

Friday Favorites- Cash Cows (CALF)

The Pacer Cash Cow ETF Series (CALF)

Thematic stock ETFs are portfolios of stocks selected by a particular theme. Most thematic ETFs are based on fundamentals and, more specifically, factors. For instance, many popular ETFs are oriented toward value, growth, or large or small-cap stocks.

Pacer ETFs offer an attractive thematic ETF with CALF. Their fund is essentially a small-cap value fund. Specifically, it holds the top cash flow-yielding companies in the small-cap S&P 600.

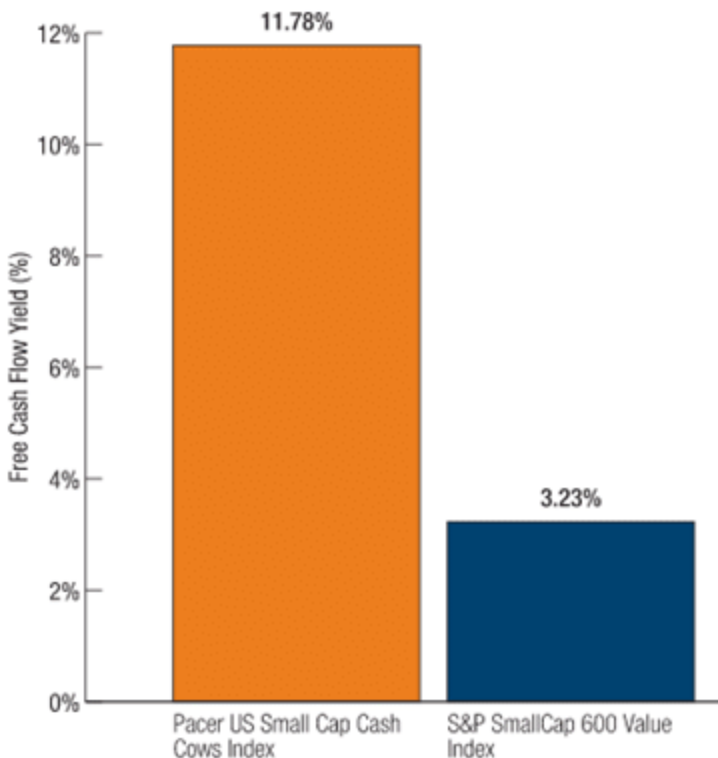
Free Cash Flow

Free cash flow is often used as an alternative to net earnings which can be subject to accounting manipulation. It represents the cash remaining after a company has paid its expenses, interest, and taxes. Free cash flow is the actual dollars a company holds and it can use to pay dividends, conduct buybacks, or reinvest into its business.

Per Pacer, CALF has a free cash flow yield over 3x that of the S&P 600.

Free Cash Flow Yield Comparison

as of 12/31/2023¹



1. High Quality Small-Cap Companies

Unique focus on quality small-cap companies with high free cash flow yield.

2. Trading at a Discount

Exposure to opportunities in the market where high quality stocks are trading at a discount.

3. Long-Term Capital Appreciation

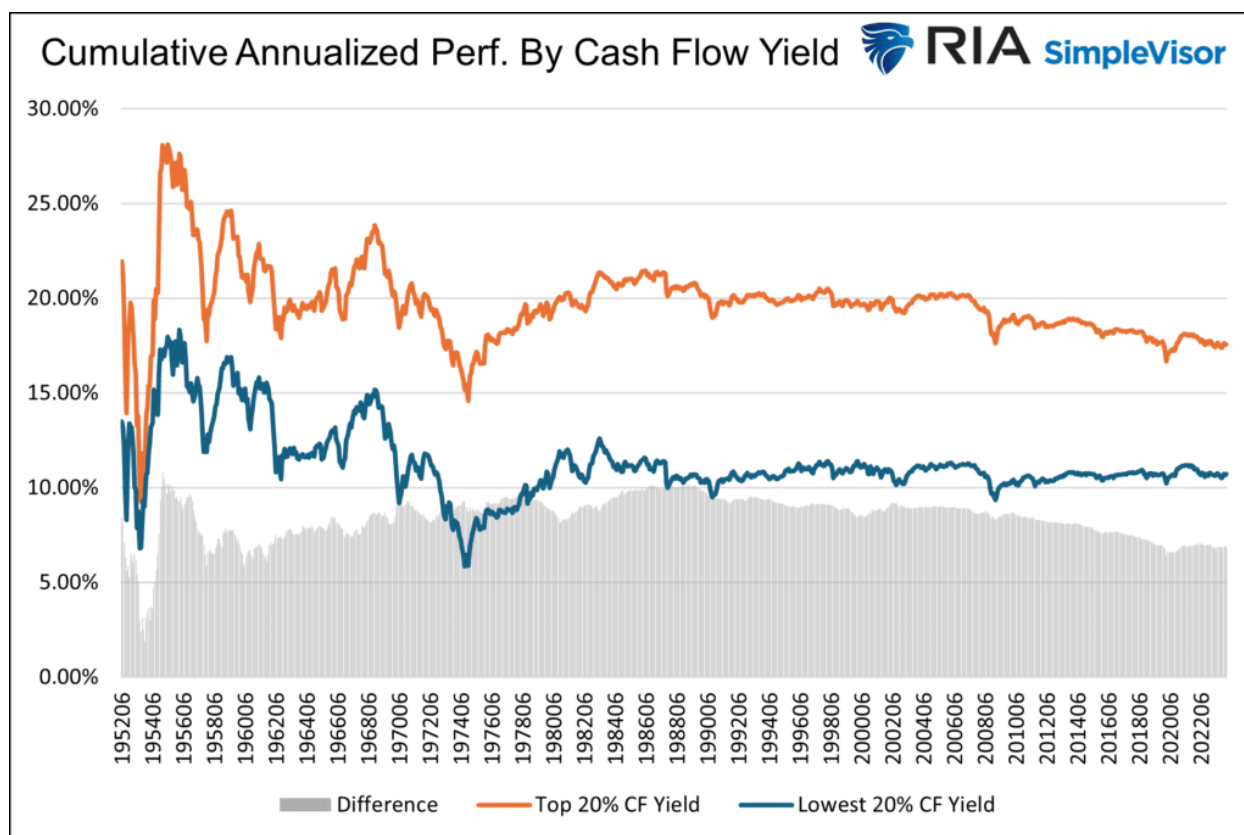
Using free cash flow yield to measure the sustainability of a company may produce potentially higher returns and more attractive upside/downside capture over time.

