Great-West Profile Funds

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Round trip

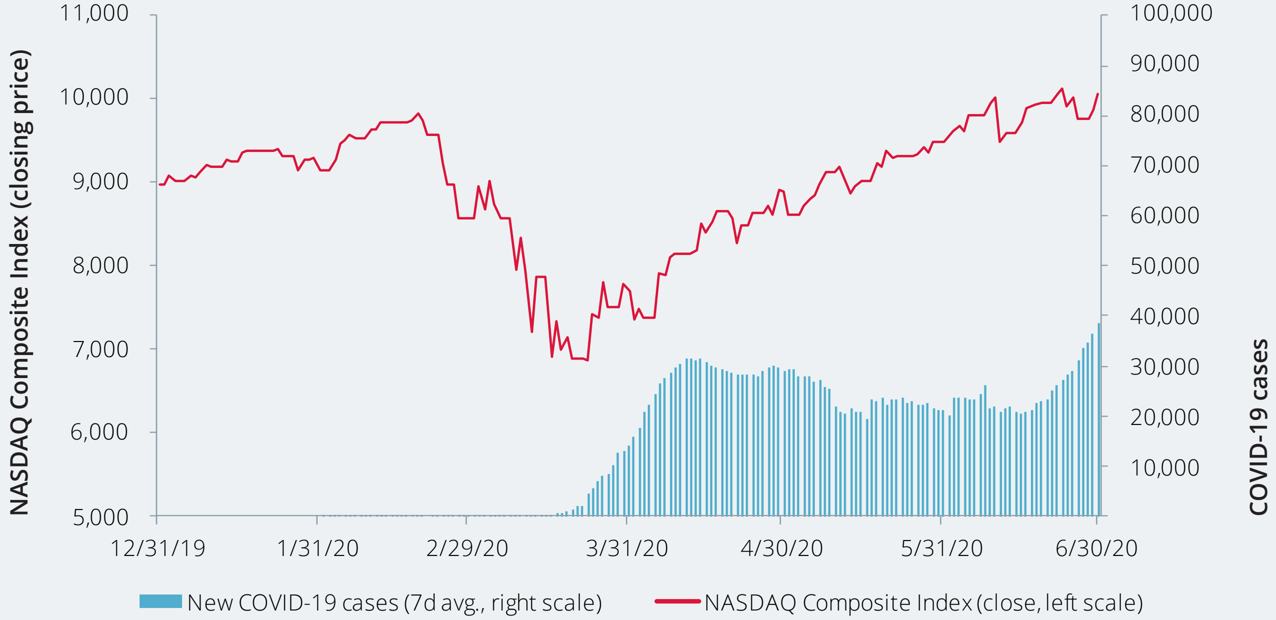
Travel is part of my job description (at least it used to be). But like many of you, I haven't seen the inside of an airplane since March and I don't expect to anytime soon.

For that reason, we might all need a reminder of what terms like "high altitude," "round trip" and "rough landing" actually mean. Thankfully, markets have been more than willing to oblige. As the below chart confirms, U.S. equities have made nearly a complete round trip since the arrival of COVID-19 first sent stocks into a tailspin, bottoming in late March even though the daily number of confirmed cases was still rising dramatically. Fast forward to today, and infection rates are again accelerating after a brief and hopeful pause. This time around, though, markets seem to be taking a wait-and-see approach and, at least in the case of the tech-heavy NASDAQ Composite, are holding at an altitude a few hundred feet above where they were cruising when the turbulence first hit.

In some ways, the market's resilience is almost understandable. After all, the twin monetary and fiscal responses to the pandemic have been enormous, not just here in the U.S., but globally. Moreover, a wide range of metrics designed to measure the health of the U.S.

Round trip

U.S. markets have largely regained and held pre-COVID cruising altitude despite rising case counts



Source: Bloomberg, World Health Organization, GWI calculations.

economy have begun to show signs of life as state and local economies reopen (albeit in fits and starts). Evidence includes forward-looking indicators of both manufacturing and services sector activity (some of which are already back in expansionary territory) as well as consumer confidence (which, while not yet back to pre-pandemic levels, has painted a picture of a U.S. consumer that has held in almost heroically throughout the pandemic).

Somewhat less comforting, though, is the continued dominance of growth over value. Value stocks rallied during the second quarter, but growth rallied even harder. Based on data from index provider Russell, growth-oriented benchmarks in the U.S. outperformed their value counterparts by more than 10% across all capitalization ranges during the second quarter.

That gap is getting tiresome to describe, but it's also potentially telling. Some pundits will tell you that the market's preference for growth reflects a subtle but deeply held fear that the economy may not be quite out of the woods. They claim that investors buy growth when earnings growth seems likely to become increasingly scarce. Of course, the phrase "increasingly scarce growth" is not really how anyone would describe a V-shaped recovery, but it does square well with sector performance since many of the sectors one might expect to benefit from a robust and sustained economic recovery have so far lagged the market's rebound. The message markets may be sending, then, is that while near-term economic performance has been encouraging, we may not be quite ready for lift-off.

Performance of the Great-West Profile Funds

Performance for the Great-West Profile Funds was strong during the second quarter, with each fund outpacing its benchmark by a comfortable margin. Year-to-date and one-year returns remain challenged, however, given difficulties faced during the first-quarter sell-off in response to the COVID-19 pandemic and efforts to contain its spread. As discussed last quarter, the market's preference for larger, growth-oriented investments over smaller and more value-oriented stocks, together with the relative underperformance of non-U.S. investments, has been among the most notable headwinds so far this year given how the Profile Funds are positioned strategically.

