Great-West Lifetime Funds

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Three kings:

The virus, the economy and government policy drove the narrative in 2021

Three things drove market narrative in 2021: the virus, the economy and government policy. While connected to one another in obvious ways, they each marked their own time and progressed at their own pace throughout the year. For example, fiscal and monetary policy were at their loosest during January and February but became progressively less accommodative as the year wore on. By November, the Federal Reserve had begun tapering its bond purchases and was openly talking about "lift-off" — that point, still somewhere in the future, when the Federal Funds rate will no longer be pegged at zero.

As far as COVID is concerned, widespread vaccine availability was still a relatively new thing as the year began, meaning that COVID case numbers, mitigation policies designed to curb the spread of the virus, and the associated stress on society and the healthcare system that both those things imply were still setting the tone in early 2021. COVID seemed to take a short breather during the spring and early months of summer, but then two separate variants — first delta and later omicron — forced the pandemic back to the front of the market's consciousness as the year drew to a close.

Of course, the policy environment and the stubbornness of the virus created a feedback loop that in turn helped dictate the rhythm of economic growth. The reflexive spike in economic growth that occurred in 2020 immediately after the worst of the lockdowns ended had largely played itself out by the time the calendar turned to 2021, and both the U.S. and global economies spent much of last year relearning how to stand on their own two feet as months and months of official support began to wane. Progress was uneven, however, with some areas such as consumer demand remaining robust throughout the year while others — most notably labor markets and global supply chains — remain distorted by the pandemic even today. But the defining feature of 2021's economy was a resurgence in inflation: Consumer prices are now rising at the fastest pace seen since the early 1980s, presenting both businesses and investors with a set of problems they haven't had to face in a generation.

The interaction of these three factors created a market environment that might best be described as varied. Equity markets were upbeat, especially during the summer months when all three kings — the virus, the economy and policy — were generally aligned in positive ways. Indeed, except for a brief period in the fall when it was becoming clear inflation wasn't really transitory at all and the delta variant was causing COVID fears to surge, stocks marched relentlessly higher during 2021.

Underneath the surface, however, things were far less uniform. The on-again/off-again progress against the virus and continued economic uncertainty caused investor preferences to whipsaw between the relatively expensive growth stocks that aligned well with COVID-era policies on one hand and the less expensive, value-oriented stocks that were better at capturing trends associated with a post-pandemic resumption of more orderly and predictable economic growth on the other. Domestic equity markets outperformed non-U.S. markets throughout much of the year, likely owing to the persistent (if not clichéd) view that U.S. markets are somewhat less risky and more liquid than many foreign markets, as well as expectations that the U.S. might recover faster and in more robust fashion than other countries. Emerging markets struggled for obvious reasons against such an environment and were one of the few asset classes to end 2021 with losses.

Trends were mixed below the surface of fixed-income markets as well. Credit spreads, which are sometimes viewed as a referendum on the health of the corporate sector in general, began 2021 at very tight levels and remained there throughout the year — a clear vote of confidence for borrowers that remained more or less unchanged for all of 2021.

The environment for rates, however, was far more interesting. Interest rates rose moderately for much 2021 as the U.S. and global economies continued to dig out from the worst the pandemic could throw at them, but the Fed's zero-rate policy acted as a heavy weight on shorter-term rates throughout the first half of the year. That changed, however, as soon as markets — and ultimately the Fed itself — came around to the notion that inflation was deeper and more persistent than originally thought. It quickly became obvious the Fed would have to adjust to that reality by tightening policy faster than many investors had assumed, and money began flowing out of shorter-term debt at a faster pace, in turn causing rates at the short end of the yield curve to accelerate during the fourth quarter. Longer-term rates, which are sometimes viewed as more sensitive to expectations surrounding economic growth than to Fed policy, rose more slowly, creating a modest performance disparity between strategies that focus on short-term debt and those with a longer-term horizon.

Performance of the Great-West Lifetime Funds

The Great-West Lifetime Funds were naturally subject to these trends throughout 2021. We believe the Lifetime funds are capable of performing well across an entire range of market and economic scenarios, and full-year performance provides support for that idea: Despite continued crosswinds generated by the stubbornly uncertain environment, the majority of the funds managed to outpace their benchmarks and perform reasonably well against their peers during 2021. This was particularly true for our nearer-vintage funds, those held by investors at or closer to retirement, where trends in the fixed-income market are generally more impactful than those within equity markets. For longer-vintage funds, things like our value bias and slightly greater emphasis on non-U.S. equity markets held back performance to a modest degree as those factors remained under pressure for much of the year. Even there, however, performance was acceptably close to both our benchmarks and our peers for us to remain encouraged by our results.

