PACIFIC FUNDS

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CORE INCOME COMMENTARY

MARCH 31, 2021

SUB-ADVISED BY PACIFIC ASSET MANAGEMENT LLC

Class A		Class C		Advisor Class	
Ticker	**Fund Number**	**Ticker**	**Fund Number**	**Ticker**	**Fund Number**
PLIAX	106	PLNCX	306	PLIDX	006

Market Overview

An economic rebound and long-term interest rates were the story of the first quarter. The Treasury curve steepened at near record pace in first quarter as the middle and back-end portion of the curve began to account for anticipated economic growth and inflationary concerns. The steepening in rates resulted in negative total returns for portions of the fixed-income market, breaking records that stood for nearly 40 years.

Building upon the pent-up demand and reopening momentum seen at the close of 2020, economic growth expectations are increasing. Many expect 2021 GDP growth to be in excess of 7%. The last annualized GDP growth number in excess of 7% was seen in 1984 (7.2%), nearly four decades ago. The Institute for Supply Management (ISM) reported that the manufacturing index grew in March, marking the 10th consecutive month of growth, ending the quarter at 64.7% (a reading over 50 indicates an expansionary period). Notably, of the 18 manufacturing industries, 17 reported growth in March. Reflecting this growth, the unemployment rate dropped to 6% at the end of the first quarter, down from 6.7% to start 2021 (and down from peak levels near 15% in April 2020).

During an unprecedented 2020, the S&P 500 Index returned 18.39%, a staggering number when considering the pandemic-induced recession. However, risk markets were heavily supported by immense liquidity injections from Congress and the central bank. Carrying the risk-on trade into 2021, the S&P 500 returned 6.17% in the first quarter. Risk remained well supported by an accommodative monetary and fiscal policy, which is expected to continue in the coming months. The investment-grade market (represented by the US Bloomberg Barclays Aggregate Bond Index) suffered amid rising rates, returning -3.37% in the first quarter, reflecting the worst quarterly return in four decades. The high-yield market (represented by Bloomberg Barclays US Corporate High Yield index) returned 0.86%. The short end of the yield curve, as represented by the two-year U.S. Treasury note, steepened slightly by 3 basis points, ending the period at 16 basis points (one basis point equals 0.01%). Meanwhile, the long end of the curve, as represented by the 30-year U.S. Treasury bond, steepened significantly by 76 basis points, ending at 2.41%. The 10-year U.S. Treasury yield ended the quarter at 1.74%, higher by 81 basis points from the start of 2021.

Asset Class Overview

Total return for investment-grade bonds, as measured by the Bloomberg Barclays US Aggregate Bond Index, was -3.37% in the first quarter. This was the most challenged quarterly return since the third quarter of 1981 (-4.07%) and the worst quarter to start a year since the first quarter of 1980 (-8.71%). Even though fiscal and monetary support remained in place, Treasury rates moved higher on the back of anticipated future growth and inflationary concerns. While challenged on a total-return basis, yields increased, with the yield-to-worst rising by 49 basis points since the start of the year, ending at 1.61%. Going forward, technical support of the investment-grade asset class may be buoyed by projections of a significant uptick in rising stars. Pressure resulting from the rise in rates created material headwinds for government- and credit-related sectors, which were only partially offset by the index's securitized exposure. Sectors with the strongest total return during the quarter included auto-backed (0.04%), other financial (0.03%), credit card (0.52%), and stranded cost utility (-0.75%). The most challenged sectors included other utility (-7.78%), other industrial (-7.53%), natural gas (-7.35%), and sovereign returning (-6.53%).

Index returns by credit quality were all negative but favored the highest-quality tier. Investors demonstrated their concern as the index was led by AAA rated credits returning -2.88%, followed by AA (4.27%), BBB (4.31%), and A (-4.87%). Working to offset the rise in rates, spread levels moved materially tighter over the quarter to end at 31 basis points from 42 basis points. Spread levels have now traded

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

through post-crisis tights to month-end levels not seen since 1995. Additionally, the average index price slightly fell from $109.87 to $105.16. The duration (modified adjusted) of the index slightly increased from 6.22 years to 6.40 years, creating a greater sensitivity to movement in rates.

