



Great-West Lifetime Funds Fourth Quarter 2016

Jonathan Kreider, CFA

Portfolio Manager

Market and Economic Commentary

The presidential election in the 4th quarter capped-off a dynamic year for domestic equity markets. Following the surprise election of Donald Trump, equity markets rallied considerably, driving a positive end to a volatile year as investors found optimism in the business-friendly policies advanced by a Trump administration. Fixed income lagged in the post-election period as rates rallied to levels not seen in some time, pushing bond prices lower.

Economic growth accelerated in the 3rd quarter, with the final estimate coming in at an annualized rate of 3.5% (which reflects a marked increase from the 0.8% in the first quarter).¹ The 3rd quarter of 2016 reflects the strongest economic advance in two years, suggesting that we may finally start to break out of the economic malaise that we've been experiencing for several years. Job growth numbers have also continued to show meaningful growth, albeit not necessarily numbers indicative of a booming economy. The U.S. economy added some 156,000 new jobs in December, following job increases of 208,000 and 135,000 for November and October, respectively.²

During the quarter, oil prices continued to oscillate in a range from roughly \$45-\$55 per barrel, before settling in at a \$50+ level for the month of December.³ This represents a significant price increase from early last year when oil prices slipped below \$30 per barrel in January, 2016, but a dramatic decrease from where prices were

several years ago. More stable oil prices have helped the energy sector, but prices in the current range are challenging for many energy producers.

The U.S. Federal Reserve (the "Fed"), at its December Federal Open Markets Committee ("FOMC") meeting elected to raise their widely-watched Fed Funds rate target by one quarter of 1% to 0.50%, following a similar rate hike in December of 2015. At the time of this writing, the futures market is anticipating a 93% chance of at least one additional rate increase in 2017 and a nearly two-thirds chance of at least two rate increases.⁴ These numbers are, of course, subject to change, as Fed actions remain dependent on the economic data that will come out in 2017. If the economy appears to be losing steam, the ultimate number of Fed rate hikes could be fewer than expected, whereas if the economy starts to heat up, we might expect to see a faster rate of rate increases.

Longer-term rates ticked up markedly in the 4th quarter as investors piled into risk assets and away from the relative safety of U.S. Treasuries. In 2016, the ten-year Treasury opened the year priced to yield approximately 2.25%, and had declined steadily through the mid-summer into the 1.40% range. In the second half of the year, however, rates started to creep back up before popping upward following the presidential election. The ten-year Treasury closed the year with a yield of 2.49%, or roughly 25 basis points higher than where it began the year.⁵

1 <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>

2 <http://www.bls.gov/news.release/emp/sit.nr0.htm>

3 <http://www.nasdaq.com/markets/crude-oil.aspx?timeframe=18m>

4 <http://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html>. Accessed January 16, 2017

