In Focus

Free Cash Flow Yield & Global Dividend Investing

PACER ETFs

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Free Cash Flow: The Key to Sustainable Dividends

The current low interest rate environment combined with slow economic growth and increasing market volatility has investors looking for solutions that can generate sustainable income. Focusing on companies producing a high free cash flow yield and a sustainable high dividend yield may be a way for investors to generate income, preserve capital, and provide the potential for long-term returns.

Price-to-earnings ratio (P/E ratio) is a fundamental measure commonly used to determine if an investment is valued appropriately. Each holding's P/E is the latest closing price divided by the latest fiscal year's earnings per share. Negative P/E ratios are excluded from this calculation.

Why Invest in Dividend Paying Stocks?

- Dividend paying stocks are typically larger and more established companies. Historically, they have captured a good portion of the market's gains during up markets and offered less volatility during down markets.
- Stocks that pay consistent dividends usually have lower valuations, strong earnings quality, and solid balance sheets.

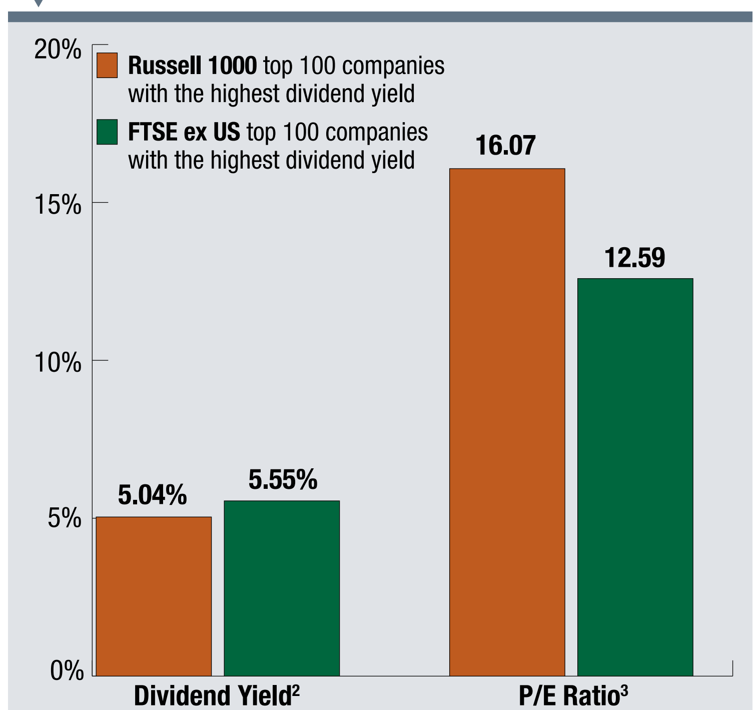
The Global Opportunity

- More than 70% of the world's dividends come from non-US companies.[1]
- Adding international stocks as a complement to US portfolios can increase investors' exposure to new income opportunities over the broader equity market.
- International dividend investing may improve portfolio diversification through country and sector diversification.

(1)Morningstar, 2015

US vs. International as of 3/31/18

Recently, yields have been higher and valuations have been lower overseas versus the US.



In order to provide a more focused analysis, the top 100 companies in each index were chosen. Source: FactSet. You cannot invest directly in an index. (2)Trailing 12 month dividend yield. (3)Trailing 12 month price-to-earnings ratio. **The Russell 1000** is an index of approximately 1,000 of the largest companies in the U.S. equity markets. The Russell 1000 comprises over 90% of the total market capitalization of all listed U.S. stocks. **FTSE Developed Large-Cap Index ex US** is a market-capitalization weighted index representing the performance of large-cap stocks in developed markets. Data calculated for the FTSE Developed Large-Cap Index ex US screens out all US companies to represent a true international index.

Sustainability and Free Cash Flow Yield

- **Free cash flow** is the cash remaining after a company has paid expenses, interest, taxes, and long-term investments. When free cash flow is positive, it indicates the company is generating more cash than is needed to run the company and can invest in growth opportunities. It is a source from which dividends are paid.
- **Free cash flow yield** represents a company's free cash flow relative to its enterprise value *(market value + total debt – cash)* to determine the value of that cash flow. High free cash flow yield supports a company's ability to make consistent dividend payments and its capacity to grow dividends over time.

