a material conflict of interest exists, PAM will choose among the following options to eliminate such conflict:

- Vote in accordance with the Voting Guidelines, if the voting scenario is covered in the Voting Guidelines (outlined below) and involves little or no discretion;
- If possible, erect information barriers around the person or persons making voting decisions sufficient to insulate the decision from the conflict;
- If practical, notify affected clients of the conflict of interest and seek a waiver of the conflict for the proxy to be voted;
- If agreed upon in writing with the client, forward the proxies to the affected client or their designee and allow the client or their designee to vote the proxies.

The resolution of all potential and actual material conflicts of interest issues is documented in order to demonstrate that PAM acted in the best interest of its clients.

#### **Abstaining from Proxy Voting**

In certain circumstances, PAM may choose to abstain from voting a proxy. In instances when PAM deems abstention to be in the best interest of its Client(s), PAM will formally indicate its abstention on the proxy to ensure the vote is properly recorded. Considerations that may cause PAM to abstain from voting include but are not limited to:

- When the cost of voting the proxy outweighs the benefits or is otherwise impractical;
- International constraints for timing and meeting deadlines;
- Restrictions on foreign securities including share blocking (restrictions on the sale of securities for a period of time in proximity to the shareholder meeting); and
- Any instance where the Firm feels there is insufficient information to determine the most reasonable course of action on behalf of a Client; and

- When a Client provides specific instruction to abstain from a vote as outlined in the Client Instruction section below.

Any proxies that PAM chooses not to vote will be documented along with the rationale prior to the date of the shareholder's meeting for that particular proxy.

### **Client Instruction**

Under certain circumstances a client may delegate proxy voting authority to PAM and provide PAM with specific voting instructions. The IMA must reflect the terms and conditions of the arrangement. As agreed to in the IMA, PAM will vote in accordance with the Client's specific instructions which may or may not align with this policy. Clients should be aware that providing specific instructions to PAM may result in voting that may be contrary to how PAM would have voted using the Voting Guidelines or their own analysis.

### **Differences in Proxy Vote Determinations**

PAM may determine that specific circumstances require that proxies be voted differently among accounts due to the accounts' Investments Guidelines or other distinguishing factors. PAM may from time to time reach contrasting but equally valid views on how best to maximize economic value in respect to a particular investment. This may result in situations in which a client is invested in portfolios with dissimilar proxy outcomes. In those situations, the other portfolios may be invested in strategies having distinctive investment objectives, investment styles or investment professionals. However, PAM generally votes consistently on the same matter when securities of an issuer are held by multiple Client Accounts. Any differences among proxies for other portfolios will be reviewed, approved and documented by senior management and PAM CCO prior to the vote being cast.

### **Client Disclosure and Availability of Proxy Voting Policies and Procedures**

PAM provides a copy of its proxy voting policy and procedures to clients upon request. Clients can obtain information on how proxies were voted for their account upon request. Compliance provides proxy filing information to the advisors of 40 Act Accounts as requested for the purpose of filing proxy information annually with the SEC.

### **Voting Guidelines**

Proxy proposals generally fall into one of the following categories: Reports and approval of accounts; Financial operations; Board elections; Remuneration; Engagement; and other relevant issues \*e.g. shareholder and business proposals). In all cases, PAM will vote the proxies in a manner that is consistent with the best interest of its Clients as follows:

