PACIFIC FUNDS

PACIFIC FUNDS℠

PORTFOLIO OPTIMIZATION GROWTH COMMENTARY

MANAGED BY PACIFIC LIFE FUND ADVISORS LLC

DECEMBER 31, 2022

Class A		Class C		Class I-2	
Ticker	**Fund Number**	**Ticker**	**Fund Number**	**Ticker**	**Fund Number**
PODAX	144	PODCX	344	PMADX	044

Market Review

Equity markets rebounded over the fourth quarter of 2022 with the S&P 500 Index up 7.56% for the period. Value stocks fared better than growth stocks, while large-caps modestly outperformed small-caps over the fourth quarter. International equities outperformed domestic stocks, as China started to open its economy after its restrictive zero-COVID policy.

Within fixed income, core bonds held up modestly better than their shorter-duration counterparts. Emerging-market debt had significant returns over the quarter. Bank loans also fared well due to their floating-rate adjustment feature amid the Federal Reserve's rate-hike cycle.

Fund Performance

The fund returned 7.72% during the fourth quarter of 2022 and -19.77% for the trailing 12-month period (Class A at NAV).

Performance Review

The domestic equity group outperformed the S&P 500 Index in the fourth quarter but underperformed it over the 12-month period. Over the trailing 12-month period, our large-cap value exposure contributed to performance, while our allocation to real estate and growth detracted from performance. Furthermore, PF Multi-Asset detracted from performance over the trailing 12-month period, although it contributed positively over the quarter.

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

The broad fixed-income lineup outperformed the Bloomberg US Aggregate Bond Index over the fourth quarter and the trailing 12-months. Our exposures to bank loans and short-term bonds were strong contributors to performance 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

Fighting inflation continues to remain the Federal Reserve's top concern heading into 2023, as the central bank has been aggressively raising rates after failing to address inflationary pressures earlier. On the positive side, much of the Fed's aggressive moves have already been made, and progress has been made in its fight against inflation. Nonetheless, this fight will likely end with some casualties, as we will likely see a Fed-induced recession, though we believe it will be a mild one.

Inflation became an issue following the surge in demand for goods during the pandemic, as people were forced to stay indoors and began upgrading homes and buying goods for their dwelling. This surge caused clogs and shortages in the supply chain, causing prices to rise. Supply-chain conditions have improved since; however, consumer demand has shifted to the services side. People have been travelling, shopping, and eating out more frequently, which created another problem since there has been a labor shortage in those industries.

There are various reasons for this shortage of workers. For starters, many people have yet to return to the workforce after being sidelined by the pandemic. Some have chosen to retire as wealth has been accumulated over the last several years,

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despite the losses seen over 2022. Immigration policies have also become more restrictive, which may have contributed to the recent rise in wage inflation. In fact, the largest wage growth in 2022 was seen for generally younger workers who had less than a high school diploma. In other words, the shortage of available workers in these services industries has contributed to inflation.

Furthermore, the ongoing war in Ukraine has continued to keep gas and food prices elevated, which has been particularly challenging for Europe. Given the Ukrainian's progress in regaining parts of its territory, the country is unlikely to surrender to Russia anytime soon. Both Russian and Ukrainian officials say they may be ready to talk, but their terms for sitting down at a negotiation table suggest there is little hope for realistic peace talks anytime soon. Both sides seem determined to resolve their issues on the battlefield. As Russian oil sanctions kick in, we're likely to see energy prices remain elevated.

