PACIFIC FUNDS

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HIGH INCOME COMMENTARY

JUNE 30, 2021

SUB-ADVISED BY PACIFIC ASSET MANAGEMENT LLC

Class A		Class C		Advisor Class	
Ticker	**Fund Number**	**Ticker**	**Fund Number**	**Ticker**	**Fund Number**
PLAHX	112	PLCHX	312	PLHYX	012

Market Overview

Interwoven focal points of 2021's second quarter have been the patient policy of the Federal Reserve, continued fiscal support, volatility within the Treasury market, and the specter of aggressive COVID-19 variants amid vaccine administration. As an indicator of monetary response, some Federal Open Market Committee (FOMC) members at the Federal Reserve's June meeting expressed greater certainty than before that the U.S. economy would soon be fully back on track, which may create a need for interest-rate hikes earlier than previously thought. However, Fed Charmain Jerome Powell was more dovish, noting the U.S. was not at the "substantial further progress" standard that would trigger policy normalization. That said, the tapering of monthly asset purchases (Treasuries and mortgage-backed securities) from $120 billion will most likely be a topic of discussion in future meetings. Additionally, the Fed "dot plot" moved expectations for possible interest-rate hikes from 2023 to 2022, but Chairman Powell urged restraint in reading too much into these projections, counseling that uncertainty will remain elevated over the next two years. The Fed also reiterated its transitory view on inflation and appears to be attempting to look through the associated price volatility (i.e. lumber, autos, and COVID-related re-opening sectors). From a fiscal and governmental perspective, over $5 trillion has been injected into the economy since March 2020 in an effort to provide broad-based support in overcoming impacts related to the pandemic. Expectations remain for additional support as we move further along in 2021. As an ancillary effect of supportive rhetoric and continued easing, the Treasury market saw steepening on the front end of the curve while experiencing material flattening on the back end. Lastly, the COVID-19 pandemic remains a material concern, both domestically and globally. While substantial progress has been made in the fight against the virus, the risk of COVID-19 variants affecting the economic and market rebound resides.

Continuing to expand upon the annualized 6.4% U.S. GDP growth rate in the first quarter, the GDPNow tracker of the Atlanta Federal Reserve estimates, as of July 1, 2021, the second quarter annualized U.S. GDP growth rate will be 8.6%. This is supported by data prints of both the ISM Services and Manufacturing reports (both in excess of 60) remaining entrenched in near-record territory in the second quarter (above 50 is an indicator of expansion). However, there are challenges that need be overcome for further record-breaking prints to be seen (including the hiring of qualified workers, resolution of bottlenecks in supply chains, and sourcing of materials). An additional possible looming headwind to projected domestic growth is the emergence (on a transitory or longer-term basis) of inflation. While the Fed has previously stated it will allow inflation to "run hot" and reach an average 2% inflation target over time, there are worries the economy's rebound from the pandemic, in conjunction with loose monetary and fiscal policy, may have spurred larger and more immediate inflation than expected with consumer prices rising in May by 5% from a year ago. May's increase in the Consumer Price Index was the largest since August 2008, when the reading rose 5.4%. The Core PCE Price Index, which excludes the often-volatile categories of food and energy, jumped 3.8% in May from the year before—the largest increase since June 1992. The labor force is a pivotal player in the re-emergence of a stronger domestic economy. According to the Bureau of Labor Statistics, the unemployment rate ended the second quarter at 5.9% down slightly from 6% in the first quarter and down from 6.7% to start 2021.

Building upon the supportive risk environment reflected by the S&P 500's 6.17% first quarter return, the index posted a resounding 8.55% return in the second quarter. While there were speedbumps along the way, risk remained largely in favor as markets banked on the continuation of fiscal support and the role of the Fed acting as a backstop to help dampen market volatility. The investment-grade market (represented by the Bloomberg Barclays U.S. Aggregated Bond Index) rebounded amid rate activity, returning 1.83% from -3.37%

seen in the first quarter. The high-yield market (represented by the Barclays Bloomberg U.S. Corporate High Yield Index) reflected investor appetite for risk, returning 2.74%. The short end of the yield curve, as represented by the two-year U.S. Treasury note, steepened by 9 basis points, ending the period at 25 basis points. Meanwhile, the long end of the curve, as represented by the 30-year U.S. Treasury bond, flattened significantly by 36 basis points, ending at 2.06%. The 10-year U.S. Treasury yield ended the quarter at 1.45%, lower by 29 basis points from the first quarter. Whatever the future holds for the rest of 2021, it is likely a near certainty that further transparent conversations will be a requirement to the stabilization of the complicated relationship between the Fed, the markets, and their participants.

