PACIFIC FUNDS

PACIFIC FUNDS℠

SMALL-CAP VALUE COMMENTARY

SEPTEMBER 30, 2022

SUB-ADVISED BY ROTHSCHILD & CO ASSET MANAGEMENT US INC.

Class A		Class C		Class I-2	
Ticker	**Fund Number**	**Ticker**	**Fund Number**	**Ticker**	**Fund Number**
PFEAX	138	PFHCX	338	PFFDX	038

Market Overview

A generational cycle of inflation continued to weigh heavily on market sentiment and asset prices during the third quarter. These inflationary pressures have forced the hands of the Federal Reserve and other Central Banks to tighten monetary policies and drain the unprecedented liquidity required during the COVID-19 pandemic at rates perceived by investors as destabilizing. U.S. equities were not the sole asset class to experience drawdowns during the quarter, as correlations increased across many asset classes, including in the perceived "safety" trades such as Treasuries. Large market capitalization stocks, as measured by the S&P 500 Index, declined for the third quarter in a row, a feat not experienced since the Global Financial Crisis. Adding insult to injury, the tail risks from a global crisis brewing in Russia-Ukraine have grown under the banners of nuclear threats and annexation. What was once thought of as a regional dispute has grown into a potential existential threat. Putting all of this together, the market backdrop has grown more complex than usual, and one that seems destined to be largely influenced by macro factors for the foreseeable future.

During the third quarter, U.S. large-cap stocks led the move lower, along with international and emerging markets. Despite weak equity markets, riskier segments of the U.S. market outperformed, including microcap and small-cap growth indices. While value took a back seat to growth stocks during the third quarter, value stocks across all size segments have declined by a smaller magnitude year-to-date.

Dispersion in sector performance continued to play out in the third quarter. Energy was the best preforming sector across the market-cap spectrum, increasing its leadership position for the year-to-date period. Real estate and communication services were among the worst-performing sectors. Healthcare saw a large dispersion in performance between large-cap and small-cap indices, due to the very strong performance of small cap biotechnology stocks, which rebounded after a weak start to the year. For the year-to-date period, defensive sectors such as consumer staples and utilities continued to lead, along with energy, technology, and many of the economically sensitive sectors, were among the worst performers, reflecting mounting concerns over higher interest rates and slower economic growth.

Fund Performance

In the third quarter, Pacific Funds Small-Cap Value (Class I-2) returned -6.01% versus the Russell 2000 Value Index return of -4.61%. For the period, the fund underperformed the benchmark by 140 basis points (one basis point equals 0.01%).

Portfolio Review

For the quarter, the Rothschild & Co US Small-Cap Value Strategy underperformed the Russell 2000 Value Index on a gross-of-fees basis, resulting from stock selection. From a stock-selection standpoint, the largest detractors to relative performance were healthcare, basic materials, and energy, while manufacturing, financial services, and consumer services were the main contributors.

On a stock specific basis, the fund's largest contributors included Infrastructure & Energy Alternatives, Inc., an engineering and construction firm focused on utility-scale renewable energy installations, which was acquired by Mastec (MTZ), another engineering and construction company. The takeout mirrored our view of the company's unjustified discount to peers following improved execution, capital structure, and margin performance of the renewables business. The $14-per-share takeout offer implied a 35% premium to the undisturbed company share price in late July, prior to the announcement. Revance Therapeutics, Inc., a biopharma company focused on dermatology and aesthetic therapies, reported in-line Q2 results. However, the company reported the closure of prior outstanding FDA citations related to the manufacturing facility

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that was withholding the FDA approval of its BOTOX-like product (i.e., DAXI). The FDA later approved DAXI on Sept. 8. Hostess Brands, Inc. Class A, a packaged food company, reported inline earnings and maintained forward expectations including positive trends in price and volume. The company continues to deliver against low expectations and continues to trade at a discount to peers. It has optionality to make accretive acquisitions or repurchase shares given recent deleveraging, and there are many levers for revenue upside given new product innovation and expanded distribution synergies.

Conversely, the fund's largest individual detractors included Spectrum Brands Holdings, Inc., a holding company with exposure to pet supplies, lawn and garden, and household appliances, which was weak following the Department of Justice lawsuit to block its pending sale of its Hardware & Home Improvement business unit, which will significantly enhance shareholder value. The company and the acquirer have publicly defended the transaction and are confident in the successful completion. With, at worst case, a $350 million break-up fee in the event of no deal, lots of optionality around additional portfolio simplification, and a very compelling valuation, it creates a favorable set-up. The stock of Argo Group International Holdings, Ltd., a specialty insurance company, declined after a series of updates that reduced its profitability outlook. We subsequently sold the stock as a result. The company will take a charge for a reinsurance agreement to cover prior year liabilities, but some overhang from reserve risk remains. In addition, despite exploring strategic alternatives, the company appears likely to pursue a longer-term remediation plan. Arconic Corp., a value-added aluminum manufacturer, issued weaker-than-expected preliminary Q3 guidance, citing unforeseen operational issues at two U.S. manufacturing plants and "hyperinflationary energy costs" in Europe, which weakened European demand and increased the company's input costs. Full-year guidance was cut by 12%; its stock fell by over 25% in the next week, suggesting additional damage in the form of valuation multiple contraction. The company backtracked on previous statements regarding the short-term benefit from working capital reduction due to lower aluminum prices (an input); despite near-term headwinds, the company's long-term earnings power appears unchanged.

