ULTRA SHORT DURATION INCOME COMMENTARY

PACIFIC FUNDS

JUNE 30, 2021

SUB-ADVISED BY PACIFIC ASSET MANAGEMENT LLC

Advisor Class		Class 1	
Ticker	**Fund Number**	**Ticker**	**Fund Number**
PLUDX	019	PLUIX	419

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

Short-duration investment-grade bonds, as measured by the Bloomberg Barclays U.S. 1-3 Year Government/Credit Bond Index, returned 0.04% in the second quarter of 2021, resulting in a year-to-date return of 0%. Broad pressures on the front end of the curve caused it to steepen over the period (1-month to 3-year rates all steepened). The credit portion of the index returned 0.23% while the government exposure returned -0.04%. The Bloomberg Barclays U.S. 1-3 Year Government/Credit Bond Index ended the quarter with an average price of $102.65, down slightly from the first quarter's $102.88. The yield-to-worst of the index inched higher over the second quarter to end at 0.34%, up from 0.30% to start the quarter. Some investors sought the relative insulation typically found on the shorter portion of the curve during a rising-rate environment. Accordingly, spreads in the second quarter tightened by 3 basis points to end at 7 basis points.

Fund Performance

Pacific Funds Ultra Short Income (Advisor Class) returned 0.28% versus the Bloomberg Barclays Short Treasury Total Return Index return of 0.00%.

Portfolio Review

Treasury rates with duration shorter than six months increased slightly following Federal Reserve comments in June indicating that rate hikes could occur sooner than anticipated. The rate move offset modest yield from short-duration Treasuries, leaving index returns flat for the quarter. Accelerating economic activity, lower levels of COVID transmission, and continued accommodative monetary and fiscal policy were supportive of credit assets and fund performance. The Bloomberg Barclays U.S. 1-3 Year Corporate Index, Bloomberg Barclays ABS Index, and the Credit Suisse Leveraged Loan Index returned 0.27%, 0.34%, and 1.44% respectively. Option-adjusted spreads across the investment-grade corporate yield curve declined for the quarter, with spreads in the 1-3-year range tightening by 10 basis points from 41 basis points. The fund's corporate credit exposure of approximately 73% was beneficial to returns across investment-grade corporate bonds (64.3%) and floating-rate bank loans (8.3%). Top sectors on a relative performance basis for the quarter included Banking, Electric Utility, and Leisure. Individual credit contributors included SeaWorld, United Rentals, Bank of America, and British Airways EETC (enhanced equipment trust certificates). Modest detractors on a sector basis included Paper and Brokerage/Asset Managers. Cox Enterprises was a notable individual credit detractor. 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, JP 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. Securitized asset exposure also contributed positively to performance. Asset-backed securities (ABS) allocation totaled approximately 22%, primarily consisting of high-quality assets such as AAA CLO (10.5%), auto ABS (3%) and student loan ABS (7.5%). The fund held an average cash position of 4.7%. Duration of 0.58 years was slightly higher than index duration of 0.34 years.

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

After posting one of the worst first quarters from a return standpoint in the past 40 years, investment-grade credit rebounded in the second quarter as both rates and credit spreads moved lower. The Barclay's U.S. Credit Index posted a positive 3.32% return for the second quarter. As rate volatility has been significant this year, spreads have only moved one way, lower. Investors continued to buy corporate bonds as the first quarter rate sell-off created an opportunity to own credit at higher-yielding levels. Spreads moved lower as a result, ending the second quarter 15 basis points lower from the start of the year. The interest-rate market will continue to be the story across the investment-grade landscape. It is yet to be seen whether economic growth and rising inflation levels can be sustained beyond 2021. The FOMC's interpretation of upcoming economic data and their meeting in Jackson Hole in August may give us a better picture as to how it sees the growth story playing out, including whether it needs to be as accommodative to risk markets as it has been since the outbreak of the pandemic.

We still subscribe to a positive economic growth outlook. And we expect corporate fundamentals to continue to improve overall. Service sectors, particularly in the harder hit "COVID sectors," should see outsized demand improvements, allowing for a higher degree of pricing power and increased free-cash flows. Many of these sectors have been at risk for further downgrades. We are seeing this pressure ease with expectations for fallen angels in 2021 to be limited, along with an increasing pool of rising-star candidates. While overall credit valuations are at historical tights making us a little more cautious overall, we are still finding value in lower-rated credits in sectors that should see fundamental improvement with the broader economic rebound. These sectors include cyclical Industrials, Aircraft Leasing, Leisure/Lodging and Gaming.

