Great-West Lifetime Funds

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Shifting Winds

Markets anticipate change more often than they react to it. After all, that's really their primary role in society: to allocate capital to businesses that are most likely to succeed over the long term while denying it to those that are most likely to fail. Viewed from a slightly different perspective, if assets held for investment are nothing more than current claims held against future income, then prices should reflect what lies in the future to a greater degree than they reflect what's going on today. The junction where a bright fundamental future tomorrow intersects with an attractive current price today is where the best investment opportunities often reside.

That's the theory, anyway.

But for much of 2020, things didn't really work that way. For much of the year the outlook was clouded by a raging pandemic, a temporary collapse in economic activity and a rising tide of social unrest that has now seen the National Guard called into service to quell violence from both sides of the political spectrum. Given the unprecedented nature of this uncertainty, we are inclined to forgive markets for any temporary lapse in judgement.

In fact, given the vast uncertainty that prevailed during most of the year, it was perhaps natural for markets to allocate ever-increasing amounts of capital to things that are working in the here and now, companies that are more likely to grow regardless of what's happening in the outside world (not to mention those that actually benefit from virus-related lockdowns). You certainly know the business models, if not the names: web-based retailers who specialize in delivering stuff direct to your doorstep, device manufacturers and internet search portals that allow you to find the stuff that you want delivered to you in the first place, and digital content providers that enable you to work from home and pass the time spent in quarantine without completely losing your mind. Wall Street even created a convenient handle for the biggest and most notable members this group of stocks (admittedly in common use long before the pandemic hit): the FAANGS. We'll expand that universe a little bit and simply refer to them as "mega-cap growth stocks."

In hindsight, that this area of the market dominated other subsets of stocks so completely during the first three quarters of 2020 is perhaps not all that surprising. Add to this the literally trillions of dollars of pandemic-related stimulus — much of which found its way into the market in the form of unspent, excess liquidity — and the parabolic rise in mega-cap growth stocks during the first nine months of the year is perhaps a little more understandable.

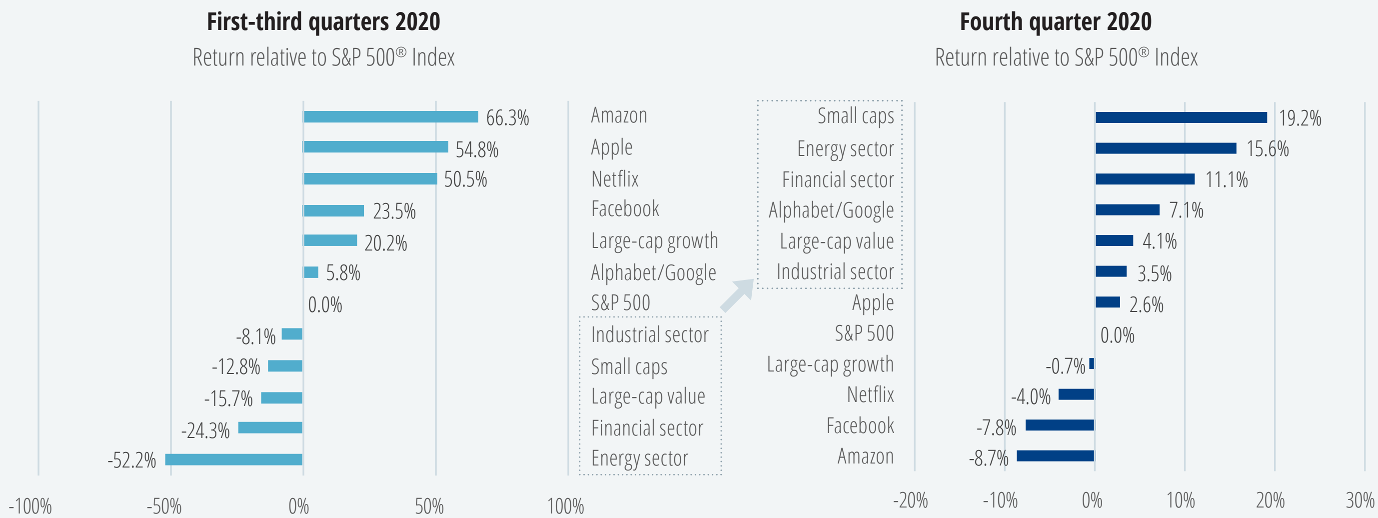
Performance of the Lifetime Target-Date Funds

We've written about the market's almost maniacal preference for large growth several times in recent months, primarily because it has represented such an intense headwind for our funds. Without question, these small but important biases in favor of value-oriented and smaller-capitalization stocks held back performance for most of 2020.

