PACIFIC FUNDS

PACIFIC FUNDS℠

CORE INCOME COMMENTARY

DECEMBER 31, 2020

SUB-ADVISED BY PACIFIC ASSET MANAGEMENT LLC

Class A		Class C		Advisor Class	
Ticker	Fund Number	Ticker	Fund Number	Ticker	Fund Number
PLIAX	106	PLNCX	306	PLIDX	006

Market Overview

The fourth quarter 2020 was the capstone to a year of unprecedented events, both domestically and globally. Markets rallied for the third straight quarter, supported in large part by the continuation of accommodative monetary policy, a near zero rate environment, additional fiscal stimulus, and the introduction of multiple vaccines. Central banks remain the main provider of liquidity to capital markets, in both policy and rhetoric. The balance sheet of the Federal Reserve (Fed) nearly doubled in 2020, to over $7 trillion. In lock step, assets of the European Central Bank's balance sheet dramatically increased, with monetary easing being a heavily utilized weapon. Rates also played a factor in the liquidity formulation. The Fed anticipates a near zero rate environment for an extended period and the EU is experiencing negative rates in select countries. Another round of stimulus payments were sent in late Q4, with more expected in early 2021. Lastly, FDA approval of two vaccines provides a path to economic normalization. These elements have set the backdrop for a strong economic recovery and asset price appreciation.

To close the final chapter of 2020, many economic data prints have been showing positive indicators. This is amid an increase in positive COVID-19 cases and geographically focused economic shutdowns. Per the Institute for Supply Management (ISM), the manufacturing index grew in December, marking the eighth consecutive month of growth, ending the year at 60.7% (a reading over 50 indicates an expansionary period). This positive trajectory was contrasted with three months of contraction seen in March, April, and May—which ended a period of 131 consecutive months of growth. Notably, panel sentiment remains optimistic (three positive comments for every cautious comment), an improvement compared to November. Additionally, per the ISM, economic activity in the services sector grew in December for the seventh month in a row. The positive reading of 57.2% indicates month-over-month growth as well as a consistent expansion of a positive growth trend. According to the Bureau of Labor Statistics, the civilian unemployment rate ended 2020 at 6.7%—substantially lower than the peak rate near 15% seen in April 2020. Growth domestic product growth forecasts remain optimistic for 2021 on the back of increased utilization and vaccine roll outs.

Risk assets had one of their strongest quarterly returns of 2020. The S&P 500 returned a robust 12.14% in Q4, making it the second highest quarterly return of the year. Amid the unprecedented events seen in 2020, the S&P 500® index posted a remarkable calendar year return of 18.39%. Investment grade and high yield markets (as represented by U.S. Barclays Bloomberg Aggregate index and Barclays Bloomberg U.S. Corporate High Yield index, respectively) also gained 0.67 % and 6.44%, respectively during the quarter. For the full year, the investment grade and high yield markets demonstrated great resolve in returning 7.51% and 7.05% marking some of the strongest calendar year returns this century. The short end of the yield curve, as represented by the two-year U.S. Treasury note, remained relatively range bound during the quarter and ended where it began at 13 basis points (bps, one basis point equals 0.01%). Meanwhile, the long end of the curve, as represented by the 30-year U.S. Treasury bond, steepened by 19 bps, ending at 1.65%. The 10-year U.S. Treasury yield ended the quarter at 0.93%, higher by 24 bps from the end of 3Q20.

Asset Class Overview

Investment-grade bonds, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, returned 0.67% in 4Q20; preceded by 0.62%, 2.90%, and 3.15% in the third, second, and first quarters of 2020, respectively. On a year-to-date basis, the index returned a robust 7.51%. Investment grade bonds remained in favor throughout the year and were beneficiaries of unmatched monetary and fiscal support. As a result of these low rates, investment grade companies issued record levels of debt, which was matched by strong institutional and consumer appetite. Sectors anchored in credit over government related sectors as risk was largely supported. Sectors with the strongest total return during the quarter included: Finance Companies, Energy, Basic Industry, Capital Goods, and Sovereigns returned 8.19%, 5.65%, 4.24%, 3.84%, and 3.55%, respectively. For a third consecutive quarter, the most challenged sectors were largely government related. Notably, the Treasury, Supranational, Government Guarantee, Government Sponsored, and Agency Fixed-Rate returned -0.83%, 0.00%, 0.01%, 0.11%, and 0.24%, respectively. Amid the continued support of risk and risk-based assets, lower rated index credits outperformed higher rated credits. The index was led by BBB rated credits, which returned 4.03%, followed by A, AA, and AAA rated credits returning 2.14%, 1.39%, and -0.31%, respectively. Spread levels moved materially tighter over the quarter to end at 42 bps from 60 to end the prior period. The index yield to worst closed at 1.12%, down from 1.18% to at the end of 3rd quarter and down from 2.31% to start the year. Additionally, the average index price slightly decreased to $109.87 from $110.09.

