



LESS IS MORE

How well do you know your multisector bond fund?

By Craig Imamura, Product Strategist

Key Takeaways

- Some investors are still willing to take risk in certain parts of their portfolios, albeit they are doing so in funds with much broader strategy flexibility.
- Smaller and more nimble funds may offer an additional benefit for investors, as robust growth in fund assets have historically made it more difficult for larger funds to navigate and find opportunities.
- With yields for some fixed income asset classes near all time lows, the growing demographic of income-seeking investors may keep yields range bound, potentially making income harder to come by for those investors.

The Morningstar Multisector Bond Category has topped the majority of taxable fixed-income categories for inflows year-to-date as asset-class returns have ebbed and flowed. High-risk securities have typically outperformed when economic conditions improved and uncertainty diminished. But when uncertainties and latter-stage market dynamics begin to percolate, riskier assets tend to see the inverse, as return velocity decelerates and correlations diverge.

While market uncertainty and volatility are something all investors will have to deal with, diversification and flexibility are a few ways to handle such headwinds, as correlations diverge and idiosyncratic risk increase and decrease throughout a market cycle.

ESTIMATED NET FLOW (BILLION \$)

MORNINGSTAR CATEGORY™	YEAR-TO-DATE
Multisector Bond	\$4.3
Nontraditional Bond	\$1.7
High Yield Bond	-\$2.5

Source: Morningstar as of 1/31/21.

As the demand and benefits of funds with the flexibility to invest broadly outside of traditional benchmarks continue to grow, we believe adding a multisector bond fund, such as Pacific Funds Strategic Income, should be considered to provide diversification, especially if the portfolio is overweight in:

- Dividend Paying Equities
- Mortgage-Related Debt
- High-Yield Bonds
- Bank Loans
- Non-U.S Developed and Emerging-Market Debt

Nimbleness in Changing Markets

Fixed-income asset classes and sectors fall in and out of favor due to relative value and/or changes to central bank policies. Having a fund that can efficiently navigate different markets in changing conditions is important.

Diversifying a portfolio with Pacific Funds Strategic Income can potentially help lessen the effects of these changing market conditions and headwinds, as the fund carries an average position size of \$2.5 million vs. \$9.5 million for the 10 largest multisector bond funds, while also being more active in adjusting the portfolio as spread sector fundamentals change:

	3-YEAR AVERAGE ANNUAL TURNOVER RATIO	NUMBER OF BOND HOLDINGS	AVERAGE POSITION SIZE
PACIFIC FUNDS STRATEGIC INCOME (PLSFX)	97.00%	366	\$2.5 million
LARGEST 10 FUNDS IN MULTISECTOR BOND CATEGORY	90.76%	1,852	\$9.5 million

Source: Morningstar as of 1/31/21.

Attractive Return and Income Potential, Below Average Fees, Similar Credit Risk

With the Federal Reserve taking interest rates lower in response to the impact of the global pandemic and low global yields, a growing demographic of income-seeking investors are now having to accept that yields across many areas of fixed-income may likely remain unchanged.

Pacific Funds Strategic Income's flexibility to invest broadly across non-investment grade and investment-grade credit provides a fund that offers opportunity for:

- An attractive return and level of income
- Lower-cost relative to peers
- Similar level of credit risk

	RETURN	EXPENSE RATIO	AVERAGE CREDIT QUALITY
PACIFIC FUNDS STRATEGIC INCOME (PLSFX)	6.67%	0.71% (Net)	BB
LARGEST 10 FUNDS IN MULTISECTOR BOND CATEGORY	5.63%	0.82%	BB
MORNINGSTAR MULTISECTOR BOND CATEGORY	4.59%	1.09%	BB

Source: Morningstar as of 1/31/21. Ratings are provided by DBRS, Inc. and measured on a scale that generally ranges from AAA (highest) to D (lowest) and may change over time. **The Fund's annual operating expenses shown above are effective 8/1/20 through 7/31/21. Gross Expense Ratio (0.84%)** reflects the total annual operating expenses paid by the Fund. **Net Expense Ratio (0.71%)** reflects waivers, reductions, reimbursements, and the limitation of certain "Other Expenses."

As a result, during volatile interest-rate periods, they have provided greater stability. Compared to intermediate-term bonds, short-term corporate bonds have historically provided yield opportunities with less volatility as shown below.

