The **PACER PERSPECTIVE**
September 2024

Dividend Multiplier Series: How Dividend Multipliers Stand Out

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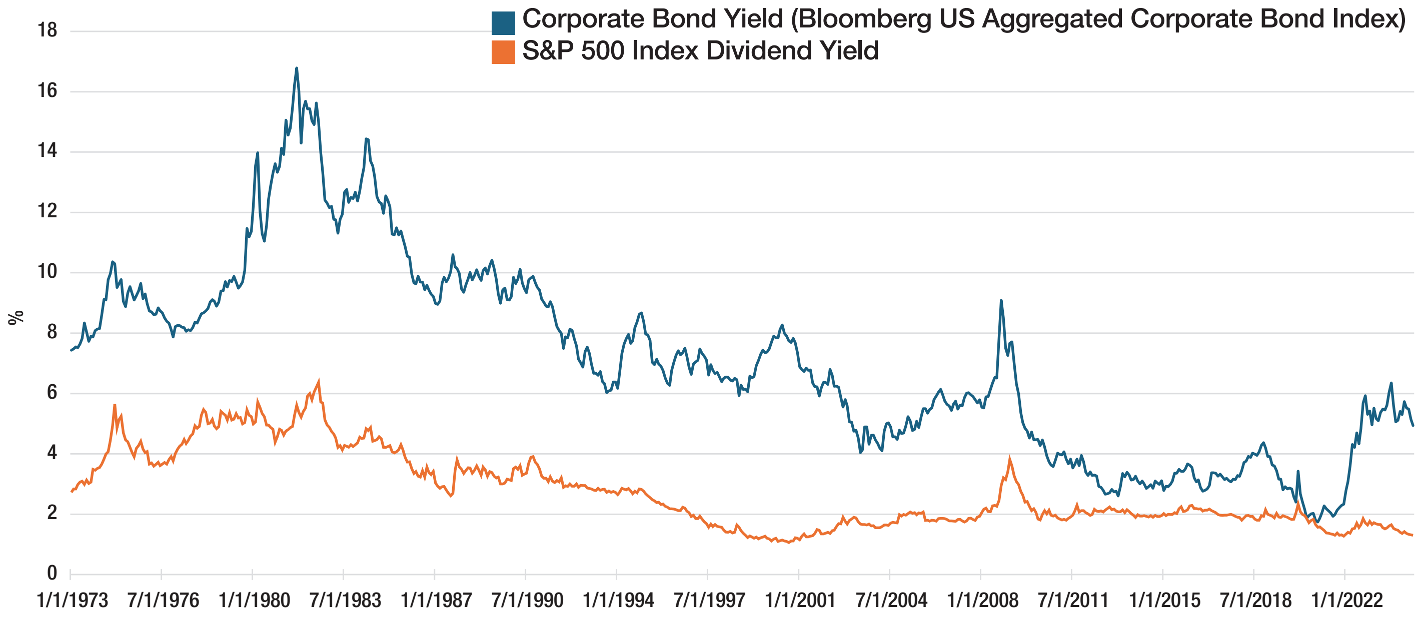
Income investing is a strategy focused on generating steady and reliable income from a portfolio, which appeals to investors who prioritize consistent cash flow. Traditionally, corporate bonds have been a key component of this approach, offering predictable interest payments over time.

However, with ultra-low interest rates over the past decade, many investors turned to other sources for income. Even with the rising rate since 2022, bond yields remain relatively low by historical standards. As a result, dividend-paying stocks have become a popular alternative, providing both income and the potential for capital growth.

Yields for U.S. Stocks Relative to Corporate Bonds
1/31/1973 to 8/31/2024



Source: Bloomberg, Pacer Advisors

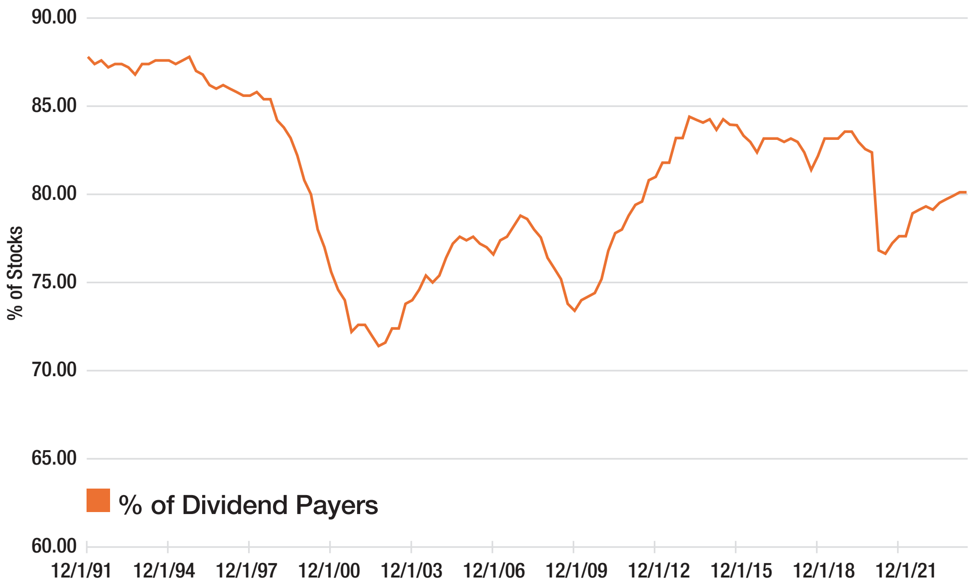
Dividends are payments made by a company, typically on a quarterly basis, to its shareholders, sourced from the company's earnings (though dividends are never guaranteed). Generally, larger and more established companies distribute dividends to return capital to shareholders, while smaller and fast-growing firms often reinvest their profits to fuel business expansion.