Pacer Global Cash Cows Dividend Index

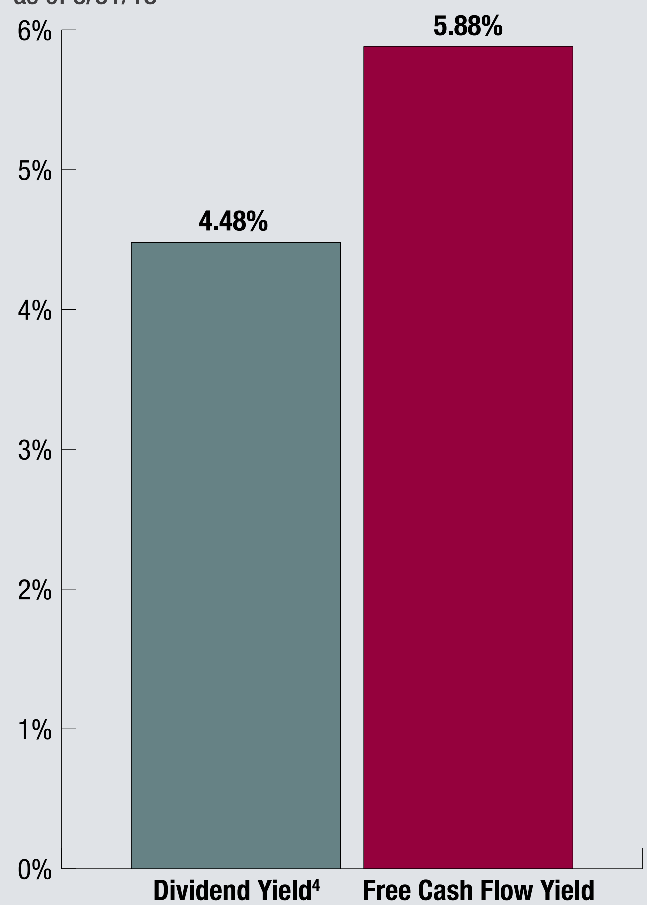
When free cash flow yield is less than dividend yield, it indicates there is a cash shortfall and dividends may not be sustainable.

The Pacer Global Cash Cows Dividend Index has a higher free cash flow yield than dividend yield indicating the companies within the Index have a stable free cash flow and the ability to pay consistent dividends.

Pacer Global Cash Cows Dividend Index
created in January 2016 uses an objective rules-based methodology to provide exposure to global companies with a high dividend yield backed by a high free cash flow yield.

- Top 100 companies in the FTSE Developed Large-Cap Index with the highest free cash flow yield and dividend yield.
- Companies are weighted by highest trailing twelve month dividends. Weightings are capped at 2% for any individual company.
- The Pacer Global Cash Cows Dividend Index is reconstituted and rebalanced semi-annually in June and December.

Dividend Yield vs. Free Cash Flow Yield
as of 3/31/18



Source: FactSet.
(4)Last 12 months dividend per share divided by the current share price. Trailing 12 month dividend yield and free cash flow yield.

Why Now?

- International dividend paying stocks are attractively valued right now and yield more on average than their US counterparts.
- Companies with higher levels of free cash flow yield and earnings offer potential for dividend growth and better returns.
- Investors are concerned the US stock market could slow down and rising interest rates will hurt the value of their bond portfolios. Global dividend-oriented strategies may address both of these worries.

Pacer Cash Cows Index® Series

PACER GLOBAL CASH COWS DIVIDEND ETF
GCOW

PACER US CASH COWS 100 ETF
COWZ

PACER US SMALL CAP CASH COWS 100 ETF
CALF

PACER DEVELOPED MARKETS INTERNATIONAL CASH COWS 100 ETF
ICOW

Speak with your financial advisor today to learn more about how to incorporate the Pacer Cash Cows Series into your portfolio.
For more information, visit www.paceretfs.com.

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