PACIFIC FUNDS

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PORTFOLIO OPTIMIZATION MODERATE COMMENTARY

MANAGED BY PACIFIC LIFE FUND ADVISORS LLC

DECEMBER 31, 2020

Class A		Class C		Advisor Class	
Ticker	**Fund Number**	**Ticker**	**Fund Number**	**Ticker**	**Fund Number**
POCAX	143	POMCX	343	POMDX	043

Market Review

While large tech companies greatly benefitted last year from the pandemic-generated work-from-home movement, price multiples on some of these tech darlings reached extreme levels, causing investors to shift their focus to underappreciated segments such as small-cap and value stocks. After lagging the broader equity market for years, domestic small-cap value stocks, as represented by the Russell® 2000 Value index, surged over 30% in the final quarter of 2020.

Other overlooked segments such as emerging-market equities as represented by the MSCI Emerging Markets Index, gained nearly 20% in the fourth quarter. More broadly, international stocks outpaced the U.S. equity market after struggling earlier in 2020 to keep pace with U.S. tech leaders.

Within fixed income, high-yield bonds and emerging-market debt benefitted from the continued contraction in credit spreads since the spike in the first quarter of 2020.

Fund Performance

The fund returned 10.41% during the third quarter of 2020 and 14.64% for the trailing 12-month period (Class A at NAV).

Performance Review

The U.S. equity group outperformed the S&P 500® Index in the fourth quarter but trailed it over the 12-month period. The exposure to small caps overall contributed to performance over both periods. While exposure to large cap value was a headwind over the 12-month period, it helped over the fourth quarter. Exposure to real estate also dragged performance over the 12-month period, while PF Real Estate outperformed its benchmark over that period. Furthermore, PF Multi-Asset contributed positively over the quarter but detracted from performance over the 12 months.

International equities as a group outperformed the MSCI EAFE Index over the fourth quarter and trailing 12 months. Exposure to emerging markets and international small caps were tailwinds over both periods. On the other hand, PF International Value struggled to keep pace with the broad foreign-equity index over the trailing 12-month period. Until the fourth quarter, value stocks have been lackluster overseas as well.

The broad fixed-income lineup performed well relative to the Barclays US Aggregate Bond Index over the fourth quarter and trailing 12 months. Exposure to high-yield bonds contributed to performance for the quarter and over the trailing 12 months. Emerging markets debt was additive over the quarter but trailed its benchmark over the trailing 12 months.

Outlook

Though they experienced quite a roller-coaster ride, investors who held firm to their positions generally gained in 2020, as by yearend nearly all markets erased significant losses from the first quarter. We anticipate that governments will remain highly accommodative amid these unprecedented times. Dispensing the COVID vaccine to the masses will likely accelerate the pace of the recovery in 2021 and beyond. These two factors should bode well for further appreciation of risky assets like stocks and credit.

COVID-19 Impacts

Although new coronavirus cases surged in the U.S. in the fourth quarter of 2020, the approval and implementation of vaccines provided a light at the end of the pandemic tunnel.

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. Net annual operating expenses for Class A are 1.28% and total (gross annual) expenses are 1.36%.

An inoculated consumer base may unleash pent-up demand, especially for the services sector – which includes many smaller and cyclical value firms, that has been suppressed for nearly a year.

Small-Cap Struggles

The hope of additional fiscal stimulus and a relatively healthy global recovery fueled the strong runup in small-cap value. We anticipate the rotation between sectors and styles seen in the fourth quarter will carry momentum throughout 2021. Fundamental factors such as accelerating revenue growth and quickly improving earnings should be a tailwind for small-cap companies. Furthermore, the Biden administration may seek to level the playing field for various sectors. Such measures could include regulations that reduce monopolistic practices and/or hinder buyback activity, which would likely be headwinds for larger companies. We believe small caps and value stocks may, after over a decade of underperformance (on an annualized basis), be better positioned than their larger growth counterparts.

China

We continue to expect the Biden administration will take a different approach to China compared to President Trump's aggressive tactics, which caused China to respond with its own aggressive measures, including a military presence around strategic assets in key regions.

President-elect Biden will have to deal with Chinese President Xi Jinping, whose long-term vision for his country is to be the world's dominant superpower. Biden will need to maintain a delicate balance of carrot and stick to convince China to play fairly and abide by global standards of trade and business. While Trump may have tried to simply contain China's growing power and influence, Biden will probably need to take a different approach of being stern yet taking the time to understand China's true objectives. Biden is also likely to shore up ties with old allies, like the E.U., to help pressure China. The specter of military involvement between superpowers may loom if animosity between China and the U.S. rises to untenable levels.