Historically, the percentage of dividend-paying companies within the S&P 500 Index has ranged from 70% to 87%. The prevalence of dividend payers varies by sector. Companies in the Energy, Utilities, and Materials sectors are well-known for offering consistent dividends, while only about 55% of technology firms provide dividends to investors.

As of June 2024, 8.75% of stocks in the S&P 500 Index had dividend yields higher than the 10-year U.S. Treasury yield.

S&P 500 Index Percentage of Dividend Payers

12/31/1991 to 6/30/2024



Source(s): FactSet, Pacer Advisors

Percentage of Dividend Payers Among S&P 500 Sectors

as of 6/30/24

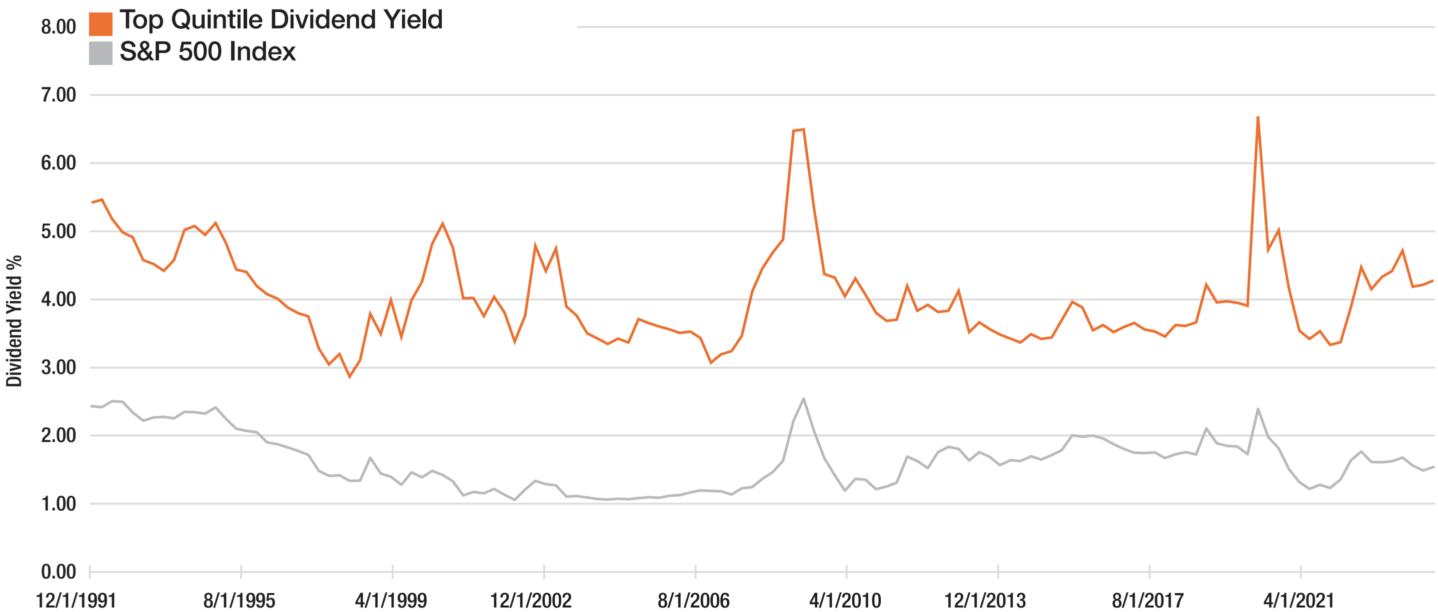
Sector	% of Companies that Pay Dividend
Energy	100.00%
Utilities	100.00%
Materials	100.00%
Consumer Staples	94.74%
Real Estate	93.55%
Financials	92.96%
Industrials	85.90%
Communication Services	72.73%
Health Care	61.90%
Consumer Discretionary	61.54%
Information Technology	55.22%

While investors often focus on price fluctuations in the S&P 500 Index, the dividend component remains a vital, though sometimes overlooked, contributor to total returns. In fact, dividends have played a significant role in long-term equity performance—since 1960, 84% of the cumulative total return of the S&P 500 Index can be attributed to reinvested dividends.

Over the past decade, the S&P 500 Index dividend yield has remained relatively stable, averaging about 1.8%, significantly below its historical average of 2.91%. The recent rally of the market has further compressed yields to around 1.3%, one of the lowest levels since the dot-com bubble. At this level, the yield may fall short of meeting investors' liquidity needs, underscoring the challenge of relying solely on dividends for income in today's market.

To maximize income potential from equities, investors may be tempted to focus on dividend-paying stocks with the highest yields. For instance, by selecting the highest-yielding names within the S&P 500 Index, an investor may potentially elevate their portfolio's yield to around 4%, close to corporate bond yields.

Dividend Yield (Median)
12/31/1991 to 6/30/2024



Source: Bloomberg, Pacer Advisors

From the total return standpoint, historically since 1991, the high dividend yield stocks have performed similarly to the broader S&P 500 Index.