5 <http://www.bloomberg.com/quote/USGG10YR:IND>

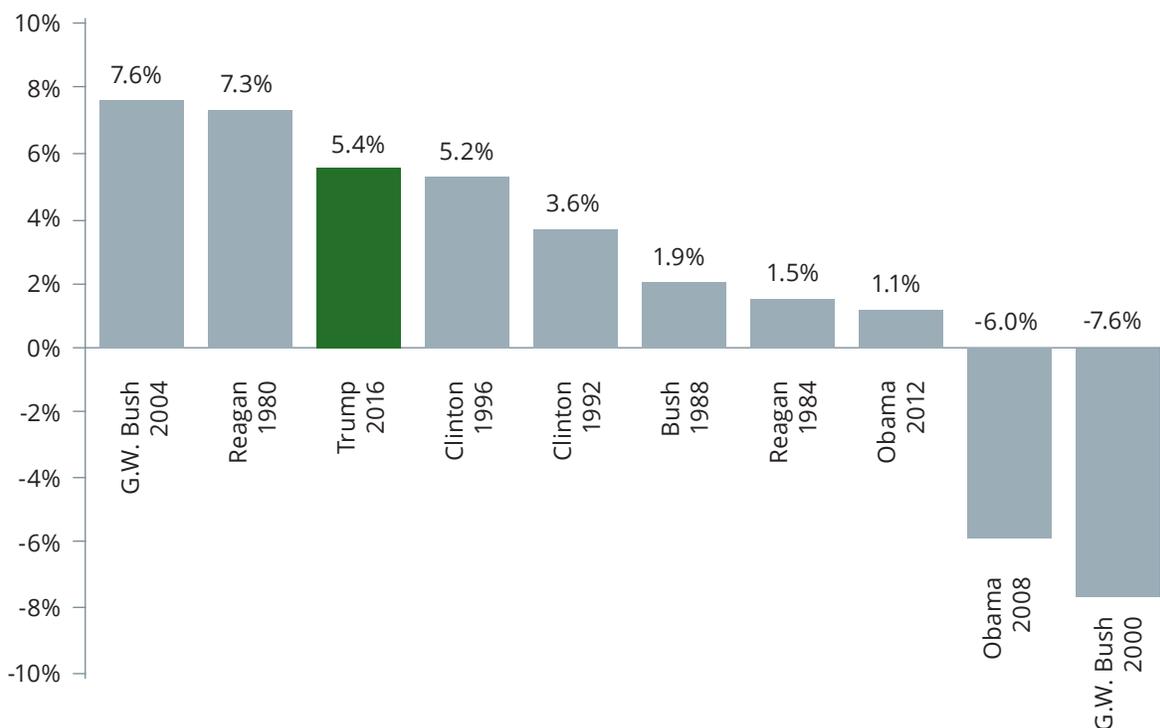


Putting the Trump rally into context

Much has been made in the media of the “Trump Rally” in the stock market which has followed the unexpected election of Donald Trump to the office of President of the United States. Following the election, the S&P 500® Index rallied more than 5.4% into the end of the year, an impressive gain for a period of less than 12 months. But how does the rally compare in terms of historical post-election results? We looked back to all presidential elections since 1980 and examined subsequent stock market performance. It turns out that these periods have generally been strong for equity markets. Intuitively, this makes sense. An election cycle represents a significant amount of uncertainty for investors and the conclusion of the cycle represents the elimination of some degree

of that uncertainty. In light of that general trend, however, we find that the Trump rally of 2016 was among the better post-election results, but certainly not the strongest. It was surpassed by both the Ronald Reagan election of 1980 and the George W. Bush re-election of 2004. By contrast, the two worst results in the period examined were somewhat atypical. Barack Obama’s 2008 election occurred during the height of the 2008 financial crisis and the Bush election of 2004 occurred near the bursting of the “tech bubble” and was heavily contested and ultimately not decided until a Supreme Court ruling in December of 2000 (depriving the market of the usual reduction of uncertainty that follows an election).

S&P 500® Index returns — Election day through end of the year



Source: Morningstar® Direct™; United States House of Representatives History, Art & Archives; Great-West Capital Management, LLC (GWCM) analysis



Over the longer term, however, results are more mixed. There appears to be little correlation between any initial rally and market results over the term of the president's time in office. Again, this makes sense. Over longer time periods, markets will be impacted by exogenous and

unknown geopolitical events and economic trends. The best market performance in recent periods occurred during Bill Clinton's second and first terms, respectively. However, the initial rallies for both of his terms were near the middle of the range of outcomes.

Returns from election

ELECTION YEAR	WINNING CANDIDATE	THROUGH END OF YEAR	THROUGH 6 MONTHS	THROUGH ONE YEAR	THROUGH END OF TERM
2004	G.W. Bush	7.6%	3.7%	9.4%	-5.9%
1980	Reagan	7.3%	6.7%	0.6%	12.0%
1996	Clinton	5.2%	18.6%	35.8%	18.2%
1992	Clinton	3.6%	6.1%	12.7%	18.6%
1988	Bush	1.9%	13.7%	27.8%	15.3%
1984	Reagan	1.5%	10.7%	19.3%	18.1%
2012	Obama	1.1%	15.4%	27.7%	N/A
2008	Obama	-6.0%	-4.7%	11.2%	13.3%
2000	G.W. Bush	-7.6%	-11.2%	-21.0%	-3.0%

The top three returns from each designated time period following the election are highlighted grey. Source: Morningstar® Direct™; United States House of History, Art & Archives; GWCM Analysis. Returns for periods longer than one year have been annualized.

