



A STRONG DEFENSE CAN BE YOUR BEST OFFENSE

The Case for Short-Term Corporate Bonds

By Sam Masemer, CFA, CFP, Senior Client Portfolio Manager, and Craig Imamura, Senior Product Management Analyst

Who is on Your Fixed-Income Roster?

Helping investors reach their financial goals can be like a football game. Success is not always dependent on having players who are bigger and stronger. In a contest between a strong and powerful defensive lineman and a speedy, agile runner, it is often the runner who leaves his opponent in the dust and scores.

Adding more agility to a portfolio is the reason we believe investors should consider making short-term corporate bonds part of their fixed-income lineups, especially today. Just look at the playing field over the past decade: The fixed-income market continues to experience challenges such as interest-rate volatility, low levels of global yields, and concerns over liquidity. How will your clients maneuver around the risks inherent in these themes? Pacific Funds Short Duration Income is designed for investors seeking current income with protection against sudden or large interest-rate changes.

A Winning Defense

Perhaps your client has already diversified among intermediate- and/or long-term bonds. Why consider adding short-term corporate bonds? Historically, when compared to longer-term bonds, short-term corporate bonds have been a more effective defense against stable or rising rate environments because their prices are less impacted by large interest-rate movements.

As a result, during volatile interest-rate periods, they provided greater stability. Compared to intermediate-term bonds, short-term corporate bonds have historically provided yield opportunities with less volatility as shown below.

Risk-Return Trade-Off

OVER THE PAST 40+ YEARS, SHORT-TERM CORPORATE BONDS HAVE PROVIDED¹:



of the returns of intermediate-term bonds



of the volatility of intermediate-term bonds

and have had **only 3** negative rolling 1-year periods

¹Source: Morningstar® Inc., as of 9/30/20. Short-term corporate bonds are represented by the ICE BofA Merrill Lynch U.S. Corporate 1-3 Year Index, intermediate-term bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index.

No bank guarantee • May lose value • Not FDIC insured

Potential to Gain More Yardage

Shifting from the interest-rate risk inherent in U.S. government bonds toward credit risk with short-term corporate bonds enables investors to potentially benefit from higher levels of income. Historical data indicates that investors were generally compensated for the increased risk. When compared to short-term government bonds, short-term corporate bonds have provided coupon income that helped offset declining bond prices.

As shown below, short-term corporate bonds have historically outperformed short-term government bonds. In fact, short-term corporate bonds consistently outperformed 97% of the time over rolling five-year periods since 1976.

Short-Term Corporate Bonds Outperformed Short-Term Government Bonds Since 1976¹

OF ROLLING 1-YEAR PERIODS



150 out of 176 Periods

OF ROLLING 3-YEARS PERIODS



153 out of 168 Periods

OF ROLLING 3-YEARS PERIODS



155 out of 160 Periods

Pacific Funds Short Duration Income

While many short-term bond funds are anchored in government securities as core investments, our focus is on corporate securities. The Fund's portfolio management team carefully selects securities across multiple fixed-income sectors. This allows for flexibility to adapt to changing market conditions by adjusting the asset mix to better reflect the investment team's favorable views on market segments and the broader interest-rate environment.

As shown below, the Fund has historically outperformed the Morningstar Category™ average return. In fact, the Fund consistently outperformed 100% of the time over rolling three-year periods since inception.

Pacific Funds Short Duration Income Fund Outperformed the Morningstar Short-Term Bond Category¹

OF ROLLING 1-YEAR PERIODS



29 out of 32 Periods

OF ROLLING 3-YEARS PERIODS



24 out of 24 Periods

¹Source: Morningstar® Inc., as of 9/30/20. Short-term corporate bonds are represented by the ICE BofA Merrill Lynch U.S. Corporate 1-3 Year Index and short-term government bonds are represented by the Bloomberg Barclays 1-3 Year U.S. Government/Credit Index.

Additionally, even in the worst-performing periods, the Fund still historically outperformed the Morningstar Category average return.

As of September 30, 2020	ROLLING 3-YEAR PERIODS		ROLLING 5-YEAR PERIODS	
	BEST	WORST	BEST	WORST
PACIFIC FUNDS SHORT DURATION INCOME (Advisor Class)	6.90%	0.02%	3.47%	1.47%
SHORT-TERM BOND MORNINGSTAR CATEGORY AVERAGE ²	4.64%	0.19%	2.53%	0.56%

²Morningstar Category: Short-Term Bond (595 funds as of 9/30/20). The Morningstar Category Average is the average return for the peer group based on the returns of each individual fund within the group for the period shown. This average assumes reinvestment of dividends and capital gains, if any, and excludes sales charges.

For more information about
Pacific Funds Short Duration Income, visit
PacificFunds.com.

PACIFIC FUNDS

SHORT DURATION INCOME

Class A
PLADX

Advisor Class
PLCSX

Class C
PLDSX

As of September 30, 2020

CALENDAR YEAR-END RETURNS (%)

2012	2013	2014	2015	2016	2017	2018	2019
6.76	2.64	0.98	0.93	2.77	2.61	0.85	5.75

PERFORMANCE

Total Returns (%)			Annualized Total Returns (%)			
3-Month	YTD	1-Year	3-Year	5-Year	Since Fund Inception 12/19/11	
1.31	2.71	3.45	3.14	2.88	2.94	

Advisor Class shares inception 6/29/12. **Net** (reflects waivers, reductions, reimbursements, and the limitation of certain "Other Expenses") and gross (reflects the total annual operating expenses) **expense ratio** is 0.50% and 0.63% respectively. Performance shown prior to that date is hypothetical and is that of Class I shares (12/19/11 inception date), restated to reflect applicable service and/or 12b-1 fees. Advisor Class shares are sold at net asset value (NAV) without an initial sales charge and do not include a CDSC. Performance reflects any applicable fee waivers and expense reimbursements. 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.

About Principal Risks

All investing involves risks including the possible loss of the principal amount invested. There is no guarantee the Fund will achieve its investment goal. Corporate bonds are subject to issuer risk in that their value may decline for reasons directly related to the issuer of the security. Not all U.S. government securities are checked or guaranteed by the U.S. government, and different government securities are subject to varying degrees of credit risk. Mortgage-related and other asset-backed securities are subject to certain rules affecting the housing market or the market for the assets underlying such securities. The Fund is subject to liquidity risk (the risk that an investment may be difficult to purchase, value, and sell particularly during adverse market conditions, because there is a limited market for the investment, or there are restrictions on resale) and credit risk (the risk an issuer may be unable or unwilling to meet its financial obligations, risking default). High-yield/high-risk bonds ("junk bonds") and floating-rate loans (usually rated below investment grade) have greater risk of default than higher-rated securities/higher-quality bonds that may have a lower yield. The Fund is also subject to foreign-markets risk.

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.

Investors should consider a fund's investment goal, risks, charges, and expenses carefully before investing. The prospectus and/or summary prospectus should be read carefully before investing.

Pacific Funds is a registered service mark of Pacific Life Insurance Company ("Pacific Life"). S&P is a registered trademark of Standard & Poor's Financial Services LLC. All third-party trademarks referenced by Pacific Life, such as S&P, belong to their respective owners. References of third party trademarks do not indicate or signify any relationship, sponsorship or endorsement between Pacific Life and the owners of referenced trademarks.

Mssrs. Masemer and Imamura are registered with, and 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.

For financial professional use only. Not for use with the public.

MFP1682-0920W

4 of 4

Mailing address:

P.O. Box 9768, Providence, RI 02940-9768
(800) 722-2333 • www.PacificFunds.com



PACIFIC FUNDS