PACIFIC FUNDS

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SMALL/MID-CAP COMMENTARY

DECEMBER 31, 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**
PFDAX	133	PFPCX	333	PFMDX	033

Market Overview

2022 is a year most investors will want to forget. With inflation rates running at more than three times the long-run comfort level of consumers and investors, few asset classes were spared during the Federal Reserve's aggressive monetary tightening campaign to restrain runaway prices. Asset correlations ran high against the backdrop of central bank monetary tightening and the related withdrawal of liquidity that was a staple of the markets during the 2020-21 pandemic relief efforts. While the U.S. equity market staged a recovery in Q4, the rally wasn't enough to offset the impact of higher interest rates on equity valuations and full-year returns. On a relative basis, large-cap, value-oriented stocks were the best place to hide for equity investors during 2022. Nonetheless, these perceived safe havens did not provide full protection against the market drawdown.

For the year, U.S. value indices offered the best protection across equity markets around the world.

Growth indexes suffered the most, with drawdowns approaching 30%, mostly due to their larger exposure to the technology and communication services sectors that experienced significant price corrections during 2022. Energy was a notable bright spot for both U.S. small-cap and large-cap stocks in Q4, and it was the only sector to post meaningfully positive returns.

Fund Performance

In the fourth quarter, Pacific Funds Small/Mid-Cap (Class I-2) returned 9.54% versus 7.43% for the Russell 2500. For the period, the Fund outperformed the benchmark by 211 basis points (one basis point equals 0.01%).

Portfolio Review

For the quarter, Pacific Funds Small/Mid-Cap outperformed the Russell 2500 Index, mainly due to strong stock selection. This was partially offset by sector allocation as cash, underweight in basic materials, and slight overweight in technology were modest headwinds. The solid stock selection was driven by strong above-expectation earnings and other positive idiosyncratic drivers, along with our bias toward higher quality. The market seemed to favor our type of stocks–ones with higher profit metrics, discounted valuations, and lower volatilities.

On a stock specific basis, the fund's largest individual contributors included Horizon Therapeutics Public Limited Company, a biopharma company focused on orphan therapeutics for the treatment of autoimmune and inflammatory diseases, which disclosed that it was in preliminary conversations with three potential buyers (and ultimately agreed to be acquired by Amgen); Spectrum Brands Holdings, Inc., a holding company with exposure to pet supplies, lawn and garden, and household appliances, which responded favorably as Assa Abloy, the acquirer of the company's home improvement unit, announced an agreement to sell assets that could potentially satisfy the U.S. Department of Justice claims and could remove the barriers to a significant value-enhancing asset sale; (a completed asset sale could unlock and support a re-rate of the company and allow it to focus on core staple segments with sizable market opportunities and less cyclicality, with higher consumable exposure and a de-levered balance sheet); Atkore Inc, an electrical components and equipment company, which outperformed following better-than-expected quarterly results and new long-term guidance for 2025 that surpassed expectations. Investor fears of significant price reversals have not materialized in recent results or management's near-term guidance.

Conversely, the fund's largest detractors included SentinelOne, Inc. Class A, a hypergrowth cybersecurity software provider, which underperformed following CrowdStrikes' weaker-than-expected results in late November and continued multiple

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compression in growth/tech stocks; and Generac Holdings Inc., a backup power company, which preannounced weaker-than-expected sales and earnings and lower annual guidance as home stand-by installation capacity growth lagged production output, creating an excess inventory position within the channel. In addition, the company had lower-than-expected clean energy shipments due to a large customer bankruptcy within the solar industry. With deteriorating near-term fundamentals coupled with increasing competitive risks, we exited the position in the quarter. Other detractor was ZoomInfo Technologies Inc, a B2B data, marketing, and sales intelligence software platform vendor, which underperformed after it issued weaker-than-expected guidance for 2023 sales growth at a broker conference in the quarter. The company is being negatively impacted by the macro environment, which is driving greater budget scrutiny, longer sales cycles, and lower customer net expansion trends.

