PACIFIC FUNDS

PACIFIC FUNDS℠

PORTFOLIO OPTIMIZATION GROWTH COMMENTARY

MANAGED BY PACIFIC LIFE FUND ADVISORS LLC

SEPTEMBER 30, 2020

Class A		Class C		Advisor Class	
Ticker	**Fund Number**	**Ticker**	**Fund Number**	**Ticker**	**Fund Number**
PODAX	144	PODCX	344	PMADX	044

Market Review

Households around the world remained in semi-quarantine amid a resurgence of coronavirus infections, which has served to maintain the wide pandemic-generated gap between outperforming and underperforming sectors. Continued work-from-home arrangements have fueled demand for tech products and services, which drove information technology (IT) stocks to new highs, while the COVID-19 fallout continued to damage large parts of the global economy, including travel, restaurants, entertainment, and retail.

While U.S. small-cap stocks trailed mid- and large-cap stocks during the quarter, markets displayed hints of rotation as small-cap value began to outperform large-cap growth. International equities finished behind U.S. stocks for the quarter, as the U.S. equity market generally had higher exposure to the technology (tech) sector. Emerging-market equities fared well, driven primarily by strong performances from the three largest representatives of the MSCI Emerging Markets Index (China, Taiwan, and South Korea).

Within fixed income, high-yield bonds and bank loans benefited from a contraction in credit spreads during the earlier part of the third quarter.

Fund Performance

Pacific Funds Portfolio Optimization Growth (Class A at NAV) returned 6.89% for the third quarter of 2020 and 8.56% for the trailing 12-month period.

Performance Review

The domestic equity group modestly lagged the S&P 500® index in the third quarter and trailing 12 months. While exposure to value was a headwind, PF Large-Cap Value Fund outperformed its benchmark and contributed to performance. Exposure to real estate also dragged performance, although PF Real Estate Fund outperformed its benchmark for both periods. Nonetheless, the exposure to growth sectors offset some of the downside.

International equities as a group outperformed the MSCI EAFE Index during the third quarter and trailing 12 months. Exposure to emerging markets and international small caps were tailwinds during both periods. On the other hand, PF International Value Fund struggled to keep pace with the broad foreign equity index, as value stocks have been lackluster overseas as well.

The broad fixed-income lineup performed well relative to the Bloomberg Barclays U.S. Aggregate Bond Index during the third quarter and roughly on par during the trailing 12 months. Exposure to high yield contributed to performance for the quarter but dragged returns during the trailing 12 months.

Outlook

Investors navigating the uncharted waters of 2020 have faced one economic storm after another. We believe, as always, that to survive and even thrive in these choppy seas means planning for a full range of possible outcomes from looming geopolitical events that can quickly and profoundly change the markets' trajectories.

COVID-19 Impacts

Investors remain focused on the global economic effects of the coronavirus. For many politicians, COVID-19 has become *the* scapegoat for the slumping economy, despite other contributing factors that are exogenous to this virus. The truth is, both COVID-19 *and* other economic elements have delivered a devastating blow to some companies but also have created secular growth for others.

The high-tech sector has had the strongest performance, by far, during the pandemic. The lack of strong growth for traditional businesses and U.S. households still shell-shocked by the COVID-19 shutdown have driven investors to pour their money into a few dominant companies and sectors, such as U.S. large-cap growth stocks, leading to extremely high valuations for many of the tech giants. Some of these

For performance data current to the most recent month-end, call Pacific Funds at (800) 722-2333 or go to PacificFunds.com/Performance. Performance data quoted represents past performance, which does not guarantee future results. Current performance may be lower or higher than the performance quoted. The investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than the original cost.

No bank guarantee • May lose value • Not FDIC insured

new powerhouses—with less-than-transparent business and revenue models—have benefited from abundant sources of capital, cheap labor (i.e., independent contractors with little-to-no employment benefits), and politicians who have yet to effectively regulate the tech industry.

