PACIFIC FUNDS

PACIFIC FUNDS℠

SMALL-CAP COMMENTARY

MARCH 31, 2021

SUB-ADVISED BY ROTHSCHILD & CO ASSET MANAGEMENT US INC.

Class A		Class C		Advisor Class	
Ticker	**Fund Number**	**Ticker**	**Fund Number**	**Ticker**	**Fund Number**
PFKAX	134	PFACX	334	PFQDX	034

Market Overview

Equity markets moved meaningfully higher in the first few months of the year, capping off an exceptional 12 months of positive performance. Off the market low of March 23, 2020, US stocks had one of their most outsized runs in decades. For the first quarter, small-cap stocks led the charge. The Russell 2000® Index rose 15%, outperforming large-cap stocks by The S&P® 500 Index by over 6%. On a trailing 12-month basis, small-cap stocks have also moved into the lead with the Russell 2000® Index returning 95%, a 35% spread over the Russell 1000® Index. While this shift in leadership has been swift and dramatic, large-cap stocks still carry a lead over their smaller-cap brethren when considering a longer time horizon.

The most dramatic change in leadership, however, has been between growth and value stocks. Value stocks retained their leadership position over growth stocks again this quarter. The most extreme dispersion occurred within the small-cap universe. The Russell 2000® Value Index returned 23% for the quarter, outperforming the Russell 2000® Growth Index by 16%. For the latest 12 months, the Russell 2000® Value index returned 97%, a nine-percentage point lead over its Growth counterpart. Even with this sharp outperformance, value still trails growth over a multi-year time frame, suggesting there is still more ground to make up for this style.

The rotation to value that has occurred since November's vaccine news has been, in many ways, a typical early cycle rotation. This rotation is characterized by market leadership from deep-value cyclical companies. At a sector level, commodities and financials participated along with industrials and consumer discretionary companies whose earnings and multiples had experienced the most pandemic-related pain. Another characteristic that manifested itself in the fourth quarter and continued into the beginning of the first quarter, especially in the smaller-cap and micro-cap segments of the market, was the strong performance of high volatility stocks. This included a combination of deep value cyclicals, development stage biotechnology, and the troubled consumer names that attracted the attention of the retail/Reddit crowd. As the quarter progressed, however, this outsized performance began to normalize.

Fund Performance

In the first quarter, Pacific Funds Small-Cap (Advisor Class) returned –2.25% versus the Russell 2000® Index return of –2.40%. For the period, the Fund outperformed the benchmark by 15 basis points (one basis point equals 0.01%).

Portfolio Review

Energy, Consumer Discretionary, and Financials were the leaders for the Fund during the quarter, while Health Care, Utilities, and Communication Services were laggards. Sector allocation was modestly positive, with the tailwinds from an overweight to Consumer Discretionary and an underweight to Utilities exceeding the headwinds from an underweight to Energy and the Fund's small cash position. Stock selection was strong for the quarter, and the main driver of relative performance, largely due to contributors in Consumer Discretionary, Information Technology, and Financials exceeding the detractors in Health Care, Industrials, and Materials.

On a stock specific basis, the Fund's largest individual contributors included: Ultra Clean Holdings, a semiconductor capital equipment subsystem vendor, outperformed on solid fourth quarter results as well as increased optimism around the potential near-term upside to wafer fabrication equipment (WFE) spending trends given the strong demand and tight supply environment for semiconductors. UCTT benefits from higher WFE spending primarily via its exposure to Lam Research and Applied

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Materials (60%+ of sales), two of the largest producers of semis front-end manufacturing equipment. Michael's Companies, an arts and crafts retailer, announced it had entered into an acquisition agreement with Apollo Global Management for $22 a share representing a premium of 47% from the stock price prior to the news leaking in the media. Dave & Busters, an arcade, restaurant, and entertainment company, outperformed as there was increased optimism over the medium-term as the economy fully reopens and normalizes. In addition, the market began to price in favorable structural benefits including significantly improved cost structure and likely accelerating unit growth. With such an improved cost efficiency, the company is well positioned to have a more favorable margin and earnings profile on recovery sale levels.