- **Reports and approval of accounts** (e.g., approval of financial statements, allocation of income, appointment of auditors, etc.): PAM generally votes with the recommendations of a company's Board of Directors following our own review to include ensuring proposals are reflective of, among others, ethical, reasonable, equitable and financially sound corporate standards.
- **Financial operations** (e.g., mergers and acquisitions, corporate restructuring, etc.): PAM generally votes with the recommendations of a company's Board of Directors following our own review to include ensuring proposals are reflective of, among others, ethical, reasonable, equitable and financially sound corporate standards.
- **Board elections:** Board nominations are evaluated on a case-by-case basis. PAM is supportive of NASDAQ's Diversity requirements. In the event any underlying issuer does not have at least two diverse board members, we expect to vote against resolutions or proposals to re-elect or appoint a new, non-diverse board candidate. Where an issuer has two or more diverse board members, PAM may vote in-line with the recommendations of a company's Board of Directors following our own review to include ensuring proposals are reflective of, among others, ethical, reasonable, equitable and financially sound corporate standards.
- **Remuneration and compensation practices:** Votes related to remuneration and compensation are evaluated on a case-by-case basis. PAM expects to specifically review instances of increased compensation (including bonus compensation) when the CEO to median employee ratio is higher than 300 to 1 based on public remuneration disclosures by an issuer.
- **Shareholder engagement related proxies:** These proxies are evaluated on a case-by-case basis. PAM generally expects to vote against any resolution that would reduce or restrict shareholder rights or engagement activities without compensation deemed reasonable to justify such restriction.
- **Shareholder proposals and other voting issues,** including ESG-related issues not described above, are evaluated on case-by-case basis with consideration to our ESG policy. If a proposal relates to the disclosure of *material* ESG-related information (e.g., disclosure related to climate risk), and does not create duplicate disclosure effort or an unreasonable cost burden to the company, we generally expect to vote in favor of such proposal.

Any proxies that PAM votes outside of these general Voting Guidelines will be documented along with the rationale prior to the date of the shareholder's meeting for that particular proxy.

## Procedures

All proxies are sent to the appropriate PAM Portfolio Manager(s), ESG Product Manager and analyst responsible for the security held in a Client Account for their review and recommendation. These individuals research the implications of proxy proposals and make voting recommendations specific for each account that holds the related security. PAM Portfolio Managers are ultimately responsible for voting any Client proxy. PAM uses information gathered from research, company management, and outside shareholder groups to reach voting decisions. In determining how to vote proxy issues, PAM votes proxies in a manner intended to protect and enhance the economic value of the securities held in Client Accounts.

Proxies in certain Client Accounts are voted using a proxy management system called ProxyEdge. ProxyEdge is used exclusively to assist with the administrative processes for proxy voting such as tracking and management of proxy records, vote execution, reporting, and auditing. ProxyEdge generates a variety of reports and makes available various other types of information to assist in the review and monitoring of votes cast. The holdings in certain Client Accounts are electronically sent to the ProxyEdge system automatically by the custodians to ensure that PAM is voting the most current share position for clients. Once Compliance receives email notification from ProxyEdge that there are proxies in the system to be voted, a ballot is created as a distributable unmarked ballot and sent via email to the respective Portfolio Managers for their vote selection. The Portfolio Managers respond with their selections. Compliance has the responsibility to vote the proxies according to the Portfolio Manager selections. Once voted, an email is sent via ProxyEdge to the client, Client Account Custodian or third party as defined in the IMA confirming that Client Account proxies have been voted. An email is received from ProxyEdge confirming the vote was submitted.

For those Client Accounts not on the ProxyEdge system, all custodian banks and trustees are notified of their responsibility to forward to Compliance all proxy materials. When Compliance is notified of an upcoming proxy for the accounts on ProxyEdge, the proxy material is verified to have been received for the accounts not on ProxyEdge as well. If an expected proxy is not received by the voting deadline, Compliance will direct the custodian or trustee to vote in accordance with PAM's instructions. The final authority and responsibility for proxy voting remains with PAM.

## Oversight Controls

PAM Compliance reviews the proxy votes casted to make sure PAM is following the proxy voting policies and procedures by:

- Reviewing no less than annually the adequacy of the proxy voting policies and procedures to make sure that they have been implemented effectively, including whether the policies continue to be reasonably designed to ensure that proxies are voted in the best interests of Clients.

## Cross Reference / Source

- 
- Rule 206(4)-6 of the Advisors Act
- Fiduciary Duty
- Contractual Requirements
- Department of Labor Interpretive Bulletin 2008-2, 29 C.F.R. 2509.08-2 (Oct. 17, 2008)
- PAM ESG Policy

## Last Updated

October 1, 2021