PACIFIC FUNDS

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PORTFOLIO OPTIMIZATION MODERATE COMMENTARY

SEPTEMBER 30, 2021

MANAGED BY PACIFIC LIFE FUND ADVISORS LLC

Class A		Class C		Advisor Class	
Ticker	**Fund Number**	**Ticker**	**Fund Number**	**Ticker**	**Fund Number**
POAAX	141	POACX	341	PLCDX	041

Market Review

Large-cap growth stocks continued their upward momentum over the third quarter of 2021. Falling interest rates helped the interest-rate-sensitive stocks, while the flattening yield curve dragged the financial sector. Emerging markets suffered from its exposure to Chinese stocks, which have been battered by the Evergrande debt crisis. Investors had compared Evergrande's situation to the Lehman Brothers fallout, which heightened concerns of contagion.

Within fixed income, higher inflation expectations amid still-ample monetary support continued to push Treasury Inflation-Protection Securities (TIPS) and high yield to outperform the broader Bloomberg Barclays US Aggregate Bond Index. On the other hand, with the Federal Reserve keeping the fed funds rate anchored, short-term bonds lagged the broader fixed-income market.

Fund Performance

The fund returned -0.73% during the third quarter of 2021 and 19.29% for the trailing 12-month period (Class A at NAV).

Performance Review

The domestic equity group slightly lagged the S&P 500 Index in the third quarter but outperformed it over the 12-month period. While small-cap value contributed solidly to performance over the trailing 12-month period, our overall value tilt detracted from performance over the third quarter as investors continued to pivot into defensive growth stocks. PF Multi-Asset also contributed positively over the 12 months.

International equities as a group moderately underperformed the MSCI EAFE Index over the third quarter and the trailing 12 months. Overweight to emerging markets dragged performance over the third quarter and trailing 12 months. Additionally, PF Emerging Markets underperformed its benchmark over both periods, which also detracted from performance.

The broad fixed-income lineup performed well relative to the Barclays US Aggregate Bond Index over the trailing 12 months. Our overweights to bank loans, high yield and TIPS were strong contributors to performance for the quarter and over the trailing 12 months. Outperformance from PF Managed Bond also contributed positively over the trailing 12-month period.

Outlook

As we head into the final quarter, there are several items up in the air. The Fed has held steady with its interest-rate policies despite the pickup in inflation, suggesting supply-chain disruptions were causing a transient rise in inflation. Much of this supply-chain disruption is caused by semiconductor-chip shortages.

This shortage in chips has continued for more than a year and is not expected to be resolved soon. The auto industry has had to deal with temporary shutdowns and, as a result, is producing much fewer vehicles. Chip supply was expected to bottom out earlier in the year; however, a recent surge in COVID-19 cases caused a new round of plant closures that halted chip production in countries such as Malaysia.

While vaccine progress continues among Americans, the Delta variant has caused active cases to surge once again in recent months, including in the U.S.

Once again, investors rotated into Big Tech names. The lack of strong growth for traditional businesses and U.S. households now dealing with the Delta variant has favored a few dominant companies and sectors such as U.S. large-cap growth stocks, leading to extremely high valuations for many of the tech giants.