Non-investment grade rated bonds moved materially higher during the fourth quarter as the Bloomberg Barclays U.S. High-Yield 2% Issuer Capped Bond Index returned 6.44%. This was preceded by returns of 4.58%, 10.14% and -12.68% during the 3rd, 2nd and 1st quarters of 2020. The total return of the index was 7.05% in 2020. There was little dispersion from the spread tightening trend throughout the quarter. The period began with an OAS (option adjusted spread) of 519 and ended with an OAS of 361, representing 158 bps of spread tightening. For context, the index began 2020 with an OAS of 336, which is only 25 bps tighter than current levels. Energy and COVID-19 related sectors performed best, with Oil Field Services, Integrated, Retail-Reits, Airlines, and Independent returning 25.10%, 24.33%, 19.50%, 15.87%, and 15.54%, respectively. Even the sector laggards posted positive returns as Health Insurance, Cable & Satellite, Building Materials, Wireless, and Packaging returned 2.68%, 2.98%, 3.25%, 3.38%, and 3.47%, respectively. In line with risk appetite and support, quarterly returns by credit quality were clearly led by lower rated credits as CCC rated issues, returning 9.91%, B rated issues returned 5.83%, and BB rated issues returned 5.66%. The average index price ending the period at $104.91, up from $99.54. To start 2020, the average price of the index was $101.23. Given the inverse relationship existing between bond price and yield, yields moved lower to end the period with a 4.20% yield to worst, down from 5.78%. For context, the index YTW to start 2020 was 100 bps higher at 5.19%. Duration contracted slightly to 3.56 from 3.74 years. According to J.P. Morgan, the year ended with the par-weighted U.S. high yield default rate at 6.17%, up 353 bps from 2.63% at the start of the year. Including distressed exchanges, the US high yield default rate ended the period at 6.76%. Excluding the Energy sector, the US high yield default rate falls to 4.46%. For 2021, JPM expects the US High Yield default rate to move lower to 3.5%, in line with long-term asset class averages.

The floating rate loan asset class, as measured by the Credit Suisse Leveraged Loan Index, returned 3.64% during the final quarter of 2020. While this was the weakest positive quarterly return of 2020, it is marked as the 4th strongest quarterly return over the past 10 years. The rebound from the low point of 1Q20 has been rather unprecedented, resulting with a 2.78% calendar year return. Remarkably, the index has had only 2 negative calendar year prints (2008 at -28.75% and 2018 at -0.38%). Issuance increased throughout the year, both in the primary and CLO markets. Per Leveraged Commentary & Data (LCD), the final three months of the year were the strongest quarter for collateralized loan obligations supply in 2020, at $30.8 billion. Full year CLO supply ended 2020 at $92.1 billion. Despite the robust finish, 2020 is marked as the second-worst year since the start of 2016 for CLO supply.

The average index price increased to $95.73, up from $92.77 to end the 3rd quarter and less than $1 away from the starting point of 2020 at $96.63. While retail flows were challenged, as fund and ETF redemptions totaled $19bn, a positive for the asset class appeared at year end. December saw the highest inflows into the asset class since September 2018. In addition, retail funds saw four consecutive weeks of inflows to close the year, something that has not happened since October 2018. Akin to high yield fixed rate bonds, lower quality loans were well supported and outperformed higher rated credits. The quarter saw BB, B, and CCC rated

Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest).

issuers return 2.43%, 3.31%, and 9.47%, respectively. Performing loans, (above $90 price) returned 2.88%, while distressed loans (up to and including $90 price) returned 9.93%. For the third consecutive quarter, all sectors within the index posted positive total returns. The best performing sectors included Aerospace, Energy, Gaming/Leisure, Consumer Non-Durables, and Metals/Minerals returning 7.31%, 6.60%, 6.20%, 6.17%, and 5.90%, respectively. The lowest returning sectors included: Utility, Retail, Financials, Forest Products/Containers, and Chemicals sectors each returning 2.15%, 2.16%, 2.26%, 2.45%, and 2.76%, respectively. According to J.P. Morgan, the year ended with a loan par-weighted default rate of 3.95% and is up 231 bps from 1.64% to start of the year. Including distressed exchanges, the loan default rate ended the year at 4.27%. Excluding the Energy sector, the loan default rate falls to 3.57%. For 2021, JPM expects the loan default rate to move lower to 3.5%, in line with long-term asset class averages.