For years, the tech sector has increasingly impacted our lives and dominated traditional industries, as reflected in the performance of the stock prices. However, price multiples on some large-tech companies are becoming hard to justify at current levels, even when considering how they have benefited from the work-from-home shift.

Fundamental factors such as relatively strong cash flows and low debt can create a strong foundation for companies, but how they deploy those assets will likely determine their futures. For instance, properly investing in capital expenditure and/or research and development will likely serve a company well. However, many studies show that some corporate executives have instead resorted to share repurchases (or buybacks) to boost earnings-per-share and stock prices. (It should be noted that buyback activity has drastically dropped in recent periods.) While there are valid reasons for buybacks, such as a lack of business opportunities in a low capital-gains tax environment, investing in favorable business opportunities may create a sustainable path for a company's growth.

Small-Cap Struggles

On the opposite end of the spectrum, small-cap value companies have been neglected as smaller and regional financial institutions (which represent the largest sector in small-cap value indexes) struggled to keep up with the high costs of regulatory requirements and digitalizing their operations. Another large headwind for many financial institutions was the low interest rates that have hurt profitability. Although the Federal Reserve anticipates keeping interest rates low through 2022, price multiples on many of these smaller regional banks appear to be considerably more attractive compared to their larger growth-focused counterparts. This is particularly true as politicians have increased scrutiny on the tech giants and begun to show more empathy toward smaller companies.

Although valuations for small-cap value remain appealing, it would seem prudent to carefully assess the entire situation before overcommitting to any particular asset class. For example, we still see potential dangers for small financials if the U.S. government does not find a more permanent solution to replace the temporary COVID-19 economic responses such as the federal moratorium on evictions. We will anticipate and carefully plan for a range of government responses to soften pandemic-induced impacts on the economy, including the next (and we believe necessary) fiscal stimulus with the U.S. presidential election less than a month away.

Outfall from the Presidential Election

Given the generally opposing objectives between President Trump and former Vice President Biden as well as Republicans and Democrats, November's election can meaningfully alter the course of America and therefore the rest of the world. Trump and Biden would probably take different approaches to China. Trump has taken a strong stance with a domestic-centric focus, while Biden and his party may be unwilling to take on China President Xi's aggressive push to make China great again. Trump has emphasized an "American First" strategy for the U.S. economy, but Trump's domestic focus has been on investing in industries in secular decline, such as fossil-fuels, rather than on up-and-coming industries that may drive the next economic revolution.

With access to a mature and diverse capital market, U.S. tech is mainly funded and supported by the private sector. While Trump has pushed for investments in yesterday's industries, crude-dependent countries, such as Saudi Arabia (along with SoftBank Group Corp.) have committed nearly $100 billion to fund a sizable portion of the largest tech-investment fund launched by SoftBank in 2017. Investments like these provide capital for startups and pre-IPO companies, which may represent the future darlings of Wall Street.

On one hand, the Chinese government gives unfair and monopolistic advantages for its domestic companies, which makes it difficult for Western companies to compete in a globalized world. Countering this is a Democratic Party in the U.S. that seems to have plans to chop up tech giants, which may provide more balance among domestic competition. However, fragmenting tech giants may weaken the U.S. tech sector's ability to compete with China's rapidly growing industries that have quickly gained market share. Given these circumstances, the outcome of the U.S. presidential election will likely have a lasting impact on how the global economy and markets shape up for the next several years.

A Reshaped Foreign-Exchange Market?

Over the longer-term, we could see some gradual changes in the currency market. While the U.S. dollar, the yen, and the euro are among the most widely traded currencies and considered "safe," geopolitical confrontations may slowly alter the landscape. The rivalry between the U.S. and China has the potential to have long-term effects that could reshape the foreign-exchange market. In Europe, London–which serves as the global hub for currency trading–is still dealing with breaking economic ties with the European Union. Meanwhile, the European Union has plans to heavily invest in technology and green initiatives, as the economic union may feel the urgency to catch up to the U.S. and China. In Asia–Japan, which still maintains a sizable representation in developed international equity markets–will need to adjust to newly elected Prime Minister Yoshihide Suga. The Japanese economy has shown steady improvements in recent months, even with the postponement of the 2020 Summer Olympics. If a COVID-19 vaccine can be produced in time, Japan would greatly benefit from the Summer Olympics taking place next summer.

