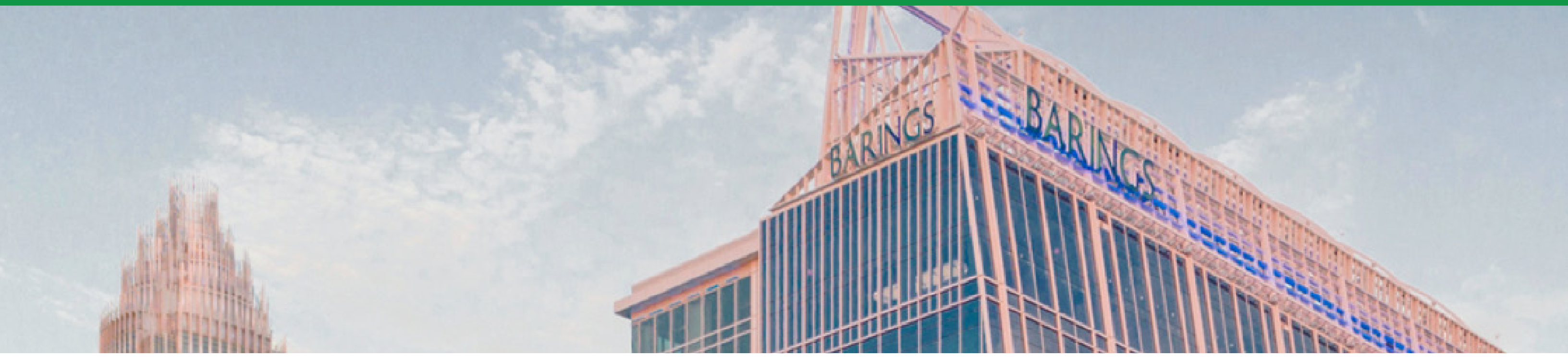
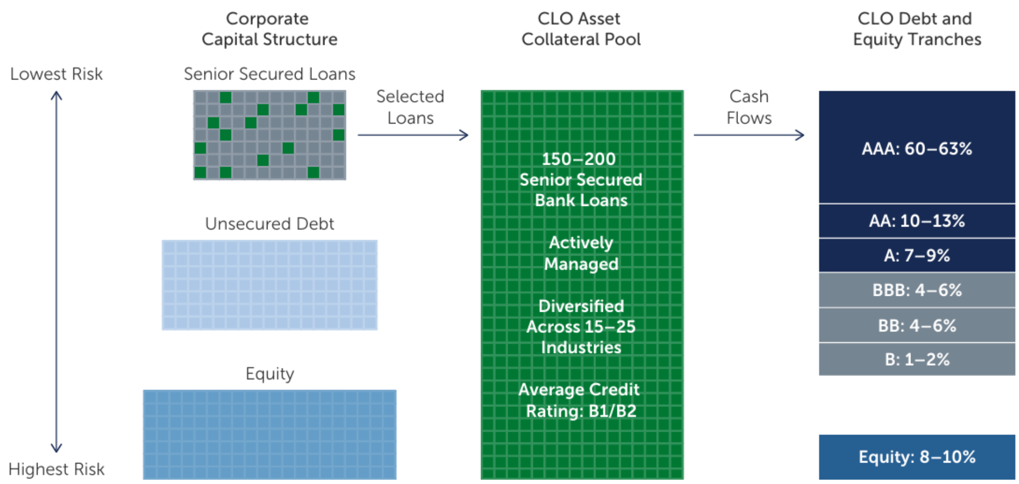


Collateralized Loan Obligations (CLOs):
A Primer

Understanding CLOs

A collateralized loan obligation (CLO) is an actively managed, securitized product backed by a portfolio of senior secured corporate loans. These loans are typically issued by below investment grade companies and are diversified across issuers and industries.

Typical CLO Structure



Source: Barings. For illustrative purposes only.

CLOs typically pool 150–200 loans into a single vehicle and finance that pool by issuing debt and equity. These liabilities are structured into tranches with varying levels of risk and return, ranging from highly rated senior debt (AAA) to unrated equity.