GREAT-WEST INVESTMENTS™

Shifting winds

After dominating markets for nine months, growth gave way to cyclicals in 4Q20



Data: Bloomberg, GWI calculations. Sector returns represent GICS Level 1 sector indices within the S&P 500 Index.

In uncertain times, markets tend to default to what's working in the here-and-now. During the first nine months of 2020, that meant investors were willing to pay ever-higher prices for fast-growing stocks and a handful of business models that actually stood to benefit from pandemic-related shutdowns.

But during 4Q20, as vaccine developments continued to gain momentum, it became easier and easier to imagine an end to the pandemic and all the economic turmoil that had come with it. Cyclical stocks and those that should benefit most from a rapid reflation of global economic activity began to close the gap, representing (in our view), a long-awaited return toward normalcy.

The good news, however, is that during the final three months of the year, the winds clearly began to shift. The massive uncertainty related to the COVID-19 pandemic began to subside even as case growth surged, thanks in large part to hopes that not one, but several, highly effective vaccines would soon allow the world to get the upper hand on the virus. That allowed the market to shift its attention away from its single-minded (and price-insensitive) preference for today's growers and instead renew its focus on other, recently forgotten areas of the investment landscape. This in turn allowed a so-called "reflation trade" to take hold, wherein sectors that tend to benefit from rising economic activity were able to outperform expensive, mega-cap growth for the first time in a very long time. Obvious examples included energy, financial and industrial stocks together with small- and mid-caps. Foreign shares, too, were finally able to begin to whittle down the lead that U.S. stocks had built during 2020 as normalcy began to creep back in.

Simply put, what had been a powerful headwind for the Great-West Lifetime Funds throughout much of 2020 (namely, our slight preference for value and reasonably priced growth, together with a willingness to invest in smaller companies and those located outside the U.S.) quickly became a tailwind in the fourth quarter. The reversal of this "asset allocation effect" helped each of the funds in the Lifetime suite outperform both their benchmarks and their peers during the fourth quarter.

Even better, manager selection — our ability to identify and invest with top-performing investment managers across a wide range of underlying asset classes — continued to contribute positively to returns in uninterrupted fashion throughout 2020. More than asset allocation — which can be fickle from quarter to quarter but tends to mean revert over the long term — manager selection is the area where we hold ourselves most accountable. It's also the one area where we believe we have a competitive edge, so it's encouraging to us that manager selection continued to contribute to returns throughout all the craziness that 2020 had to offer.

This was particularly evident during the fourth quarter on the fixed-income side of the ledger. Notable out-performers included Great-West Multi-Sector Bond Fund, a cooperative effort managed by Newfleet Asset Management (50%) and the Loomis Sayles full-discretion team (50%). In our view, Newfleet's emphasis on "sector rotation," or identifying which sectors of the fixed-income universe are more likely to outperform, can serve as an ideal complement to Loomis's relative-value approach, which places more emphasis on finding and exploiting individual opportunities. Both skill sets have been critical for navigating the current COVID-driven environment, which has been characterized by large, macro-related drivers as well as very discrete, issue-specific themes.

The funds also benefited from continued strong performance by two other fixed-income holdings, the Great-West High-Yield Bond Fund, sub-advised by Putnam, and the Great-West Short Duration Bond Fund, one of the few allocations within the Lifetime Funds that is managed in-house by Great-West Capital Management, LLC. In the case of High-Yield, the decision in 2019 to allow the addition of up to 20% in convertible bonds within the portfolio has been a tailwind to performance. These securities were added to the portfolio in part to replace some of the lowest-rated bonds in the portfolio, which in our view has added an important diversification benefit that improves the risk/return profile of the entire allocation. Meanwhile, in the case of Great-West Short-Duration Bond Fund, an overweight to BBB corporate securities and a small allocation to below-investment grade bonds helped propel the fund toward the top of its peer group during the quarter as corporate spreads tightened dramatically during the back half of 2020 amid a fairly robust rebound from the depths of the COVID-inspired blow-out last spring. Both the Great-West High-Yield Fund and the Great-West Short Duration Bond Fund have maintained extremely competitive performance over the long term as well.