A Complement and Diversifier to a Core Fixed-Income Bond Position

The broad investment-grade bond market, represented by the Bloomberg Barclays U.S. Aggregate Bond Index, is typically comprised of approximately 40% in U.S. treasury, 5% in government-related bonds, 30% in securitized debt (commercial mortgage-backed securities, mortgage-based securities, asset-backed securities), and 25% in investment-grade corporate debt. Having a fund with the flexibility to invest up and down the credit and maturity spectrum—as well as across the capital structure of a company—may potentially help investors' portfolios:

- Diversify their current fixed-income allocation
- Identify relative value amongst credit related sectors and industries
- Increase risk-adjusted returns

Since Inception	INFORMATION RATIO	CORRELATION
PACIFIC FUNDS STRATEGIC INCOME (PLSFX)	0.57	0.33
LARGEST 10 FUNDS IN MULTISECTOR BOND CATEGORY	0.49	0.37
MORNINGSTAR MULTISECTOR BOND CATEGORY	0.41	0.42

Source: Morningstar as of 1/31/21. Benchmarked to Bloomberg Barclays US Aggregate Bond Index.

Help in Navigating Market Ups-and-Downs

Pacific Funds Strategic Income's focus on corporate credit has delivered a portfolio that since inception has captured 136.08% of the upside and only 53.13% of the downside of the Bloomberg Barclays U.S. Aggregate Bond Index (Agg):.

	UP CAPTURE TO S&P 500®	DOWN CAPTURE TO S&P 500®	UP CAPTURE TO AGG	DOWN CAPTURE TO AGG
PACIFIC FUNDS STRATEGIC INCOME (PLSFX)	37.22%	27.35%	136.08%	53.13%
MORNINGSTAR CATEGORY	27.81%	23.56%	108.86%	70.41%

Source: Morningstar as of 1/31/21. Competitor lowest-fee share class used.

In conclusion, led by a team with over 20 years of investment experience in corporate credit, Pacific Funds Strategic Income should be a multisector bond fund to consider as your active-income option for today's market.

For more information about
Pacific Funds Strategic Income, visit
PacificFunds.com.

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PACIFIC FUNDS
STRATEGIC INCOME

Class A
PLSTX

Advisor Class
PLSFX

Class C
PLCNX

As of December 31, 2020



Overall Morningstar Rating™ Rating out of 295 Multisector Bond funds based on risk-adjusted returns

PERFORMANCE

Total Returns (%)			Annualized Total Returns (%)		
3-Month	YTD	1-Year	3-Year	5-Year	Since Fund Inception
6.07	9.79	9.79	6.64	7.58	6.82

CALENDAR YEAR-END RETURNS (%)

2012	2013	2014	2015	2016	2017	2018	2019	2020
17.05	7.53	1.93	-2.80	11.19	6.85	-2.77	13.61	9.79

Advisor Class shares inception on 6/29/12. Performance shown prior to that date is hypothetical and is that of Class I shares (12/19/11 inception date), restated to reflect applicable service and/or 12b-1 fees. Advisor Class shares are sold at net asset value (NAV) without an initial sales charge and do not include a CDSC. Performance reflects any applicable fee waivers and expense reimbursements. 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.

Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance, placing more emphasis on downward variations and rewarding consistent performance. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. The top 10% of funds in each category receive five stars, the next 22.5% receive four stars, the next 35% receive three stars, the next 22.5% receive two stars, and the bottom 10% receive one star. Morningstar Ratings for other share classes may have different performance characteristics. © 2020 Morningstar Investment Management, LLC. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. The Fund's Advisor Class shares also received a five-year rating of 5 stars out of 259 funds and three-year rating of 5 stars out of 295 funds. For Overall, three-, five-, and ten-year (if applicable) Morningstar Ratings for other share classes, visit PacificFunds.com/Performance.

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.

Downside capture ratios are calculated by taking the fund's monthly return during the periods of negative benchmark performance and dividing it by the benchmark return.

The **information ratio** measures the risk-adjusted returns of a financial asset or portfolio relative to a certain benchmark. It is calculated by dividing the active return of a portfolio by the tracking error. The tracking error is calculated as the standard deviation of the difference between fund return and index return.

Upside capture ratios for funds are calculated by taking the fund's monthly return during months when the benchmark had a positive return and dividing it by the benchmark return during that same month.

About Principal Risks

All investing involves risks including the possible loss of the principal amount invested. There is no guarantee the Fund will achieve its investment goal. Corporate bonds are subject to issue 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.

Pacific Life Insurance Company is the administrator for Pacific Funds. It is not a fiduciary and therefore does not give advice or make recommendations regarding insurance or investment products.

Investors 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 PacificFunds.com. The prospectus and/or summary prospectus should be read carefully before investing.

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