Importantly, CLOs are backed by **senior secured loans**, which are supported by borrower assets and sit at the top of the corporate capital structure. This seniority has historically resulted in higher recovery rates relative to unsecured credit.

Both CLO debt securities and the underlying loans that the structures invest in have floating rate coupons. This means that their coupon payment is a combination of a reference rate, such as the Secured Overnight Financing Rate or Euro Interbank Offered Rate, that resets throughout the year and a spread above the reference rate. As a result, CLOs tend to have limited price sensitivity to interest rate movements compared to fixed-rate securities.

How CLOs Work

CLO debt refers to the rated tranches within the CLO capital structure that receive priority access to cash flows generated by the underlying loan portfolio. These tranches—typically AAA through BB—offer investors varying levels of risk and return depending on their position in the structure.

Cash flows are distributed through a **sequential "waterfall,"** where senior tranches are paid first, followed by mezzanine tranches, with equity absorbing residual cash flows. Losses are applied in reverse order, providing structural protection for higher-rated tranches.

Source: Barings. For illustrative purposes only.

Key Differentiators:

Diversity
Corporate loan portfolios diversified by issuer and industry

Transparency
Rigorous underwriting & monitoring of holdings by asset managers

Spread Pick Up
Credit spread is typically higher than comparable rated liquid fixed income

Portfolio Management
Active security selection by experienced asset managers

Structural Protections
Portfolio tests designed to preserve principal and income for debt holders

Total Return Potential
Trading opportunities across ratings may appear in volatile periods

Characteristics Across the Capital Structure

CLOs provide exposure across a wide range of risk and return profiles:

- **AAA/AA tranches (senior debt)**
  - Lowest risk due to significant subordination
  - Lower spreads, with a focus on capital preservation
- **A/BBB tranches (mezzanine)**
  - Moderate credit risk with higher income potential
  - Increased spread compensation
- **BB tranches**
  - Higher volatility and loss sensitivity
  - Potential for materially higher returns

This tiered structure allows investors to **allocate across the capital stack,** targeting specific income and risk objectives within a single asset class.

CLO Capital Structure

Rating Category	Spread Range[1]	Historical Return[2]	Historical Volatility[2]
AAA	120-140 bps	3.3%	1.7%
AA	140-170 bps	4.6%	3.7%
A	160-200 bps	5.7%	5.5%
BBB	230-325 bps	7.7%	8.5%
BB	425-675 bps	12.0%	14.0%

(1)Sources: Barings and BofA CLO Factbook. For illustrative purposes only

(2)Sources: Barings and J.P. Morgan. Historical Return and Volatility are shown on an annualized basis from the start of 2012 until April 2026. Returns based on the rating sub-index for the J.P Morgan CLOIE Index. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

The Case for CLOs Today

Several current market dynamics support the case for investing in CLO debt:

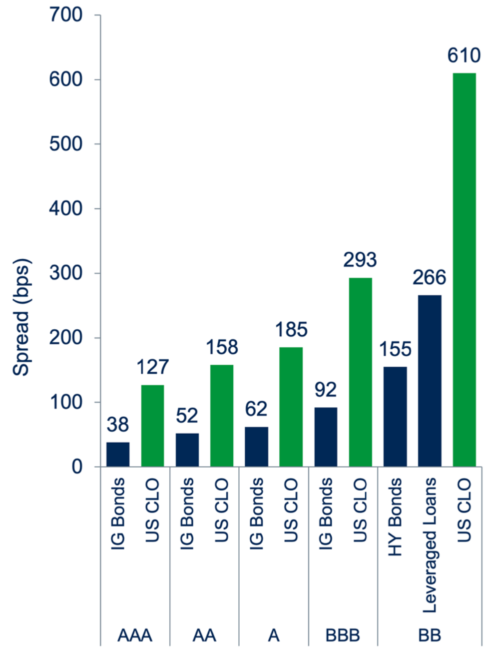
- Attractive Spread Pickup
  - CLO spreads remain attractive across rating tiers relative to similarly rated fixed income assets
  - The ability to **move across the capital structure** allows for dynamic allocation in different market conditions and as relative value shifts

Proven Through Cycles

- CLOs have demonstrated resilience across multiple economic environments
- **Importantly, the number of defaults for rated tranches,** particularly senior classes, have historically been minimal and low relative to corporate credit

(1)Source: J.P Morgan (US CLO), ICE BofA (IG and HY Bonds), and S&P UBS Leveraged Loan Index (Leveraged Loans) as of June 30, 2026.
(2)Source: S&P as of March 31, 2026.

