



Pacer U.S. Large Cap Cash Cows Growth Leaders Index Rebalance

Danke Wang, CFA, FRM

Quarterly Rebalance Overview

The Pacer U.S. Cash Cows Growth Leaders Index (COWG Index) completed its September 2026 quarterly reconstitution. The strategy continues to apply two distinct disciplines: free cash flow margin determines which companies qualify for the portfolio, while 6-month price momentum determines how those companies are weighted. This allows the portfolio to maintain a focus on high cash generation while adapting to changes in market leadership.

The minimum FCF margin (FCF/Sales) cut-off was 25.94%. After the rebalance, the average free cash flow margin across the index was 34.64%, compared to 22.75% for the Russell 1000 Growth benchmark.

The September rebalance produced a meaningful shift in portfolio positioning. While the reconstitution resulted in only 15 additions and deletions, total portfolio turnover reached 36.20%, reflecting significant reweighting among existing holdings as six-month price momentum changed.

Sector Highlight

Despite the relatively high turnover, Information Technology and Health Care remained COWG's two largest sector allocations. This is consistent with the broader observation that these sectors account for a significant share of free cash flow generation within the Russell 1000 universe.

Technology weight increased to 63.36%, but the bigger story occurred within Technology. Software increased from 23.19% to 37.97%, while Semiconductors declined from 14.08% to 11.20% and Hardware & Storage fell from 11.22% to 5.72%.

COWG Index Sector Weights (%)

September 2026

	Before	After	Russell 1000 Growth
Information Technology	56.60	63.36	55.50
Health Care	14.67	12.32	5.47
Communication Services	7.64	6.62	16.66
Consumer Discretionary	3.82	5.13	7.47
Industrials	3.91	4.98	7.53
Consumer Staples	2.80	2.71	1.19
Energy	6.39	2.70	0.56
Materials	4.16	1.86	0.27
Utilities	--	0.33	0.25
Real Estate	--	--	0.39
Financials	--	--	4.72

Source: Pacer Advisors, FactSet

During the first half of 2026, market leadership was heavily concentrated in companies tied to the physical AI buildout, including semiconductors, memory and storage. Such was also reflected in COWG following the June rebalance, when the portfolio increased its exposure to storage, networking and other AI infrastructure businesses.

During the summer, however, market leadership shifted. Software companies rallied as investors increasingly differentiated between businesses potentially disrupted by AI and those positioned to incorporate AI to deepen customer adoption, improve productivity or create new revenue opportunities.

COWG responded to that change through its momentum weighting. The increase in Software was broad rather than driven by only one or two stocks. CrowdStrike, Palo Alto Networks, Datadog, Nutanix, Workday, Dynatrace and several other software holdings received higher weights, while Unity Software entered the portfolio as one of its largest software positions.

Importantly, COWG is not simply following recent price performance. A company must first demonstrate a sufficiently high free cash flow margin to qualify for the portfolio before momentum can determine its weight. The FCF margin screen provides a profitability discipline while momentum identifies where investors are increasingly recognizing that profitability and growth potential.

Cybersecurity and Observability Become a Major Theme

The shift toward software also increases COWG's exposure to cybersecurity and observability names.

AI adoption does not only require physical infrastructure. As companies deploy more AI enabled applications and workloads, they also create more data flows and systems that need to be secured and monitored. CrowdStrike, Palo Alto Networks and Fortinet all hold meaningful positions following the rebalance, while Datadog provides exposure to the observability layer. Together, these businesses help companies secure, monitor and manage the expanding AI ecosystem. These names have also delivered strong year-to-date performance, suggesting that investors have increasingly viewed cybersecurity and observability as potential beneficiaries of AI adoption rather than simply businesses exposed to AI disruption risk.

At the same time, these businesses fit naturally within COWG's methodology because recurring revenue, high margins and relatively low capital intensity can support high free cash flow margin.

