PACIFIC FUNDS

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SMALL-CAP VALUE COMMENTARY

SEPTEMBER 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**
PFEAX	138	PFHCX	338	PFFDX	038

Market Overview

The case for equities continues to be generally favorable from both a relative value and earnings perspective despite high absolute valuation levels across most indexes. Versus bonds, equities are still attractive given the low-interest regime of the last decade. Earnings estimates have recovered relative to April 2020 with 2021 estimates for the S&P 500 Index already at post COVID-19 levels. 2022 earnings growth is expected to show high single-digit gains. This combination of healthy forward earnings, even if not at the recovery rates experienced during 2021, and attractive valuation levels versus other asset classes is positive. However, investors are also digesting the potential impacts of higher inflation to growth and profits, as well as the change in Federal Reserve policy. These elements have caused a lot of volatility in leadership over the last 12 months between cyclical and growth stocks.

Corresponding to the earnings recovery of the past year, economic indicators such as the Purchasing Managers' Index (PMI) continue to stay at record-high levels for both the U.S. and most developed economies. Early-cycle sectors have performed well in light the improving economic picture. Over the past year, industrials, energy, financials and segments of consumer have all seen a sharp performance recovery. Although of note is that the rate of growth is expected to moderate. Yet, if the actual indicators remain in expansionary mode, the environment should remain supportive. Thus far, no alarming dips have been experienced, even with the COVID-19 Delta variant disruptions. Supply-chain troubles, however, have led to some unmet demand and higher prices. Should they continue or worsen, growth could be more meaningfully compromised. In fact, September saw several U.S. retailers and consumer product companies lower earning guidance due to these bottleneck issues.

Along with economic indicators, the inflation picture and yield curve have played an important and influential role not just on the direction of equity markets, but also on actual market leadership. Inflation has been running hot in the U.S. Supply-chain bottlenecks are largely responsible for the surge in prices for many goods and services. In addition, wages have also moved higher, which could have a more lasting impact on corporate profitability. Fortunately, the latest data points have seen inflation numbers start to slightly ease. The ultimate direction of inflation will be critical as it also sets the tone for Fed policy going forward. Some inflation will be tolerated, especially if it helps growth. Too much inflation will prove damaging to profit margins, economic growth and the speed with which the Fed will look to both reign in quantitative easing and start increasing rates. Therefore, we continue to monitor inflation levels, along with other economic indicators, to see if it should prove to be more than transitory in nature.

Fund Performance

In the third quarter, Pacific Funds Small-Cap Value (Advisor Class) returned -1.98% versus the Russell 2000 Value Index return of –2.98%. For the period, the fund outperformed the benchmark by 100 basis points.

Portfolio Review

Materials, financials, and energy were the leaders for the fund during the quarter, while consumer discretionary, healthcare, and information technology were laggards. Sector allocation was a modest boost to performance, with the tailwinds from underweights to communication services and healthcare exceeding the headwinds from an underweight to real estate and an overweight to consumer discretionary. Stock selection was strong for the quarter, and the main driver of performance with contributors in materials,industrials, and financials outpacing the effects of detractors in consumer discretionary, healthcare, and information technology.

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.

On a stock specific basis, the fund's largest individual contributors included: Herc Holdings, an equipment rental company, that unveiled a very positive investor update and increased guidance well above estimates. The company is accelerating growth and capital-return plans. The business has scaled sufficiently for margin expansion toward peer levels. Substantial deleveraging provides the business significant flexibility to invest in fleet growth, initiate a dividend, engage in accretive acquisitions, and repurchase stock. Alcoa Corporation, an aluminum producer, benefited from strong demand for aluminum across consumer, auto, industrial, and aerospace end markets. Supply has also tightened as China continues to reign in supply on concerns about elevated energy costs and the environmental impact of highly polluting aluminum smelters. The net effect is strong positive revisions to Alcoa's expected earnings power and free cash-flow reflected in consensus estimates. Atkore, an electrical equipment and components company, continues to benefit from strong residential demand for products such as PVC, driving higher prices, as well as a resurgence in non-residential demand for Atkore's product suite selling into data centers, hospitals, and utility scale solar developments. 2022 estimates continue to move higher as investors price in additional durability of a recovery. Despite strong trends, the stock's valuation multiples remain attractive relative to peers.