Historical Performance Of The Strategy

So, the critical question we need to ask is how does a high cash flow yield-oriented portfolio perform versus a lower cash flow yielding portfolio. The graph below, dating back to 1951, shows

the highest and lowest 20% of all stocks ranked on cash flow yield.

It shows that picking stocks based solely on those with high cash flow yields versus those with low yields has proven a successful formula with a cumulative 6.85% annual outperformance since 1951. While not shown in the graph, the middle 40% of stocks have had a cumulative annualized return of 14.59%, almost precisely in the middle of the orange and blue performance trackers below.



Over the last ten years, the highest 20% cash flow yielding stocks have underperformed the lowest 20% and the middle 40% by about half a percent annually. However, since 2020, the highest 20% have beaten the lowest and middle groups by about 6% annually.

We also ran the data with small cap high and low cash flow yields. The results were similar. We chose not to share it because high and low cash flow yields were not defined.

The data we share above is courtesy of Ken French of Dartmouth ([LINK](#)).

Fund Specifics

The CALF fund is large, with over \$9 billion AUM. Accordingly, unlike many thematic ETFs, this one is very liquid.

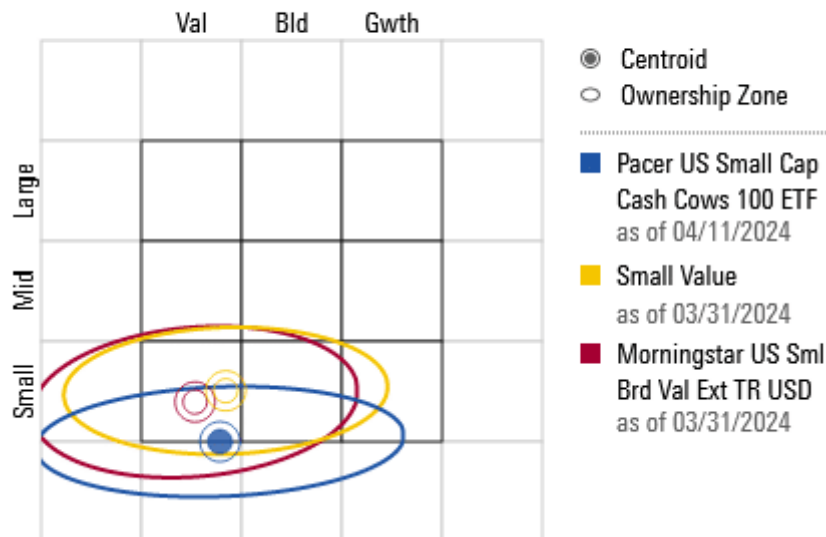
Not surprisingly, based on Morningstar's stock style classification grid, CALF has a small cap value orientation.

Stock Style

Map

Weight

Historical



One can also see its lean toward value in the fundamentals table below, courtesy of Morningstar. The category average and index provide the context of CALF versus similar funds, not the broader market.

Style Measures

Measures

Market Cap

Value & Growth Measures	Investment	Cat. Average	Index
Price/Earnings	12.05	13.29	12.60
Price/Book	1.66	1.50	1.45
Price/Sales	0.61	0.96	0.87
Price/Cash Flow	4.70	6.93	6.09
Dividend Yield %	2.83	2.31	2.71
Long-Term Earnings %	18.03	14.18	10.00
Historical Earnings %	9.16	3.83	-3.80
Sales Growth %	4.79	6.42	4.64
Cash-Flow Growth %	47.18	17.01	1.46
Book-Value Growth %	7.42	5.09	1.71

Investment as of Apr 11, 2024 | Category: Small Value as of Mar 31, 2024 | Index: Morningstar US Sml Brd Val Ext TR USD as of Mar 31, 2024 | Data is based on the long position of the equity holdings.

CALF holdings by sector are very different than the S&P 500, as shown below.

	CALF	SPY	Difference
Basic Materials	7.26%	2.15%	5.11%
Discretionary	29.09%	10.51%	18.58%
Finance	0.00%	12.36%	-12.36%
Real Estate	0.00%	2.18%	-2.18%
Communications	2.16%	9.37%	-7.21%
Energy	13.89%	4.13%	9.76%
Industrials	18.96%	8.18%	10.78%
Technology	11.49%	31.02%	-19.53%
Staples	7.99%	5.82%	2.17%
Healthcare	9.14%	12.00%	-2.86%
Utilities	0.00%	2.28%	-2.28%

Summary

CALF appears to be a good choice if you are interested in a time-proven strategy oriented toward small-cap value. While it may seem more conservative than large-cap index funds, it is not immune from the whims of the broader market. The graph below shows the performance of CALF and SPY since CALF's inception date. Over the six years, their performance has been relatively similar, especially since 2022.



Disclosure

This report is not a recommendation to buy or sell the named securities. We intend to elicit ideas about stocks meeting specific criteria and investment themes. Please read our [disclosures](#) carefully and do your own research before investing.