This data suggests that one cannot estimate the long-term impacts of a president's term in office based on the stock market's election. Time will tell if the Trump rally is sustainable as the Trump administration moves into the oval office.

Asset class performance

Capped by the strong Trump Rally in the final months of the year, 2016 largely goes into the books as a good year for most key equity indices. Stocks, particularly domestic stocks, posted their strongest showing since the huge rally of 2013. Bond performance, while generally still positive across the majority of sectors, was somewhat reined in by the rising rates that we realized in the 4th quarter. The overall trend toward domestic equities and away from non-U.S. names continued in 2016 as well, with domestic markets far outpacing their international counterparts.

The S&P 500® Index, a widely followed measure of the performance of U.S. large-cap stocks, realized its best

year since 2013, posting a one-year return of 12.0% after a strong showing in the 4th quarter of the year, with a return of 3.8%. This segment of the equity markets has been a strong performer in recent years, posting a three-year annualized return of 8.9%, and a five-year annualized return of 14.7%.

Small cap stocks, as measured by the S&P SmallCap 600® Index, performed even better as the 4th quarter rally racked up an additional 11.1%, bringing the one-year number to an impressive 26.6%. Longer term numbers remain also quite compelling with the three-year return for period ended December 31, 2016 at 9.5%, annualized, while the five-year number comes in at 16.6%. Smaller-cap stocks have generally exhibited higher performance over time than their large cap counterparts, but have tended to exhibit greater volatility.



The 2016 equity rally, however, was largely a domestic affair as non-U.S. names, on average, tended to lag their U.S. counterparts. The MSCI EAFE® Index, which measures the performance of developed equity markets outside of the U.S. and Canada (primarily in Western Europe and developed Asia) realized a total return of -0.7% on the quarter, pulling the one-year number down to a muted 1.0%. The Index had a marginally negative three-year return but a five-year annualized return of 6.5%, well below the numbers realized on the domestic side. However, stock markets in developing economies were a bit of a different story in 2016, with the MSCI Emerging Markets® Index, despite a loss in the 4th quarter, posting a one-year positive return of 11.2%. Longer-term, the indexes results remain unimpressive with a three-year total return of -2.6% and a five-year return of only 1.3%. It remains an open question whether 2016 represented turning point in emerging markets or simply a one-year phenomenon.

Interestingly, value stocks dramatically outperformed growth stocks in 2016, across the entire market cap spectrum. The Russell 1000 Growth® Index returned only 7.1% for the year, whereas the Russell 1000 Value returned 17.3%, a variance of more than 10%. A similar, but more pronounced trend occurred on the small cap side, with the Russell 2000 Growth® returning 11.3%, relative to 31.7% for its value counterpart, the Russell 2000 Value® Index. Over longer-term periods, the trend—value names outperforming growth names—remains extant, but the variances between value and growth are much less pronounced.

Commodities rebounded from a 3rd quarter dip, posting a positive return of 2.7%, for the quarter to close the year with a positive return of 11.8%, as measured by the Bloomberg Commodity® Index, which tracks the returns of a broad-based basket of various commodities. The trend in commodities prices had been downward for some time, with the Index showing a three-year annualized return of -11.3% and a five-year number of -9.0%.

On the fixed income side, the final quarter of 2016 was challenging as bond investors faced a climate of sharply rising interest rates, putting pressure on bond prices. The benchmark ten-year Treasury bond increased from

1.60% to 2.49% by end of the year, a rise of nearly 90 basis points in a period of only 3 months. The Bloomberg Barclays U.S. Aggregate Bond® Index, which measures a broad cross-section of the U.S. investment-grade bond market, lost 3.0% for the 4th quarter, dragging the one-year return for 2016 down to only 2.6%, which is actually closely aligned with the longer-term returns. The Index posted a three-year annualized return of 3.0% and a five-year return of 2.2%. Outside of the investment-grade sectors, high-yield fixed income instruments held up a bit better. The Bloomberg Barclays U.S. Corporate High Yield Bond® Index eked out a gain of 1.8% in the fourth quarter, capping a very impressive year with a return of 17.1%. High yield proved to be a great sector for fixed income investors in 2016, despite getting off to rocky start early in the year.