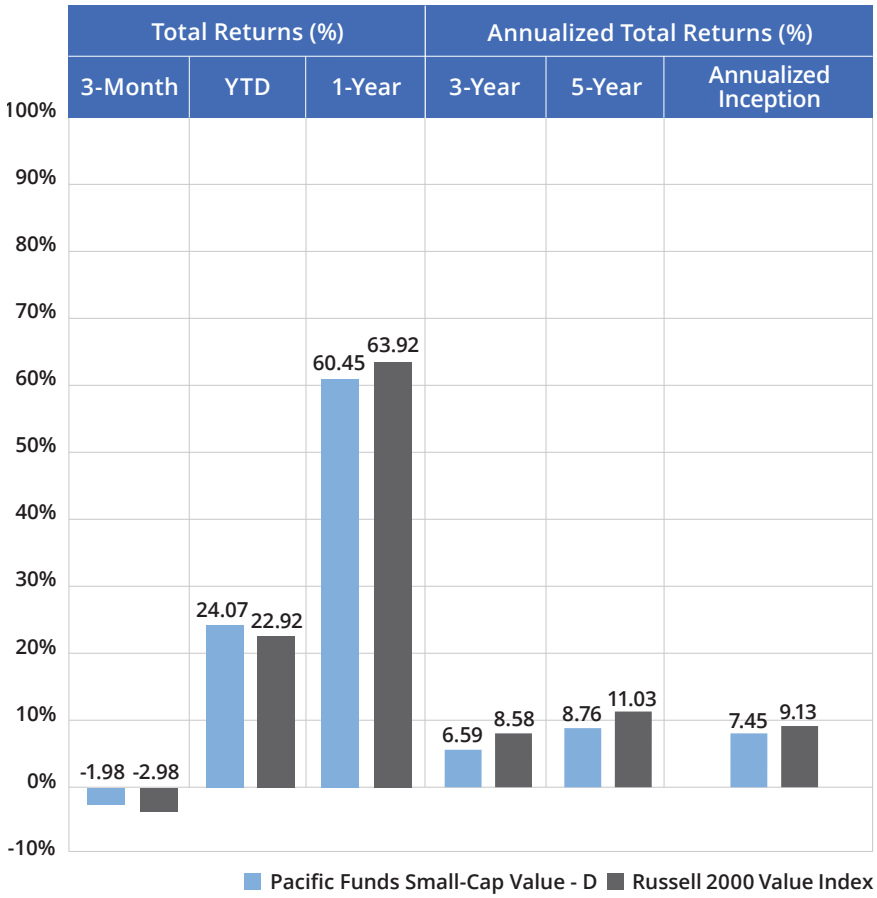
Conversely, the fund's detractors included: American Eagle Outfitters, an apparel retailer, that reported mixed quarterly results with modestly below expectation sales but higher margins and earnings versus forecasts. The sales miss was primarily due to the street not properly adjusting for changes in the back-to-school calendar. The company also pointed to supply-chain and freight-related headwinds in the second half of the year. However, it expects merchandise margins to offset such pressure and operating profit to be above prior guidance, but in-line with current consensus estimates. We remain constructive on the stock as the combination of significant growth potential of Aerie along with sizable margin expansion and earnings power of its American Eagle brand seems to position the company well for the future. Protagonist Therapeutics, a development-stage biotech company, performed well following promising interim ph2 data for its lead drug candidate, Rusfertide, for the treatment of polycythemia vera (PV), a rare blood disease with blockbuster sales potential of more than $1 billion. However, the company later reported the FDA was placing further Rusfertide clinical development trials on hold after a mouse rasH2 safety trial showed a tumorigenicity signal, both benign and malignant subcutaneous skin tumors were observed. The company also reported four cancer cases in its ph2 human studies, but it's unclear that, after two years in the trial, the patient cases are a result of drug treatment or just natural cases. In many instances the FDA and investigational companies in similar instances have been able to find a resolution forward. Big Lots, an off-price hardline retailer, reported modestly lower-than-expected sales and earnings along with lower-than-expected guidance, driven by a combination of inventory availability and elevated supply-chain costs. We believe such pressures will abate overtime, and the company is very well positioned with several growth and margin-accretive initiatives, including store growth, omnichannel investments, increased closeouts and various supplier/markdown/promotional optimization tools.

Market Outlook

Despite some near-term divergence in the market-cap spectrum with respect to growth and value, there continues to be a lot of volatility around style leadership. As a result, equity investors are watching the yield curve given its tight relationship to market leadership.

Should yields continue to inch higher into year-end and 2022, value stocks could see a more productive backdrop as long duration growth becomes more expensive. Conversely, should yields retreat and growth slow, long-duration growth could continue to outperform. With a level of uncertainty ahead surrounding leadership, we are looking to achieve a level of balance across our equity strategies. We are, therefore, exposed to both attractively priced cyclical companies with idiosyncratic appeal along with secular growers with long-term staying power.

Advisor Class



Top-10 Holdings (%)	
U.S. Dollar	2.86
Magnolia Oil & Gas Corp. Class A	2.47
Brigham Minerals, Inc. Class A	2.09
Portland General Electric Company	2.06
Pinnacle Financial Partners, Inc.	1.87
ConnectOne Bancorp, Inc.	1.82
Hancock Whitney Corporation	1.74
Herc Holdings, Inc.	1.62
United Community Banks, Inc.	1.61
Advansix, Inc.	1.61

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 1.61%. 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.

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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%.

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 **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 **Russell 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 **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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