We continue to see an increase in M&A (mergers and acquisitions) activity as cheap financing and wide-open capital markets are allowing companies to grow through consolidation. So far, the credit market reaction to these events has been muted. Generally, rating agencies have been fine with the increase in debt issuance and leverage, expecting greater scale to allow for rapid debt paydowns. The new-issue discounts from these newly created combinations can create attractive opportunities for us to invest in. But, as we have seen in the past, this activity can also lead to large idiosyncratic credit deterioration as synergies and debt-reduction plans disappoint. We remain cautious on the Technology and Healthcare sectors due to valuations and increasing M&A activity.

Our expectation is for continued rate volatility as the market anticipates changes in Fed policy. As we look to keep sensitivity to rate volatility lower across our strategies, we have increased exposure to selected sectors of high-quality consumer ABS in AAA CLOs given their credit diversification. We have also increased exposure to floating-rate loans as the fundamentals picture remains positive and expected default levels drop.

As the country (and world) emerges from the COVID-19 health and economic crisis, we hope our clients, co-workers, friends and family are able to do so safely and prosperously.

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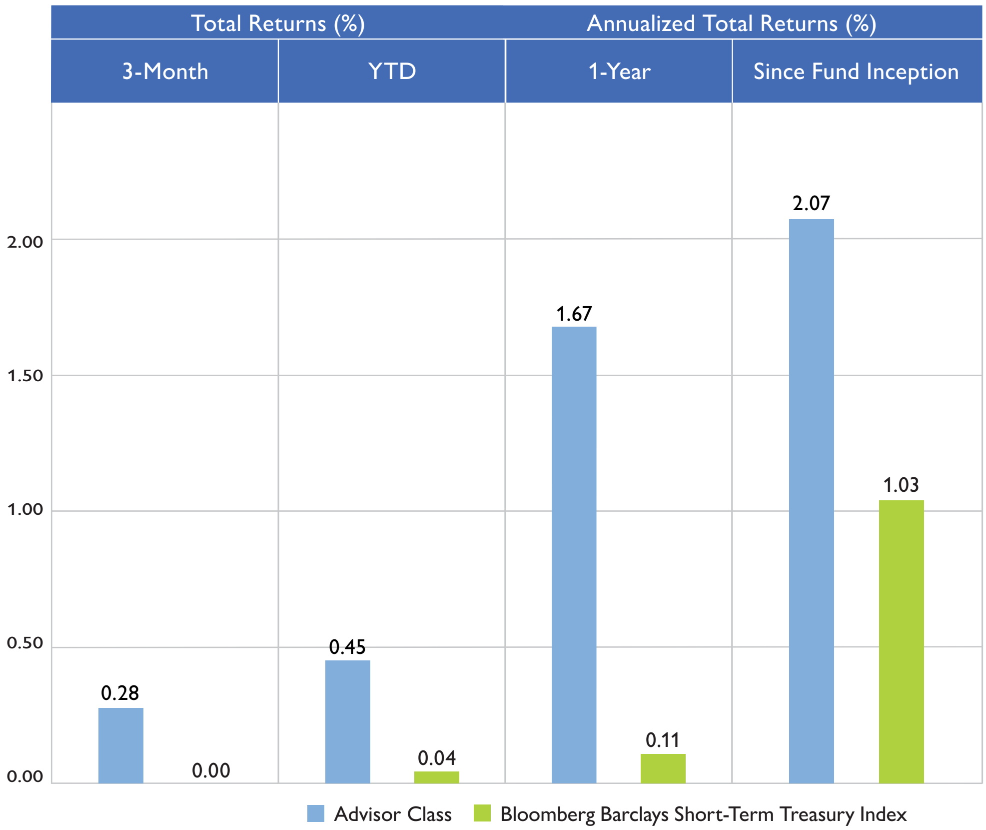
Advisor Class



Top-10 Holdings	Maturity	Weight (%)
JP Morgan Chase	4/23/2024	2.34
Honeywell International Inc.	8/19/2022	2.31
DTE Energy Company 2.25%	11/01/2022	1.59
Morgan Stanely	5/08/2024	1.57
Athene Global Funding	7/01/2022	1.56
Bank of America Corporation	4/22/2025	1.56
Siemens Finance N.V.	3/11/2024	1.55
UBS AG London Branch	2/09/2024	1.55
SEB Group	9/01/2023	1.55
Goldman Sachs Group, Inc.	11/17/2023	1.55
Total		**17.14**

Net annual operating expenses for Advisor Class shares are 0.33% and total (gross annual) expenses are 0.68%. 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. Corporate 1-3 Year Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market with 1-3 year maturities

The **Bloomberg Barclays U.S. Credit Index** measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets.

The **Bloomberg Barclays 1–3 Year U.S. 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 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. 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 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.

The **Credit Suisse Leveraged Loan Index** is designed to mirror the investable universe of the U.S. senior secure-credit (leveraged-loan) market.

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.

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.

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.

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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