The year 2020 has been unique in the history of America, the economy, and the markets. What's going to get investors through this is careful planning that encompasses maintaining strategic investment objectives while buffering our shareholders from exogenous factors, such as the number of geopolitical events that has caused and will likely continue to cause market volatility.

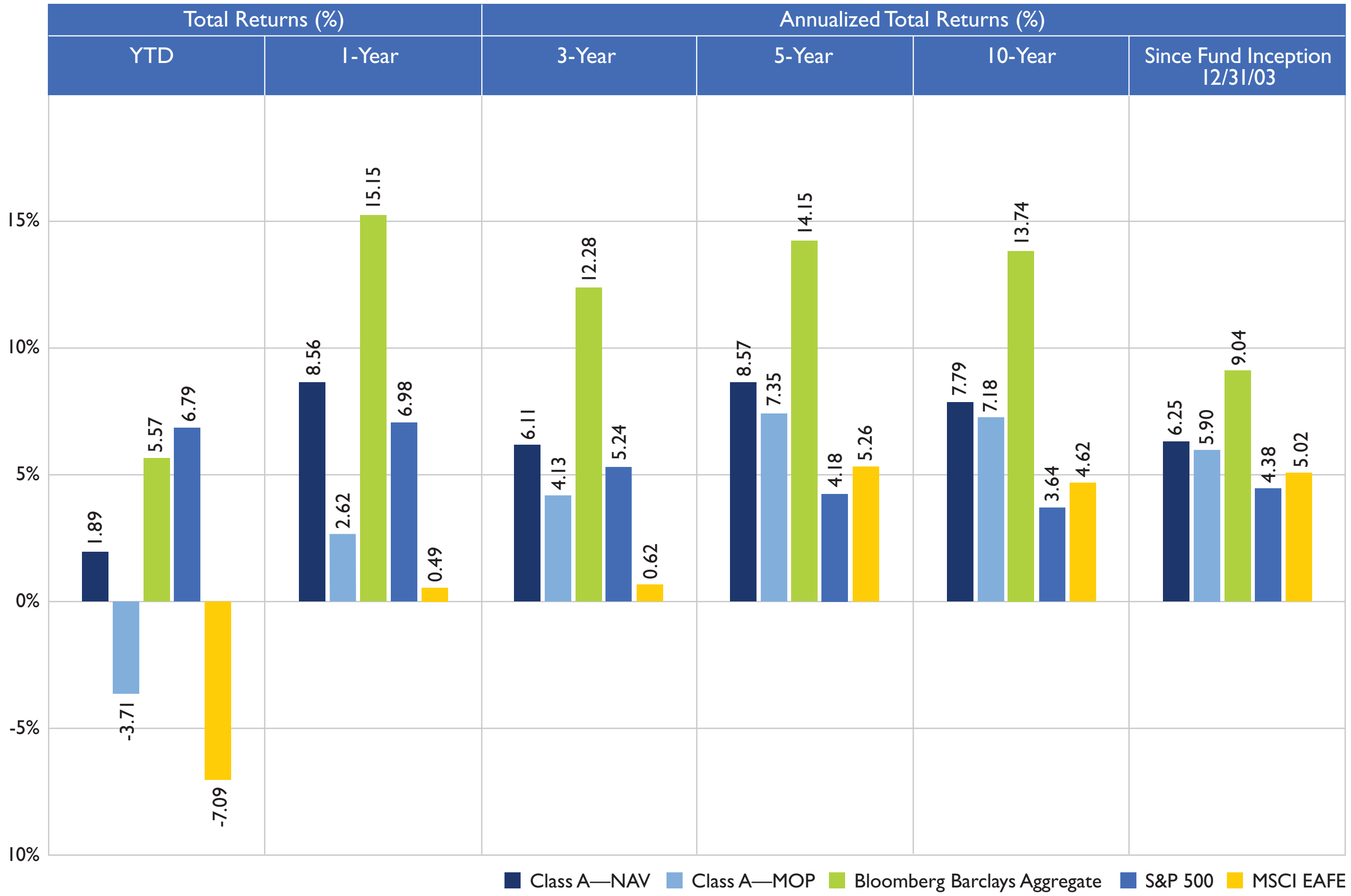
PACIFIC FUNDS

PORTFOLIO OPTIMIZATION GROWTH

COMMENTARY

SEPTEMBER 30, 2020

Total Returns–Class A



Returns shown at net asset value (NAV) have all distributions reinvested. Returns shown at maximum offering price (MOP) for Class A shares reflect payment of the maximum sales charge of 5.50%. When a sales charge is illustrated, it is applied at the beginning of the period.

Net annual operating expenses for Class A are 1.26% and total (gross annual) expenses are 1.32%. Returns reflect reinvestment of dividends and distributions. 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.

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

For performance data current to the most recent month-end, call Pacific Funds at (800) 722-2333 or go to PacificFunds.com/Performance. Performance data quoted represents past performance, which does not guarantee future results. Current performance may be lower or higher than the performance quoted. The investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than the original cost.

Indexes are unmanaged and cannot be invested in directly. Further, they hold no cash and incur no expenses.

Definitions

The **Bloomberg Barclays U.S. Aggregate Bond Index** is composed of investment-grade U.S. government and corporate bonds, mortgage pass-through securities, and asset-backed securities and is commonly used to track the performance of U.S. investment-grade bonds.

The **MSCI EAFE Index** is designed to measure the equity-market performance of developed markets in Europe, Australasia, and the Far East.

The **MSCI Emerging Markets Index** tracks the performance of equity stocks in selected emerging foreign markets.

