Great-West Profile Funds

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Out of the frying pan (and into the fryer?)

At the beginning of 2022, it was starting to look like we had finally reached a point where COVID-19 was losing its ability to exert almost exclusive influence over policy, capital markets and the economy. Of course, the virus is still very much with us and probably will be forever. Moreover, its ability to change the trajectory of economic growth hasn't yet faded entirely away — you need only look at the latest lockdowns in China for evidence of that. But as 2022 began, markets were finally starting to feel, well, almost normal.

Yeah, that didn't last very long.

In late February, Russian troops crossed the border into Ukraine and thoroughly upset whatever calm might have been trying to reestablish itself. Initially, capital market reaction was relatively mild even though the human toll was — and continues to be — immense. While market participants themselves are human and naturally horrified by such atrocities, markets themselves are neutral and unfeeling. For that reason, geopolitical events like this often capture the market's attention for a relatively brief moment before fading back into the shadows — until the likely impacts on longer-term fundamentals become known.

At first, that seemed to be the case this time as well: To wit, on the day of the invasion, the NASDAQ Composite Index was up nearly 3.5%, making it one of the best days for U.S. stocks so far this year. But markets quickly came around to the idea that Russia's invasion of Ukraine might be almost tailor-made to diverge from the "it-may-not-matter-in-the-long-run" script, primarily because it came at a time when the global economy was only just starting to repair some of the damage done by the pandemic.

Consider the invasion's impact on inflation. Naturally, one of the most obvious economic disconnects to emerge from the pandemic was a once-in-a-generation surge in inflation, but even that dislocation was showing signs of righting itself as 2022 began. Then, when Putin's war began, that wound was suddenly opened even wider as energy and commodity prices surged in recognition of the significant portion of global trade for things like oil, metals and grains the two combatants represent. Russia's violation of its neighbor's sovereignty therefore served only to deepen the severity of our ongoing bout with inflation and will almost certainly lengthen the time it will take for the Fed and its global central banking peers to defeat it.

To be clear, those efforts to stem the tide of rising prices were already underway before the world even took note of Russia's troop build-up along Ukraine's northern and eastern frontiers. Late last fall, the Federal Reserve had finally distanced itself from the fallacy that inflation was transitory and had begun to taper its COVID-inspired purchases of Treasury and mortgage bonds in an effort to address it. The Fed was also implying — quite loudly — that it would begin raising rates soon (which, as you likely know, it ultimately did in mid-March). But Putin's invasion suddenly made the Fed's job far more difficult. Whereas before the war the Fed might have been able to normalize policy at a somewhat leisurely pace, the war in Ukraine stripped the Fed of that luxury. Investors now believe the Fed may have to raise rates six or seven more times before 2022 comes to an end, and Fed Chair pro tem Jerome Powell has done little to disabuse them of that notion.

The net result of all this was an unusually difficult environment for almost all types of investments, not just stocks. In fact, of the 25 or so asset-class segments we watch, only one — U.K. equities — managed to finish the first quarter of 2022 in the green (which, by the way, is a bit of a head-scratcher in itself…). That's somewhat unusual: Often, when one area of the market comes under pressure, another area tends to get a boost as investment capital reallocates itself not unlike the way air squishes around inside a water balloon when you squeeze it. Not so this time: Almost every area of the market came under pressure during the first quarter of 2022, and the only thing separating winners from losers was how far you fell in response to the mash-up of colliding influences.

Performance of the Great-West Profile Funds

It probably comes as little surprise, then, that each of the Great-West Profile Funds lost ground during the quarter. While that's never a happy outcome, each of the Profile Funds outperformed both their benchmarks and their peer groups, some by a comfortable margin.

One reason for our strong peer-relative performance this quarter was the emphasis we place on value-oriented stocks within the equity portion of our portfolios. That modest but consistent tilt relative to our peers has been a costly choice for us in the recent past when value was clearly out of favor, but it worked in our favor this quarter as value stocks generally held up better than other segments of the market amid last quarter's volatility. In fact, several of our holdings in the value equity space bucked the broader trend of losses and managed to actually gain during the quarter, including Great-West Large Cap Value Fund and its mid-cap sibling, Great-West Mid-Cap Value Fund. Success in value-oriented equities wasn't universal, however, as Great-West Small Cap Value Fund, a strategy co-managed by Loomis Sayles and Hotchkiss & Wiley, lagged.

In contrast to their value-oriented counterparts, growth stocks bore the brunt of the first quarter's decline. Each of our holdings in the space dropped substantially, but for the most part the managers with which we invest were able to hold their own against the downdraft and finished the period above their average peer and either in line with or comfortably ahead of their benchmarks. This strong relative performance helped the Profile Funds during the first quarter, and we view the performance of our underlying growth equity managers as encouraging because it speaks to their ability to endure periods of extreme volatility.

