



Great-West Lifetime Funds



Thomas Nun, CFA
*Portfolio Strategist,
Great-West Investments™*

Springtime for markets

A robust economic recovery is taking hold, causing investor preferences to shift

If it worked before and during the pandemic, it probably didn't work during the first quarter.

That was true for fast-growing stocks (which significantly underperformed value stocks during the quarter), large- and mega-cap stocks (which underperformed mid- and small), long-term bonds (which underperformed short-term), and just about everything else that you can slap a price on and trade through an exchange.

This dramatic change of direction shouldn't really surprise anyone. After all, capital markets are meant to reflect the economy and the society in which they operate, and both are undergoing massive changes here in the opening months of 2021. In reality, the shift in investor preferences began during the final days of 2020 — at roughly the same time it became clear that COVID vaccines might actually work. But either way, the response has so far been enormous: demand suppressed by long, dreary months of lockdown suddenly awoke, unleashing long-dormant animal spirits that quickly collided with massive (and globally coordinated) stimulus efforts to create a robust economic recovery that is still unfolding today. The global economy pivoted from a wartime, COVID-driven footing to robust recovery mode almost overnight.

Recognizing this, investors pivoted, too: It no longer made as much sense to seek growth at all costs or plow all your money into relatively safe corners of the market like short-term U.S. Treasuries while waiting for Armageddon. Instead, a robust recovery implied that earnings and revenue growth would no longer be scarce commodities to be bid forever higher while making it more obvious that seeking safety for safety's sake alone

was almost as big a sin as speculating on crazy things like cryptocurrencies or meme stocks. The so-called "reflation trade" was underway.

For some (including us), this was a welcome and long-overdue change. As you'll read below, the shift in investor preferences represented a tailwind for our funds that has gone a fair distance toward repairing performance histories challenged by 2020's exceptional environment. But the speed with which these changes occurred — and their apparent durability since — also highlights another feature of capital markets: their tendency to swing from one extreme to the next at breakneck speed and continue on their way for longer than they perhaps should. If markets are gravity tractors over the long term, they are pendulums in the short.

Performance of the Great-West Lifetime Funds

The Great-West Lifetime target date series performed exceptionally well during the first quarter of 2021, with funds at every vintage outperforming both their benchmarks and a majority of their peers — most by a comfortable margin. While encouraging, it's important to point out that this is at least in some ways a long-awaited recovery after a period of underperformance wrought by the excesses of a pandemic-era economy — the reversal of which has helped realign performance of the Lifetime Funds with our longer-term expectations.

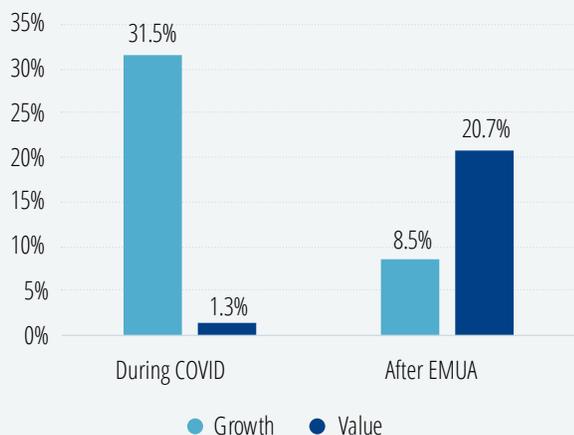
Among the most notable of these reversals was the above-mentioned shift from growth to value. As we've mentioned before, we have long maintained a slight but consistent preference for value-oriented investments



Animal spirits

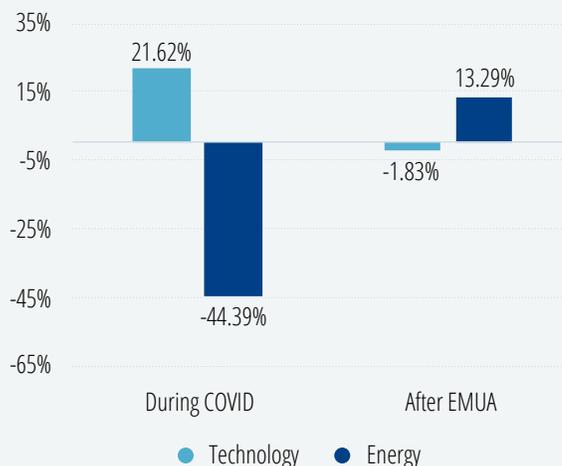
As the economy rebounds, investor preferences are shifting

By style*



By sector

(relative to S&P 500® Index)



*Data: Morningstar GWI calculations. "Growth" and "value" represent equal-weighted returns of the Russell 1000 and Russell 2000 Growth and Value Indices, respectively. Sector returns are relative to the S&P 500® Index.