Market Outlook

Can the Federal Reserve orchestrate a soft landing of the U.S. economy while balancing the need to restore credibility around inflation? The answer to this question will likely determine if U.S. equities are buying opportunities at the current levels, since the health of the economy will largely influence the corporate-earnings front. To this point, the signals have been mixed. Employment trends will be the key determinants, as consumer spending represents roughly 70% of the U.S. economy. Through August, the U.S. economy had added just over 430,000 jobs per month on average in 2022, or three times the pre-pandemic run rate. Corporations have continued to hoard labor due to prior shortages, while reshoring actions (moving manufacturing to the U.S.) have been aiding trends as well. No doubt, U.S. consumers have been challenged by the rising prices on necessities, but confidence in employment status is also an important component of discretionary spending. On the flipside, higher interest rates have impacted the housing market, while purchases of many durables have seemed to have slowed following above-trend buying during the pandemic. In major overseas markets, which represent roughly one-third of revenues for the S&P 500 companies, economic trends have been mixed, but biased to the downside as Europe has faced an energy crisis and Asia deals with intermittent COVID-19 shutdowns, among other idiosyncratic headwinds.

While corporate earnings have proved relatively resilient to macro uncertainty for much of 2022, cracks have been beginning to form across a more diverse group of end markets. Prior to quarter's end, a number of global economic proxies reported or pre-announced worse-than-expected earnings. Companies such as Dow Chemical, Federal Express, Micron Technology, Carnival Cruise Lines and Nike confirmed the less-constructive corporate profit backdrop, which should likely be a tell-tale sign for the broader Q3 earnings reports, in our view. Currency has been certainly a material headwind for our large-cap companies, following the roughly 20% appreciation of the U.S. dollar this year, but the weakness has appeared to be more broad-based, with higher input costs affecting most and demand destruction being more industry-specific. Importantly, for U.S. equity investors, we believe downward revisions to earnings estimates need to take place before a baseline can be established and market sentiment can rebuild off extreme negative levels.

Fear-driven markets have proven in the past to be good opportunities to upgrade the portfolio quality at reasonable valuation multiples. Following the 20%-plus drawdown in U.S. equities, the valuation multiple of the S&P 500 has declined to below 16x forward earnings, a level that seems neither overly expensive nor cheap, versus the past 10-year median of 17x. Of course, that comes with the caveat of one's conviction in 2023 corporate earnings and the discount rate investors place on long-term cash flows, which are highly dependent on the actions of the Federal Reserve. Importantly, underneath the surface of this market uncertainty lie individual stocks that have likely overcorrected relative to their long-term growth and return profiles. We believe that identifying those individual stock and crafting diversified and balanced portfolios are the most effective ways to generate consistent alpha for our clients across market cycles.

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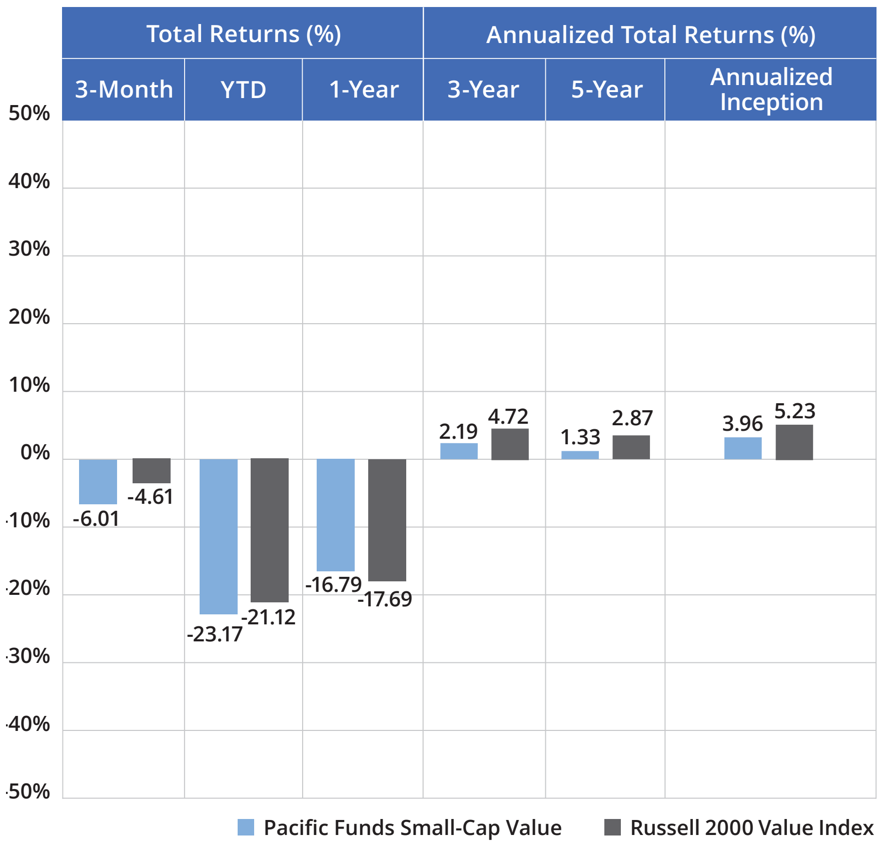
Class I-2



Top-10 Holdings (%)	
Unitil Corporation	2.64
Hostess Brands, Inc. Class A	2.25
Portland General Electric Company	2.23
Hancock Whitney Corporation	2.04
SP Plus Corporation	2.02
Selective Insurance Group, Inc.	2.00
United Community Banks, Inc.	1.95
Cadence Bank	1.69
Hillenbrand, Inc.	1.64
QCR Holdings, Inc.	1.64

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Class A and Class I-2 shares incepted on 1/11/16. The Fund acquired the assets of the Rothschild U.S. Small-Cap Value 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 Class A and Class I-2 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 Class A and Class I-2 shares of the Fund, respectively. 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.

All share classes may not be available at all firms and not all investors may be eligible for all share classes.

Definitions

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 stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States. It is one of the most commonly followed equity indices.

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

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