PACIFIC FUNDS

PACIFIC FUNDS℠

PORTFOLIO OPTIMIZATION MODERATE COMMENTARY

SEPTEMBER 30, 2022

MANAGED BY PACIFIC LIFE FUND ADVISORS LLC

Class A		Class C		Class I-2	
Ticker	**Fund Number**	**Ticker**	**Fund Number**	**Ticker**	**Fund Number**
POCAX	143	POMCX	343	POMDX	043

Market Review

Equity markets continued to fall over the third quarter of 2022 with the S&P 500 Index down 4.88% for the period. Growth stocks fared better than value stocks, while small-caps outperformed large-caps over the third quarter. Domestic equities outperformed foreign stocks, particularly emerging markets. China continued to drag performance, as its zero-Covid lockdowns have hindered economic activity.

Within fixed income, short-duration bonds held up much better than their longer-duration counterparts, as yields spiked over the third quarter. Bank loans were among the best performing asset class, due to their floating rate adjustment feature.

Fund Performance

The fund returned -4.93% during the third quarter of 2022 and -20.72% for the trailing 12-month period (Class A at NAV).

Performance Review

The domestic equity group lagged the S&P 500 Index in the third quarter and the 12-month period. Over the trailing 12-month period, our large-cap value exposure contributed to performance, while our allocation to small-caps was a larger detractor to performance. Furthermore, PF Multi-Asset detracted from performance for both periods.

International equities as a group underperformed the MSCI EAFE Index over the third quarter and the trailing 12-months. Our exposure to emerging markets hurt performance over the third quarter and the trailing 12-months. Additionally, PF Emerging Markets considerably underperformed its benchmark over the trailing 12-month, although it has improved over the third quarter. Furthermore, PF International Value and PF International Small-Cap outperformed their benchmarks over the trailing 12-month period, which helped offset the detractors.

The broad fixed-income lineup outperformed the Bloomberg US Aggregate Bond Index over the third quarter, but it slightly underperformed over the trailing 12-months. Our overweight to short duration bonds and bank loans were strong contributors to performance for the quarter and over the trailing 12-months. However, underperformance from PF Managed Bond detracted from performance for the quarter and the trailing 12-months. The exposure to emerging market bonds held back performance, but the outperformance of PF Emerging Markets Debt helped performance over the trailing 12-months.

Outlook

Taming inflation continues to remain the Federal Reserve's priority as the central bank has been aggressively raising rates after failing to address inflationary pressures earlier. Although we may have reached peak inflation, slowing it down has been a difficult task for the Fed and other central banks. High inflation has been a global phenomenon that's weighing on consumer sentiment and growth.

Most global central banks have joined the Fed in a fight against inflation, which has had rippling effects through financial markets and the global economy. The recent era of cheap liquidity, which lasted though the worst of the pandemic, looks to be coming to an end. Now, higher borrowing costs will likely dampen investments, hiring and consumption.

The housing market has been particularly vulnerable to the aggressive rate hikes, although the limited supply of homes may prevent housing prices from coming down too much. Higher interest rates have led to higher mortgage rates, which have hammered home sales. Although the housing market may seem to be in a recession, the overall U.S. economy should be able to avoid a sharp slowdown because of relatively

Past Performance is not indicative of future results. *Returns reflect reinvestment of dividends/distribution. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. Performance current to the most recent month end may be found at www.PacificFunds.com/performance or by calling 1-800-722-2333. The investment advisor has contractually agreed to limit certain expenses and reevaluates them annually. Please see the current prospectus for detailed information. Net/Gross annual operating expenses for Class A are 1.26% and 1.23%.*

healthy corporate balance sheets. One caveat could be if the Fed hikes interest rates even more aggressively than expected. This could happen if inflation doesn't come down quickly enough or there is a shock stemming from more geopolitical upheaval.

The war in Ukraine has had a significant impact on inflation, particularly food and energy. Europe is particularly vulnerable to a prolonged war in Ukraine as it had depended on Russian gas. Russia's latest escalation in the war further complicates the market outlook. Russian President Vladimir Putin has ordered the mobilization of approximately 300,000 more troops and warned of nuclear force to any threat to Russia's territory.

Despite the global challenges, U.S. consumer spending had been resilient earlier this year, supported by savings. However, those savings from government aid have dwindled as consumers racked up credit card debt. Credit card debt in the U.S. has surged over the past year as high inflation dug into savings.

