PACIFIC FUNDS

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SMALL/MID-CAP COMMENTARY

JUNE 30, 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**
PFDAX	133	PFPCX	333	PFMDX	033

Market Overview

Equity markets continued to move higher in the second quarter of 2021, but not at the double-digit rate experienced by some indexes in the prior three months. Large-cap stocks outperformed small-cap stocks for the quarter, but still trailed for the year. The rotation to value took a pause during the quarter in favor of large-caps, but for smaller companies, value still pulled ahead despite added volatility. The value trade has recently shown an exceptionally strong relationship to the slope of the yield curve. As the yield curve backed off from its highs following the April payrolls data miss, value stocks also lost some of their momentum. As investor concerns emerged over both the magnitude of growth slowing and the speed with which rates might move up, stocks with better perceived long-term growth outlooks regained interest.

Strength in equity markets reflected the rebounding economy as COVID lockdowns eased and large levels of government stimulus moved into the hands of U.S. households. As a result, U.S. consumer prices also increased, in many cases exacerbated by supply-chain disruptions as businesses worked to adjust to the surge in demand.

Many economic indicators were back to—or even beyond—pre-pandemic levels. For example, the Purchasing Managers' Index (PMI) moved higher this spring before settling back down more recently (though at still high levels). Retail sales also snapped back sharply as consumers searched for experiences outside the home. Home sales and home prices continued to move higher, even post-shutdowns, indicating the underlying optimism of the U.S. consumer.

Earnings growth at U.S. companies reached historically high levels in the second quarter, thanks largely to the vaccine rollouts. In the U.S., over two-thirds of the adult population have received at least one dose of the vaccine, resulting in very low levels of new cases. This progress adds greater certainty to the earnings growth picture as the likelihood of further shutdowns fades.

Fund Performance

In the second quarter, Pacific Funds Small/Mid-Cap (Advisor Class) returned 4.44% versus the Russell 2500® Index, which returned 5.44%. For the period, the fund underperformed the benchmark by 100 basis points (one basis point equals 0.01%).

Portfolio Review

Materials, information technology, and energy were the leaders for the fund during the quarter, while consumer staples, utilities, and financials were laggards. Sector allocation was slightly negative, with the headwinds from an underweight to consumer services and the fund's small cash position exceeding the tailwinds from an overweight to information technology and an underweight to utilities. Stock selection was weaker for the quarter and the main driver of performance, largely due to detractions from healthcare, consumer discretionary, and energy outpacing the effects of contributors in information technology, industrials, and materials.

On a stock-specific basis, the fund's largest relative contributors included Revolve Group, an apparel ecommerce company, which reported much stronger-than-expected results and pointed to continued improvement from the reopened economy. Sprout Social, a high-growth software company specializing in social media management, monitoring, and commerce, outperformed on better-than-expected quarterly results and guidance in mid-May. Sprout also benefitted from the broader recovery rally in growth stocks and from the highly anticipated Initial Public Offering (IPO)of peer Sprinklr (CXM), which likely has driven greater investor awareness of the social media management software

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space. American Eagle Outfitters, an apparel retailer, preannounced significantly better-than-expected quarterly results driven by continued secular growth trends at Aerie (its intimate and lounge brand), along with improvement at American Eagle. The company also benefited from strong merchandise margins given high demand and relatively low inventory driving higher levels of full-price selling.

Conversely, the fund's largest individual detractors included SkyWest, which underperformed as the airline sector has been weak due to weaker-than-expected job numbers, higher oil prices and labor costs. Penn National Gaming, a regional gaming operator, reported very strong first quarter results and preannounced above expectations for second quarter. However, the stock was still under pressure likely due to some profit-taking following strong stock performance in the first quarter and over the last year. AdaptHealth was pressured after its co-CEO, Luke Magee, was charged by Denmark with tax fraud on past private activities unassociated with the company. After an independent investigation commissioned by the AdaptHealth's board, Magee resigned, and the company's other co-CEO, Steve Griggs, was named sole CEO. Magee was integral to the company's successful business development activities, and, as a result, the stock sold off.

Market Outlook

With the growth picture comfortably improving, investor focus has homed in on a few key issues: the rate of inflation, the rate of growth and the Federal Reserve.

