



## Pacer U.S. Cash Cows 100 Index Rebalance

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### Quarterly Rebalance Overview

The Pacer U.S. Cash Cows 100 Index (COWZ Index) completed its September 2026 quarterly reconstitution, based on screening results of the Free Cash Flow (FCF) yield factor, measured as free cash flow relative to enterprise value (FCF/EV).

Following the rebalance, the Index continues to hold 100 large cap U.S. equities with the highest FCF yields, weighted by free cash flow. The September rebalance resulted in 27 additions and deletions, and 30.08% portfolio turnover, with a minimum FCF yield cut-off of 4.39%. After the rebalance, the portfolio's FCF yield was 6.41%, compared with 3.13% for the Russell 1000 Value Index.

An interesting pattern emerged between the companies entering and leaving the portfolio. New constituents had median FCF growth of 27.03%, while their median price appreciation was just 0.89%. By contrast, companies leaving the portfolio had median FCF growth of -2.99%, despite median price appreciation of 14.54%.

This helps illustrate COWZ's rebalance discipline: harvesting areas where price appreciation has outpaced cash flow and reallocating toward companies where stronger cash generation has created more attractive valuations.

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### Sector Positioning After the Rebalance

The rebalance followed a quarter in which market leadership broadened beyond the Semiconductor names that had driven much of the rally from March through June. Between the June and September rebalances, Software, Energy and Health Care performed strongly, while Semiconductors declined.

Over the same period, the COWZ Index returned 12.48% compared with 4.44% for the Russell 1000 Value benchmark. Information Technology was the largest contributor to relative performance, led by strong results in Software and IT services.

Against that backdrop, the September rebalance effectively resets the opportunity set and asks a fresh question: where does the FCF yield factor look most attractive today?

The largest sector shift was toward Energy and Industrials, which together increased by more than 10 percentage points. Energy rose from 12.48% to 19.67%, while Industrials increased from 12.30% to 15.29%. Information Technology, meanwhile, remained essentially unchanged at around 20%.

## COWZ Index Sector Weights (%)

September 2026

|                        | Before | After | Russell 1000 Value |
|------------------------|--------|-------|--------------------|
| Information Technology | 20.64  | 20.56 | 19.97              |
| Energy                 | 12.48  | 19.67 | 6.34               |
| Industrials            | 12.30  | 15.29 | 10.52              |
| Health Care            | 20.29  | 14.56 | 13.11              |
| Consumer Discretionary | 12.13  | 9.64  | 10.19              |
| Communication Services | 8.42   | 8.22  | 3.35               |
| Consumer Staples       | 9.51   | 7.74  | 7.19               |
| Materials              | 4.24   | 4.32  | 3.59               |
| Utilities              | --     | --    | 3.43               |
| Real Estate            | --     | --    | 3.40               |
| Financials             | --     | --    | 18.91              |

Source: Pacer Advisors, FactSet

Relative to the Russell 1000 Value Index, the COWZ portfolio continues to maintain its largest overweights in Energy, Industrial and Consumer Discretionary.

## Energy

Energy had the largest sector increase, rising from 12.48% to 19.67%, while the biggest industry Oil, Gas & Consumable Fuels increased from 10.87% to 17.32%. The rebalance added back several major companies, including Chevron, ConocoPhillips and Phillips 66.

Recent supply disruptions have pushed oil prices higher, providing additional support for revenue and cash generation. Natural gas also provides another source of demand. Rising electricity needs from data centers are expected to support greater natural gas consumption for power generation.

However, the opportunity goes beyond a commodity price call. Many Energy companies continue to maintain disciplined capital spending, allowing more revenue to translate into free cash flow and shareholder returns. ConocoPhillips, for example, generated approximately \$4.4 billion of free cash flow in Q2 while increasing share repurchases. Chevron generated more than \$18 billion of Q2 free cash flow and returned \$6.5 billion to shareholders through dividends and share buyback.

The combination of strong commodity supported cash generation, capital discipline and attractive valuations has once again made Energy one of the portfolio's largest opportunity sets.

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## Industrials

Industrials increased from 12.30% to 15.29%, but the allocation is not one single thematic bet. Instead, the rebalance identified several distinct investment stories across Defense, Power Infrastructure and Logistics, each with a different path toward stronger cash generation.

- **Defense:** Aerospace & Defense exposure increased from approximately 2.1% to 4.3%, led by the additions of Lockheed Martin and L3Harris. The long duration defense demand is increasingly visible in company backlogs, providing greater visibility into future revenue and potential cash flow generation.
- **Power infrastructure:** GE Vernova entered the index at approximately 2%. Its addition is particularly interesting because power infrastructure has become increasingly tied to the expansion of data centers and AI related electricity demand. The company's data center orders exceeded \$5 billion year to date, while recent quarterly FCF reached \$5.1 billion. COWZ does not explicitly target electrification or data centers. But when structural growth begins translating into strong cash flow relative to enterprise value, those companies can naturally become more attractive within a FCF yield framework.
- **Logistics:** The portfolio also added UPS and FedEx, increasing the Air Freight & Logistics industry exposure. Both companies have been restructuring their networks and reducing costs, creating potentially better operating leverage, and stronger cash generation as volumes improve.

Together, these Industrials exposures illustrate how FCF yield screening could potentially identify both secular growth beneficiaries and mature businesses where restructuring is improving cash flow.

## Information Technology

Technology remained near 20%, but the composition changed substantially.

Software declined from approximately 11.1% to 8.2%, while IT Services, Hardware/Storage and Semiconductors all increased. Combined, those three technology infrastructure categories rose from approximately 8.5% to 12.1%.

That rotation followed an unusually strong quarter for software. Earlier concerns around AI disruption had eased by late summer as earnings improved and investors saw more evidence of AI adoption across established software businesses. The September rebalance effectively harvested part of that rebound, removing or reducing companies whose FCF yields had become less competitive after strong price appreciation.

At the same time, the COWZ portfolio added SanDisk and IBM and increased exposure to Qualcomm. SanDisk's data center revenue increased more than 5 times year over year while cash generation accelerated sharply. These additions highlight how AI and data infrastructure demand is increasingly translating into stronger revenue growth and free cash flow production, particularly across storage, enterprise infrastructure and processing.

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## Artificial Intelligence in COWZ

One of the more interesting implications of the September rebalance is that some of the strongest AI-related FCF value opportunities are appearing outside the mega cap tech firms.

For example,

- GE Vernova: power generation and grid equipment
- Chevron: energy supply
- SanDisk: data storage
- IBM: enterprise infrastructure
- Qualcomm: semiconductors and edge AI

These companies operate across different industries and sectors, but they share an important characteristic: structural demand from the AI cycle is increasingly visible in cash generation while FCF yields remain attractive.

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## Summary & Positioning Outlook

The September rebalance highlights the adaptive nature of COWZ's FCF yield discipline. During the previous quarter, the portfolio benefited from a broadening of market leadership, with particularly strong stock selection across Technology, Energy, Health Care, Materials and Industrials.

The recent rebalance reassessed the investment opportunities based on free cash flow and valuation, resulting in greater exposure to Energy and Industrials, and a different mix within Technology. New stories across defense, power infrastructure, logistics and data center infrastructure provide several areas to watch as COWZ enters the fourth quarter of 2026.

To learn more about how to incorporate COWZ into your portfolio, contact your financial advisor or visit **[www.paceretfs.com](http://www.paceretfs.com)**.

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**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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