



Pacer U.S. Cash Cows 100 Index Rebalance

Danke Wang, CFA, FRM

Quarterly Rebalance Overview

The Pacer U.S. Cash Cows 100 Index (COWZ Index) completed its quarterly reconstitution on 12/19/2025, refreshing its holdings based on the Free Cash Flow (FCF) yield factor (FCF/Enterprise Value) to position for Q1 2026.

Following the rebalance, the Index continues to hold 100 large-cap U.S. equities with the highest free cash flow yields, weighted by free cash flow and subject to a 2% security cap. The reconstitution resulted in 20 additions and deletions, with an 18% portfolio turnover. The minimum FCF yield cut-off was 4.27% (UPS), while the median FCF yield across all components stood at 5.32%, substantially higher than the 3.16% median FCF yield of the S&P 500 Index.

Sector Positioning After the Rebalance

12/19/25

Following the December rebalance, Health Care remains the largest sector allocation, while Information Technology was meaningfully reduced. Overall, sector weights are now more evenly distributed, with incremental allocations across Energy, Health Care, Industrials, Consumer Discretionary, and Consumer Staples, resulting in a more diversified portfolio with double-digit weights across most sectors.

Relative to the Russell 1000 Value Index, the COWZ Index's largest sector exposures also represent its most significant overweights. In contrast, Financials, the largest sector in the value benchmark, is excluded from the COWZ Index, as free cash flow is not a meaningful metric for banks and insurance companies.

	Before	After	Russell 1000 Value
Health Care	21.33	21.88	12.18
Energy	15.21	15.93	5.65
Information Technology	20.82	15.07	11.34
Consumer Discretionary	10.04	12.03	7.50
Communication Services	10.54	10.87	8.29
Consumer Staples	9.40	10.48	7.30
Industrials	9.24	10.31	13.09
Materials	3.42	3.42	4.03
Utilities	--	--	4.30
Real Estate	--	--	3.90
Financials	--	--	22.40

Information Technology

Following the December rebalance, Information Technology exposure was meaningfully reduced, driven primarily by trims to Semiconductors & Equipment, Communications Equipment, and Electronic Equipment. These segments have benefited from significant multiple expansion and artificial intelligence-driven optimism, supported by rising technology capital spending.

However, these businesses are also highly exposed to technology capex risk, including cyclicalities, timing uncertainty, and the potential for overinvestment. Returns in capital-intensive hardware and equipment companies increasingly depend on continued acceleration in future enterprise and hyperscaler spending, rather than on current demand alone.

This rebalance reduced exposure to capital-intensive technology hardware, lowering the portfolio's sensitivity to potential pauses or delays in enterprise and cloud infrastructure investment. At the same time, the portfolio was repositioned toward higher relative exposure to software and IT services, with businesses characterized by:

- Subscription (or contract) based revenue models, supporting more recurring and durable earnings
- Higher margins, improving near-term cash flow and profitability
- Lower reinvestment needs, making them capital-light with reduced capex requirements

This refined technology allocation continues to participate in long-term digital transformation themes, including workflow automation, enterprise productivity, and software-driven efficiency, while relying less on infrastructure buildouts and tech capital spending cycles.

Health Care

Health Care remains the largest sector allocation and was modestly increased in the December rebalance, reflecting its role as a core exposure within the COWZ Index. Health Care demand is non-discretionary and insulated from economic slowdowns and shifts in consumer confidence. Revenues are driven by demographics, utilization trends, and reimbursement frameworks, rather than GDP growth, positioning the portfolio to perform across a wide range of macroeconomic outcomes.

The sector has also benefited from market-rotation dynamics. After several years of underperformance (particularly during the tech-led rally), institutional investors have increasingly rotated back into Health Care stocks. As leadership in technology became more concentrated, capital has shifted toward value-oriented, defensive growth sectors with more attractive valuations. For much of 2025 Health Care traded at relatively low forward price-to-earnings (P/E) multiples compared with the broader market, while recent earnings results showed improvement, including beats in biotech and managed care and stabilizing guidance for 2026.

Within the COWZ Index, the Health Care allocation is balanced with innovation and cash generation:

- Health Care providers and services offer strong free cash flow, supported by ongoing needs in medical distribution.
- Biotechnology provides exposure to therapeutic innovation and long-term growth potential.
- Large pharmaceutical names offer earnings stability, strong balance sheets, and shareholder returns through dividends and buybacks (though dividends are never guaranteed).

Energy

Energy is the second-largest sector allocation in the portfolio, reflecting its role as a high free-cash-flow, shareholder-return-oriented exposure. Among major sectors, Energy offers the highest free cash flow yields and some of the lowest P/E multiples, making it a compelling value component within the COWZ Index.

After the rebalance, the COWZ Index continues to emphasize integrated and upstream producers that have demonstrated capital discipline (prioritizing free cash flow deployment toward dividends, share repurchases, and debt reduction), while maintaining selective exposure to energy services.

As a cyclical sector, Energy also offers potential upside during periods of market rotation into value-oriented assets. However, commodity price exposure remains the primary risk. Energy revenues and cash flows are still closely tied to oil and natural gas prices, making the sector sensitive to volatility in global supply, demand, and geopolitics.

Summary and Positioning Outlook

Overall, the December reconstitution reinforces the COWZ Index's core investment philosophy: **emphasizing high free cash flow generation, disciplined capital allocation, and attractive valuations.** The portfolio is now more balanced across sectors, with reduced reliance on capital-intensive growth themes and increased exposure to durable cash-flow businesses.

To learn more about how to incorporate COWZ 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, high portfolio turnover risk, large- and mid-capitalization investing risk, passive investment risk, tracking risk, style risk, and/or special risks of exchange traded funds.

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

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

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 Value 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 Cash Cows 100 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 Cash Cows 100 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 Cash Cows 100 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.

© 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