Conversely, the Fund's largest detractors included: Amicus Therapeutics, which develops therapies for ultra-orphan diseases. The company missed the primary end point of its pivotal phase 3 Pompe study that sought to prove superiority on a walk test versus the current standard of care, however, it did demonstrate non-inferiority. An incremental positive outcome was the study did demonstrate superiority on pulmonary strength, an important secondary endpoint. Given the mixed data made the stock is now a show-me story however a significant unmet medical need still exists and leaves open the possibility of approval in Q2:21. Novavax, a vaccine drug company whose stock more than doubled late January after it reported best-in-class COVID-19 vaccine efficacy from its UK clinical study. In February the stock weakened after the company disclosed a slight delay to the read-out of its very important US/Mexico clinical study from March to April that's needed for US approval. The other driving force is that the stock possessed a tremendous amount of momentum and in the last two weeks of February that factor fell out of favor. Iovance Biotherapeutics, a biotech company focused on cancer immunotherapy, which underperformed in the first quarter given its inclusion in the ARKG ETF which was battered on the market rotation out of growth.

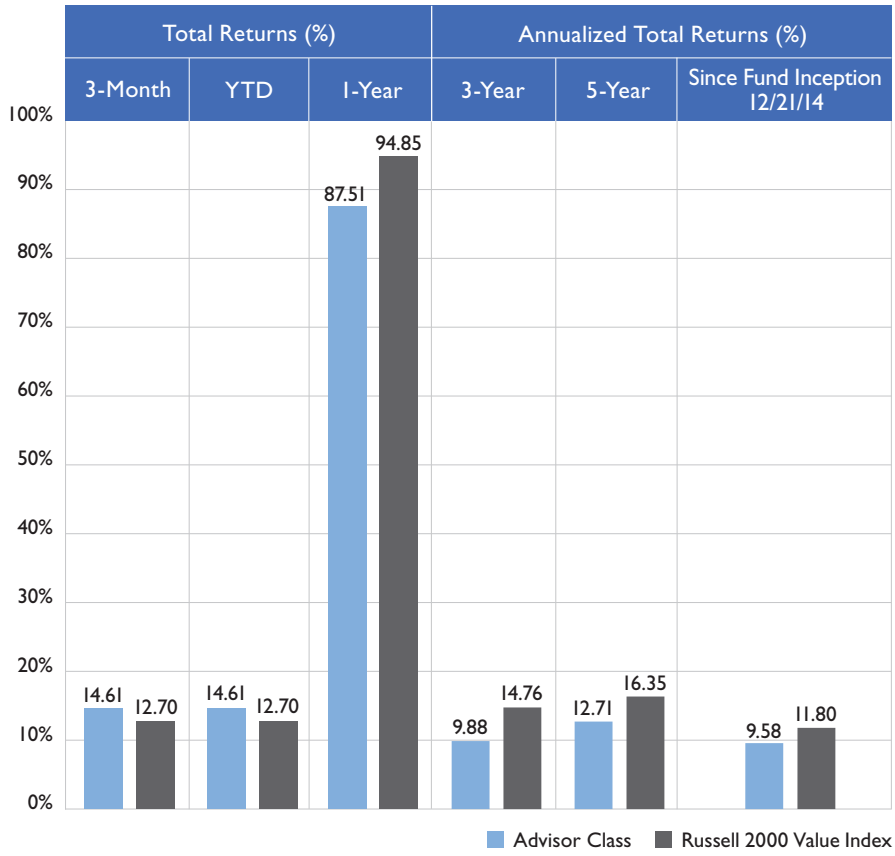
Market Outlook

There are many reasons to believe that the rotation to value will continue. Three key catalysts include better economic growth, higher interest rates, and a pickup in inflation. The vaccine rollout is pushing our economy to reopen and a year of pent-up demand is starting to be unleashed. The US is heading into recovery territory. Economic indicators like the PMI index are moving clearly into growth territory, with business and consumer sentiment indicators also moving higher. On top of this underlying momentum, the US is about to feel the effects from unprecedented levels of fiscal support by way of the Biden administration's $1.9 Billion stimulus package. As the economic backdrop continues to brighten and inflation expectations rise, yields have also moved higher. The 10-year yield seems positioned to move towards 2.00% sooner than many had anticipated.