S&P 500 Stocks Average Quarterly Return (Annualized)
12/31/1991 to 6/30/2024

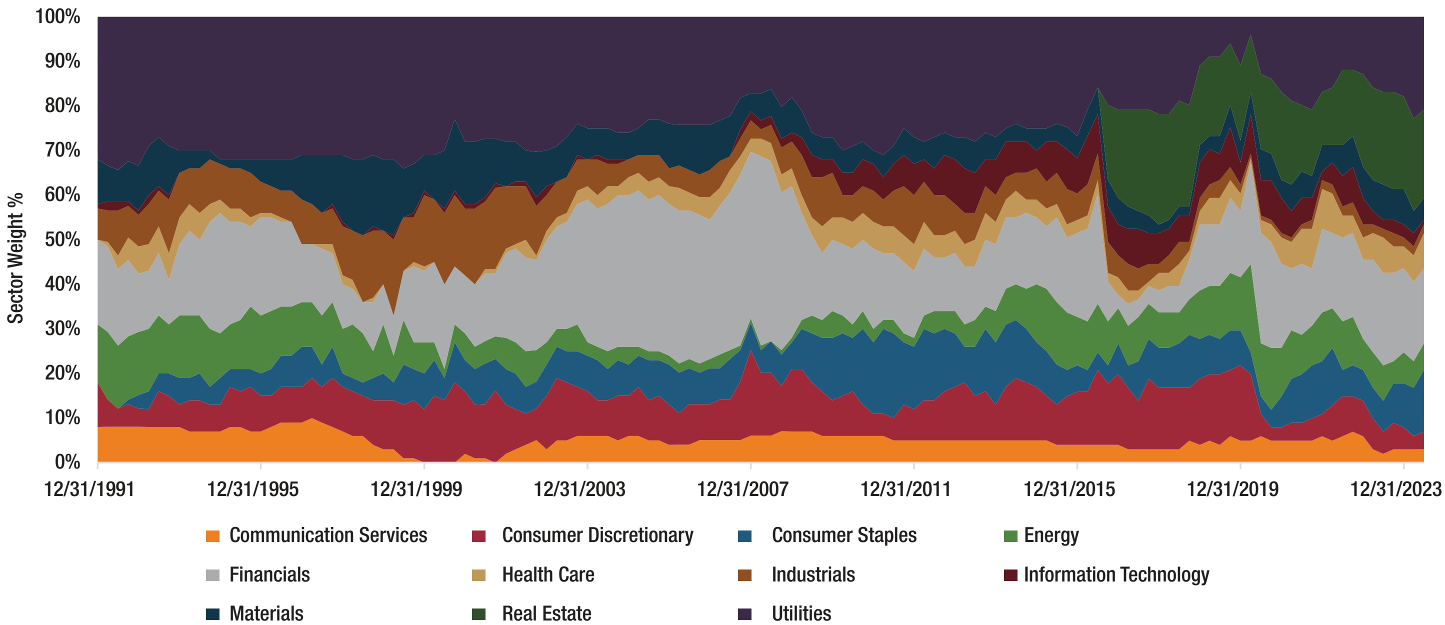
S&P 500	Top Quintile Dividend Yield
11.48%	11.44%

Source: Bloomberg, Pacer Advisors

Stocks with the highest dividend yields are often concentrated in sectors such as Utilities, Financials, Consumer Staples, and Energy—groups known for their stable and consistent dividends. However, this concentration may introduce sector-specific risks, potentially increasing volatility and limiting overall portfolio diversification.
Meanwhile, sector composition can shift over time, reflecting fluctuations in stock market valuations and changes in economic conditions.

While high-yield stocks provide reliable income, portfolios heavily weighted toward these sectors may lack exposure to growth-oriented companies or share buybacks, both of which are crucial for long-term capital appreciation.

