PACIFIC FUNDS

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FLOATING RATE 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**
PLFLX	110	PLBCX	310	PLFDX	010

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

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 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 Floating Rate Income (Advisor Class) (“the Fund”) returned 2.87% versus the Credit Suisse Leveraged Loan Index return of 3.64%.

Portfolio Review

For the fourth quarter 2020, the fund underperformed the benchmark due to sector allocations and a broad underweight to the distressed area of the loan market. The primary driver of the fund’s underperformance was the limited exposure to distressed issuers (those less than $90 price). For the quarter, loans below $90 returned 9.93% versus loans over $90 returning 2.88%. The Fund entered the quarter with 4% in loans under $90 versus 14% for the benchmark. The fund focuses on the performing segment of the bank-loan market.

Sector allocations through underweights to distressed issuers in energy, metals/minerals, and gaming/leisure detracted from performance. The Fund held limited to no exposure to the distressed segments of these sectors. Security selection in the healthcare and service sector detractor from relative performance while utility and media/telecom selection contributed. Credit-quality allocations were beneficial given an overweight to B rated versus BB rated issuers. The Fund’s underweight to distressed CCC-rated securities detracted given the outperformance of lower quality loans. The Fund’s CCC exposure is focused on performing 2nd lien issues. The fund’s focus on larger and more liquid issuers, generally greater than $1 billion in facility size, detracted from performance. Facility/issue sizes greater than $1 billion returned 3.42% versus facility/issue sizes less than $300 million returning 4.92%.

Manager Outlook

The 4th Quarter continued the rally that began in April. By the end of 2020, the average dollar price of the Credit Suisse Leveraged Loan Index was just under $96, with an effective yield of 4.87%. The 4-year Discount Margin ended the 4th Quarter at 463 bps, 70 bps tighter than the 3rd Quarter. Implied annual default rates using a measure of historical average excess spread and average recoveries stand at approximately 5% versus expectations of a low-mid single digit default rate for 2021. We believe this is indicative of reasonable default expectations.

We continued to reduce our yield underweight relative to

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

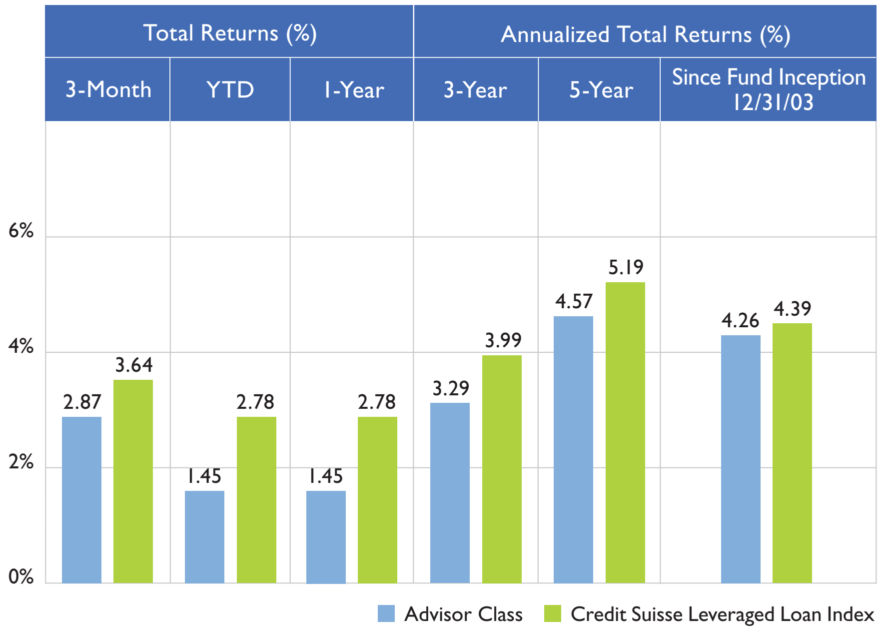
the benchmark during the 4th Quarter, although we remain underweight risk. This was done by maintaining our overweight to B-rated performing loans and continuing to selectively buy new issues. Our overweight to B-rated issuers has largely been focused on performing and less cyclical companies such as Financials (Insurance Brokers) and Information Technology (Software). New issues remain attractive as many came with 50bp - 100bp LIBOR floors, which offer significant value given Libor's current level. We continue to hold limited exposure to distressed issuers, which is the primary reason for our underweight in yield relative to the benchmark. The Strategy focuses on large-facility issuers and the performing segment of the loan market, seeking to avoid deteriorating credits and bankruptcies. The Strategy holds a large overweight in loans over $90 price and loan facilities over $1 billion.

Throughout 2020, we have been cautious regarding many of the "COVID" sectors, including Retail, Airlines, Travel, Gyms/Fitness Centers, Movie Theaters and Energy. We remain cautious on those sectors as they continue to face considerable headwinds and bankruptcies. The Retail sector, in particular, entered this year suffering from secular disruption from technology and shifting consumer trends. COVID-19 accelerated bankruptcies for many of these retailers. Our Retail exposure is selective, focused on the following credits: Bass Pro, 1-800 Contacts, EG Group, Harbor Freight, and Camping World. We do not hold any exposure to Airlines, Travel, Gyms/Fitness Centers, or Movie Theaters. Additionally, we remain significantly underweight the Energy sector. We continue to evaluate opportunities in these "COVID" sectors, but remain hesitant due to their uncertain recovery, the substantial amount of incremental debt that many of them incurred during the pandemic, and the significant run-up in loan prices for many of these credits.

We remain overweight Financials (Insurance Brokers), Manufacturing, Housing (Building Products), and Forest Products/Containers (Packaging) while underweight Media/Telecom, Energy, Food/Tobacco, Chemicals, and Transportation. We continue to significantly favor many issuers within Financials and Information Technology (Software). Insurance Brokers continue to exhibit an ability to perform well in both good and bad economic environments. Software companies continue to benefit from the stability of their subscription-based business models, as well as a favorable tailwind from the recent work-from-home dynamic. We continue to emphasize less cyclical industries and businesses with domestically focused revenues. We are underweight distressed CCC rated loans with our CCC exposure concentrated in performing 2nd lien loans. The Strategy currently holds 2% in high yield bonds. We are selective, holding positions in less than 10% of the benchmark issuers.

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.

Advisor Class



Top-10 Holdings	Maturity	Weight (%)
Jaguar Holding Co.	8/18/2022	1.55
Applied Systems, Inc.	9/19/2024	1.47
Epicor Software Corporation	7/30/2027	1.37
Finastra Group Holdings	6/13/2024	1.35
SRS Distribution, Inc.	5/23/2025	1.33
Clear Channel Outdoor Holdings, Inc.	8/21/2026	1.32
Sunshine Luxembourg VII	10/01/2026	1.29
Uber Technologies, Inc.	4/04/2025	1.26
Sophia LP	10/07/2027	1.21
Athenahealth, Inc.	2/11/2026	1.21
Total		**13.36**

Net annual operating expenses for Advisor Class are 0.78% and total (gross annual) expenses are 0.92%. 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.

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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. 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.

LIBOR is the benchmark interest rate that banks charge each other for loans. It serves as the benchmark reference rate for debt instruments, including government and corporate bonds, mortgages, student loans, and credit cards.

LIBOR floors put a floor under the base rate for loans. For instance, if a loan has a 3% LIBOR floor and LIBOR falls below this level, the base rate for any resets defaults to 3%.

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.

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