PACIFIC FUNDS

PACIFIC FUNDS℠
HIGH INCOME COMMENTARY

SEPTEMBER 30, 2022

SUB-ADVISED BY PACIFIC ASSET MANAGEMENT LLC

Class A		Class C		Class I-2	
Ticker	**Fund Number**	**Ticker**	**Fund Number**	**Ticker**	**Fund Number**
PLAHX	112	PLCHX	312	PLHYX	012

Market Overview

Amid the challenges of sustained inflation, broken supply chains, geopolitical conflict, slowing domestic growth, strained housing markets, and aggressive global central-bank action, historical index returns are being rewritten to the downside. The blunt response of the Federal Reserve (Fed) has confirmed its resolve to lower inflation via increasing rates, even at the risk of a recession and declining demand. As the Fed attempts to not repeat previous reactive policy responses over the last 50 years, it may be ignoring what the markets and numerous economic inputs have been indicating.

Real gross domestic product (GDP), as reported by the Bureau of Economic Analysis, declined for the second quarter of 2022 by 0.6%. This marks the second consecutive quarter of negative GDP prints. Real disposable income (personal income adjusted for taxes and inflation) decreased by 1.5%, along with the personal savings rate. With consumer spending accounting for nearly 70% of GDP, negative changes in consumer behavior are noteworthy. Furthermore, gross domestic purchase prices (the prices of goods and services purchased by U.S. residents) increased 8.5% in the third quarter. Additional economic headwinds include domestic home prices and new home starts battered by a historic increase in mortgage rates. Per the St. Louis Fed, the 30-year fixed-rate average mortgage in the U.S. at quarter-end was nearly 7%. The last time mortgage rates were over 7% was 20 years ago. While still above recessionary levels, both the Institute for Supply Management Manufacturing PMI and Services PMI contracted over the quarter, indicating potential headwinds on a granular level. Details within the monthly ISM reports reference headwinds, including managing employee headcount, navigating supply-chain disruptions, and pricing-power concerns. However, at this point, employment has remained broadly insulated. The national unemployment rate is 3.7%, but we are seeing limited wage growth pressure.

To squash elevated inflation, central banks have been responding in a coordinated fashion via increasing key interest rates. The Bank of England (BOE) recently raised its rate by 50 basis points to the highest level in 14 years. This marks the seventh straight rate move higher by the BOE as it tries to balance borrowing costs with rising food and energy prices. The European Central Bank (ECB) greeted markets with a 75-basis-point hike for the 19 countries that are Euro dependent, along with a commitment to continue on its rate tightening path. Not to be excluded, the Reserve Bank of Australia and the Bank of Canada both implemented robust increases over the quarter.

Stateside, the theme of elevated inflation fed by an imbalance between supply and demand, and supply-chain deterioration remained top of mind in several of Fed Chairman Jerome Powell's recent comments. Chair Powell has acknowledged that the Fed's goal of engineering a "soft landing" (where it would be able to slow growth and reduce the worst inflation in the last 40 years without triggering a recession) is becoming more unlikely. What is gravely concerning is that a blunt instrument is being used in hopes that its results are surgical. To this point, Chair Powell stated, "No one knows whether this process will lead to a recession or, if so, how significant that recession would be." "We have got to get inflation behind us," Chair Powell said. " … I wish there were a painless way to do that. There isn't." In September, the FOMC has performed its third straight 75-basis-point rate hike, leaving the short-term key rate at 3-3.25%—its highest level since 2008. Additional rate hikes have been projected over the remaining months of 2022 that may bring the year-end rate closer to 4.5% (100 basis points higher than the June projection for year-end levels) with further hikes expected in 2023. Notably, for the Fed to halt its rate advancement, Chair Powell said he would have to see "continued slow growth, a modest increase in unemployment, and clear evidence that inflation is moving toward the 2% target."

Markets continued to undergo a repricing through the previously mentioned challenges. Risk-based assets, as represented by the S&P 500 Index, returned -4.89% in the third quarter and -23.88% year-to-date. Fixed-income markets have continued to be battered by persistent rate volatility. The

return of the investment-grade bond market (represented by the Bloomberg US Credit Index) was markedly negative for the quarter and year, returning -4.95% and -18.07%, respectively. The high-yield bond market (represented by the Bloomberg US Corporate High Yield 2% Issuer Cap Index) has performed better in the third quarter, returning -0.64% but -14.73% year-to-date. The short end of the yield curve (represented by the two-year U.S. Treasury bond) continued to steepen as the Fed increased rates, rising 120 basis points and ending the period at 4.12%. Meanwhile, the long end of the curve (represented by the 30-year U.S. Treasury bond) moved 59 basis points, ending at 3.73%. The 10-year U.S. Treasury yield ended the quarter 69 basis points higher, ending at 3.67%.

