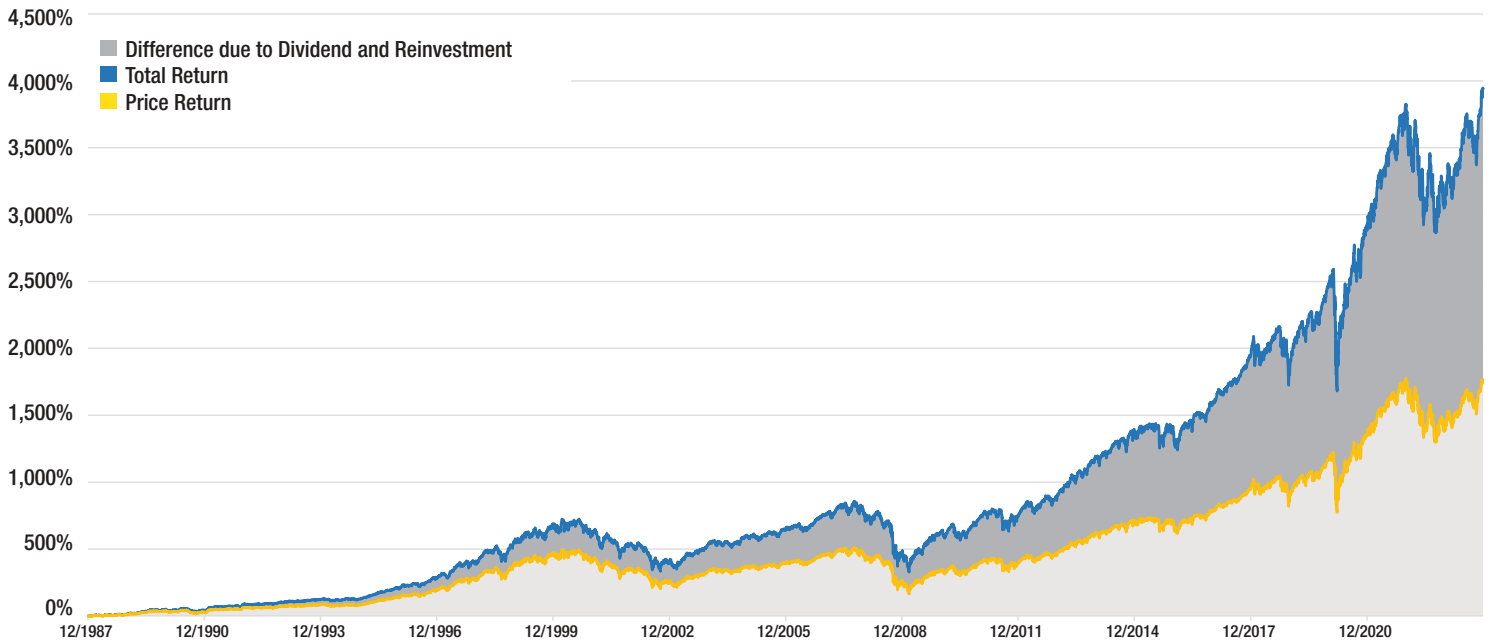


Invest in Dividend Payers With Free Cash Flow

Dividends are a popular, time-tested strategy that investors look to as a source of income in their portfolios. Historically, reinvested dividends have been the primary driver of total returns for stocks. Dividends can also serve as a signal that management is confident in the company's long-term health. The chart below shows the impact of reinvested dividends over time.