To at least some extent, such headwinds lessened during the second quarter as the global economy began to reopen. For example, smaller-capitalization stocks outperformed larger-cap stocks during the quarter, reversing a decade-long trend of large-cap dominance as the market began to shift its focus toward economic recovery. That helped the funds' benchmark-relative performance given the implicit larger-cap bias of the Wilshire 5000, which comprises the equity component of our benchmarks. This change from headwind to tailwind was one of the reasons Profile Funds performance was strong during the second quarter of 2020.

On the other hand, some of the headwinds that have pressured markets in recent months have remained entirely intact. Most notably, the market's single-minded focus on growth carried into the second quarter and continued unabated, with growth outperforming value by more than 10% across every capitalization range. As before, that tended to work against relative performance for the Profile Funds given our slight (but persistent) tilt toward value when compared to the equity portion of our benchmarks.

As always, though, the long-term performance of the Profile Funds will be driven by the success or failure of the underlying investment managers with whom we choose to invest. During the second quarter of 2020, that performance was generally strong, with standout performances from the Great-West Large Cap Growth Fund — a multi-manager portfolio co-managed by JP Morgan and Amundi Pioneer and by the Great-West International Growth, a multi-managed collaboration between JP Morgan and Franklin Templeton.

In the fixed-income portion of the Profile Funds, the Great-West Short Duration Bond Fund, the Great-West Multi-Sector Bond Fund and the Great-West High-Yield Bond Fund each performed well during the second quarter, a result of strong underlying performances of their respective management teams.

While there were no substantial changes to the portfolio during the period, we would like to highlight a change in the team responsible for managing the funds. At the end of April, Jonathan Kreider, CFA, and Jack Brown, CFA, stepped away from management of the Lifetime Funds to focus on their expanding duties as executive leaders of Great-West Investments™(GWI). Although they have relinquished formal responsibility for investment decisions made on behalf of the funds, both Jonathan and Jack remain intimately involved with the Lifetime Funds as GWI CEO and CIO, respectively. Moreover, the Asset Allocation Committee that has managed the Lifetime Funds for years will continue in that role and will now be led by portfolio managers Maria Mendelsberg, CFA, and Drew Corwin, CFA, both of whom have had day-to-day responsibility for managing the funds for several years. We are therefore confident that the transition will continue to be seamless in terms of investment process and philosophy.

We recognize that this quarter's relatively strong performance still isn't sufficient to completely make up all the ground lost earlier in the market downturn, but it's an encouraging start. It's especially hopeful to see a turnaround emerging even before some of the market dislocations responsible for the fund's recent underperformance have fully resolved themselves, such as the market's single-minded preference for growth over value. And in any case, you can rest assured that we continually revisit and re-assess how your fund is built, both from a strategic asset perspective and related to the underlying investment managers with whom we partner, to provide you with the appropriate exposures to those asset classes.

Outlook

The COVID-19 pandemic and the near-total shutdown of the global economy that accompanied it are simply unprecedented. The virus has proven itself to be stubbornly resilient, and as I write this, COVID is staging a comeback that threatens to force the re-imposition of at least some of the lockdown measures that first sent the economy reeling. That has raised the possibility that the economic recession we are currently mired in could be longer and deeper than many had assumed.

At the same time, we are encouraged by signs that the economy may be beginning to heal, such as a notable recovery in financial markets, a nascent recovery in both the manufacturing and services sectors of the economy, and an apparent stabilization of U.S. labor markets. At least some degree of clarity — if not confidence — seems also to be returning to corporate boardrooms across the country.

These are positive steps, but let's be clear: There is no playbook for this, and very real risks remain. For that reason, we continue to believe that a portfolio with broad and diversified exposure to not only different asset classes but different investment styles and processes as well provides the best opportunity for investors to deal with whatever lies ahead.

Morningstar ratings and rankings as of June 30, 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 Aggressive Profile Instl	MXGTX	5/1/15	US Fund Allocation - 85%+ Equity	★★★ 176	★★★ 157	★★★ 140	(139/176)
Great-West Moderately Agg Prfl Instl	MXHRX	5/1/15	US Fund Allocation -70% to 85% Equity	★★★ 335	★★★ 309	★★★ 278	(194/335)
Great-West Moderate Profile Instl	MXITX	5/1/15	US Fund Allocation -50% to 70% Equity	★★★ 684	★★★ 636	★★★ 558	(463/684)
Great-West Moderately Cnsrv Pfl Instl	MXJUX	5/1/15	US Fund Allocation -30% to 50% Equity	★★★ 552	★★★ 511	★★★ 427	(317/552)
Great-West Conservative Profile Instl	MXKVX	5/1/15	US Fund Allocation -15% to 30% Equity	★★★★ 192	★★★ 175	★★★★ 157	(107/192)

Fund performance as of June 30, 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 Aggressive Profile Instl	MXGTX	5/1/15	0.79	0.79	-2.71	3.89	5.98	5.56
Great-West Moderately Agg Prfl Instl	MXHRX	5/1/15	0.66	0.69	0.35	4.20	5.51	5.11
Great-West Moderate Profile Instl	MXITX	5/1/15	0.57	0.63	1.60	4.26	5.22	4.83
Great-West Moderately Cnsrv Pfl Instl	MXJUX	5/1/15	0.48	0.56	2.07	3.97	4.65	4.28
Great-West Conservative Profile Instl	MXKVX	5/1/15	0.43	0.51	2.82	3.76	4.13	3.80

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.

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.

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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