Sector Among High Dividend Yield Stocks
12/31/1991 to 6/30/2024

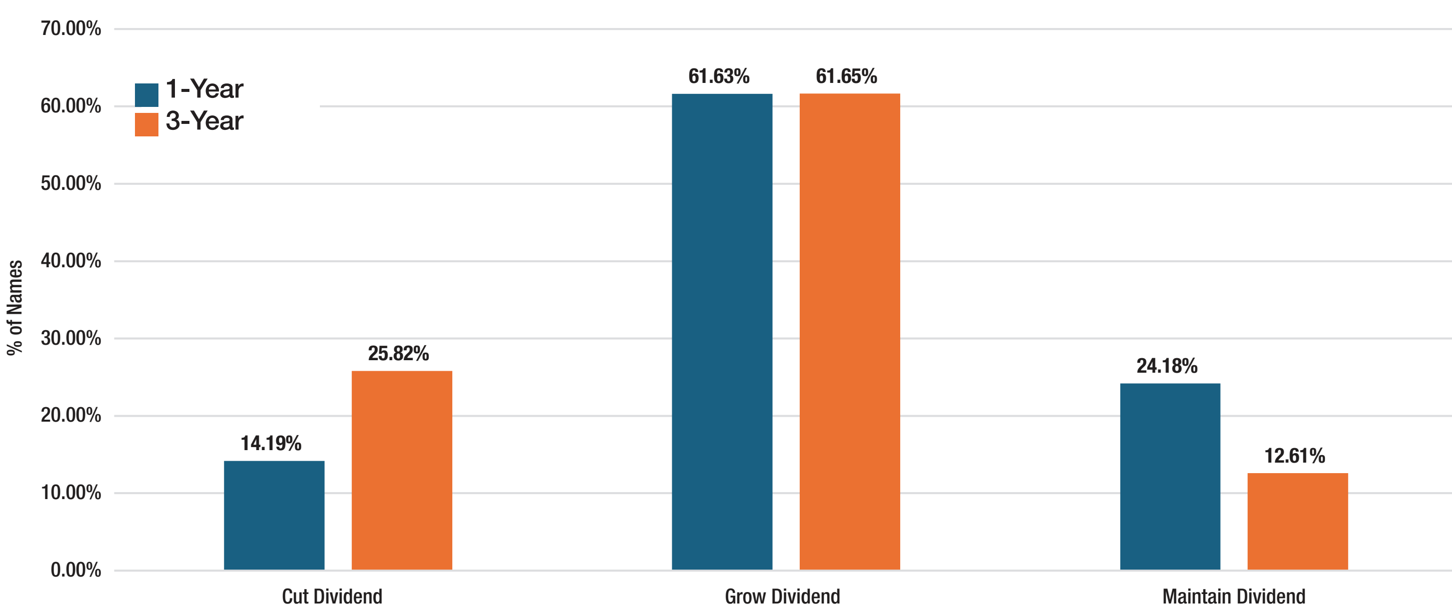


Source: Bloomberg, Pacer Advisors

While high-yielding stocks may offer payouts that exceed those of their peers or the broader market, these payouts are not always sustainable. Companies that pay out excessively large dividends may face financial strain, and the market often recognizes when a firm is struggling to maintain its dividend. In such cases, a declining stock price can lead to a rising yield, which may signal trouble rather than opportunity. This is often a precursor to a dividend cut, a scenario known as a "dividend trap," where the appeal of a high yield is undermined by the company's weakening fundamentals.

Historical data highlights such risk: 15% of the companies in the top quintile of dividend yields cut their dividends within one year, compared to 8% for the broader S&P 500 Index. Over a three-year period, 25% of high-yield stocks reduced their dividends, compared to 14% for the broader market. This underscores the importance of evaluating not just yield, but the sustainability of dividend payments when building an income-focused equity portfolio.

Average Forward-looking Dividend Status Among S&P 500 High Dividend Yield Stocks
12/31/1991 to 6/30/2024

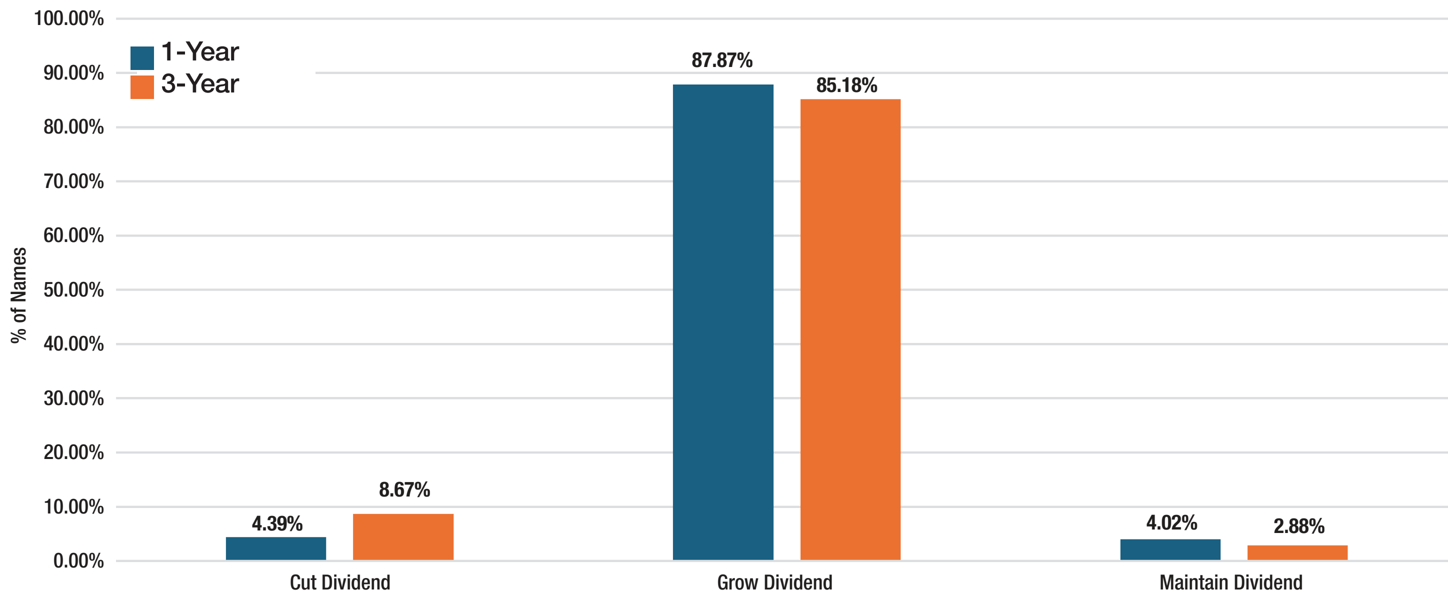


Source: Bloomberg, Pacer Advisors

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. YOU CANNOT INVEST IN AN INDEX.