Less gratifying, however, has been the recent performance of Invesco Global Real Estate. The fund maintains tight tracking to its benchmark, which has enabled it to perform well on an index-relative basis over a long period of time but more recently has made it somewhat less able to take advantage of individual opportunities as they arise. Additionally, the fund's mandate as a global portfolio gives it substantial exposure to U.S. property markets, which complicates our efforts to maintain a diverse asset allocation within this sleeve of the portfolio. We are currently reviewing how this portion of the fund is allocated.

Meanwhile, Great-West Global Bond Fund has also continued to struggle. This fund, which is designed to provide exposure to non-U.S. fixed-income markets, is a multi-managed portfolio overseen by BNY Melon (80%) and Franklin Templeton (20%). As with all multi-managed funds on our roster, we view the two underlying managers as highly complementary, with BNY's fairly constrained, benchmark-aware style functioning as a foil to Templeton's more aggressive, macro-focused style. In recent months, Templeton's results have been challenged by the rapid pace of change wrought by the pandemic and its economic fallout, and we responded by reducing the fund's exposure to Templeton twice during 2020. Although we continue to see potential in Templeton's go-anywhere approach and its seasoned team, the strategy's continued underperformance has been discouraging, and we are watching this allocation closely.

There were changes to the underlying managers on the equity side of the allocation as well. In October, we merged two previous standalone small-cap value holdings — Great West Invesco Small Cap Value Fund and Great-West Loomis Sayles Small Cap Value Fund — into a single holding. Then, we retained highly regarded value manager Hotchkiss & Wiley to complement Loomis Sayles. We believe the result is a more streamlined approach to the small-cap value asset class within the Lifetime Funds, but one that nonetheless retains the multi-managed nature of that exposure.

Finally, the outstanding results of another equity manager, Ariel Mid Cap Value, deserves mention. The fund was able to dodge at least some of the most intense selling during the first quarter of 2020 behind the strength of its consistent, slow-and-steady-wins-the-race approach, allowing it to emerge as one of our standouts earlier last year. But just as impressive, the fund has also outperformed on the way up, recovering faster than many of its peers behind the strength of its stock-picking and making it again one of the top performing allocations within the Lifetime Funds.

Outlook

To say that 2020 was an exceptional year risks understatement. Much of what occurred last year was truly unprecedented, ranging from a deadly global pandemic to the steepest decline (and the sharpest recovery) in economic output in post-war history to a boiling-over of social unrest that sent protesters into the streets throughout the summer and into the fall. Then in November, what will undoubtedly be remembered as the most contentious (and frankly, one of the strangest) elections in U.S. history capped what was already a mind-bogglingly eventful year. Now as I write this, the National Guard is once again patrolling the nation's streets to prevent yet another devastating outbreak of violence.

And yet through it all, markets have remained almost unbelievably resilient. Sure, the market sell-off in February and March was a harrowing affair, but it was followed by an equally robust recovery that actually left asset prices above pre-pandemic levels in a large majority of cases.

At least partial credit for this astounding feat of magic has to go to the massive and coordinated response of monetary and fiscal authorities across the globe, who by some estimates injected nearly a third of annual global GDP back into the economy in the form of pandemic-related aid and lending programs, providing a crucial bridge of support for those most impacted by the pandemic in the process. No small measure of thanks is also due to the world's scientific community, who rallied together in coordinated fashion to create multiple vaccines to combat the COVID-19 virus, thereby allowing confidence to quickly return to capital markets.

But where does this leave us? Let's be clear: For now, COVID-19 is still calling the shots. Even as vaccine roll-outs progress wordwide, new variants of the virus and a persistent surge in cases have allowed uncertainty to linger. We remain hopeful, though, that the recent surge will ultimately represent COVID's last stand and look forward to a continued return to normalcy as we progress through 2021.

