PACIFIC FUNDS

PACIFIC FUNDS℠

SMALL-CAP VALUE COMMENTARY

SEPTEMBER 30, 2020

SUB-ADVISED BY ROTHSCHILD & CO ASSET MANAGEMENT US INC.

Class A		Class C		Advisor Class	
Ticker	**Fund Number**	**Ticker**	**Fund Number**	**Ticker**	**Fund Number**
PFEAX	138	PFHCX	338	PFFDX	038

Market Overview

The third quarter of 2020 came to a close with U.S. equity indexes continuing to deliver positive returns. While returns were generally favorable for the quarter, the market's positive momentum reversed course in September, as the majority of U.S. equity indexes saw modest declines. For the quarter, large-cap stocks outperformed small-cap stocks and growth stocks outperformed value stocks. The S&P 500® index returned 8.9% for the quarter, while the Russell 2000® Index returned 4.9%. The outperformance of growth over value was greatest among large-cap stocks as the Russell 1000® Growth Index returned 13.2% compared to 5.6% for the Russell 1000® Value Index. Among small-cap stocks, the Russell 2000® Growth Index was up 7.2%, while the Russell 2000® Value Index rose 2.6% in comparison.

During the third quarter, many of the macro indicators inflected higher. The manufacturing Purchasing Managers' Index (PMI) continued to sit above critical thresholds, and unemployment levels migrated lower from the peak numbers hit this spring. These trends are not only supportive of an economic recovery, but also indicate that a corporate profit rebound should be underway as well. While growth will remain challenged in 2020, the sequential improvements in earnings will likely translate into a more constructive backdrop in 2021.

While it is still early days in the economy's recovery from the pandemic, there are many reasons to remain optimistic as we head into 2021. Though volatile, COVID-19 cases are generally trending down, especially in geographies requiring mask-wearing and social-distancing precautions. Importantly, hospitals are now better equipped to manage the virus, which is reducing both hospitalization and death rates around the world. No doubt, controlling the virus is an important part of sustaining the economic recovery. Additionally, our central bank and federal government have pushed large amounts of capital and liquidity into our economy and financial systems. This liquidity is assisting individuals and businesses during the pandemic and supporting asset prices. There are also massive stimulus moves, both fiscal and monetary, happening around the globe, which are a positive for growth. The Federal Reserve (Fed) and European Central Bank (ECB) balance sheets were up 64% year-over-year in the beginning of October to illustrate just how significant the stimulus continues to be.

Fund Performance

Pacific Funds Small-Cap Value (Advisor Class) returned 1.89% versus the Russell 2000® Value Index return of 2.56%. For the period, the Fund underperformed the benchmark by 67 basis points.

Portfolio Review

Consumer Discretionary, Industrials, and Healthcare were the leading sectors for the Fund during the quarter, while Energy, Materials, and Utilities were laggards. Sector allocation was a modest contributor to performance, with the tailwinds from an overweight to Consumer Discretionary and an underweight to Financials exceeding the headwinds from an underweight to Materials and an overweight to Information Technology. Stock selection was negative for the quarter and the main driver of performance, with detractors in Materials, Energy, and Financials outpacing the effects of contributors in Information Technology, Industrials, and Consumer Discretionary.

On a stock-specific basis, one of the Fund's largest detractors included Kaiser Aluminum, a value-add aluminum company, which posted better-than-expected results, but pointed to a slower back-half recovery driven by continued weakness in the aerospace industry along with seasonal weakness in general engineering applications. These headwinds were partially offset by a rebound in its automotive business. PBF Energy Inc., a coastal U.S. refining company, was another detractor whose shares were weak along with the refining group as

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investors become incrementally concerned about an expected improvement in petroleum product demand trends. PBF Energy and other independent refiners faced a series of negative broker revisions in September from sell-side analysts. Another detractor, Magnolia Oil and Gas, an oil and gas exploration company, whose shares fell along with crude oil as Europe and other parts of the world experienced a resurgence in COVID-19 cases. Oil supply increased as competing groups in Libya reached an agreement to bring production back online. Crude oil fell 14% in the first five trading days of September as fundamentals appeared to weaken.