Asset Class Overview

The Bloomberg US High Yield 2% Issuer Capped Bond Index returned a tepid -0.64% in the third quarter. This follows previous first and second quarterly returns of -4.82% and -9.84%, respectively. The total return of the high-yield index year-to-date was -14.73%, marking the worst year-to-date return through nine months in the history of the index. The year-to-date return exceeds the comparable period seen in 2008 (-10.08%). On the positive, yields have increased to levels last seen in February 2016 (excluding pandemic-impacted April 2020) and, before that, October 2011 and November 2009. The yield-to-worst of the index ended the quarter at 9.69%, up from 8.91% the prior quarter and 4.21% to start 2022. Spreads actually tightened over the quarter by 16 basis points to end at 553 basis points. However, spread levels are 270 basis points wider from the start of the year at 382 basis points. Counter to previous quarters, lower quality outperformed higher quality credits over the quarter, as BB rated credits returned -0.72%, single Bs returned -0.66% and CCC rated bonds returned -0.42%. Additionally, BB, B, and CCC rated bonds yielded 7.78%, 10.23%, and 15.22%, respectively, at quarter-end. Index duration ended the quarter at 4.11 years.

Per J.P. Morgan, high-yield bond issuance in the third quarter was a benign $18.9 billion, resulting in the lightest amount since the first quarter of 2009. As such, high-yield gross, refi, and non-refi issuance year-to-date totals were only $90 billion, $44 billion, and $46 billion, respectively. As a comparable, the past decades' low for high-yield gross, refinancing, and non-refi issuance was in 2018 at $187.4 billion, $114.1 billion, and $73.3 billion, respectively. Additionally, per J.P. Morgan, the U.S. high-yield bond default rate (including distressed exchanges) ended the quarter at 1.57%, the highest level since June 2021. J.P. Morgan has forecasted a year-end 2022 high-yield bond default rate of 1.85% and a 2023 default rate of 2.25%, 50 basis points higher than prior forecasts.

Fund Performance

Pacific Funds High Income (Class I-2) returned -1.06% versus the Bloomberg US High Yield 2% Issuer Capped Bond Index return of -0.64%.

Portfolio Review

Credit selection was the primary detractor from quarterly relative performance. Higher interest rates continued to pressure fixed-rate fixed-income securities. The yield on 2-year and 5-year Treasuries increased by 130 and 105 basis points, respectively. High-yield option-adjusted spreads tightened by 16 basis points overall but widened by 61 basis points for the CCC rated component. BB, B, and CCC returned -0.70%, -0.66%, and -0.42%, respectively. On a sector basis, retailers, media and entertainment, and cable and satellite were relative performance contributors. Technology, gaming, and healthcare sectors detracted. Individual credit contributors included Comstock Resources and Oregon Tool. Ahern Rentals, Boyd Gaming, and Avaya were among individual credit detractors. Exposure to collateralized loan obligations or CLOs (5.32%) and investment-grade corporate bonds (4.78%) detracted from quarterly relative results, while allocations to floating-rate bank loans (1.42%) and Equities (0.26%) were beneficial. Portfolio duration of 4.0 years remained below the index duration of 4.07 years and was a positive return contributor. The fund had an average cash position of 3.31%.

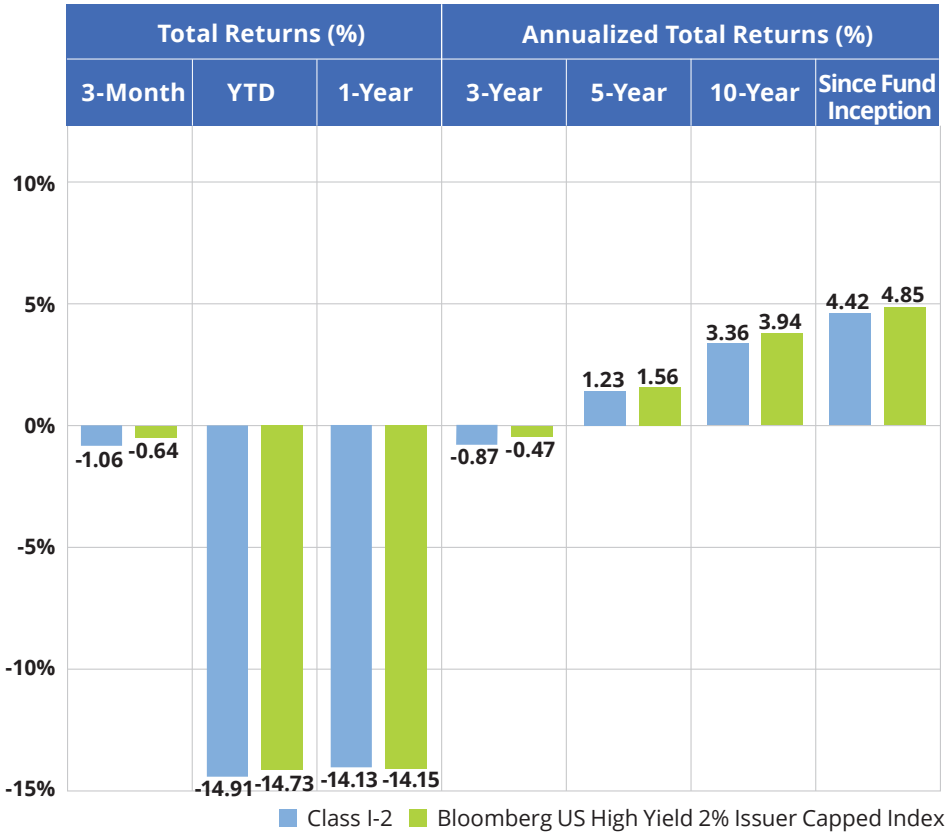
Past Performance is not indicative of future results. *Returns reflect reinvestment of dividends/distribution. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher 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 the annually. Please see the current prospectus for detailed information.*

Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest).

Manager Outlook

We view potential yields in excess of 9% as attractive and are selectively adding risk in this context. However, significant challenges remain. From a big picture standpoint, the challenges are numerous: higher interest rates, high inflation, slowing economic growth, continued supply-chain disruption and the Russia-Ukraine War, among others. We believe aggressive Federal Reserve policy risks tipping the economy into recession in the medium term and we are focusing our investments on companies we believe can perform decently in a declining demand environment. Despite those concerns, the U.S. benefits from very strong employment, high absolute savings amounts, and benefits from the substantial wealth creation that has occurred in the past couple of years. Achieving balance between those negatives and positives may likely continue to drive higher-than-normal volatility in the coming quarters. Importantly, for the portfolio, we view the underlying health of the companies we lend to as still quite positive. While earnings have slowed and continue to weaken, they continue to be within levels necessary to support the capital structures. There are exceptions that will drive the overall market default rate higher, but we anticipate overall defaults to stay close to historical levels (after a long period of well-below-market default rates). Our investments remain focused on consumer-driven sectors that are likely to benefit from continued high spending and pent-up demand for services curtailed during the pandemic. We currently see value in select manufacturing, packaging, aerospace, and leisure companies.

Class I-2



Top-10 Holdings	Weight (%)
CCO Holdings LLC 4.75%	1.71
Allied Universal Holdco LLC 9.75%	1.45
Boyd Gaming Corporation 4.75%	1.40
Albertsons Companies, Inc. 5.875%	1.36
CSC Holdings, LLC 6.5%	1.29
Transdigm UK Holdings Plc 6.875%	1.28
Standard Industries, Inc. 4.75%	1.19
Ford Motor Company 3.25%	1.19
Sensata Technologies, Inc. 4.375%	1.17
Ahern Rentals, Inc. 7.375%	1.13
Total	**13.18**

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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

One **basis point** equals 0.01%.

The **Bloomberg 1–3 Year US 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 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 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 US 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 US 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 US Credit Index** measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes non-US agencies, sovereigns, supranationals and local authorities.

The **Bloomberg US Corporate High Yield Bond Index** measures the USD-denominated, high yield, fixed-rate corporate bond market.

The **Bloomberg US High-Yield 2% Issuer Capped Bond Index** measures the performance of high-yield bonds with a 2% maximum allocation to any one issuer.

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.

The **ISM Non-Manufacturing Purchasing Managers' Index (PMI)** (also known as the **ISM Services PMI**) report on Business, a composite index is calculated as an indicator of the overall economic condition for the non-manufacturing sector.

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.

Yield to worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting.

Investing involves risk. Principal loss is possible. 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.

This commentary represents the views of the portfolio managers at Pacific Asset Management LLC as of 9/30/22 and are presented for informational purposes only. These views should not be construed as investment advice, an endorsement of any security, mutual fund, sector or index, or to predict performance of any investment. Any forward-looking statements are not guaranteed. All material is compiled from sources believed to be reliable, but accuracy cannot be guaranteed. The opinions expressed herein are subject to change without notice as market and other conditions warrant. Sector names in this commentary are provided by the Fund's portfolio managers and could be different if provided by a third party.

Investors should consider a fund's investment goal, risk, charges and expenses carefully before investing. The prospectus contains this and other information about the fund and can be obtained at www.PacificFunds.com. It should be read carefully before investing.

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Diversification does not assure a profit, nor does it protect against a loss in a declining market.

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