Fund Performance

Pacific Funds Core Income (Advisor Class) ("the Fund") returned 2.38 % versus the Bloomberg Barclays U.S. Aggregate Bond Index return of 0.67%.

Portfolio Review

Additional support offered by the Federal Reserve and the presumption of soon to come fiscal stimulus aided markets in gravitating higher during the period. The Bloomberg Barclays Aggregate Index returned of 0.67%, along with the Bloomberg Barclays ABS index and the Credit Suisse Leveraged Loan Index returning 0.36%, and 3.64% respectively. The average price of the index decreased to end the period at $109.87 from $110.09 and the yield to worst fell by 6 bps to 1.12%. Option adjusted spreads tightened materially by 18 bps to 42 bps from 60 bps at the end of the 3rd quarter. The credit related assets within the Fund were significant contributors to total return. Specifically, the Fund's investment grade bond, floating rate, high yield bond, and asst backed securities finalized at 43.60%, 13.19%, 6.25%, and 15.32%, respectively. Additional Fund's exposure was carved into government bonds (15.11 %) and cash (4.88%). The Fund's material overweight toward BBB rated credits was a positive contribution to return as was the inclusion of high yield bonds and bank loan credits. Top performing sectors for the quarter included Transportation, Energy, and Finance Companies. The Funds overweight and use of securitized assets focuses on higher credit-quality asset-backed securities/ collateralized loan obligations structures, with strong backing and collateral, and has the combined effect of adding to performance and acting as a risk diversifier. We continue to see opportunistic value in this space and view our core positions in the Fund as solid credits that are fundamentally sound possessing long-term relative value. The Fund's duration ended the year at 5.54 years, lower than the duration of the index at 6.22 years.

Manager Outlook

Investment-grade corporate credit capped 2020 in strong fashion. The Barclay's credit index posted a 2.79% return, resulting in a calendar year total return of 9.35%. The index largely benefitted from credit spread tightening. Additionally, broad indicators of macro-economic strength emerged with the positive trends in ISM manufacturing and service readings, upward trending housing statistics, increased personal saving rates, and a reduction in the unemployment rate. The accommodative theme remained in place throughout the quarter with the Fed continuing to purchase assets and be a backstop of needed liquidity. The accommodative stance was further supported by a new political administration pledging future assistance on the fiscal side as well. Despite these positive influences, the US economy remains challenged with the increase in COVID-19 related cases and challenging downstream effects to the consumer and corporations.

The fundamental outlook for US high grade corporates in the New Year is still positive, but relative value is more subdued. Global growth is expected to rebound in 2021, which would be supportive of credit fundamentals. The pace of that growth is likely dependent on the speed of COVID vaccinations while the size of the rebound could be impacted by further fiscal stimulus. As far as monetary policy, the Federal Reserve is expected to keep rates low until inflation materially picks up (likely 2023 according to their forecast). Besides the US, policy rates around the world are expected to stay low, making US high grade credit a place for investors to find relatively higher investment grade yields relative to government bonds. As a result, mutual fund flows and foreign demand have been strong and will be worth monitoring from a technical standpoint.

Overall, we remain comfortable with fundamental risk in the corporate space. Corporations have reduced costs, improving their operating leverage and many have been able to refinance debt, extend maturities and grow liquidity. With corporate fundamentals stabilizing and improving into 2021, we do not expect a significant increase in ratings downgrades or fallen angels. Impactful to our view is the COVID case trend and vaccine rollouts, as this will greatly influence how fast fundamentals can improve. Despite the expected improvement in fundamentals, leverage remains elevated (particularly in specific COVID-impacted sectors) and with all-in funding rates at historical lows, we could see downgrades increase as balance sheet strength takes a backseat to other corporate goals, such as acquisitions. And though we see value in the US high grade corporate spreads, overall yield and rate volatility could have a negative impact, especially if further fiscal stimulus leads to higher interest rates.

We are finding value in sectors that should see fundamental improvement with the broader economic rebound including US Banks and Industrials. Also, we are selectively adding exposure to some more COVID-impacted sectors, such as Aircraft Leasing, Lodging and Gaming. Sectors where we have become a little more cautious on include Technology (from a relative value perspective) and Healthcare (due to increased merges and acquisitions activity). We continue to see value in selected sectors of high-quality consumer asset-backed securities in AAA collateralized loan obligations given their credit diversification and structure protection.

