PACIFIC FUNDS ULTRA SHORT DURATION INCOME COMMENTARY

DECEMBER 31, 2020

SUB-ADVISED BY PACIFIC ASSET MANAGEMENT LLC

Advisor Class		Class I	
Ticker	**Fund Number**	**Ticker**	**Fund Number**
PLUDX	019	PLUIX	419

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

Short-duration investment-grade bonds, as measured by the Bloomberg Barclays 1–3 Year U.S. Government/Credit Bond Index, returned 0.21% in the final quarter, bringing the 2020 total return to 3.33%. Given the strong support of the Federal Reserve on the front end of the curve, this set the tone for continued outperformance of credit vs government sectors. The credit portion of the index returned 0.57% with the government exposure returning 0.05%. The Bloomberg Barclays 1–3 Year U.S. Government/Credit Bond Index ended the quarter with an average price of $103.14 down slightly from $103.21 to end the third quarter. The yield to worst of the index legged lower on a quarter over quarter basis to end the period at 0.23%, down from 0.29%. As a likely result of investors still favoring high quality short duration bonds, index spread levels continued to tighten, ending the period at 10 bps, down from 15 bps.

Fund Performance

Pacific Funds Ultra Short Income (Advisor Class) ("the Fund") returned 0.54% versus the Bloomberg Barclays Short Treasury Total Return Index return of 0.03%.

Portfolio Review

Credit markets continued to rally, providing a key driver for positive excess returns. The Bloomberg Barclays US 1-3yr Corporate Index, Bloomberg Barclays ABS index, and the Credit Suisse Leveraged Loan Index returned 0.68%, 0.36%, and 3.64% respectively. Option adjusted spreads tightened across the investment grade corporate yield curve. In the 1-3-year range, spreads tightened by 23 bps from 58 bps to 35 bps. The Fund's corporate credit exposure of approximately 70% was broadly beneficial to returns across investment grade corporates (58.4%) and floating rate bank loans (10.5%). Within the investment grade corporate credit allocation, the fund's overweight to BBB was a positive return contributor as BBB bonds led the spread rally and outperformed other credit bonds during the quarter. Top sectors on a relative performance basis for the quarter include Technology, Banking and Leisure. Banking sector exposure of 21% is primarily focused on US centric investments including holdings in Goldman Sachs, Bank of America, Citigroup, JP Morgan, PNC and Morgan Stanley. Banks remain well capitalized and have the potential for earnings growth driven by modest loan growth, higher fee income, and positive operating leverage. In addition, the potential for a steeper yield curve could lead to margin growth. Securitized exposure contributed positively to performance. Asset-backed securities allocation totaled approximately 24% primarily consisting of high-quality assets such as AAA collateralized loan obligations (9.25%), on-the-run auto asset-backed securities (5%) and student loan ABS (8.8%). The Fund held an average Cash position of 2.46%. Duration of .76 years was slightly higher than index duration of .33.

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

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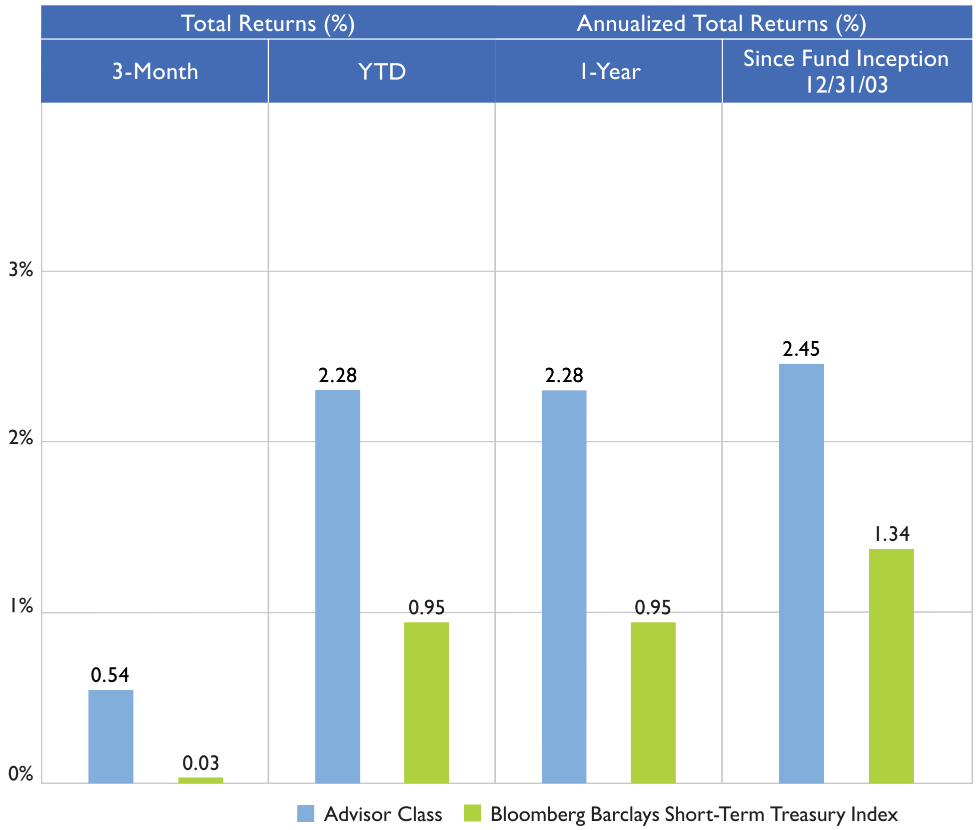
Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest).

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.

Advisor Class



Top-10 Holdings	Maturity	Weight (%)
Honeywell International Inc.	8/19/2022	2.40
Sprint Spectrum Co. LLC 3.36%	9/20/2021	1.77
DTE Energy Company 2.25%	11/01/2022	1.66
Goldman Sachs Group, Inc.	11/17/2023	1.60
SEB Group	9/01/2023	1.60
HCA, Inc.	3/18/2026	1.59
United Rentals, Inc.	10/31/2025	1.59
Dell Technologies, Inc.	9/19/2025	1.59
Charter Communications Holdings LLC	2/01/2027	1.58
Abbvie Inc. 2.15%	11/19/2021	1.47
Total		**16.85**

Net annual operating expenses for Advisor Class shares are 0.32% and total (gross annual) expenses are 0.78%. 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 Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market with 1-3 year maturities

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 Asset-Backed Securities (ABS) Index** is the ABS component of the Bloomberg Barclays U.S. Aggregate Index that measures the performance of ABS with the following collateral types: credit and charge card, auto and utility loans. All securities have an average life of at least one year.

The **Bloomberg Barclays Short Treasury Total Return Index** is a performance benchmark of all U.S. Treasuries that have a remaining maturity between one and twelve months.

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.

Fallen angels refers to investment grade bonds that are given a reduced rating to "junk bond" due to a decline in the credit rating of the issuer.

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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