The exception to this rule was Great-West International Growth Fund, a cooperative effort between JPMorgan and Franklin-Templeton that has struggled recently. The market's sudden lurch back toward value after a long period of outperformance by growth seems to have impacted this fund more than our other growth-oriented holdings, which in turn has caused it to lag both its benchmark and its peers for the quarter as well as the trailing 12-month period. Despite this setback, we continue to view both managers as individually talented and as excellent complements to one another, with JPMorgan's relatively constrained process acting as a counterpoint to Templeton's more aggressive, concentrated style. We have therefore maintained our position while monitoring both underlying strategies in case adjustments become necessary in the future.

On the fixed-income side of the portfolio, the Great-West Inflation-Protected Securities fund was an obvious standout. The fund provides us with exposure to assets linked to inflation — an important area to have exposure given that inflation is running hotter today than at any period since the early 1980s. Like virtually all fixed-income-oriented strategies, the Great-West Inflation-Protected Securities fund was pressured by rising interest rates during the period and finished the quarter lower. As you might expect, however, inflation-linked assets held up better than so-called nominal bonds (that is, those with no direct link to inflation), and our fund was no exception. But the strategy nonetheless easily outpaced a majority of its peers during the quarter — something we view as a testament to the quality of the team managing the fund.

Outlook

With the war in Ukraine currently dominating headlines, we add our voices to those expressing anger and grief in response to the violence. From an economic perspective, the war has almost certainly lengthened the time it will take for policymakers to adequately deal with the surge in inflation the COVID pandemic had already set in motion prior to the invasion. It has also made the Federal Reserve's job of normalizing monetary policy after two years of massive, COVID-inspired accommodation considerably more difficult: By placing additional stress on prices for key commodities such as oil, natural gas, metals and grain, the Fed may now have to tighten more quickly (and deeply) than might have otherwise been necessary if it hopes to ever gain the upper hand over inflation.

That has already led to concerns that economic growth is at risk for a significant slowdown in coming quarters as the Fed and its central bank peers around the globe shift their focus more fully toward putting the inflation genie back in the bottle. While slower growth on the heels of the dramatic rebound that occurred as the worst impacts of COVID began to fade was all but inevitable, the unusually long list of pressures now facing the worldwide economy has only heighted those fears.

That uncertainty has already led to lower market returns and increased volatility as investors struggle to find a new equilibrium in the face of these new and changing economic realities. It would therefore not surprise us at all if current market volatility persists for at least a little while longer. As has long been true, though, markets and the economies they are built to reflect are durable and dynamic — as tragic and ill-timed as current events have been, markets will again find their footing. In the meantime, we will continue to manage the Great-West Profile Funds as we have in the past, utilizing a disciplined and well-diversified asset allocation framework and employing only talented investment managers to help meet our goals — and yours.

Morningstar ratings and rankings as of March 31, 2022

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

FUND NAME	TICKER	INCEPTION	CATEGORY	RATING/ TOTAL # OF FUNDS OVERALL	3-YEAR	5-YEAR	RANK/[1] # OF FUNDS 1-YEAR
Great-West Aggressive Profile Instl	MXGTX	5/1/15	U.S. Fund Target-Date 2015	★★★ 70	★★ 96	★★★ 84	(70/188)
Great-West Moderately Agg Profile Instl	MXHRX	5/1/15	U.S. Fund Target-Date 2020	★★★ 452	★★★ 419	★★★ 397	(452/705)
Great-West Moderate Profile Instl	MXITX	5/1/15	U.S. Fund Target-Date 2025	★★★ 208	★★★ 197	★★★ 170	(208/314)
Great-West Moderately Cnsrv Profile Instl	MXJUX	5/1/15	U.S. Fund Target-Date 2030	★★★★ 132	★★★★ 126	★★★★ 119	(132/480)
Great-West Conservative Profile Instl	MXKVX	5/1/15	U.S. Fund Target-Date 2035	★★★★★ 37	★★★★ 22	★★★★★ 21	(37/191)

Fund performance as of March 31, 2022

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 Aggressive Profile Instl	MXGTX	5/1/15	0.10	0.10	5.20	12.76	10.76	9.60
Great-West Moderately Agg Profile Instl	MXHRX	5/1/15	0.04	0.10	3.06	9.25	7.80	6.97
Great-West Moderate Profile Instl	MXITX	5/1/15	0.06	0.10	3.67	10.40	8.78	7.84
Great-West Moderately Cnsrv Profile Instl	MXJUX	5/1/15	0.02	0.10	2.38	7.50	6.41	5.78
Great-West Conservative Profile Instl	MXKVX	5/1/15	0.02	0.10	1.27	5.73	5.01	4.59

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.
Asset allocation and balanced investment options and models are subject to the risks of their underlying investments.
Asset allocation and diversification do not ensure a profit and do not protect against loss in declining markets.

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.

*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.*

Please consider the investment objectives, risks, fees and expenses carefully before investing. For this and other important information, you may obtain mutual fund prospectuses from your registered representative or by visiting greatwestfunds.com. Read them carefully before investing.

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.

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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.

A benchmark index is not actively managed, does not have a defined investment objective, and does not incur fees or expenses. You cannot invest directly in a benchmark index.

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