Market Outlook

In our view, the Q4 stock market recovery was largely sentiment driven, a peak-inflation thesis supported by the notion the Fed will take its foot off the monetary tightening gas pedal. The Fed's influence on investor sentiment, the real economy and the capital markets has grown exponentially since the Great Financial Crisis, coinciding with a build-up of its balance sheet. However, the Fed's unprecedented tightening campaign, which included over 400 basis points of increases to its benchmark rate in 2022, has yet to be fully reflected in the U.S. economy, as history shows there to be a roughly 12-month lagged effect on end demand. As a result, we think the jury is still out on whether the Fed has overshot with monetary tightening. As we enter 2023, we think caution remains in order, as tangible evidence mounts of weakening economic and corporate profit fundamentals.

The current economic cycle is very different than past ones. Although weakening at the margin, labor demand is proving resilient, which argues for a soft economic landing in the US, as consumer spending represents roughly 70% of GDP. The U.S. economy added almost 400,000 jobs-per-month on average in 2022. Unfortunately, it's not just about labor. Supply/demand trends in most end-markets are not as obvious as they were in past cycles, reflecting the complexities of the pandemic and monetary relief efforts. Trillions of dollars in relief bolstered consumer and corporate balance sheets, which are now slowly eroding against the backdrop of robust inflation. The pull-forward of demand for many retail items, which was evident in early 2022, has now broadened to other consumer discretionary and commercial end markets, including housing, enterprise software, and electronics (including underlying components such as semiconductors).

While the easing of supply-chain issues is a blessing for many corporations, it may prove to be a curse for others as it allows for supply (capacity) growth to coincide with potential demand destruction. As a result, we believe it's important to be selective at a more granular industry level.

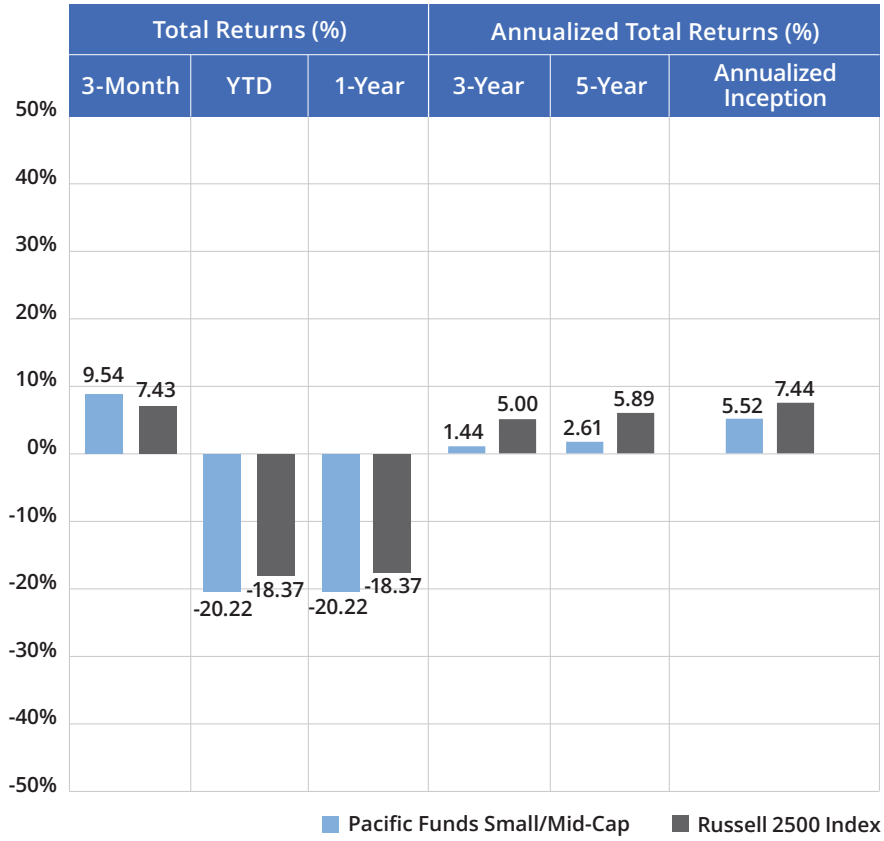
The near-term earnings picture for corporate profits has eroded, but there are some silver linings. The consumer appears to be increasingly stressed by the rising cost of necessities, namely food, shelter, and energy. On top of that, corporations are finding it more difficult to pass along price increases to consumers at the same time labor costs are trending higher. 2023 consensus earnings rightfully have been revised downwards, but still imply 5% year-over-year growth, which may be optimistic, in our view. To be sure, it's not all bad news on the corporate earnings front. Some relief is likely in order as it relates to funding costs, availability of capital, depreciation in the U.S. dollar (USD), and the re-opening of China following the removal of strict pandemic rules. Any reversion to the mean in the USD would be a welcome tailwind for our global companies. On the COVID-19 policy reversal in China, we would note the blade could cut both ways, as a re-opening could lift economic activity, but with potential significant tail risks associated with new variants (something to pay close attention).