Given the deteriorating relations between the West and China, we could potentially end up with a divided world that is run on two 5G platforms—one based on Western standards and the other driven by Chinese systems. The outcome from a segmented technology will also depend on many factors, including how respective countries treat and regulate their domestic conglomerates like Facebook and Google for the US and Alibaba and Tencent for China.

A Reshaped Foreign-Exchange Market and Cryptocurrencies

Cryptocurrencies such as Bitcoin continued to gain momentum in 2020, enticing traders to invest in those volatile investments. Many of these cryptocurrencies bear little-to-no fiat value, but Facebook, for instance, has been preparing to launch Diem (previously called Libra) that would be backed by traditional currencies such the U.S. dollar, euro and yen. Cryptocurrencies such as the Diem have the potential to uproot traditional central banks and their ability to conduct monetary policies. In other words, the Fed may have less control over interest rates, which in turn can impact discount rates and market valuations.

The New Modern Warfare

While the likelihood of escalating military conflict has risen in the South China Sea region, many of today's battles are fought through economic and political measures. Foreign hacks into U.S. government and company computer systems continue to rise with the potential to do tremendous damage to the U.S. economy and erode confidence in security. Information security will likely become an increasingly important area of interest. Investors may now prefer to seek protection amid this environment.

The U.S. network-infrastructure market continues to evolve, as cyber threats affect all sectors and industries. The cybersecurity industry continues to grow with hundreds of new startups being launched every year with venture capitalists investing at a record pace. Some of the companies gaining market share in this cybersecurity industry include CrowdStrike and Fortinet, which are listed in the Russell Mid-Cap® Growth Index; some of the larger and established players include Cisco Systems and IBM, both of which are represented in the Russell 1000® Value Index. Developing trends in the network security industry could also remain positive for small- and mid-sized cybersecurity companies, as larger entities may look to consolidate. The positive momentum and necessity for better information protection should boost demand for services offered by cybersecurity providers.

Conclusion

In general, we see economic optimism generated by the COVID vaccines and unleashed pent-up demand caused by the pandemic. We also believe the latest tech revolution, driven by COVID and its related shutdowns, will enhance productivity, which should support risk assets. Other potential investment bright spots in 2021 include small-cap and value stocks, which we believe will have tailwinds this year, and cybersecurity companies that will likely experience increased demand from governments and firms due to the escalating number of hacks.

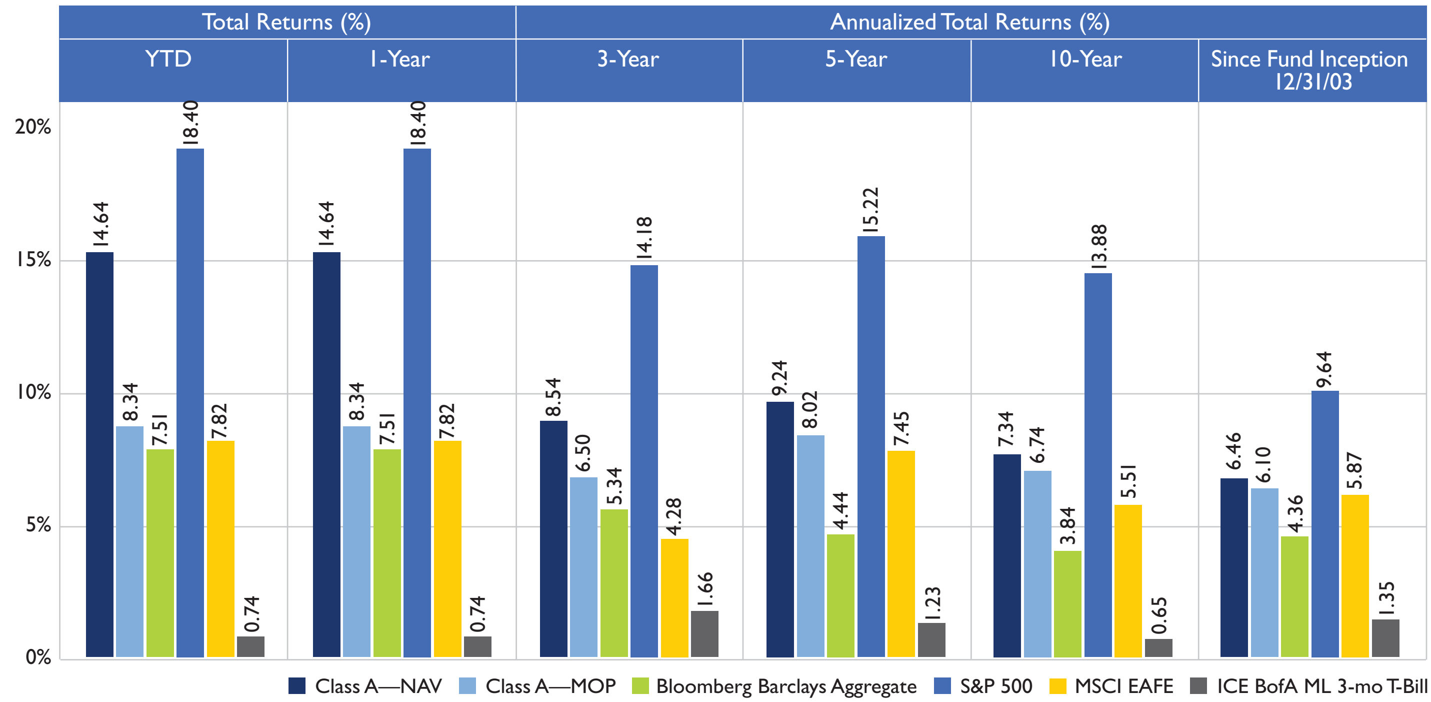
But like 2020, this year could experience significant headwinds, including the deterioration of U.S.-China relations, the continued foreign hacking of U.S. digital infrastructure, and the lingering effects of the pandemic – especially as there are several remaining hurdles to scaling up vaccine distribution.