But in the short term, Lifetime Funds tend to perform best under a specific set of circumstances: namely, when value-oriented equities are performing well, when international markets are holding their own and when smaller stocks are outperforming larger ones. Beyond equities, the environment most favorable to the Lifetime Funds is one in which shorter-term and high-yield bonds are in favor together with real estate. Accordingly, the fourth quarter's mixed bag of influences created mixed results when viewed on a quarterly basis: While all funds scored in the top three quartiles of their peer groups, those held by investors nearer to retirement once again held up somewhat better against our peers than those at longer vintages, where the market's preference for very large, very fast-growing U.S. stocks once again reasserted itself. Compared to our benchmarks, however, those trends were reversed: Longer-dated Lifetime funds were slightly more successful at outperforming their benchmarks than nearer-dated funds, with things like the pressure applied on shorter-term bonds amid a rerating of inflation expectations helping to account for some of the modest benchmark-relative underperformance recorded by funds in the 2015-2030 range during the fourth quarter. All-in-all, though, we were generally pleased with our results during the fourth quarter and 2021 more broadly.

At the individual holding level, standouts included several real estate funds. Real estate equities in general performed well during both the fourth quarter and full-year 2021, owing to a confluence of trends that lifted both pricing and net operating income for real estate operators. American Century Real Estate, which finished the fourth quarter solidly atop its peer group, was particularly notable. The fund was added to the Lifetime Funds in early 2021 amid a partial reallocation toward actively managed real estate strategies across the Lifetime suite, and the funds benefited from this exposure. Conversely, DFA International Real Estate struggled to keep up. International real estate markets have been far less ebullient than domestic markets recently, and the DFA strategy is a pure-play, international manager. While that can make the fund appear somewhat less than successful relative to globally oriented competitors who invest in both U.S. and international property markets, we hold the strategy as a diversifier for our U.S. real estate exposure and are therefore attracted to its dedicated focus on non-U.S. real estate markets.

Within traditional equities, Great-West Mid Cap Value Fund was a top performer. While the market's preference for growth reasserted itself among the largest of large stocks during the quarter, that wasn't the case further down the capitalization spectrum. Value-oriented strategies outperformed growth in small- and mid-cap strategies during the final three months of the year in what might prove to be a durable trend during the new year. Either way, Great-West Mid Cap Value Fund — managed by the QIS team at Goldman Sachs — took full advantage and ended the quarter (and full-year 2021) well ahead of many of its peers. By contrast, another holding in the same space — Ariel Mid-Cap Value — struggled to keep pace during the quarter and throughout 2021, perhaps owing to that strategy's focus on higher-quality firms and its long-term outlook in a market that initially favored neither of those things. Ariel's fund has been an outstanding performer over the long term, however, and we remain committed to the strategy.

Within the Lifetime Funds' fixed-income allocation, the Great-West Inflation Protected Securities Fund provided perhaps the biggest overall contribution to absolute returns as it participated in an updraft for inflation-linked bonds that was in turn related to the dramatic surge in inflation. The fund lagged somewhat from a peer-relative perspective at least in part because of its greater focus on shorter-duration bonds than some of its competitors, but performance nonetheless remained acceptable. Performance elsewhere across our fixed-income exposure generally met our expectations during both the quarter and full-year 2021, with the vast majority of our holdings posting acceptably strong results from both benchmark- and peer-relative perspectives.

Outlook

As we look forward to 2022, we're hopeful — as I'm sure you are as well — that the world will finally catch a break after nearly two years of virus-related drama. While it's too early to say for sure, it's beginning to look more and more like the omicron variant might represent COVID's last stand — at least as far as its ability to dictate entirely the pace of social and economic activity worldwide is concerned. In any case, it feels as if we've become increasingly used to living with the virus and all its fallout, giving us all hope that 2022 will finally represent a return to something approximating normal.

That doesn't necessarily mean it will be smooth sailing, though. Interest rates are almost certainly set to rise further as the Federal Reserve and central banks worldwide switch from stimulus to inflation-fighting mode. That will present a new set of challenges for companies and consumers alike as the benefits of literally years' worth of accommodative policies continue to fade. From a pure consumer perspective, it's fair to wonder whether the dizzying pace of demand growth witnessed throughout the latter stages of the pandemic will prove sustainable as consumers work down the stores of dry powder accumulated during its worst months. That naturally carries implications for corporate earnings and economic growth writ large, making the sustainability of robust demand one of the most important questions for investors to ponder as we enter the new year. Meanwhile, markets themselves will eventually be forced to reckon with excesses of their own, not the least of which are stretched valuations and stylistic imbalances that developed over long months of plainly abnormal conditions.

It therefore almost goes without saying that things are likely to remain unsettled regardless of what ultimately happens with COVID. As always, we view a portfolio that is well diversified across not only asset classes but investment styles as well as the approach most likely to perform well despite such lingering uncertainty.