S&P 500 Cumulative Return
12/31/1987 - 12/31/2023



Source: Bloomberg

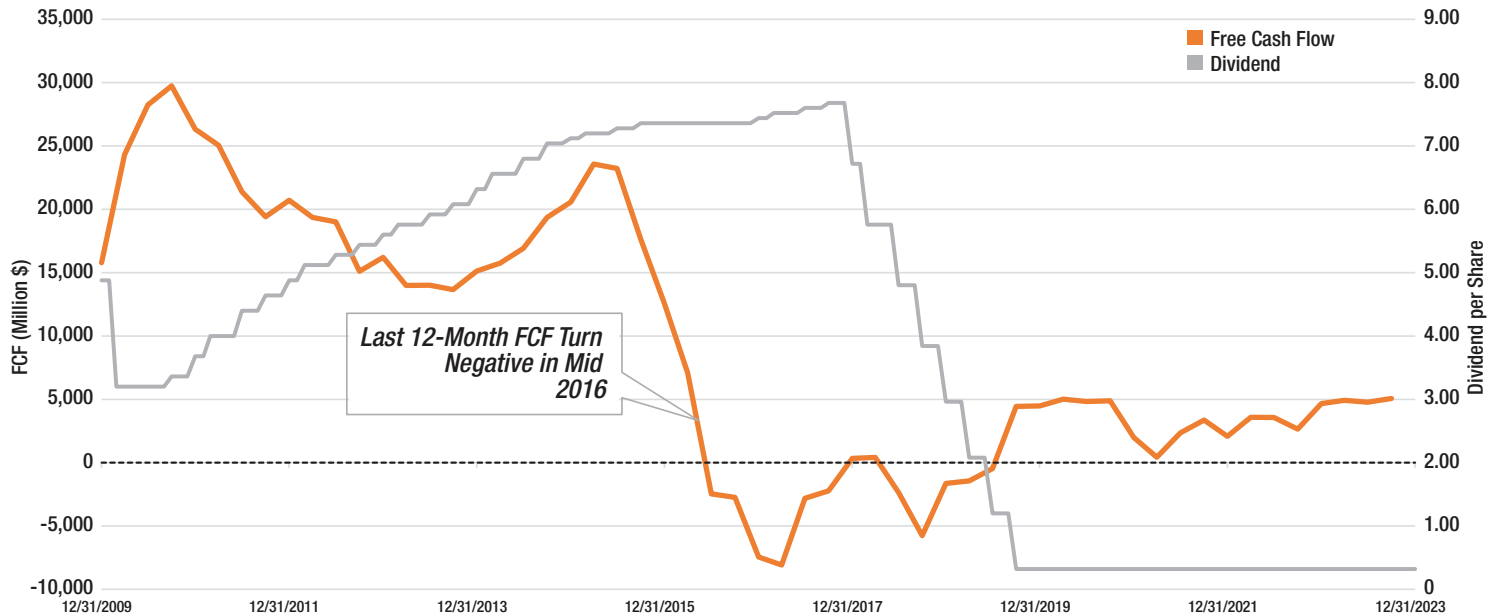
Dividends have been a great indicator of a company's success. Dividends are cash payments that represent a return of capital back to shareholders. Typically, only strong, healthy companies have been able to pay consistent dividends over time, but that is not always the case. There have been cases where a company continues to maintain or increase their dividend payments even though they can no longer afford to pay them. These cases represent what is known as "dividend traps," where a company maintains their dividend even when they don't have the resources to support it.

GE the dividend trap

A great example of a dividend trap was GE in 2016. Before 2016, GE had paid a dividend for a long time. But leading into that period, they had seen their free cash flow (FCF) deteriorate to a level where they could no longer afford to pay a dividend. In 2017, they were forced to cut their dividend, citing a lack of free cash flow. For GE, FCF was the canary in the coal mine, warning that the dividend was at risk despite a long history of paying and increasing their dividend.

GE FCF vs Dividend

12/31/2009 - 12/31/2023



Source: FactSet

FCF a better source of dividends

To better identify strong, healthy dividends payers, investors should look to FCF as a guide for a company's strength and dividend-paying capacity. Since companies pay dividends with their cash, companies with high free cash flow are the best positioned to pay dividends, though it's not guaranteed.

Identifying strong dividend paying companies

The relative performance of dividend payers, non-dividend payers and dividend growers has been the subject of many conversations. But FCF generators vs. non-FCF generators (Negative FCF) is a less common conversation. As the numbers show, having FCF has been a much better indicator of the company's stock price performance.

Annualized Return (%)

12/31/1991 - 12/31/2023

	Dividend Payer	Non Dividend Payer	FCF < Dividend	FCF > Dividend	Dividend Grower	Positive FCF	Negative FCF	Russell 1000
Russell 1000 Index	10.24	11.04	5.94	11.29	10.35	10.99	4.02	10.14

