PACIFIC FUNDS℠

ULTRA SHORT DURATION INCOME COMMENTARY

PACIFIC FUNDS

MARCH 31, 2021

SUB-ADVISED BY PACIFIC ASSET MANAGEMENT LLC

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

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

Short-duration investment-grade bonds, as measured by the Bloomberg Barclays 1–3 Year US Government/Credit Bond Index, returned -0.04% in the first quarter of 2021. Despite the continued pledge of the Federal Reserve to hold steady the front end of the curve, pressure from the broader portion of the curve impacted total return. The credit portion of the index returned -0.02% with the government exposure returning -0.05%. The Bloomberg Barclays 1–3 Year US Government/Credit Bond Index ended the quarter with an average price of $102.88, down from $103.14 to start the year. The yield-to-worst of the index moved higher over the quarter, as the prices fell, to end the period at 0.30%, up from 0.23% to start the year. Some investors sought insulation on the front end of the curve from rising rates; however, spread levels traded in a relatively tight band, ending the period where they began the year at 10 basis points.

Fund Performance

Pacific Funds Ultra Short Income (Advisor Class) returned 0.16% versus the Bloomberg Barclays Short Treasury Total Return Index return of 0.04%.

Portfolio Review

The short end of the Treasury curve under one year in duration rallied slightly quarter over quarter, insulating shorter dated paper from the adverse rate sell-off that

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.

negatively impacted returns of intermediate and longer duration securities. The Bloomberg Barclays US Corporate 1-3 Year Bond Index, Bloomberg Barclays Asset-Backed Securities index, and the Credit Suisse Leveraged Loan Index returned -0.02%, -0.16%, and 2.01% respectively. Option-adjusted spreads of investment-grade corporates tightened slightly on average. However, in the 1- to 3-year range, spreads widened by 6 basis points from 35 basis points to 41 basis points. The fund's corporate-credit exposure of approximately 71% included investment-grade corporates (62.2%) and floating-rate bank loans (8.6%), with both asset classes beneficial to returns. Within the corporate-credit allocation, the fund's 38% allocation to BBB, including approximately 6.8% to investment-grade floating-rate bank loans, was a positive-return contributor. Top sectors that contributed to the fund's return for the quarter included AAA CLOs, airline, banking, leisure and diversified manufacturing. Top individual credit contributors included British Airways EETC, SeaWorld, United Rentals, and Host Hotels. Credits detracting on a relative basis included DTE Energy and Fidelity National Information Services. The fund continues to maintain an overweight to the banking sector with exposure of approximately 24%. Banking holdings are primarily focused on U.S.-centric investments, including Goldman Sachs, Bank of America, Citigroup, J.P. 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, a steeper yield curve could lead to net interest margin (NIM) growth. Securitized exposure contributed positively to performance. The asset-backed securities (ABS) allocation totaled approximately 24% and primarily consisted of high-quality assets such as AAA CLO (10.40%), on-the-run auto ABS (4%) and student loan ABS (8.4%). The fund held an average cash position of 4.43%. Duration of .67 years was slightly higher than index duration of .33.

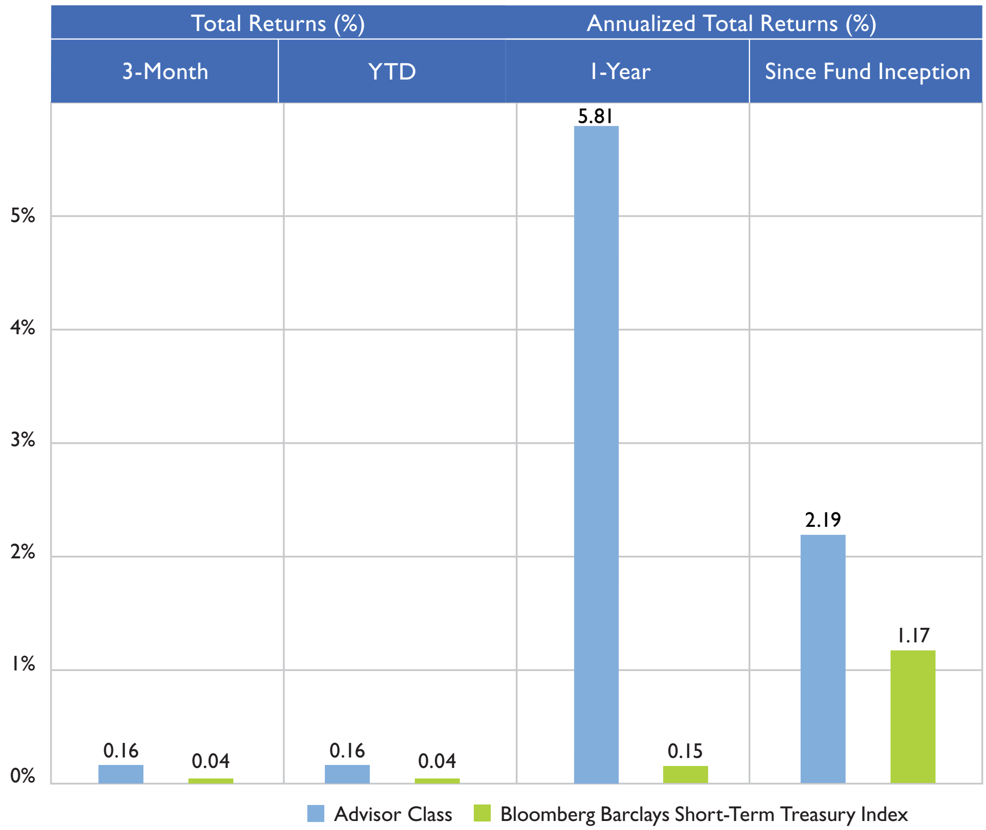
Manager Outlook

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.

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

Advisor Class



Top-10 Holdings	Maturity	Weight (%)
Honeywell International Inc.	8/19/2022	2.42
DTE Energy Company 2.25%	11/01/2022	1.67
Athene Global Funding	7/01/2022	1.63
Siemens Finance N.V.	3/11/2024	1.62
SEB Group	9/01/2023	1.61
Nextera Energy Capital Holdings, Inc.	2/22/2023	1.61
Goldman Sachs Group, Inc.	11/17/2023	1.61
UBS AG London Branch	2/09/2024	1.61
United Rentals, Inc.	10/31/2025	1.60
HCA, Inc.	3/18/2026	1.60
Total		**16.98**

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.

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 Corporate 1-3 Year Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market with 1-3 year maturities

The **Bloomberg Barclays 1–3 Year US 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 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

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.

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.

MFC0917-0321W

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

PACIFIC FUNDS