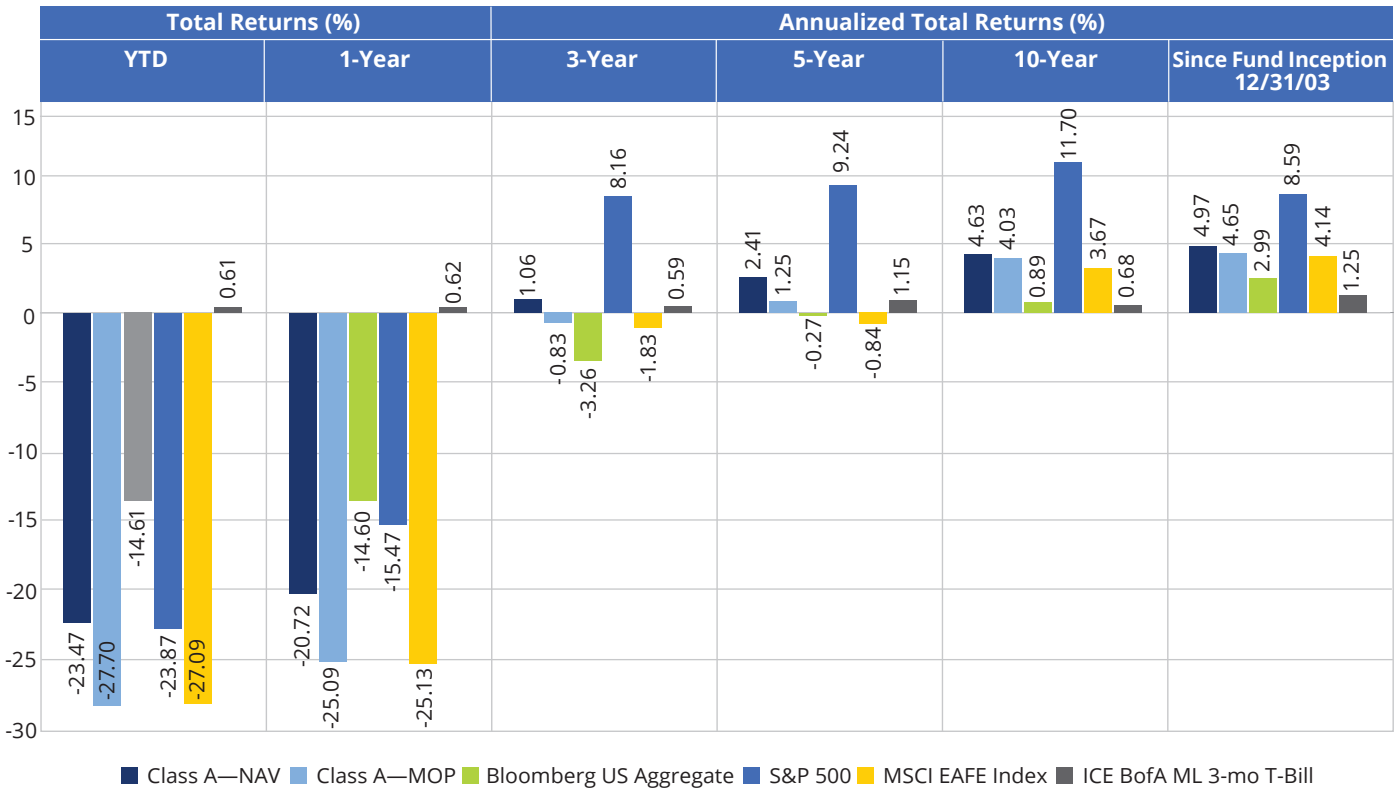
Furthermore, interest rates on credit cards have risen as the Fed tightened monetary policy. This environment has been particularly challenging for those who live paycheck to paycheck and spend most of their earnings on necessities such as housing, food, and gas.

So far, companies have maintained solid profit margins despite paying more for labor and input costs. This is because corporations have benefited from robust revenue growth due to unusually high pricing power. This situation may change as consumers temper their spending. As a result, companies will likely pare back hiring and capital spending. Employment conditions have been leveling off as hours worked for manufacturing jobs have started to fall. The Fed anticipates unemployment rate will rise to roughly 4.4% next year. Furthermore, higher borrowing costs will likely discourage investments into new equipment and factories.

The market expects Fed Chair Jerome Powell and other voting members to opt for another 75-basis-point hike in November, followed by another 50-basis-point hike by yearend. Furthermore, the Fed anticipates that it will continue raising rates into 2023. This means that the likelihood of a soft landing for the economy will diminish with each additional rate hike.

To date, the Fed has opted for forceful and rapid steps to moderate demand to align with supply. A year ago, the median expectation for the fed funds rate was below 1% by the end of 2022. Now, the fed funds rate is expected to surpass 4% by the yearend. The Fed made the mistake of reacting to a booming economy too late. Hopefully, they don't make another one on the other end by tightening too much, too late.

Total Returns–Class A



Past Performance is not indicative of future results. *Returns reflect reinvestment of dividends/distribution. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. Performance current to the most recent month end may be found at www.PacificFunds.com/performance or by calling 1-800-722-2333. The investment advisor has contractually agreed to limit certain expenses and reevaluates them annually. Please see the current prospectus for detailed information. Net/Gross annual operating expenses for Class A are 1.26% and 1.23%.*

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.

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.

Definitions

The Bloomberg 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.

MFC0657-0922W
PF-20221012-0816

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

PACIFIC FUNDS