We wish the best health and well-being of our clients, our coworkers, our friends and family, as well as front-line health providers and those infected with this virus during these turbulent times.

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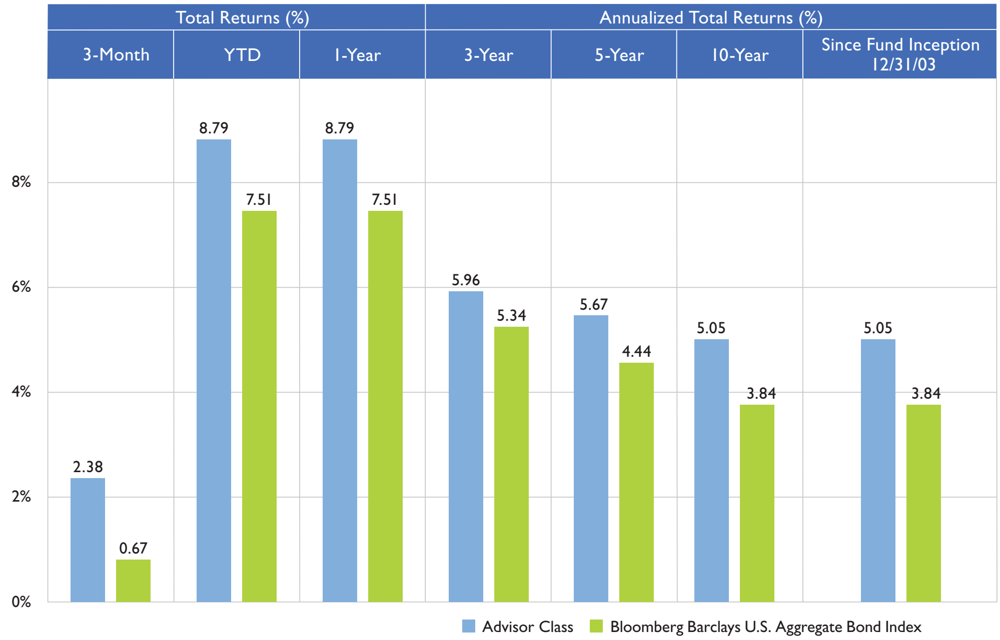
Advisor Class



Top-10 Holdings	Maturity	Weight (%)
US Treasury 0.625%	5/15/2030	1.42
US Treasury 1.125%	5/15/2040	1.12
UMBS TBA 15yr 2%	11/01/2034	0.93
US Treasury 1.75%	11/15/2029	0.88
US Treasury 1.625%	9/30/2026	0.87
US Treasury 1.625%	5/15/2026	0.69
US Treasury 2.5%	2/28/2026	0.67
US Treasury 2.625%	2/15/2029	0.66
US Treasury 0.5%	10/31/2027	0.64
Nextera Energy Operating Partners LP 4.25%	7/15/2024	0.61
Total		**8.48**

Net annual operating expenses for Advisor Class are 0.55% and total (gross annual) expenses are 0.73%. 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.

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

Definitions

One **basis point** equals 0.01%.

The **Bloomberg Barclays 1–3 Year U.S. Government/Credit Bond Index** is a performance benchmark of U.S. investment-grade government and corporate bonds with maturities of one to three years.

The **Bloomberg Barclays U.S. Aggregate Bond Index** is composed of investment-grade U.S. government bonds, investment-grade 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 **Bloomberg Barclays U.S. Corporate Bond Index** includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements.

The **Bloomberg Barclays U.S. High-Yield 2% Issuer Capped Bond Index** measures the performance of high-yield bonds with a 2% maximum allocation to any one issuer.

The **Credit Suisse Leveraged Loan Index** is designed to mirror the investable universe of the U.S. senior secure-credit (leveraged-loan) market.

Duration is often used to measure a bond's or fund's sensitivity to interest rates. The longer a fund's duration, the more sensitive it is to interest-rate risk. The shorter a fund's duration, the less sensitive it is to interest-rate risk.

The **Institute for Supply Management Purchasing Managers Index** surveys senior executives at over 400 companies on five areas: new orders, inventory levels, production, supplier deliveries, and employment. The data is used as an indicator of economic health for manufacturing and service sectors.

Option adjusted spread (OAS) measures the spread between a fixed income security and the risk-free rate of return.

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.

Yield to worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting.

About Principal Risks

All investing involves risks including the possible loss of the principal amount invested. 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.

This commentary represents the views of the portfolio managers at Pacific Asset Management LLC as of 12/31/20 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.

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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.

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

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