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

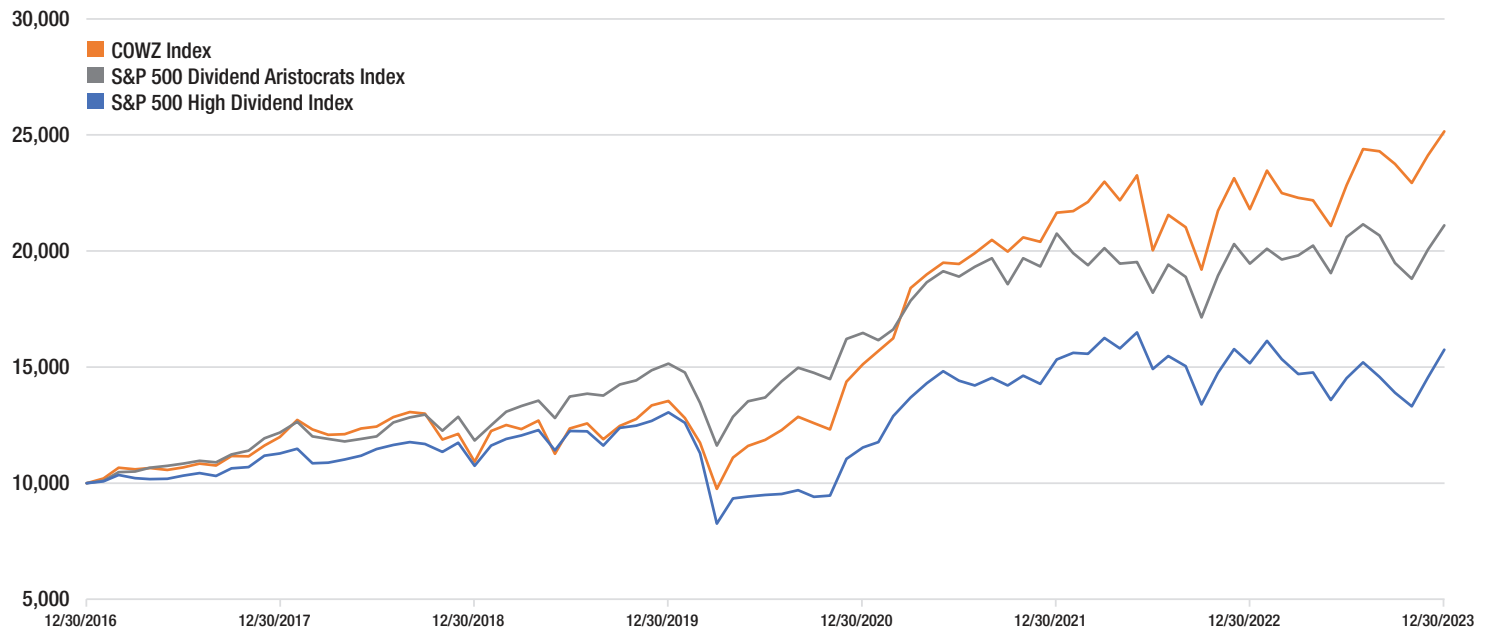
A better way to harvest dividends

The Pacer Cash Cows Index® Series uses an objective rules-based strategy to attempt to provide a continuous stream of income and capital appreciation over time. The strategy does this by screening for companies with a high free cash flow yield. Because of the free cash flow yield screen in the Pacer US Cash Cows 100 Index (COWZ Index), investors have the opportunity to benefit from dividend reinvestment while also avoiding dividend traps like the GE scenario mentioned above.

Since inception, the COWZ Index has outperformed the S&P 500 Dividend Aristocrats Index and the S&P 500 High Dividend Index. By accessing dividends through FCF yield, you may get exposure to companies with higher FCF, lower p/e, and lower payout ratios capable of supporting a higher dividend. This combination has resulted in significant outperformance vs. other dividend peers backed by stronger fundamental performance. The following shows the total returns since inception, the growth in EPS (earnings per share) and FCF. As you can see, the COWZ Index comes out ahead in each category. This reinforces the idea that FCF yield may be a great way to invest in dividend payers.