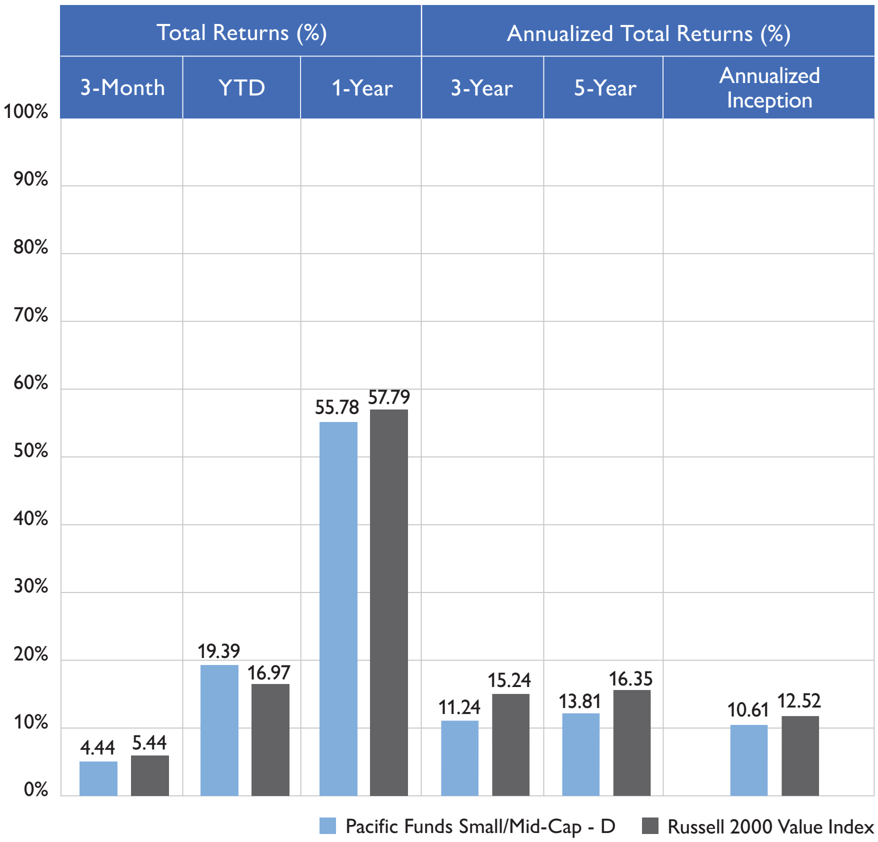
The first issue is whether the rise in inflation will be transitory (and for how long). While some inflation is considered healthy, too much inflation is seen as a headwind. Inflation caused by bottlenecks in the economy has shown signs of abating. Wage pressure, however, is one of the more concerning metrics to watch as it has more lasting effects of corporate profitability. Labor demand is high across many industries, and employers have had a difficult time luring back workers. Some of this pressure should abate as government payments decline, and workers transition back to the workforce.

The U.S. economy is clearly expanding, but signs are beginning to emerge that the speed in growth is slowing. Even if absolute levels of economic health remain at high, if the rate of growth slows too much at the margin, the market will most likely take notice.

The other critical issue is the yield curve and how the Federal Reserve reacts to an improving labor market and higher levels of inflation. The Fed is now talking about talking about tapering. Some economists believe this could start happening by the end of the year. The Fed is currently buying $80 billion in Treasury securities and $40 billion in mortgage-backed securities. We expect the Fed will take a measured approach to tapering in hopes of avoiding disruption to the fixed-income and equity markets. The additional step the Fed may take will be to raise short-term interest rates. The impact of these actions on the shape of the yield curve is uncertain, but the direction will most certainly be higher interest rates by yearend. The question remains: have we already experienced the steepest yield curve or will economic growth and asset-purchase tapering push the long end of the curve higher?

In terms of equity prices, valuations are high with the S&P 500 Index trading at over 20 times 2022 earnings. That said, stocks are still attractively priced versus bonds at this level. Continued improvement in economic growth will likely support corporate earnings and valuation levels. Interest rates that gradually move higher may prove positive for equities and even for stocks with attractive valuation characteristics. If inflation rises too high or interest rates move too dramatically, however, equity prices are at risk. We believe growth will likely continue, although at a more moderate rate than experienced this spring. As we move through these uncharted waters, we also believe that volatility could remain elevated. We view sentiment around the trajectory of bond yields as an important influence on equity markets and continue to monitor it very closely.

Advisor Class



Top-10 Holdings (%)	
Horizon Therapeutics Public Limited Company	1.95
Generac Holdings Inc.	1.91
Pinnacle Financial Partners, Inc.	1.90
American Eagle Outfitters, Inc.	1.65
Western Alliance Bancorp	1.64
Quanta Services, Inc.	1.49
Hancock Whitney Corporation	1.47
Jazz Pharmaceuticals Public Limited Company	1.46
First Horizon Corporation	1.39
Deluxe Corporation	1.38

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/Mid-Cap 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 0.98%. 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

The **Enterprise Value EV/EBITDA,** or Earnings Before Interest, Tax, Depreciation, and Amortization, is a measure of a company's profits before any of these net deductions are made.

The **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.

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.

Trade Value means the price per unit of a Product, multiplied by the quantity traded.

Yield Curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates.

One **basis point** equals 0.01%.

The **Russell 2500 Index** measures the performance of the small- to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 Index is a subset of the Russell 3000 Index.

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.

You cannot invest directly into an index.

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