The broader stock market rallied more than 10% on three separate occasions in 2022, before reversing course and giving back most, if not all, of the gains. This kind of volatility is a reminder that it's difficult to time the market. As we have seen during past cycles, market sentiment can shift on a dime based on changes in macro perceptions. For this cycle, the macro continues to be dominated by inflation and the Fed, both of which appear to be at or near important pivot points. As a result, we continue to emphasize balance in our portfolios, not making factor bets one way or another, but instead focusing on individual stock selection.

If the yield curve remains an accurate predictor of the U.S. economy, then recent inversion would indicate a recession is likely in 2023. However, bottom-up corporate earnings estimates are telling us a different story, with 5% growth implied in consensus expectations. While we would side with the bond market based on incoming datapoints, we recognize that downward earnings estimate revisions are by no means a guarantee for further equity drawdowns. To the contrary, there is precedent for stocks to rally ahead of an earnings inflection. Moreover, inflationary pressures have been abating quickly, which would likely provide a constructive pivot in monetary policy, and possibly a shift in investor sentiment. Recognizing that inflection points are impossible to predict with any degree of accuracy, we remain focused on our bottom-up approach to stock selection, with an emphasis on upgrading the quality of the portfolio during such extreme market drawdowns.

In November, we announced the acquisition of Rothschild & Co's US Asset Management business by Wintrust Financial (WTFC), the parent of Great Lakes Advisors (GLA). Following the close of the deal, expected in late 1Q23 or early 2Q23, GLA should manage close to $17 billion in assets across fundamental equities, fixed income, multi-asset, and quantitative investment strategies. We are excited about the acquisition and look forward to continuing our success under the banner of GLA.

Class I-2



Top-10 Holdings (%)	
Horizon Therapeutics Public Limited Company	2.68
Quanta Services, Inc.	2.59
Hancock Whitney Corporation	1.98
Brixmor Property Group, Inc.	1.89
Everest Re Group, Ltd.	1.87
Agree Realty Corporation	1.76
Portland General Electric Company	1.67
Jazz Pharmaceuticals Public Limited Company	1.62
Cadence Bank	1.59
Box, Inc. Class A	1.58

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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/Mid-Cap 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 2500 Index** measures the performance of the small- to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 Index is a subset of the Russell 3000 Index.

Investing involves risk. Principal loss is possible. Equity securities tend to go up or down in value, sometimes rapidly and unpredictably. Small- and mid-capitalization companies may be more susceptible to liquidity risk and price volatility risk and more vulnerable to economic, market and industry changes than larger, more established companies.

This commentary represents the views of the portfolio managers at Rothschild & Co Asset Management US Inc. are as of the publication date 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. Fund holdings are subject to change at any time and should not be considered recommendations to buy or sell any security. Holdings are subject to change at any time. Please visit PacificFunds.com for a current listing of fund holdings.

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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