An alternative strategy for dividend investing is to target companies that not only provide consistent payouts but also raise their dividends over time. Among S&P 500 companies with a track record of over ten years of dividend growth (or "dividend growers"), more than 85% continued to grow their dividends over the following 1- and 3-year periods, outperforming the broader market benchmark, with roughly 70% seeing higher dividends.

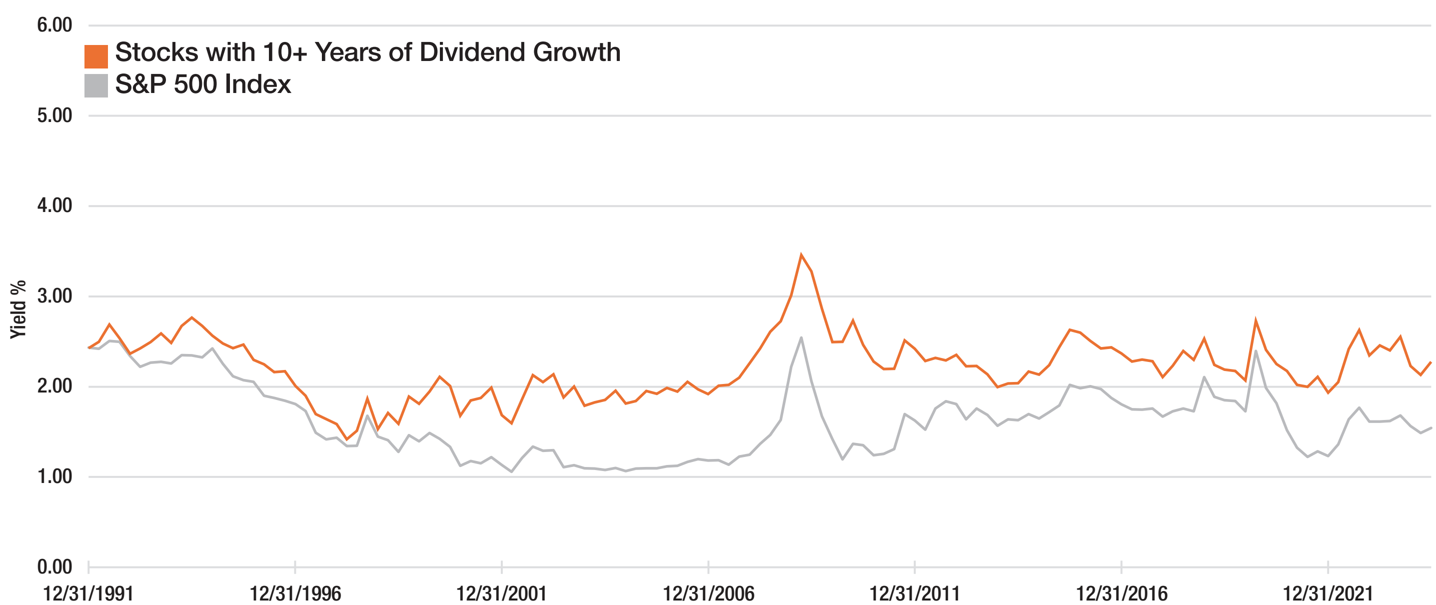
Average Forward-looking Dividend Status Among S&P 500 Stocks with 10+ Years Dividend Growth
12/31/1991 to 6/30/2024



Source: Bloomberg, Pacer Advisors

While these dividend-growing companies may not offer the highest yields, they provide a more sustainable and reliable income stream. The median yield for the "dividend growers" tends to be moderate—lower than the high-yielding stocks but higher than the median for the overall S&P 500 Index.

Dividend Yield (Median)
12/31/1991 to 6/30/2024



Source: Bloomberg, Pacer Advisors

In terms of performance, the companies with this long-term dividend growth have delivered returns slightly below those of the broader S&P 500 Index.