Finally, the domestic real estate market, as measured by the performance of the FTSE NAREIT All Equity REITs® Index was also challenged in the 4th quarter, at least partially driven by rising interest rates. The index posted a loss of 3.3% for the quarter, but the one-year remained positive with a return of 8.6%. Over longer-term trailing periods, real estate remains one of the best performing asset classes, with the Index posting a three-year annualized return of 12.7% and a five-year return of 12.0%.

Performance of the Great-West Lifetime Funds⁶

Each of the Great-West Lifetime Funds and Great-West Lifetime Conservative Funds (with the single exception of the Great-West Lifetime 2015 Conservative Fund, which posted a loss of 0.05%) closed out the quarter with positive returns ranging from 0.02% to 1.5%. Each of the Lifetime Funds (Funds) benefited during the quarter from the positive returns generated by most asset classes, particularly due to their investments in U.S. equities, which posted a strong quarter. Each Fund, by design, is broadly diversified across global equity and fixed income asset classes. In general, the performance of each of the Funds is influenced, overall, by the performance of the various equity and fixed income asset classes in which the Funds invest.



For the one-year period, each of the Fund's generated a positive return ranging from 7.0% for the Great-West Lifetime 2015 Conservative Fund to 9.9% for the Great-West Lifetime 2045 and 2055 Funds. The even-numbered vintages of the Great-West Lifetime and Lifetime Conservative Funds were incepted in mid-2016 and do not yet have a one-year performance number available for comparison.

Longer term, the Funds' results continue to match our expectations for performance. The Great-West Lifetime Conservative Funds, which tend to have less equity exposure and are structured to place greater emphasis on downside protection, relative to their peers, have generally delivered top-quartile performance within their respective Morningstar categories in the three-year trailing period, despite a broad underweight to equity securities in a period where equities generally outperformed fixed income. As expected, the returns of the Conservative funds have lagged their Morningstar categories in the five-year period, due, largely to their overweight in fixed income relative to other funds in their respective categories. Also as expected, during a relatively strong period for equity markets, the Lifetime Conservative Funds have underperformed the Great-West Lifetime Funds. The Lifetime Funds, which have significantly greater exposure to equity securities and are intended

to target more upside market capture, and have delivered top-quartile performance for most funds in the three- and five-year periods in their respective Morningstar categories.

One positive driver of relative performance for the funds was their investment in the Great-West Loomis Sayles Small Cap Value Fund. This particular fund has long been a key holding in the each of the Funds. The Great-West Loomis Sayles Small Cap Value Fund pursues a bottom-up stock selection process which targets the small cap value space. This fund's performance as of December 31, 2016, for the one-, three-, five- and 10-year periods was 26.3%, 8.4%, 14.80%, 8.0%, respectively.^{7,8,9}

Another positive driver of fund performance for the year was the Great-West Putnam High Yield Bond Fund. This strategy leverages Putnam's deep capabilities in high yield fixed income to identify names in the space that they expect to outperform. The Great-West Putnam High Yield Bond Fund has had an impressive run over the past several years, despite a more conservative tilt versus many other funds in the high yield space. As of December 31, 2016, this fund's performance for the one-, three-, five- and ten-year periods were 15.9%, 4.0%, 6.8%, and 5.2%, respectively.^{10,11,12}

There were no changes to any of the underlying funds in the fourth quarter of 2016.

6 Asset allocation funds are subject to the risks of the underlying funds, which can be a mix of equity funds and fixed-income funds. For more information, see the prospectus. The Great-West Lifetime Funds may invest in other funds advised by GWCM, funds that are sub-advised by affiliated and unaffiliated sub-advisers retained by GWCM, funds that are advised by affiliated and unaffiliated investment advisers of GWCM, and in a fixed-interest contract issued and guaranteed by Great-West Life & Annuity Insurance Company. For more information, see the prospectus. Performance comments for the Lifetime Funds apply across the Institutional, T, T1 and L share classes of each fund. 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.

