PACIFIC FUNDS

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HIGH 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
PLAHX	112	PLCHX	312	PLHYX	012

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

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.

Fund Performance

Pacific Funds High Income (Advisor Class) ("the Fund") returned 6.63%, outperforming the Bloomberg Barclays U.S. High-Yield 2% Issuer Capped Bond Index return of 6.44%.

Portfolio Review

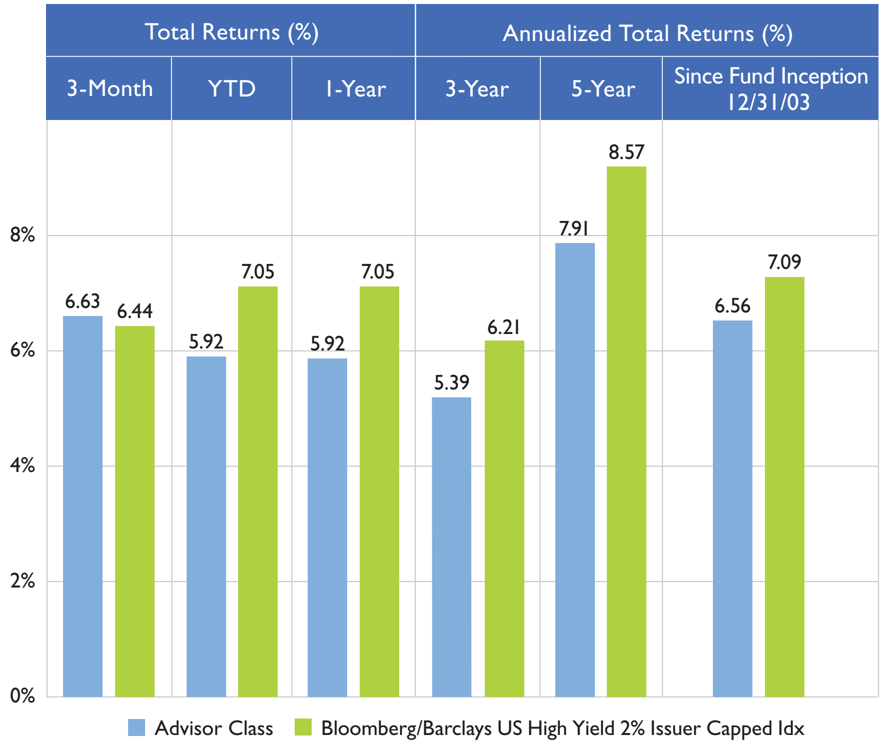
A combination of substantial monetary and fiscal support, on-going search for yield, and progress on vaccines were part of a positive backdrop for high yield. Return dispersion across quality reflected the risk on market dynamic with BB, B, and CCC returning 5.66%, 5.83%, and 9.91% respectively. The Fund was positioned to benefit from these dynamics with higher than benchmark option adjusted spread and a relative overweight to B and CCC. Credit selection was broadly positive. Selective exposure to smaller issuers such as Ahern Rentals, Clubcorp, and TMS International contributed to performance. High Yield companies have adjusted to COVID dynamics through a combination of expense reduction and strategy realignment providing an opportunity for earnings expansion as the economy re-opens. On a sector basis, Construction Machinery, Restaurants and Packaging were notable contributors while Independent Exploration and Production (E&P), Oil Field Services and Healthcare sectors detracted on a relative basis. Ahern Rentals, Golden Nugget, and Antero Resources were amongst top individual relative contributors while detractors included Itron, Allied Universal, and Level 3. Equity allocation of approximately 1.5% was beneficial. Enhanced equipment trust certificates and collateralized loan obligations exposure of 0.6% and 1.5% respectively was flat on a relative basis while floating rate bank loan exposure of 4.5% detracted. Shorter than index portfolio duration of 3.13 years was a modestly positive factor. The Fund held an average cash position of 3.08% during the quarter.

Manager Outlook

As we look ahead 2021, our outlook balances what is likely to be a difficult health and economic period ahead in the short term with prospects for a solid recovery on both fronts later in the year. Companies and consumers have continued to adapt their plans to the changing environment, with long-term implications for improved margins and process improvements that should continue well after the pandemic. Earnings are likely to continue improving from the depths of the 2020 recession but will still be challenged relative to pre-pandemic levels until the economy is able to open broadly. We continue to refresh our credit work to not only adjust for the unprecedented pressures on liquidity and cash flow companies face in the short-term, but also what prospects are as we eventually emerge from this pandemic. We have added exposure to move "COVID-sensitive" credits as we expect Leisure spending to move broadly higher by mid-2021. While the pandemic has negatively impacted many groups, substantial fiscal stimulus and a high savings rate should fuel consumer spending as we emerge from the pandemic. We expect the U.S. consumer to rebound faster than those of many other countries. We also expect to maintain liquidity to take advantage of opportunities as they arise. We currently see value in many manufacturing, packaging, aerospace, and select leisure companies. The market ahead is likely to remain volatile, but such markets also offer significant opportunity that we seek to capture.

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 (%)
HCA, Inc. 5.875%	2/01/2029	1.65
Allied Universal Holdco LLC 9.75%	7/15/2027	1.45
CSC Holdings, LLC 6.5%	2/01/2029	1.44
Ahern Rentals, Inc. 7.375%	5/15/2023	1.36
Springleaf Finance Corporation 7.125%	3/15/2026	1.30
CCO Holdings LLC 4.75%	3/01/2030	1.27
Bass Pro Group LLC	9/25/2024	1.12
Howard Hughes Corporation 5.375%	3/15/2025	1.07
Albertsons Companies, Inc. 5.875%	2/15/2028	1.05
Virgin Media Secured Finance PLC 5.5%	8/15/2026	1.03
Total		**12.73**

Net annual operating expenses for Advisor Class are 0.71% and total (gross annual) expenses are 0.89%. 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. 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.

Cash flow is the net amount of cash and cash-equivalents being transferred into and out of a business.

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.

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

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