Pfizer's COVID-19 vaccine was approved for emergency use on December 11, 2020. Before that, mega-cap growth stocks — especially technology and communications — were king. Since then, a "reflation trade" has taken hold, with sectors like energy and financial services, together with other areas that benefit from broad economic growth, taking the lead.

when compared to our peers — a fact that represented a significant headwind to performance immediately before and during the height of the COVID recession when the market's preference for growth widened to extremes not seen since the dot-com bubble at the end of the last century. Somewhat less pronounced (but also relevant) were changes in the market's view of smaller and mid-size stocks together with a steeper yield curve and a shift in preferences for investments domiciled in the U.S. over those headquartered elsewhere. These trends helped turn what had been powerful performance headwinds — represented by a so-called asset allocation impact in our performance attribution framework — into equally powerful tailwinds during the first quarter.

To some extent, the shift in market tastes was also reflected in the performance of individual holdings within the portfolios. For example, a number of our strongest-

performing positions this quarter came from our small- and mid-cap domestic equity allocations, including the Great-West S&P 400 Mid-Cap Index Fund and the Great-West S&P SmallCap 600 Index Fund. We maintain exposure to passive strategies across most equity asset classes as a way to control costs and, just as importantly, complement the active managers we utilize. Notably, that tendency to hold both active and passive exposure paid dividends twice this quarter as the actively managed Great-West Small-Cap Value Fund also performed exceptionally well. As you may recall, we recently merged two underlying legacy small-cap value strategies into a single holding and added another sub-advisor, Hotchkiss & Wiley, to the roster of underlying managers as a complement to Loomis Sayles, the remaining legacy manager from before the merger. It was gratifying to see our work to streamline our small-cap value exposure pay off during the quarter.



Less successful areas for us this quarter included, perhaps predictably, strategies that found themselves on the other side of the market's shifting preferences. Examples included small-cap growth fund Janus Triton Fund, a longtime holding that slipped during the quarter. Triton Fund has underperformed its peers over the last 12 months in spite of an 80%-plus return that in turn speaks to the magnitude of the strength of the market rebound — particularly in growth-oriented equities — since the pandemic lows last March. Similarly, Great-West International Growth Fund — co-managed by JPMorgan and Franklin Templeton — lagged its peers during the quarter. While this quarter's performance is disappointing, the fund's longer-term track record remains very strong, and our confidence in both managers is unshaken.

On the fixed-income side of the ledger, we generally benefited from our exposure to shorter-duration strategies relative to some of our peers — another example of how the market's shifting preferences in a post-COVID environment have, to at least some extent, turned from a headwind into a tailwind. However, this benefit was largely limited to absolute performance as a number of our fixed-income strategies lagged their respective peer groups and benchmarks during the quarter. There were, of course, exceptions to this rule, including the Great-West Short Duration Bond Fund and Great-West Inflation-Protected Securities Fund, both of which held up well from a relative performance standpoint.

Still, where performance failed to meet our expectations, we have naturally looked deeper. For the most part, we view temporary setbacks as par for the course and would point to the strong longer-term performance of many of these strategies as evidence of their value as underlying holdings within the funds. However, one notable underperformer among our fixed-income allocation was the Great-West Global Bond Fund, a fund that has struggled for several periods running and is the subject of heightened scrutiny by our portfolio management and analyst teams.

Outlook

The U.S. economy may not be booming, but it's close. Labor markets are healing, and key sectors such as housing surpassed their pre-COVID peaks months ago — even as other areas like manufacturing and capital

spending lurk just a stone's throw away from doing the same thing. Consumers, flush with cash from multiple rounds of stimulus and encouraged by progress on the vaccine front, are starting to regain confidence lost during months of hiding indoors, binging on ice cream and watching Netflix. The global economy is improving, too, with surveys of business confidence in Europe recording some of their best results in decades despite uneven progress against the virus and a discouraging rise in infection rates. But, knock on wood, it looks as if the world is finally starting to move beyond COVID to what comes next. The asset class rotation described in the opening paragraphs of this commentary should be witness enough to that.