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: There is no guarantee the Fund will achieve its investment goal. Asset allocation and diversification do not guarantee future results, ensure a profit or protect against loss. Although diversification among asset classes can help reduce volatility over the long term, this assumes that asset classes do not move in tandem and that positive returns in one or more asset classes will help offset negative returns in other asset classes. There is a risk that you could achieve better returns by investing in an individual fund or multiple funds representing a single asset class rather than using asset allocation. A fund-of-funds does not guarantee gains, may incur losses and/or experience volatility, particularly during periods of broad market declines, and is subject to its own expenses along with the expenses of the underlying funds. It is typically exposed to the same risks as the underlying funds in which it invests in proportion to their allocations.

This commentary represents the views of the portfolio managers at Pacific Life Fund Advisors LLC as of 9/30/20, and are presented for informational purposes only. These views should not be construed as investment advice, an endorsement of any security, mutual fund, sector or index, or to predict performance of any investment. Any forward-looking statements are not guaranteed. All material is compiled from sources believed to be reliable, but accuracy cannot be guaranteed. The opinions expressed herein are subject to change without notice as market and other conditions warrant. Sector names in this commentary are provided by the Fund's portfolio managers and could be different if provided by a third party.

Pacific Life Insurance Company is the administrator for Pacific Funds. It is not a fiduciary and therefore does not give advice or make recommendations regarding insurance or investment products.

You should consider a fund's investment goal, risks, charges and expenses carefully before investing. The prospectus and/or the applicable summary prospectus contain this and other information about the Fund and are available from your financial advisor or PacificFunds.com. The prospectus and/or summary prospectus should be read carefully before investing.

Third-party trademarks and service marks are the property of their respective owners.

Pacific Funds are distributed by **Pacific Select Distributors, LLC** (member FINRA & SIPC), a subsidiary of Pacific Life Insurance Company (Newport Beach, CA), and are available through licensed third parties. Pacific Funds refers to Pacific Funds Series Trust.