Conversely, one of the Fund's individual contributors included Lithia Motors, Inc., an auto retailer, which reported significantly better-than-expected results driven by a resurgence in demand and much stronger margins. In addition, the company officially introduced its omni-channel offering "Driveway," which is expected to generate sizable earnings contribution during the next five years. This initiative, along with an aggressive acquisition strategy and improving core growth, enabled the company to provide a $50 earnings per share goal within five years, which is significantly higher than current profit levels. American Eagle Outfitters, an apparel retailer, reported better-than-expected results driven by Aerie, its intimate and lounge brand, and pointed to a back-to-school trend that was better than feared. The company's digital offerings proved to be valuable in this environment, making it easier for consumers to transact. Bloomin' Brands, Inc., a casual dining restaurant, reported better-than-expected results. In addition, there appeared to be increased optimism about a recovery as coronavirus case trends improved.

Market Outlook

While the pieces appear to be in place to support the rebound in economic growth and corporate earnings, risks remain. COVID-19 trends can be unpredictable, and we have seen selective increases in cases globally as economies try to reopen. The timing of a vaccine is still not certain even though our healthcare industry set expectations for Spring 2021. Many of our major cities are still seeing the negative effects from mass dislocations in light of the pandemic. The residual effects on municipalities and local businesses are still largely unknown. The unprecedented level of stimulus means that our national debt is hitting new highs and will at some point need to be paid back. Lastly, the country continues to be affected by the controversial election, which adds a great deal of policy uncertainty.

In terms of equity markets, it has been a tricky environment for many active managers. Factor volatility has increased, and the market is experiencing intraweek swings between a preference for growth, value, and deep cyclicals. With the green shoots of recovery in sight, an orientation toward companies that will experience the most positive year-over-year earnings going forward is potentially underway. This is one of the many reasons to believe that we could experience a shift in market leadership. During the past few years, the market has been driven by narrow leadership dominated by technology (growth) stocks. Within the S&P 500 companies, the big-five tech stocks currently represent 23% of the index. Such dominance surpasses even the nifty-fifty (the name given to the top 50 popular large-cap stocks on the New York Stock Exchange in the 1960s and 1970s) days. For small-cap stocks, there has also been extreme levels of outperformance coming from growth industries such as software, leading to unprecedented valuation metrics.

While we are not top-down investors, we believe there is an opportunity to see a rotation to companies that are levered to economic growth. Many also will look for signs of inflation or–in the case of the Financials sector, a steepening yield curve–to become more constructive on these neglected segments of the market. Within sectors such as Industrials and Consumer, there are opportunities to find attractively valued companies with sustainable business models and earnings upside in 2020.

That said, today's technological innovation is hard to ignore and supports the case for growth stocks. The pandemic has led to a transformation of the hypercloud. The online migration has accelerated as businesses adapt to a new reality. Digital payments are rapidly becoming dominant at the expense of cash payments. This migration to the cloud and online payments has made cybersecurity more critical than ever. As such, these tailwinds are not going away, arguing for ownership of technology stocks. In these segments of the market, identifying companies with competitive advantages and large untapped addressable markets will be the keys to justifying rich valuation multiples.

The equity market has experienced what feels like unprecedented extremes. Value stocks are trading at decade-low valuation discounts to growth stocks. Small-cap stocks have meaningfully underperformed large cap stocks. Interest rates sit at generational lows, skewing the equity risk premium. As investors, we remain steadfast in continuing to look for stocks that are attractively valued relative to their current and future cash-flow generation. In addition, we also are staying especially mindful of long-term business-model sustainability and growth potential as companies adapt to a COVID-19 and post-COVID-19 world.