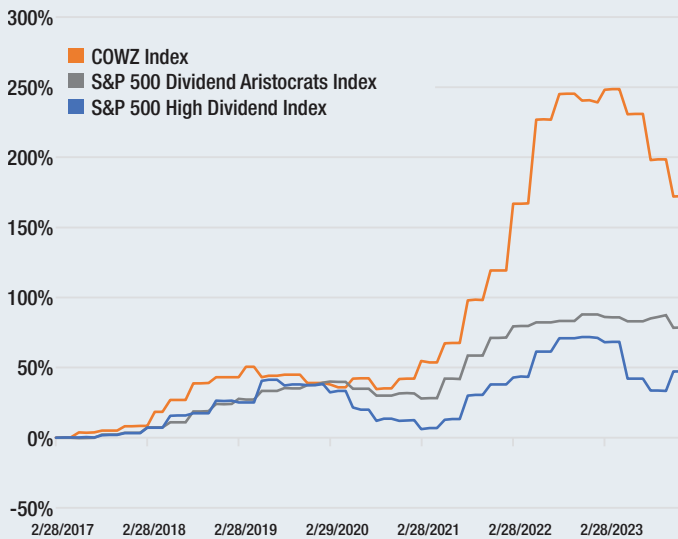
Total Return

12/30/2016 - 12/31/2023



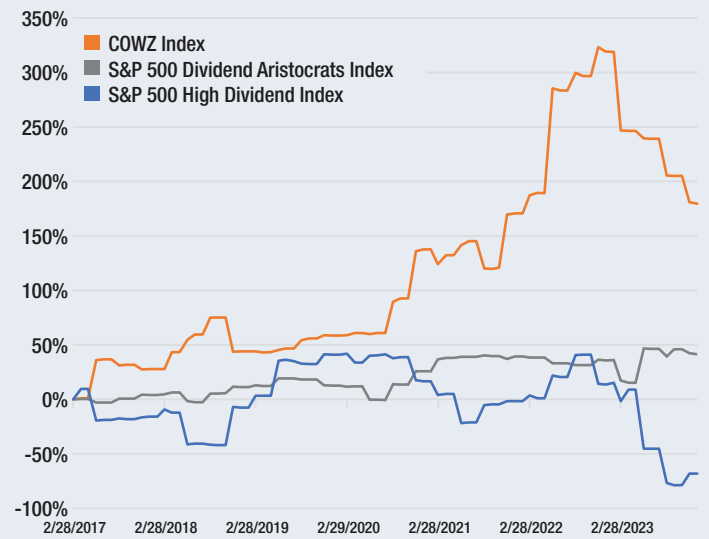
Source: FactSet

Earnings Per Share 2/28/2017 - 12/31/2023



Source: Bloomberg

FCF Per Share 2/28/2017 - 12/31/2023



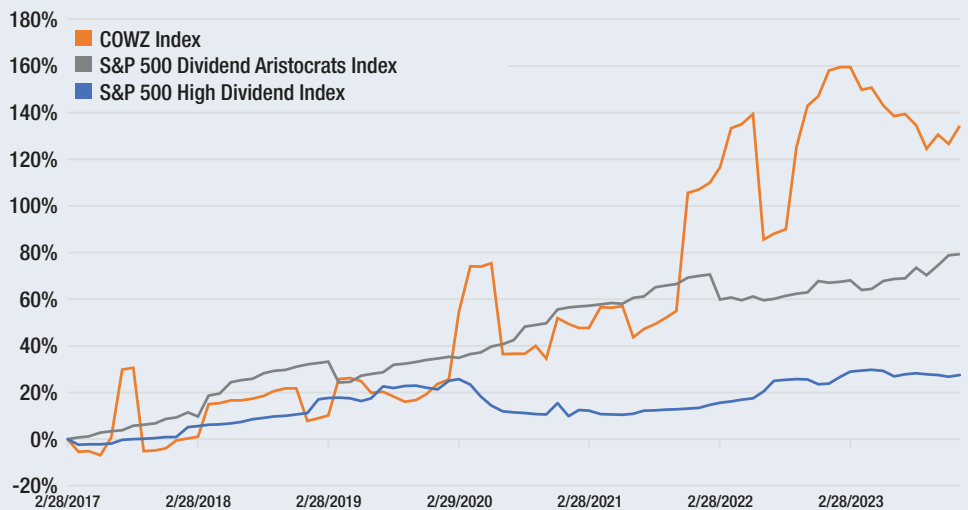
Source: Bloomberg

An under appreciated fact is price appreciation's impact on a portfolio's dividend income. Investors often focus on a company's growth in their dividends per share but ignore the effect of dividends at the portfolio level. Price appreciation is a key component of dividend income. It helps explain how investing in strategies that generate the highest total returns can help increase the dividend income in an investor's portfolio. The following chart shows the growth in dividends per share over time, with the COWZ Index experiencing the highest dividend per share growth, thanks to price appreciation and dividend growth.

This chart illustrates the importance of considering both dividends and price appreciation to see the true benefits an investment can have on the portfolio's dividend income.

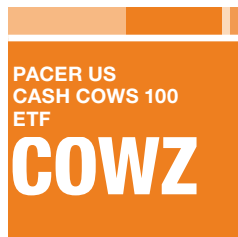
By going back to the source of dividends (free cash flow), we see the benefit of identifying potential dividend growers through the lens of free cash flow yield.

Dividend Per Share 2/28/2017 - 12/31/2023



Source: Bloomberg

The free cash flow yield screen in the Pacer US Cash Cows 100 Index may give investors the opportunity to benefit from dividend reinvestment while also avoiding dividend traps like the GE scenario mentioned above.



Pacer US Cash Cows 100 ETF

Is a strategy driven exchange traded fund that aims to provide capital appreciation over time by screening the Russell 1000 for the top 100 companies based on free cash flow yield.

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

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The Pacer US Cash Cows 100 Index was released on 12/8/16.

Free Cash Flow (FCF): A company's cash flow from operations minus capital expenditures (expenses, interest, taxes, and longterm investments)
Enterprise Value (EV): A company's market capitalization adjusted to eliminate any capital structure bias (i.e. by adding debt and subtracting cash or cash equivalents)
Free Cash Flow Yield (FCF/EV): Measures a company's total free cash flow relative to its enterprise value. This is an internal statistic and does not constitute investor yield.

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