Attractive Spread Pickup[1]



Proven Through Cycles[2]

S&P U.S. CLO Default history
1994 - 1H 2026

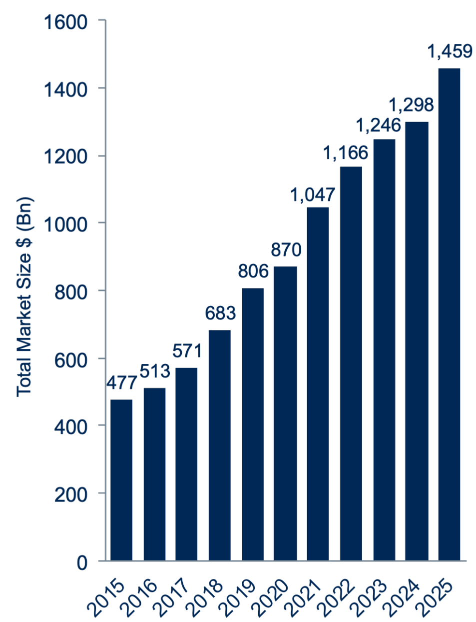
Rating Category	Total	# Defaulted
AAA	7,687	0
AA	5,186	1
A	4,655	5
BBB	4,848	9
BB	3,387	38

Large and Growing Market

- The CLO market has expanded significantly in recent years, offering an increasingly **deep and liquid** opportunity set
- Continued issuance and secondary market activity supports price discovery and investor access

Source: BofA Global Research as of December 31, 2025.

Large and Growing Liquid Market



Accessing CLOs

Investors can access CLOs in two primary ways:

- **Direct investment in CLO tranches**
  Requires significant expertise, individual deal diligence, and access to primary issuance or secondary markets.
- **Through a third-party manager or vehicle (e.g., funds/ETFs)**
  Provides diversified exposure while leveraging a manager's origination network, research capabilities and trading expertise.

The Opportunity:

Unlock the incremental yield potential of below-investment-grade corporate credit through a disciplined investment approach focused on CLO debt.

Why Barings?

Barings' integrated CLO investing and origination capabilities provide differentiated access across the credit spectrum, supported by significant assets under management and backed by years of experience.

Barings' Global High Yield and CLOs Platform

- **Depth of Experience:** High yield investing track records that spans 25+ years across market cycles, 13+ years managing multi-asset high yield products, all supported by a $50B+ platform
- **Integrated Platform:** Global capabilities across loans, bonds, and CLOs, enabling relative value insights across markets
- **Scale and Resources:** A large, globally distributed team with dedicated credit research and trading expertise
- **Bottom-up Focus:** Emphasis on fundamental credit analysis, issuer selection, and active risk management

Risk Consideration:

While CLOs benefit from structural protections and diversification, they remain exposed to the performance of the underlying leveraged loans. Changes in economic conditions, rising corporate defaults, reduced market liquidity or downgrades of the underlying loans may negatively affect CLO prices and returns, especially in lower-rated tranches.

Speak with your financial advisor today to learn more about how to incorporate the Pacer Barings CLO Market Flex ETF (AAAP) into your portfolio. **For more information, 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 CLO risk, currency exchange rate risk, derivatives risk, ETF risks, fixed income risk, floating rate loan risk, foreign securities risk, forward currency contracts risk, futures contracts risk, high yield securities risk, liquidity risk, management risk, market risk, new fund risk, non-diversification risk, other investment companies, privately issued securities risk, and/or special risks of exchange traded funds.

Pacer Advisors, Inc. is the fund advisor. Barings LLC serves as investment sub-advisor to the fund.

Not FDIC Insured	May Lose Value	Not Bank Guaranteed

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PCR2026_BCLOWP 6/30/26