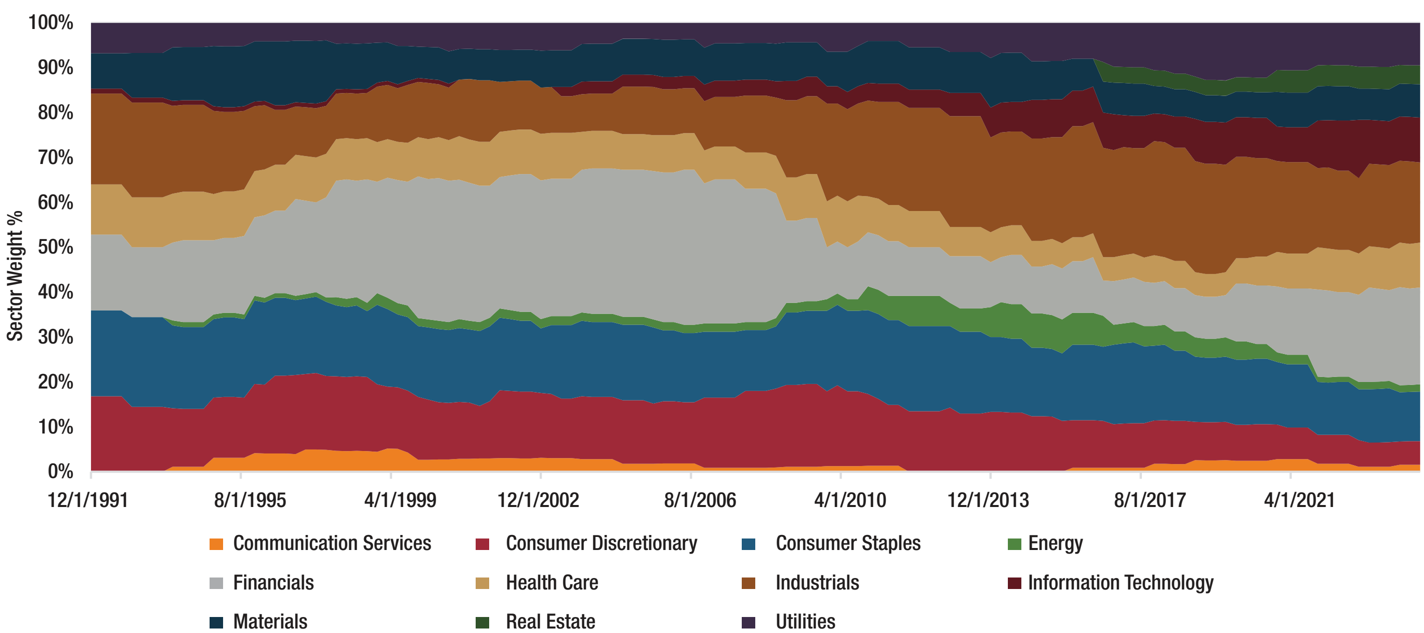
S&P 500 Stocks Average Quarterly Return (Annualized)
12/31/1991 to 6/30/2024

S&P 500	Stock with 10+ Years of Dividend Growth
11.48%	10.90%

Source: Bloomberg, Pacer Advisors

However, similar to high-yield strategies, focusing on dividend growth may introduce a sector bias. This approach tends to favor sectors or companies with established dividend histories, potentially excluding newer dividend-paying firms. For instance, many companies in the Technology sector only began paying dividends in the early 2010s, despite strong earnings growth (Cisco has maintained consecutive dividend growth every single year since it initiated the investor rewarding program in 2011). As a result, even if they demonstrate consistent dividend increases, these companies may not qualify for dividend growth strategies until the 2020s.

Sector Among 10-Year+ Dividend Growing Stocks
12/31/1991 to 6/30/2024



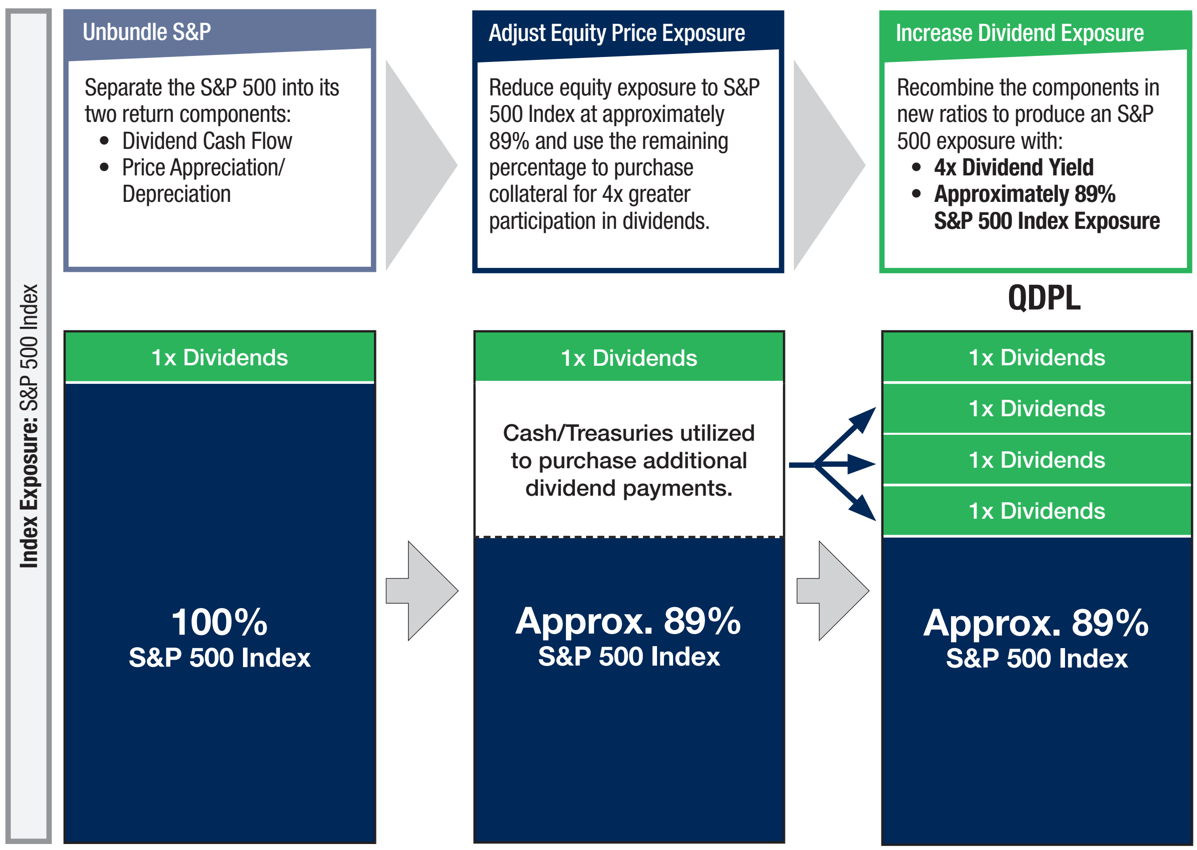
Source: Bloomberg, Pacer Advisors

A more extreme example is the S&P 500 Dividend Aristocrats Index, which includes companies that have increased their dividends every year for the last 25 consecutive years. This stringent requirement means, to qualify for the index in 2024, a company must have been paying and growing its dividend since no later than 1999. While this strategy focuses on long-term reliability, it can exclude newer, dynamic companies that are still in the early stages of their dividend growth journey.