Morningstar ratings and rankings as of December 31, 2021

Rating based on risk-adjusted returns and ranking based on total return

FUND NAME	TICKER	INCEPTION	CATEGORY	RATING/ TOTAL # OF FUNDS OVERALL	RATING/ TOTAL # OF FUNDS 3-YEAR	RATING/ TOTAL # OF FUNDS 5-YEAR	RANK/[1] # OF FUNDS 1-YEAR
Great-West Lifetime 2015 Instl	MXNYX	5/1/15	U.S. Fund Target-Date 2015	★★★ 122	★★★ 34	★★★ 30	(34/122)
Great-West Lifetime 2020 Instl	MXAKX	4/28/16	U.S. Fund Target-Date 2020	★★★ 171	★★★ 60	★★★ 49	(42/171)
Great-West Lifetime 2025 Instl	MXQBX	5/1/15	U.S. Fund Target-Date 2025	★★★ 220	★★★ 87	★★★ 74	(64/220)
Great-West Lifetime 2030 Instl	MXAYX	4/28/16	U.S. Fund Target-Date 2030	★★★ 221	★★★ 105	★★★ 92	(85/221)
Great-West Lifetime 2035 Instl	MXTBX	5/1/15	U.S. Fund Target-Date 2035	★★★ 213	★★★ 107	★★★ 90	(112/213)
Great-West Lifetime 2040 Instl	MXBGX	4/28/16	U.S. Fund Target-Date 2040	★★ 215	★★ 118	★★ 99	(129/215)
Great-West Lifetime 2045 Instl	MXWEX	5/1/15	U.S. Fund Target-Date 2045	★★ 213	★★ 129	★★ 101	(128/213)
Great-West Lifetime 2050 Instl	MXBSX	4/28/16	U.S. Fund Target-Date 2050	★★ 215	★★ 134	★★ 107	(141/215)
Great-West Lifetime 2055 Instl	MXZHX	5/1/15	U.S. Fund Target-Date 2055	★★ 213	★★ 138	★★ 114	(150/213)
Great-West Lifetime 2060 Instl	MXGUX	5/1/19	U.S. Fund Target-Date 2060+	N/A 208	N/A -	N/A -	(167/208)

Fund performance as of December 31, 2021

FUND NAME	TICKER	INCEPTION	NET EXPENSE RATIO (%)[2]	GROSS EXPENSE RATIO (%)	1-YEAR RETURN (%)	3-YEAR RETURN (%)	5-YEAR RETURN (%)	SINCE-INCEPTION RETURN (%)
Great-West Lifetime 2015 Instl	MXNYX	5/1/15	0.45	0.49	8.85	11.92	8.46	6.92
Great-West Lifetime 2020 Instl	MXAKX	4/28/16	0.47	0.50	9.60	12.67	9.01	8.84
Great-West Lifetime 2025 Instl	MXQBX	5/1/15	0.49	0.52	10.52	13.82	9.83	7.92
Great-West Lifetime 2030 Instl	MXAYX	4/28/16	0.52	0.53	12.00	15.11	10.72	10.58
Great-West Lifetime 2035 Instl	MXTBX	5/1/15	0.54	0.55	13.83	16.68	11.75	9.37
Great-West Lifetime 2040 Instl	MXBGX	4/28/16	0.56	0.56	15.52	17.82	12.41	12.26
Great-West Lifetime 2045 Instl	MXWEX	5/1/15	0.57	0.57	16.39	18.53	12.85	10.15
Great-West Lifetime 2050 Instl	MXBSX	4/28/16	0.57	0.57	16.56	18.62	12.92	12.72
Great-West Lifetime 2055 Instl	MXZHX	5/1/15	0.58	0.58	16.54	18.60	12.87	10.08
Great-West Lifetime 2060 Instl	MXGUX	5/1/19	0.58	0.58	16.26	N/A	N/A	14.85

The date in the name of the target date fund is the assumed date of retirement. The asset allocation becomes more conservative as the fund nears the target retirement date; however, the principal value of the fund is never guaranteed.

Investing involves risk, including possible loss of principal. This material is for informational purposes only and is not intended to provide investment, legal or tax advice.

1 The definition of what constitutes a "bull" and "bear" market is a subject for debate, but by my math, it took about 22 days for the S&P 500® Index to slip into bear territory and around 75 for it to regain bull status. That's almost unbelievably fast.

2 The net expense ratio reflects contractual fee waivers or reimbursements that expire on April 30, 2022, unless re approved by the adviser. Absent waivers or reimbursements, the performance would have been lower.

Performance for institutional class shares before their inception is derived from the historical performance of initial class shares, which has not been adjusted for the lower expenses; had it been, returns would have been higher.

Current performance may be lower or higher than performance data shown. Performance data quoted represents past performance and is not a guarantee or prediction of future results. For performance data current to the most recent month-end, please visit ***greatwestfunds.com****. The investment return and principal value of an investment will fluctuate so that, when redeemed, shares/units may be worth more or less than their original cost.*

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Morningstar Percentile Rankings are based on the fund's actual rank within its category, total return and the number of funds in that category. The returns assume reinvestment of dividends and/or capital gains, do not include any applicable sales charges or redemption fees, but include 12b-1 fees. Rankings for each share class will vary due to different expenses. The highest (or most favorable) percentile rank is 1, and the lowest (or least favorable) percentile rank is 100. Had sales charges or redemption fees been included, total returns would be lower.

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