Asset Class Overview

Lower-quality, higher-yielding bonds benefited from continued monetary and fiscal support and a lower-rate environment. This resulted in the Bloomberg Barclays U.S. High-Yield 2% Issuer Capped Bond Index returning a strong 2.74% quarterly return, up from 0.86% in the first quarter. Spreads tightened by 42 basis points to end at 269 basis points—levels not seen since the first quarter of 2007. For context, the OAS of the index ended at 627 basis points in second quarter of 2020—over 350 basis points wider from the current level! Commodity- and REITs-related sectors led the index higher over the period, including Oil Field Services (11.24%), Independent (7.03%), Midstream (4.17%), Life (3.74%), Office-REITs (3.72%), and Retail-REITs (3.53%). Index laggards included Pharmaceuticals (-1.03%), Tobacco (0.88%), Refining (1.07%), Electric (1.40%), Paper (1.40%), and Packaging (1.54%). In-line with risk appetite and support, quarterly returns by credit quality were mixed, but largely led by lower-rated credits with Ca-D rated issuers returning 12.48%, and CCC, BB, and B rated issuers returning 3.49%, 2.85%, and 2.16%, respectively. The average index price ending the period at $105.29, up from $104.11 at the start of the quarter. After remaining above 4% in prior quarter, the index yield-to-worst fell by 49 basis points to end the second quarter at 3.76%. This marks the lowest yield-to-worst of the index since 1992. However, J.P. Morgan has revised down its high-yield bond default-rate forecast for 2021 from 2% to 0.65% due to modest default activity year-to-date, negligible distressed volume, wide access to capital markets, and a robust global economic recovery. Notably, 2021's revised forecast would be the lowest default rate for high-yield bonds since 2007. Historically, the long-term average default rates for bonds has been 3.6%.

Fund Performance

Pacific Funds High Income (Advisor Class) returned 2.52%, outperforming the Bloomberg Barclays U.S. High-Yield 2% Issuer Capped Bond Index return of 2.74%.

Portfolio Review

The economic backdrop remained broadly supportive for high-yielding credit in the second quarter. Option-adjusted spread for the high-yield index compressed from 3.11% to 2.69%, and the average price increased from 104.11 to 105.29 adding to coupon returns. CCC rated returned 3.49% outpacing BB (2.85%) and B (2.16%). The Energy sector posted strong total returns supported by the rising price of oil and led by Independent E&P and Oil Field Services. Fund positioning continued to reflect expectations for economic strength and reopening with higher-than-benchmark option-adjusted spread and a relative overweight to B and CCC. While credit selection was broadly positive, an underweight allocation to Independent Energy and Oil Field Services detracted from performance, as did a shorter-than-index duration of 3.3 versus 3.8 years. On a sector basis, Midstream, Food & Beverage, and Healthcare were notable relative contributors while Independent E&P, Oil Field Services, and Electric Utilities detracted. Kraft Heinz, HCA Inc, and Occidental Petroleum were among top individual relative contributors while detractors included Bausch Health, Talen Energy, and Diamond Sports Group. Other allocations contributing to positive relative returns included CLOs (3.7%) and Equity (1.2%). The fund held an average cash position of 1.39% during the quarter.

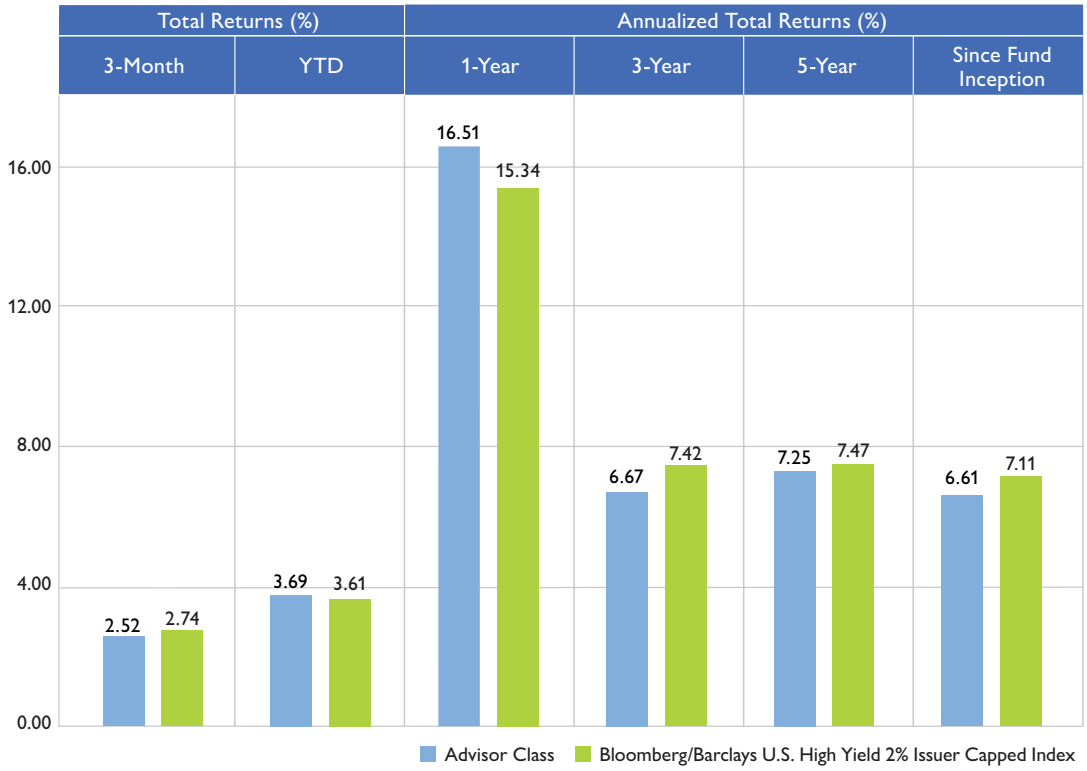
For performance data current to the most recent month-end, call Pacific Funds at (800) 722-2333 or go to PacificFunds.com/Performance. Performance data quoted represents past performance, which does not guarantee future results. Current performance may be lower or higher than the performance quoted. 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.