As always, we will remain optimistic about carefully considered investment opportunities in 2021 while being mindful of potential pitfalls.

Top 10 Holdings

Fund Name	Fund Manager	Allocation (%)
PF Multi-Asset Fund	Pacific Life Fund Advisors	38.2
PF Managed Bond Fund	PIMCO/Western Asset	23.5
PF Large-Cap Value Fund	ClearBridge	6.5
PF Growth Fund	MFS	6.2
Pacific Funds℠ High Income	Pacific Asset Management LLC	5.3
PF Emerging Markets Fund	Invesco	4.3
PF Short Duration Bond Fund	T.Rowe Price	4.0
PF Small-Cap Value Fund	AB	2.4
Pacific Funds℠ Core Income	Pacific Asset Management LLC	1.9
PF Emerging Markets Debt Fund	Ashmore	1.4

Total Returns–Class A



Returns shown at net asset value (NAV) have all distributions reinvested. Returns shown at maximum offering price (MOP) for Class A shares reflect payment of the maximum sales charge of 5.50%. When a sales charge is illustrated, it is applied at the beginning of the period.

Net annual operating expenses for Class A are 1.28% and total (gross annual) expenses are 1.36%. 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.

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

Definitions

The **Bloomberg Barclays U.S. Aggregate Bond Index** is composed of investment-grade U.S. government and 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 **ICE BofA Merrill Lynch U.S. 3-Month Treasury Bill Index** is an index comprised of a single Treasury bill issue purchased at the beginning of the month and held for a full month, then sold and rolled into a newly selected Treasury bill issue.

The **MSCI EAFE Index** is designed to measure the equity-market performance of developed markets in Europe, Australasia, and the Far East.

The **MSCI Emerging Markets Index** tracks the performance of equity stocks in selected emerging foreign markets.

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.

The **Russell Midcap Index** measures the performance of the mid-cap growth segment of the U.S. equity universe. verse. It includes Russell 1000 companies based on a combination of their market cap and current index membership.

The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 2000 Value Index** measures the performance of equity securities of small-capitalization value companies.

It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

It is not possible to invest in an index.

About Principal Risks: There is no guarantee the Fund will achieve its investment goal. Asset allocation and diversification do not guarantee future results, ensure a profit or protect against loss. Although diversification among asset classes can help reduce volatility over the long term, this assumes that asset classes do not move in tandem and that positive returns in one or more asset classes will help offset negative returns in other asset classes. There is a risk that you could achieve better returns by investing in an individual fund or multiple funds representing a single asset class rather than using asset allocation. A fund-of-funds does not guarantee gains, may incur losses and/or experience volatility, particularly during periods of broad market declines, and is subject to its own expenses along with the expenses of the underlying funds. It is typically exposed to the same risks as the underlying funds in which it invests in proportion to their allocations.

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MFC0655-1221W

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

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