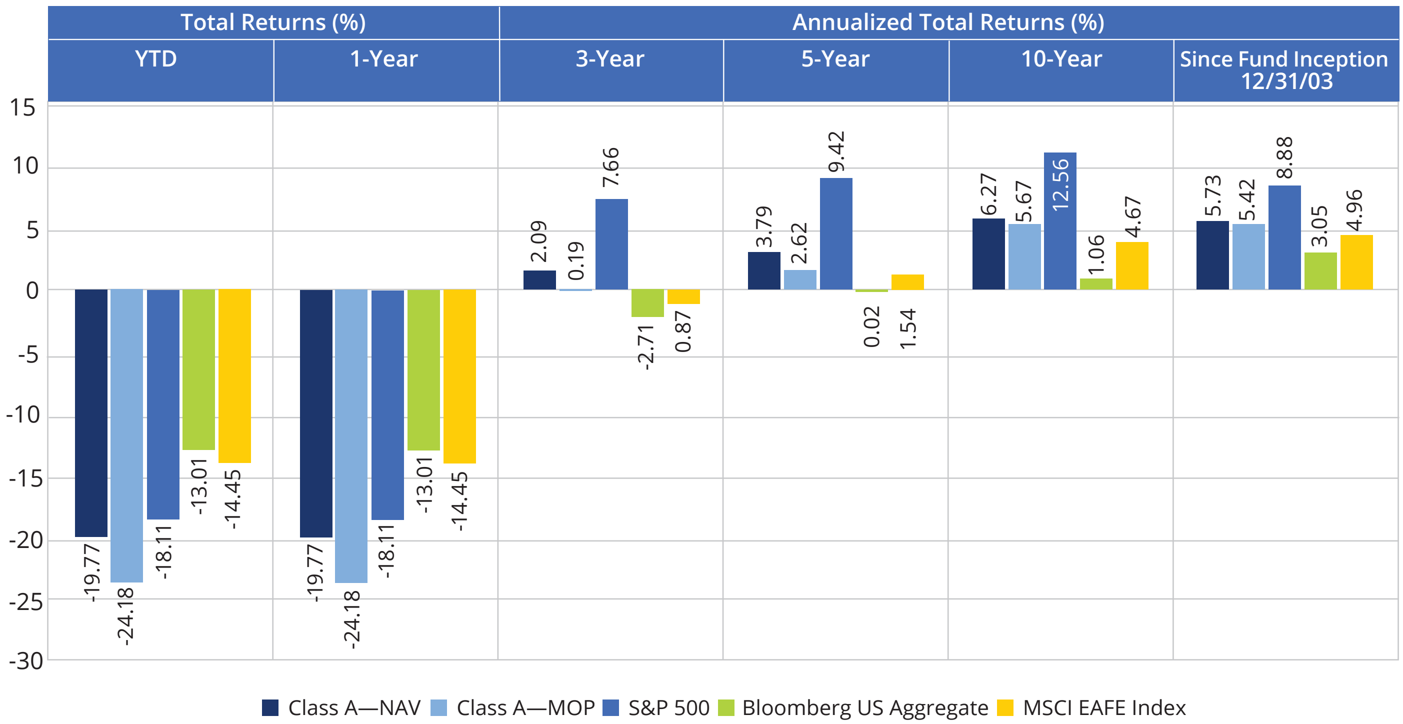
All of these factors make the Fed's job even more complex as it attempts the elusive soft landing of the economy, where inflation cools off and the economy slows down but avoids a recession. So far, the aggressive rates hikes have already slowed the U.S. housing market, as higher mortgage rates have priced many people out of the market. Although the housing market may seem to be in a recession, the overall U.S. economy should be able to avoid a deep recession because of relatively healthy corporate balance sheets and employment conditions. One caveat could be if the Fed hikes interest rates 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.

With the target fed fund rate at 4.5%, the Fed may be about two to three more 25-basis-point hikes from reaching its terminal rate of 5.1%. The question is how much the economy can handle. So far, delinquency rates remain low and have been on a downward trend.

So far, companies and consumers have been able to handle these interest-rate hikes, but that's because companies have benefitted from strong consumer spending. Eventually, higher borrowing costs will likely discourage investments into new equipment and factories. As companies pare back hiring and capital spending, consumer confidence may wane as well as earnings and profit margins may weaken. 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% this year.

As the Fed clearly indicated it's not done raising rates, we should anticipate further deterioration in the economy. This has been among the longest awaited recessions as many anticipate one to hit sometime in the first half of the year. This will likely mean markets will remain volatile until the Fed is done hiking rates, which could happen by the second half of the year or sometime next year, depending on how inflation plays out.

Total Returns–Class A



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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.

Investing involves risk. Principal loss is possible. 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.

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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