Another limitation of relying on historical dividend growth is that past performance doesn't guarantee future results. Even well-established dividend achievers have cut their dividends in the past, as seen with companies like GE and Walgreens, a topic covered in more detail in another Pacer Perspective.[1]

A common challenge with both high dividend-yield and dividend-growth strategies is that they often lead investors to make significant sector or security-specific bets that deviate from broad market benchmarks like the S&P 500 Index. While these approaches may generate higher returns or greater income in favorable market conditions, they may also expose investors to losses when the market turns unfavorable. The active risk associated with seeking higher yields or dividend growth may create difficulties for portfolios that are subject to risk constraints.

The Pacer Metaurus US Large Cap Dividend Multiplier 400 ETF (QDPL) offers an innovative solution that aims to enhance dividend income while maintaining alignment with the S&P 500 Index. By leveraging S&P 500 dividend futures contracts and long stock positions, QDPL generates cash distribution equivalent to four times the dividend yield of the S&P 500 Index by overweighting the dividend component and underweighting the price component.[2] As of 6/30/2024, the fund's dividend 12-month yield was 5.66%, compared to just 1.33% from the S&P 500. (Fund 30-day SEC Yield: 1.18%)

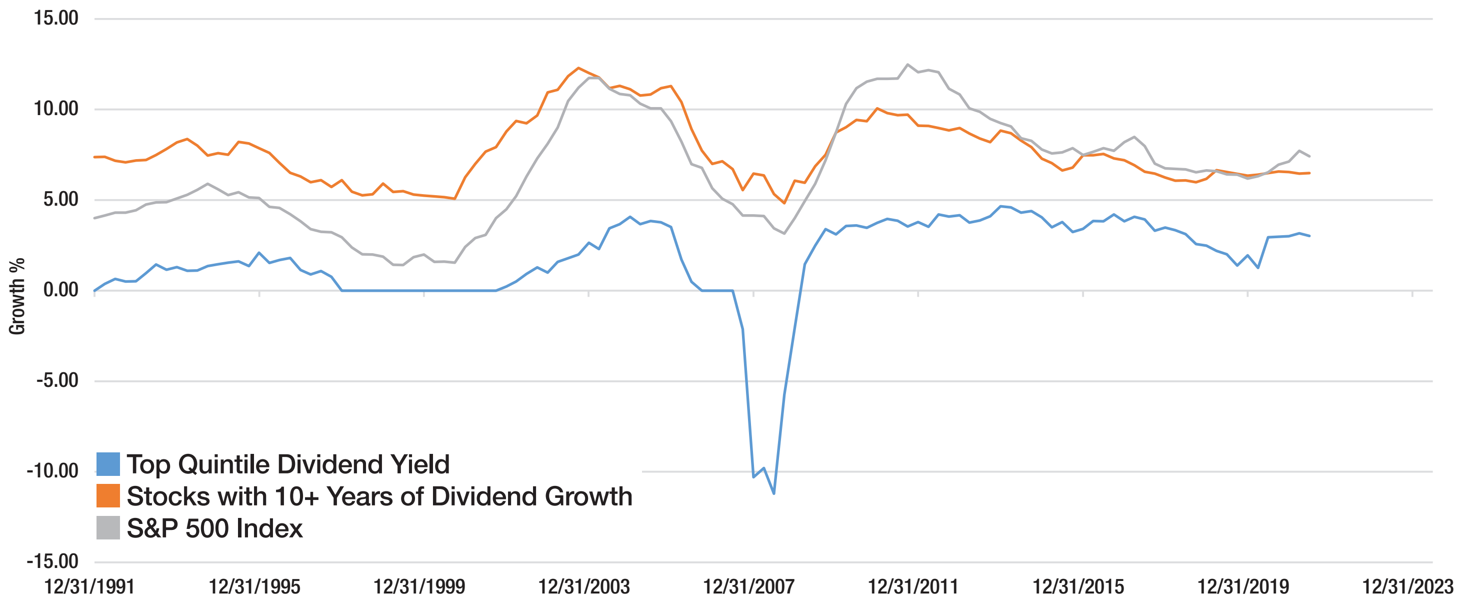


Although underweighting the price component reduces equity exposure to approximately 89% of the S&P 500 Index, much of the portfolio allocation remains aligned with the broad market benchmark. This not only allows the fund to deliver returns that closely mirror the total return of the S&P 500 Index, but also benefit from the broader market's dividend growth.