AI Infrastructure Remains a Focus

Semiconductor and Hardware & Storage exposure declined as several of the June leaders lost relative momentum. The two industries still account for more than 15% of the COWG portfolio, as it retained exposure to key tech infrastructure names including Micron, Credo, SanDisk, NVIDIA, Broadcom and Western Digital.

Micron was one of the largest additions, reflecting improving cash generation and strong momentum tied to AI driven memory demand. Its recent results highlight the growing importance of memory within AI infrastructure as data center demand continues to expand.

The new COWG Technology allocation may hint a broader expression of the AI opportunity: physical infrastructure provides the computing and connectivity, software creates and deploys AI enabled applications, while cybersecurity and observability help make those applications manageable and secure.

Technology Exposure Without Mega Cap Concentration

COWG's Technology exposure is now substantial, but that does not necessarily translate into the familiar mega cap dominated growth portfolio.

Apple and NVIDIA together represent less than 2% of the Index, while Microsoft, Alphabet and Meta are absent. COWG therefore remains differentiated from traditional market cap weighed growth benchmarks even as its exposure to Technology increases. The portfolio is increasingly concentrated in companies with high free cash flow margins across software, cybersecurity, cloud and selected AI infrastructure rather than simply the largest companies by market capitalization.

At the same time, rising AI-related capital spending has pressured free cash flow conversion for some mega cap Technology companies, making some of the largest growth names less attractive within the COWG methodology.

Summary & Positioning Outlook

COWG methodology focuses on free cash flow production while adapting to changing market leadership through momentum weighting.

In June, that combination pointed toward storage, semiconductors and physical AI infrastructure. By September, stronger momentum increasingly favored software, cybersecurity, and enterprise applications. While AI remains an important part of both portfolios, COWG's exposure has evolved alongside both underlying fundamentals and market leadership, shifting toward the areas where strong cash generation and momentum increasingly overlap.

To learn more about how to incorporate COWG into your portfolio, contact your financial advisor or visit **www.paceretfs.com**.

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

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

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

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

Russell 1000 Growth Index is a market-capitalization weighted index representing approximately 1000 large- and mid cap growth stocks in the Russell 3000 Index.

Free Cash Flow Margin: A profitability metric that measures the proportion of a company's revenue that is converted into free cash flow.

The Pacer US Large Cap Cash Cows Growth Leaders Index was released on 12/19/22.

Frank Russell Company ("Russell") is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes and / or Russell ratings or underlying data and no party may rely on any Russell Indexes and / or Russell ratings and / or underlying data contained in this communication. No further distribution of Russell Data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication.

The Russell 1000 Growth Index (the "Index") is a trademark of Frank Russell Company ("Russell") and has been licensed for use by Index Design Group, LLC ("IDG"). The Pacer US Large Cap Cash Cows Growth Leaders Index is not in any way sponsored, endorsed, sold or promoted by Russell or the London Stock Exchange Group companies ("LSEG") (together the "Licensor Parties") and none of the Licensor Parties make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to (i) the results to be obtained from the use of the Index (upon which the Pacer US Large Cap Cash Cows Growth Leaders Index is based), (ii) the figure at which the Index is said to stand at any particular time on any particular day or otherwise, or (iii) the suitability of the Index for the purpose to which it is being put in connection with the Pacer US Large Cap Cash Cows Growth Leaders Index. None of the Licensor Parties have provided or will provide any financial or investment advice or recommendation in relation to the Index to IDG or to its clients. The Index is calculated by Russell or its agent. None of the Licensor Parties shall be (a) liable (whether in negligence or otherwise) to any person for any error in the Index or (b) under any obligation to advise any person of any error therein. Pacer Cash Cows ETFs™ and Cash Cows Index® are registered trademarks of Index Design Group, LLC.

Pacer Cash Cows ETFs™ and Cash Cows Index® are registered trademarks of Index Design Group, LLC.

© 2026, Pacer Financial, Inc., All rights reserved.

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

Not FDIC Insured

May Lose Value

Not Bank Guaranteed



PACER ETFs