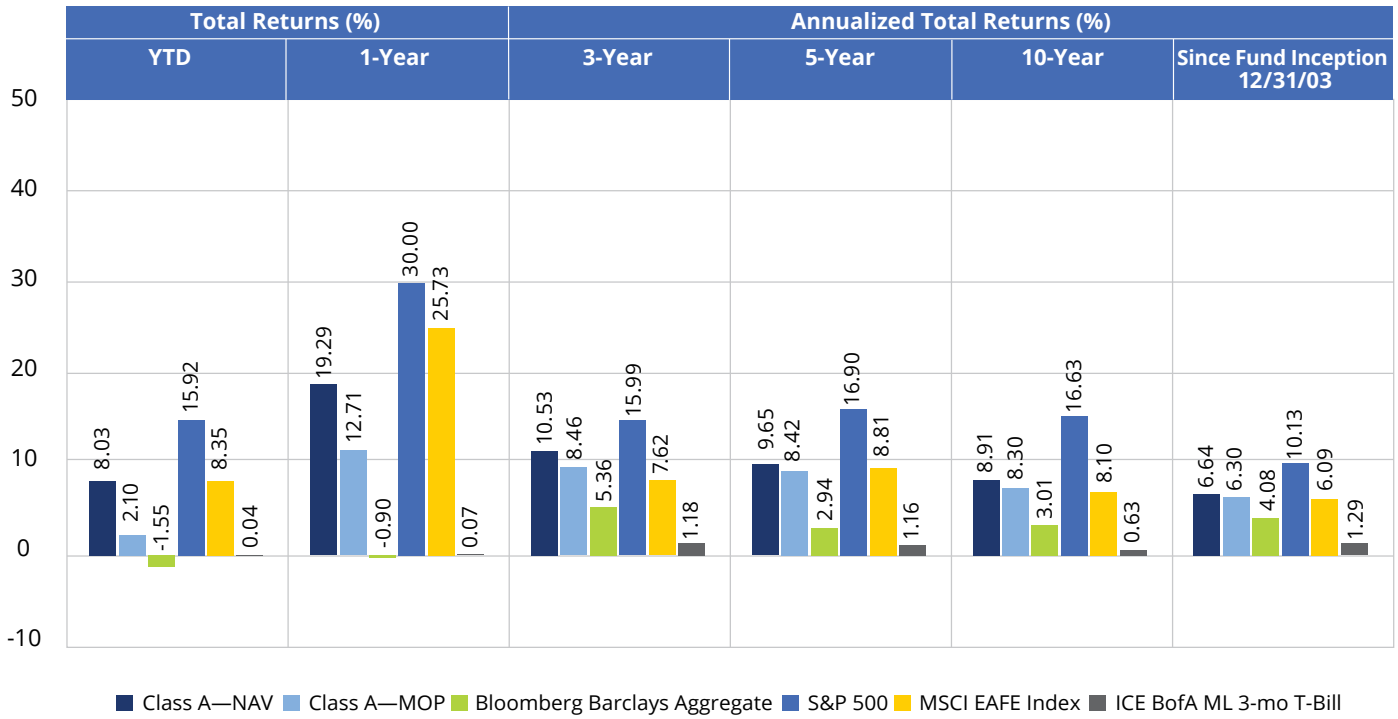
For performance data current to the most recent month-end, call Pacific Funds at (800) 722-2333 or go to PacificFunds.com/Performance. Performance data quoted represents past performance, which does not guarantee future results. Current performance may be lower or higher than the performance quoted. 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. Net annual operating expenses for Class A are 1.22% and total (gross annual) expenses are 1.26%.

Another large headwind for many financial institutions was the low interest rates that have hurt their profitability. Although the Fed anticipates keeping interest rates low through 2022, price multiples on many of these smaller regional banks appear to be considerably more attractive compared to their larger growth-focused counterparts. This is particularly true as politicians have increased scrutiny over the tech giants and begun to show more empathy toward smaller companies.

The Fed is likely to stick close to its plans related to interest rates and the eventual tapering of its $120 billion per month asset-purchase plan. The Fed suggested that it may start this gradual tapering at its meeting in early November. As the Fed slows its Treasury buying, the yield curve may begin to steepen, which should be a tailwind for financials.

While the reflation trade took a breather, we believe both value and small caps look attractive and could come back in favor.

Total Returns–Class A



Returns shown at net asset value (NAV) have all distributions reinvested. Returns shown at maximum offering price (MOP) for Class A shares reflect payment of the maximum sales charge of 5.50%. When a sales charge is illustrated, it is applied at the beginning of the period.

Net annual operating expenses for Class A are 1.22% and total (gross annual) expenses are 1.26%. Returns reflect reinvestment of dividends and distributions. 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.

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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Indexes are unmanaged and cannot be invested in directly. Further, they hold no cash and incur no expenses.

Definitions

The **Bloomberg Barclays US Aggregate Bond Index** is composed of investment-grade U.S. government and 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 **MSCI EAFE Index** is designed to measure the equity-market performance of developed markets in Europe, Australasia, and the Far East.

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.

The **S&P Small Cap 600 Value Index** is a stock market index established by Standard & Poor's. It covers roughly the small-cap range of American stocks, using a capitalization-weighted index.

Treasury Inflation-Protected Securities (TIPS) are a type of Treasury security issued by the U.S. government. TIPS are indexed to inflation in order to protect investors from a decline in the purchasing power of their money.

About Principal Risks: There is no guarantee the Fund will achieve its investment goal. Asset allocation and diversification do not guarantee future results, ensure a profit or protect against loss. Although diversification among asset classes can help reduce volatility over the long term, this assumes that asset classes do not move in tandem and that positive returns in one or more asset classes will help offset negative returns in other asset classes. There is a risk that you could achieve better returns by investing in an individual fund or multiple funds representing a single asset class rather than using asset allocation. A fund-of-funds does not guarantee gains, may incur losses and/or experience volatility, particularly during periods of broad market declines, and is subject to its own expenses along with the expenses of the underlying funds. It is typically exposed to the same risks as the underlying funds in which it invests in proportion to their allocations.

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Mailing address:
P.O. Box 9768, Providence, RI 02940-9768
(800) 722-2333 • www.PacificFunds.com

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