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

Manager Outlook

The good news is largely out: Pandemic metrics have improved overall, employment is growing, fiscal and monetary accommodation remain in place, and consumer spending remains strong. So, what comes next? With so much good news in the market, it's not surprising that spreads have continued to fall and demand for high-yield securities remains robust. While absolute spreads and yields are low, we view the market overall as reasonably priced considering expectations for very low defaults and solid economic growth going forward. Interest rates have surprised on the downside as investors have ignored the recent increase in inflation and pushed yields lower. We don't believe this is a strong signal of slowing economic growth in the quarters ahead, but it's nevertheless an interesting signal that we'll be watching. While the short-term outlook remains quite positive, we are also thinking about the longer-term implications of the debt that many companies have accumulated over the past year. While low rates have kept that new debt affordable, many companies will need to delever over time to be able to weather the next market downturn. Our investments today remain focused on consumer-driven sectors that are likely to benefit from high consumer-savings rates over the past year and the continued impact of economic stimulus. We continue to expect the U.S. consumer to rebound faster than those of many other countries. We currently see value in many manufacturing, packaging, aerospace, and select leisure companies. Market volatility is likely to moderate in the quarters ahead, and individual security selection should increasingly drive performance.

Advisor Class



Top-10 Holdings	Maturity	Weight (%)
HCA, Inc. 5.875%	2/01/2029	1.83
Allied Universal Holdco LLC 9.75%	7/15/2027	1.62
CSC Holdings, LLC 6.5%	2/01/2029	1.57
Ahern Rentals, Inc. 7.375%	5/15/2023	1.52
Springleaf Finance Corporation 7.125%	3/15/2026	1.42
CCO Holdings LLC 4.75%	3/01/2030	1.38
Albertsons Companies, Inc. 5.875%	2/15/2028	1.15
Community Health Systems, Inc. 6.625%	2/15/2025	1.11
Ford Motor Company 4.346%	12/08/2026	1.08
Standard Industries, Inc. 4.75%	1/15/2028	1.05
Total		**13.73**

Net annual operating expenses for Advisor Class are 0.70% and total (gross annual) expenses are 0.88%. The Fund's annual operating expenses shown above are effective 8/1/21 through 7/31/22. 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.

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Definitions

One **basis point** equals 0.01%.

The **Bloomberg Barclays U.S. 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 U.S. High-Yield 2% Issuer Capped Bond Index** measures the performance of high-yield bonds with a 2% maximum allocation to any one issuer.

Consumer Price Index is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living.

Core PCE Price Index is defined as personal consumption expenditures (PCE) prices excluding food and energy prices. The core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.

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.

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.

This commentary represents the views of the portfolio managers at Pacific Asset Management LLC as of 6/30/21 and are presented for informational purposes only. These views should not be construed as investment advice, an endorsement of any security, mutual fund, sector or index, or to predict performance of any investment. Any forward-looking statements are not guaranteed. All material is compiled from sources believed to be reliable, but accuracy cannot be guaranteed. The opinions expressed herein are subject to change without notice as market and other conditions warrant. Sector names in this commentary are provided by the Fund's portfolio managers and could be different if provided by a third party.

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Diversification does not assure a profit, nor does it protect against a loss in a declining market.

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