The Bloomberg Barclays US High-Yield 2% Issuer Capped Bond Index returned 0.86% for the quarter, slightly below coupon. Pressure from the upward move in rates acted as an impediment as duration resides at 3.87 years. Spreads tightened 50 basis points to levels not seen since mid-2007, ending the period at 311 basis points and acted as a buffer to offset some of the higher move in rates. For context, the option-adjusted spread of the index ended at 881 basis points only one year ago. Amid the reopening trade, COVID-19- and energy-related sectors primarily had the strongest total returns over the period, including Oil field services (13.01%), retail-REITs (7.97%), refining (7.4%), and airlines (5.79%) sectors. Index laggards included electric (-1.75%), health insurance (-1.34%), railroads (-1.22%), and supermarkets (-1.21%). In-line with risk appetite and support, quarterly returns by credit quality were clearly led by lower-rated credits with Ca-D rated issuers returning a robust 14.59%, and CCC, B, and BB rated issuers returning 3.58%, 1.16%, and -0.16%, respectively. The average index price ending the period at $104.11, down slightly from $104.91 at the start of the year. Thus far in 2021, the yield-to-worst of the index has fluctuated between 3.90% and 4.58% and ended the quarter at 4.24%. One year ago, the yield-to-worst was 9.46%, reflecting the stress in the market created by the global pandemic. According to J.P. Morgan, the first quarter ended with the par-weighted U.S. high-yield default rate at 4.80% due to a sizeable amount of bonds falling out of the last 12 months (LTM) calculation. The default rate is 3.31% higher than seen in March 2020. Including distressed exchanges, the U.S. high-yield default rate ended the period at 5.37%. But without the energy sector, the U.S. high-yield default rate falls to 3.05% (the energy-sector default rate was 18%). Given the likelihood of continued fiscal stimulus, strong economic data, orderly markets, and global vaccine distribution, J.P. Morgan revised its 2021 expected U.S. high-yield default rate lower to 2% from current levels.

The floating-rate loan asset class, as measured by the Credit Suisse Leveraged Loan Index, returned 2.01% during the first quarter of 2021. Of all corporate-credit asset classes, floating-rate loans experienced the strongest total return by a wide margin. The combination of accommodative fiscal and monetary policy, optimism surrounding vaccine distribution, the reopening trade, and a rise in Treasury rates led investors seek an asset class that has historically provided insulation from increasing rates. Retail flows into loan mutual funds and ETFs ballooned during the quarter to over $13 billion (according to Lipper), marking the strongest positive flows seen in the asset class since the first quarter of 2017. From a technical perspective, issuance has been robust to start the year, both in the primary and CLO markets. Per J.P. Morgan, leveraged-loan issuance totaled $300.5 billion ($72.3 billion net of refi/re-pricing) in the first quarter, resulting in gross and net leveraged-loan issuance being up 51% and 54% year-over-year, respectively. Additionally, the $300.5 billion of loan issuance in the first quarter was the second most on record behind only the first quarter of 2017 ($331 billion). Per Leveraged Commentary & Data (LCD), the first quarter of 2021 saw total CLO issuance in excess of $39 billion, which was the strongest start to a year since the Global Financial Crisis (GFC) and the highest quarterly CLO issuance in the CLO 2.0 era. The average price of Credit Suisse Leveraged Loan Index increased to $97.46, up from $95.73 at the start of 2021 (and now exceeds the average price of $96.63 seen at the start of 2020). 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 0.71%, 1.54%, and 7.49%, respectively. Performing loans, (above $90 price) returned 1.51%, while distressed loans (up to and including $90 price) returned 10.68%. Distressed loans within the index (trading less than $80) comprise only 1.19% of the index (versus the average from 2008 being 8.30%). Since the GFC, this percentage has only been lower in June 2014 at 1.19%. For a fourth consecutive quarter, all major sectors within the index posted positive total returns. The best performing sectors included energy (7.37%), gaming/leisure (3.59%), consumer non-durables (3.41%), and metals/minerals (3.25%). The lowest-returning sectors included utility (0.25%), financials

(1.16%), food and drug (1.30%), and media/telecom (1.33%). According to J.P. Morgan, the loan par-weighted default rate ended March at an 11-month low of 3.34%, down 61 basis points year-to-date, and up 144 basis points from 1.90% in March 2020. Given the likelihood of continued fiscal stimulus, strong economic data, orderly markets, and global vaccine distribution, J.P. Morgan revised its 2021 expected U.S. loan default rate lower to 2% from current levels.

Fund Performance

Pacific Funds Core Income (Advisor Class) returned -2.61% versus the Bloomberg Barclays U.S. Aggregate Bond Index return of -3.37%.