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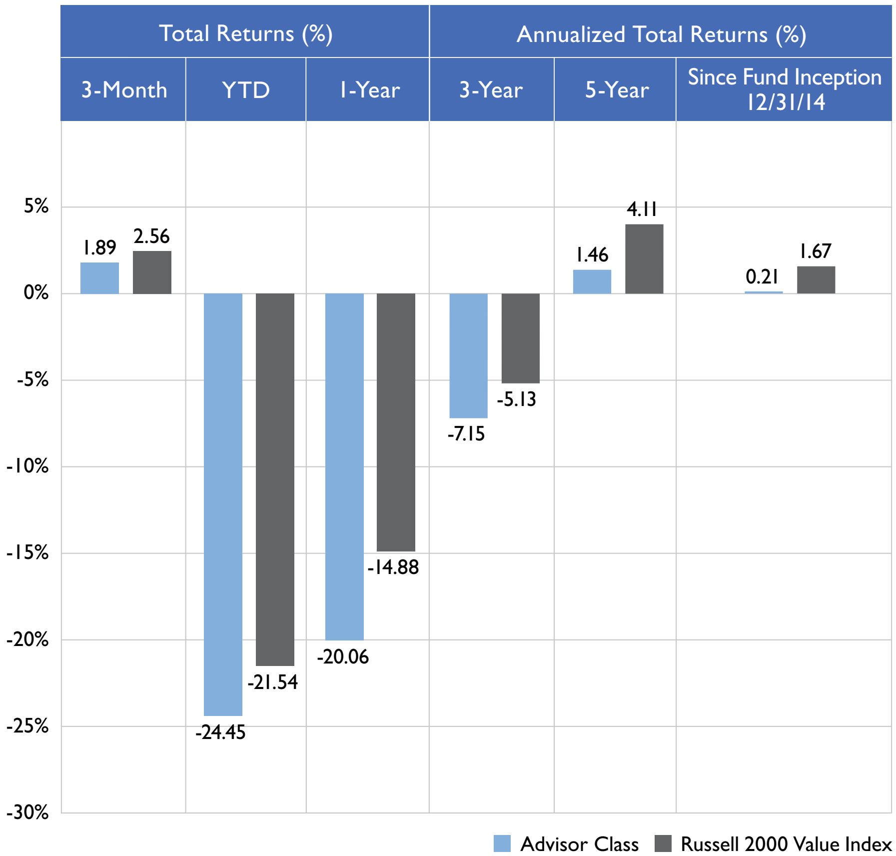
Advisor Class



Top-10 Holdings (%)	
American Eagle Outfitters, Inc.	1.80
Lithia Motors, Inc. Class A	1.71
Timken Company	1.70
Black Hills Corporation	1.62
Southwest Gas Holdings, Inc.	1.56
Rexnord Corporation	1.52
KB Home	1.47
Altra Industrial Motion Corp.	1.47
Dana Incorporated	1.46
NexPoint Residential Trust Inc	1.46

Returns reflect reinvestment of dividends and distributions. Advisor Class shares incepted on 1/11/16.The Fund acquired the assets of the Rothschild U.S. Small-Cap Value Fund (the Predecessor Fund) in a reorganization transaction on 1/11/16. The Fund's objectives (goals), policies, guidelines, and restrictions are substantially the same as those of the Predecessor Fund. The performance figures shown for Advisor Class shares of the Fund reflect the historical performance of the then-existing Institutional Class shares of the Predecessor Fund for periods prior to 1/11/16. The performance figures for periods prior to 1/11/16 have not been adjusted to reflect fees and expenses of Advisor Class shares of the Fund. If these returns had been adjusted, then performance for the share classes could vary from the returns shown based on differences in their fee and expense structures. The Institutional Class shares of the Predecessor Fund commenced operations on 12/31/14.

Net annual operating expenses for Advisor Class are 0.95% and total (gross annual) expenses are 1.34%. The Fund's annual operating expenses shown above are effective 8/1/20 through 7/31/21. Gross Expense Ratio reflects the total annual operating expenses paid by the Fund. **Net Expense Ratio** reflects waivers, reductions, reimbursements, and the limitation of certain "Other Expenses." Expense caps and/or fee waivers are reevaluated annually. There is no guarantee that the investment adviser will continue to cap expenses after the expiration date. Please see the current prospectus for detailed information.

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All share classes may not be available at all firms and not all investors may be eligible for all share classes.

Definitions

One **basis point** equals 0.01%.

The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-value ratios and higher forecasted growth values.

The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

The **Russell 2000 Growth Index** measures the performance of equity securities of small-capitalization growth companies. It includes those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 2000 Value Index** measures the performance of equity securities of small-capitalization value companies. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The **Purchasing Managers' Index** measures economic activity in the manufacturing and service sectors, used as an indicator of market conditions.

The **S&P 500 index** is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the U.S. stock market.

About Principal Risks

All investing involves risk, including the possible loss of the principal amount invested. There is no guarantee that the Fund will achieve its investment goal. Indexes are unmanaged and cannot be invested in directly. Further, they hold no cash and incur no expenses. Equity securities tend to go up or down in value, sometimes rapidly and unpredictably, in response to many factors, including a company's historical and prospective earnings, the value of its assets, general economic conditions, interest rates, investor perceptions and market liquidity. Small-capitalization companies may be more susceptible to liquidity risk and price volatility risk and more vulnerable to economic, market and industry changes than larger, more established companies. Value companies are those that a portfolio manager believes are undervalued and perceived as trading for less than their intrinsic values. There is a risk that the determination that a stock is undervalued is not correct or is not recognized in the market.

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