Regardless, one thing that 2020 proved is that markets are inherently unpredictable. And that remains true in 2021. Even if the pandemic is truly on the wane, for example, the economic consequences are likely to remain with us for quite some time. Moreover, the political landscape is as unsettled today as it ever has been, a fact that could allow our country's caustic politics to exert unusually significant influence over market returns in coming months. Regardless, the massive amounts of stimulus put in place to combat the pandemic will ultimately have to be unwound, and while officials at the Federal Reserve and elsewhere have reassured us that this is still years away, the impact of the Next Great Unwind are likely to be profound — whenever that impact is finally felt.

But another, more hopeful lesson of 2020 is that the global economy and the capital markets that reflect it are resilient indeed. In fact, those investors who reacted to the extreme volatility in February and March by pulling their money out of the market and stuffing it into a mattress would also have missed the extremely robust rebound that occurred during the summer and fall. That, as much as anything, serves as yet another reminder that a thoughtful, disciplined and well-diversified approach to managing retirement assets is always better than reacting emotionally to the latest headlines.

In any event, here's to hoping that 2021 will have far fewer headlines for all of us to react to. Please stay healthy and safe, and, as always, thank you for your confidence in Great-West Investments.

Morningstar ratings and rankings as of December 31, 2020

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 Lifetime 2015 Instl	MXNYX	5/1/15	U.S. Fund Target-Date 2015	★★★ 118	★★★ 97	★★★ 74	(52/118)
Great-West Lifetime 2020 Instl	MXAKX	4/28/16	U.S. Fund Target-Date 2020	★★★ 178	★★★ 157	N/A	(76/178)
Great-West Lifetime 2025 Instl	MXQBX	5/1/15	U.S. Fund Target-Date 2025	★★★ 214	★★★ 187	★★★ 151	(105/214)
Great-West Lifetime 2030 Instl	MXAYX	4/28/16	U.S. Fund Target-Date 2030	★★★ 224	★★★ 197	N/A	(121/224)
Great-West Lifetime 2035 Instl	MXTBX	5/1/15	U.S. Fund Target-Date 2035	★★★ 207	★★ 184	★★★ 148	(119/207)
Great-West Lifetime 2040 Instl	MXBGX	4/28/16	U.S. Fund Target-Date 2040	★★★ 218	★★★ 197	N/A	(133/218)
Great-West Lifetime 2045 Instl	MXWEX	5/1/15	U.S. Fund Target-Date 2045	★★★ 207	★★ 184	★★★ 148	(131/207)
Great-West Lifetime 2050 Instl	MXBSX	4/28/16	U.S. Fund Target-Date 2050	★★ 217	★★ 196	N/A	(135/217)
Great-West Lifetime 2055 Instl	MXZHX	5/1/15	U.S. Fund Target-Date 2055	★★★ 207	★★ 184	★★★ 140	(134/207)
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 December 31, 2020

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	11.47	7.32	8.20	6.58
Great-West Lifetime 2020 Instl	MXAKX	4/28/16	0.48	0.51	11.72	7.58	N/A	8.67
Great-West Lifetime 2025 Instl	MXQBX	5/1/15	0.50	0.52	12.67	8.07	9.40	7.46
Great-West Lifetime 2030 Instl	MXAYX	4/28/16	0.52	0.54	12.99	8.42	N/A	10.27
Great-West Lifetime 2035 Instl	MXTBX	5/1/15	0.55	0.56	13.84	8.86	10.90	8.60
Great-West Lifetime 2040 Instl	MXBGX	4/28/16	0.56	0.57	14.01	9.05	N/A	11.58
Great-West Lifetime 2045 Instl	MXWEX	5/1/15	0.57	0.58	14.33	9.19	11.56	9.08
Great-West Lifetime 2050 Instl	MXBSX	4/28/16	0.57	0.58	14.30	9.15	N/A	11.91
Great-West Lifetime 2055 Instl	MXZHX	5/1/15	0.57	0.58	14.33	9.04	11.55	8.98
Great-West Lifetime 2060 Instl	MXGUX	5/1/19	0.59	0.60	14.40	N/A	N/A	14.00

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.

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.

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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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