Portfolio Review

While substantially accommodative fiscal and monetary policy buoyed asset prices in 2020, this accommodation has set a backdrop to fuel inflation concerns. The Bloomberg Barclays Aggregate Index returned -3.37% in the first quarter of 2021, reflecting one of its most challenged quarters of all-time. Duration was a large headwind as the average price of the index fell by nearly $5 to $105.16, resulting in yields increasing by 49 basis points. The index duration of nearly 6½ years has been increasing over time, resulting in greater sensitivity to a change in rates. Spreads worked to offset some of the rate impact by tightening to 31 basis points but could not buffer all of the pressure. Credit-sensitive asset classes within the fund ended the period with an aggregate weighting of greater than 85%. Over the quarter, the fund reduced its investment-grade and government exposure and materially increased its allocation to the securitized and bank-loan asset classes. Specifically, the fund had the following exposures at the end of the first quarter: investment-grade (41.38%), floating-rate (15.22%), high-yield (7.12%), securitized (19.93%), and government 14.47%. The fund's overweight on longer-duration BBB rated credits detracted from total return performance, but its inclusion of non-investment-grade credits was additive. The fund maintains a positive view on the securitized portion of the market given it remains supported with strong backing and collateral. We believe the securitized space offers both total-return potential and risk-diversifying benefits. The fund also sees value in the bank-loan asset class relative value on a yield and duration basis. Top performing sectors on a total return basis for the quarter included airlines (3.23%), retailers (3.15%), leisure (1.86%), building products (0.97%), and gaming 0.88%. The most challenged sectors included media and entertainment (-10.95%), sovereign (-7.29%), wirelines (-6.96%), services (-6.86%), and metals and mining (-6.61%). The fund reduced duration over the quarter to end at 5.20 years, nearly 1¼ years shorter than the benchmark.

Manager Outlook

The impact of a material rise in rates over the first quarter of 2021 resulted in significant pressure on investment-grade corporate-credit total returns. While front-end rates remain low, the curve has begun to steepen significantly to levels not seen since 2016. Going forward, we're watching whether investors decide to wait out the rate move or capture the additional yield coupled with strong fundamentals. With the improving growth outlook, corporate fundamentals will likely continue to improve throughout the year. Cost reductions that were implemented in 2020 should allow for further margin expansion in 2021. Increases in demand, particularly in the harder hit COVID sectors, will also allow for some degree of pricing power and increased free cash flows. As a result, we expect limited fallen angels in 2021 and an increasing pool of rising-star candidates. We are finding value in sectors that should see fundamental improvement with the broader economic rebound including U.S. banks and industrials. Also, we continue to like certain opportunities in COVID-impacted sectors, such as aircraft leasing, lodging and gaming. We continue to see value in selected sectors of high-quality consumer asset-backed securities (ABS) in AAA CLOs given their credit diversification and structure protection.

With an improving outlook and strong liquidity, many companies may decide to use cheap financing and heightened equity valuations to consolidate their sectors. Near term, this may lead to modest ratings pressure and the negative technical of increased issuance. Sectors where we are more cautious on

due to valuations and mergers and acquisition risk include technology and healthcare. Longer term, we could see large idiosyncratic fallen angels as these combinations fail to achieve expected synergy and deleveraging targets.

Advisor Class

Top-10 Holdings	Maturity	Weight (%)
US Treasury 0.625%	5/15/2030	1.40
US Treasury 1.125%	5/15/2040	1.01
UMBS TBA 15yr 2%	11/01/2034	0.96
SMB Private Education Loan Trust 2021-A 0.85%	1/15/2053	0.93
FNCI	12/01/2035	0.90
US Treasury 1.625%	9/30/2026	0.88
US Treasury 1.75%	11/15/2029	0.87
US Treasury 1.625%	5/15/2026	0.71
US Treasury 2.5%	2/28/2026	0.68
Teledyne Technologies Inc. 2.75%	4/01/2031	0.68
Total		**9.04**

Net annual operating expenses for Advisor Class are 0.55% and total (gross annual) expenses are 0.73%. 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 US 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 US 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 US Corporate High Yield Bond Index** measures the USD-denominated, high yield, fixed-rate corporate bond market

The **Bloomberg Barclays US 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.

Free cash flow measures a company's financial performance and shows the cash a company can produce after deducting operating expenses from its operating cash flow.

The **Institute for Supply Management Manufacturing Purchasing Managers' Index (PMI)** is an indicator of the economic health of the manufacturing sector and is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

Option adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate 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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