There are notable obstacles to the US equity market, and, in some cases to the "value trade" that could potentially emerge. Any step backwards in vaccinating the population and containing the spread of COVID- 19 would be damaging to both the economy and the market. Another risk to assets includes significant and sustained inflationary pressures. While some inflation is okay, too much inflation curbs growth, diminishes purchasing power, and leads to interest rate shocks (and higher debt servicing costs). Excess capacity exists to absorb the pickup in economic growth, but there is always a risk of over-heating, especially when considering record low inventory levels and the large amounts of fiscal stimulus.

Over time, there has been a positive correlation between rising interest rates and the relative outperformance of value versus growth stocks. There are a few reasons why this relationship makes sense. First, as rates move up, long-duration growth becomes less attractive for investors. Next, as economic growth improves, growth also becomes less scarce and can be found not only in high-multiple, high-growth companies and industries, but also in more traditional value stocks like financials, industrials, and commodities-related businesses. Should the market continue to focus on finding value, investors usually start to look past the purely macro-economic beneficiaries to companies that demonstrate an attractive value proposition along with positive underlying fundamentals. We look forward to this continuing to taking shape as the importance of stock picking increases.

Advisor Class



Top-10 Holdings (%)	
Horizon Therapeutics Public Limited Company	2.00
Pinnacle Financial Partners, Inc.	1.99
Western Alliance Bancorp	1.74
Generac Holdings Inc.	1.72
Kohl's Corporation	1.69
Lithia Motors, Inc. Class A	1.64
American Eagle Outfitters, Inc.	1.52
Quanta Services, Inc.	1.51
Avaya Holdings Corp.	1.40
Performance Food Group Company	1.35

Returns reflect reinvestment of dividends and distributions. Advisor Class shares incepted on 1/11/16.The Fund acquired the assets of the Rothschild U.S. Small-Cap Core Fund (the Predecessor Fund) in a reorganization transaction on 1/11/16. The Fund's objectives (goals), policies, guidelines, and restrictions are substantially the same as those of the Predecessor Fund. The performance figures shown for Advisor Class shares of the Fund reflect the historical performance of the then-existing Institutional Class shares of the Predecessor Fund for periods prior to 1/11/16. The performance figures for periods prior to 1/11/16 have not been adjusted to reflect fees and expenses of Advisor Class shares of the Fund. If these returns had been adjusted, then performance for the share classes could vary from the returns shown based on differences in their fee and expense structures. The Institutional Class shares of the Predecessor Fund commenced operations on 12/31/14.

Net annual operating expenses for Advisor Class are 0.95% and total (gross annual) expenses are 1.34%. 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.

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All share classes may not be available at all firms and not all investors may be eligible for all share classes.

Definitions

One **basis point** equals 0.01%.

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

The **Russell 2000 Growth Index** measures the performance of equity securities of small-capitalization growth companies. It includes those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The R**ussell 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.

The **Purchasing Managers' Index** measures economic activity in the manufacturing and service sectors, used as an indicator of market conditions.

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.

About Principal Risks

All investing involves risk, including the possible loss of the principal amount invested. There is no guarantee that the Fund will achieve its investment goal. Indexes are unmanaged and cannot be invested in directly. Further, they hold no cash and incur no expenses. Equity securities tend to go up or down in value, sometimes rapidly and unpredictably, in response to many factors, including a company's historical and prospective earnings, the value of its assets, general economic conditions, interest rates, investor perceptions and market liquidity. Small- and mid-capitalization companies may be more susceptible to liquidity risk and price volatility risk and more vulnerable to economic, market and industry changes than larger, more established companies.

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