Of course, it's tempting to assume that all this good economic news implies strong market returns will continue through the remainder of 2021. And that's entirely possible. But investors would also be wise to remember the virus has yet to be fully defeated, and more than a few imbalances still exist in both the markets and the overall economy. For example, valuations remain stretched across a wide range of asset classes — particularly in equities, where earnings have a significant amount of ground to make up to justify current prices. Moreover, the same surveys that suggest business confidence is on the rise have also been warning of rising input costs and severe supply chain stress for months — a fact that hasn't escaped the notice of bond investors, who have responded by pushing interests noticeably higher despite continued reassurances from the Federal Reserve that any official increase in rates is still years away.

That's all a long way of saying that now isn't the time to grow complacent. Even if the economy continues to accelerate from here, our own research suggests that markets may actually prefer modest growth to the robust, spend-like-a-sailor-on-shore-leave kind of recovery that seems to be developing. That's obviously an argument in favor of a measured, well-diversified approach to investing — exactly the kind we have always practiced with regard to your investments.

In closing, thanks (as always) for your continued confidence in choosing to invest with us.

**Morningstar ratings and rankings as of March 31, 2021**

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

FUND NAME	TICKER	INCEPTION	CATEGORY	OVERALL	RATING/ TOTAL # OF FUNDS		RANK/ # OF FUNDS 1-YEAR
					3-YEAR	5-YEAR	
Great-West Lifetime 2015 Instl	MXNYX	5/1/15	U.S. Fund Target-Date 2015	★★★ 115	★★★ 101	★★★ 74	(21/115)
Great-West Lifetime 2020 Instl	MXAKX	4/28/16	U.S. Fund Target-Date 2020	★★★ 166	★★★ 53	N/A	(39/166)
Great-West Lifetime 2025 Instl	MXQBX	5/1/15	U.S. Fund Target-Date 2025	★★★ 211	★★★ 191	★★★ 151	(56/211)
Great-West Lifetime 2030 Instl	MXAYX	4/28/16	U.S. Fund Target-Date 2030	★★★ 212	★★★ 192	N/A	(60/212)
Great-West Lifetime 2035 Instl	MXTBX	5/1/15	U.S. Fund Target-Date 2035	★★★ 204	★★★ 188	★★★ 148	(52/204)
Great-West Lifetime 2040 Instl	MXBGX	4/28/16	U.S. Fund Target-Date 2040	★★ 206	★★ 192	N/A	(52/206)
Great-West Lifetime 2045 Instl	MXWEX	5/1/15	U.S. Fund Target-Date 2045	★★★ 204	★★ 188	★★★ 148	(51/204)
Great-West Lifetime 2050 Instl	MXBSX	4/28/16	U.S. Fund Target-Date 2050	★★ 206	★★ 192	N/A	(44/206)
Great-West Lifetime 2060 Instl	MXGUX	5/1/19	U.S. Fund Target-Date 2060+	N/A	N/A	N/A	N/A

Fund performance as of March 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 2020 Instl	MXAKX	4/28/16	0.48	0.51	29.77	8.57	N/A	8.73
Great-West Lifetime 2025 Instl	MXQBX	5/1/15	0.50	0.52	33.90	9.24	9.66	7.65
Great-West Lifetime 2030 Instl	MXAYX	4/28/16	0.52	0.54	39.05	9.80	N/A	10.51
Great-West Lifetime 2035 Instl	MXTBX	5/1/15	0.55	0.56	45.61	10.59	11.57	9.02
Great-West Lifetime 2040 Instl	MXBGX	4/28/16	0.56	0.57	50.97	11.06	N/A	12.13
Great-West Lifetime 2045 Instl	MXWEX	5/1/15	0.57	0.58	54.54	11.36	12.51	9.72
Great-West Lifetime 2050 Instl	MXBSX	4/28/16	0.57	0.58	55.57	11.33	N/A	12.58
Great-West Lifetime 2060 Instl	MXGUX	5/1/19	0.59	0.60	55.94	N/A	N/A	15.52

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.

1 A lower percentile ranking is more favorable (higher relative returns).

2 The net expense ratio reflects contractual fee waivers or reimbursements that expire on April 30, 2021. 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, 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.

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