(1)Pacer Perspective June 2023: Invest in Dividend Payers with Free Cash Flow
(2)More Details in Pacer Perspective December 2022: Dividend Multiplier: An Innovative Way to Enhance Dividend Income Part 1: Dividends and Dividend Futures; Dividend Multiplier: An Innovative Way to Enhance Dividend Income Part 2: Application - Dividend Strips and Multipliers

Since 1960, the S&P 500 Index has experienced long-term year-over-year average dividend growth of 5.98%, with this figure rising to 7.18% over the past decade. When comparing the S&P 500 with top dividend yielders and dividend growers, the S&P 500 companies have shown relatively high median 3-year dividend growth since 1991. Notably, in the last ten years, the S&P 500 Index has demonstrated stronger dividend growth than companies with over ten years of dividend increases. This outperformance likely reflects the growing dividend contributions from newer dividend payers in the Technology and Healthcare sectors—companies often overlooked by traditional dividend grower strategies.

3-Year Forward Dividend Change
12/31/1991 to 6/30/2024



Source: Bloomberg, Pacer Advisors

Furthermore, while dividend taxes are typically levied on income received from dividend-paying investments, QDPL's distributions offer a more tax-efficient structure. For example, in 2023, approximately 23% of the distribution came from dividend payments from the companies in the S&P 500 Index, subject to standard dividend tax treatment. However, 8% was a long-term capital gain from dividend futures contracts, which are taxed at the more favorable long-term capital gains rate. The most significant advantage came from the remaining 69%, which was deemed a return of capital—a non-taxable event. This return of capital effectively reduces the investor's cost basis in the fund, deferring taxes until the investment is sold, making QDPL's distributions much more tax-efficient compared to traditional dividend strategies.

QDPL
Pacer Metaurus US Large Cap Dividend Multiplier 400 ETF

In conclusion, the Pacer Metaurus US Large Cap Dividend Multiplier 400 ETF (QDPL) presents a creative approach for investors seeking higher dividend income. In comparison to traditional dividend strategies, it offers a higher yield without dramatically altering the portfolio's structure or risk profile relative to the benchmark, allowing investors to benefit from the long-term growth and diversification of the broader market. Its tax-efficient structure further adds advantage for investors seeking to maximize after-tax returns.

Most recently, Pacer ETFs worked with Metaurus Advisors to expand the dividend multiplier series, launching the Pacer Metaurus Nasdaq-100 Dividend Multiplier 600 ETF (QSIX). The fund enables investors seeking to take advantage of the growth potential among NASDAQ-100 stocks while generating large income. In essence, QDPL and QSIX deliver a unique solution that combines elevated dividend income, enhanced tax efficiency, and broad market exposure — positioning it as a compelling alternative to conventional dividend-focused investment strategies.

Performance (%)
as of 8/31/24

	Ticker	Total Expenses	Fund Inception		Total Returns (%) as of 8/31/24: 1 Month	3 Month	YTD	Total Returns (%) as of 6/30/24: 1 Year	3 Year	5 Year	Since Fund Inception
Pacer Metaurus US Large Cap Dividend Multiplier 400 ETF	QDPL	0.60%[1]	7/12/21	NAV	2.01	6.38	17.67	22.50	N/A	N/A	8.59
				Market Price	1.94	6.22	17.74	22.43	N/A	N/A	8.64
Metaurus US Large Cap Dividend Multiplier Index - Series 400					1.88	6.38	17.63	22.81	N/A	N/A	9.18
S&P 500 Index					2.43	7.39	19.53	24.56	10.01	15.05	9.36

Returns less than 1 year are cumulative. Returns greater than 1 year are annualized.
Performance quoted represents past performance and does not guarantee future results. Investment return and principal value will fluctuate, so shares may be worth more or less when redeemed or sold. Current performance may be lower or higher than the performance quoted. Visit http://www.paceretfs.com for the most recent month-end performance. Index returns are for illustrative purposes only. Index performance does not reflect any management fees, transaction costs, or expenses. You cannot invest directly in an index.
NAV (net asset value) is the value of one share of the Fund calculated daily. The NAV return is based on the NAV of the Fund. It may not reflect the actual return for the investor.
Market Price is the price investors can buy and sell ETF shares for in the stock market and is used to calculate market return. It is based on the price at the listed exchange market close. This is when NAV is determined for most ETFs. If shares trade at another time, the return may differ. Market and NAV returns assume that dividends and capital gain distributions have been reinvested in the Fund at Market Price and NAV respectively.
SEC 30-Day Yield is a standard yield calculation developed by the SEC that allows investors to more fairly compare funds. The SEC Yield doesn't include the additional dividend exposures to the overall yield.
(1)Effective February 1, 2024, the investment adviser lowered its management fee for the Fund to 0.60%. Prior to February 1, 2024, the management fee was 0.79%.

S&P 500 Index: The S&P 500 Index (Standard & Poor's 500 Index) is a market-capitalization-weighted index of the 500 leading publicly traded companies in the U.S.
Dividend yield is calculated using annual dividends per share divided by share price. There is no guarantee dividends will be paid.
Futures are derivative financial contracts that obligate parties to buy or sell an asset at a predetermined future date and price.
Dividend 12-month yield: Sum of dividend per share amounts that have gone ex-dividend over the prior 12 months, divided by the current stock price.
S&P 500 Dividend Aristocrats Index: S&P 500 Dividend Aristocrats Index measure the performance of S&P 500 companies that have increased dividends every year for the last 25 consecutive years.

Visit **www.paceretfs.com** or call **1-877-337-0500** to learn more.

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