7 The Great-West Loomis Small Cap Value Fund Institutional Shares ranked 84 of 804 funds in the Morningstar small value category for the three-month period ended 12/31/2016, 83 of 750 funds in the year-to-date period, 106 of 626 funds in the three-year period, and 182 of 534 funds in the five-year period. The three-year and five-year rankings reflect the performance of the Initial Class Shares, because the Institutional class shares were incepted on May 1, 2015. 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.

8 Great-West Loomis Small Cap Value Fund Institutional Class performance as of December 31, 2016, performance for the one-, three-, five- and 10-year periods was 26.3%, 8.4%, 14.80%, 8.0%, respectively. The date of inception for the fund was May 1, 2015. The gross expense ratio as of 12/31/2016 is 0.74%. 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.

9 Equity securities of small and mid-sized companies may be more volatile than securities of larger, more established companies.

10 The Great-West Putnam High Yield Bond Fund Institutional Shares ranked 324 of 731 funds in the Morningstar high yield bond category for the three-month period, 120 of 707 funds in the year-to-date period, 172 of 602 funds in the three-year period, and 114 of 477 funds in the five-year period. The three-year and five-year rankings reflect the Initial Class Shares, because the Institutional class shares were incepted on May 1, 2015.

11 Great-West Putnam High Yield Fund Institutional Class performance, as of December 31, 2016, for the one-, three-, five- and ten-year periods was 15.9%, 4.0%, 6.8%, and 5.2%, respectively. The date of inception for the fund was May 1, 2015. The gross expense ratio as of December 31, 2016, is 0.75%. 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.

12 Compared to higher rated securities, high yield bond investment options are subject to greater risk, including the risk of default. A bond fund's yield, share price and total return change daily and are based on changes in interest rates, market conditions, economic and political news, and the quality and maturity of its investments. In general, bond prices fall when interest rates rise and vice versa.



Fund Performance and Morningstar® Ratings as of December 31, 2016

FUND NAME	TICKER	INCEPTION	CATEGORY	MORNINGSTAR RATING/ TOTAL # OF INVESTMENTS			TOTAL RET. RANK CATEGORY*/# OF FUNDS		
				OVERALL	3-YEAR	5-YEAR	1-YEAR	3-YEAR	5-YEAR
Great-West Lifetime 2015 Instl	MXNYX	5/1/15	Target-Date 2015	★★★★/91	★★★★/91	★★★★/70	8/131	N/A	N/A
Great-West Lifetime 2020 Institutional	MXAKX	4/29/16	Target-Date 2020	176	176	146	221	N/A	N/A
Great-West Lifetime 2025 Instl	MXQBX	5/1/15	Target-Date 2025	★★★★★/149	★★★★★/149	★★★★★/113	13/195	N/A	N/A
Great-West Lifetime 2030 Institutional	MXAYX	4/29/16	Target-Date 2030	176	176	146	221	N/A	N/A
Great-West Lifetime 2035 Instl	MXTBX	5/1/15	Target-Date 2035	★★★★★/149	★★★★★/149	★★★★★/113	11	N/A	N/A
Great-West Lifetime 2040 Institutional	MXBGX	4/29/16	Target-Date 2040	176	176	146	221	N/A	N/A
Great-West Lifetime 2045 Instl	MXWEX	5/1/15	Target-Date 2045	★★★★★149	★★★★★149	★★★★109	13/195	N/A	N/A
Great-West Lifetime 2050 Institutional	MXBSX	4/29/16	Target-Date 2050	168	168	129	213	N/A	N/A
Great-West Lifetime 2055 Instl	MXZHx	5/1/15	Target-Date 2055	★★★/121	★★★/121	★★★/81	13/193	N/A	N/A
Great-West Lifetime Cnsrv 2015 Instl	MXMAX	5/1/15	Target-Date 2015	★★★/91	★★★/91	★★/70	34/131	N/A	N/A
Great-West Lifetime Cnsrv 2020 Instl	MXAFX	4/29/16	Target-Date 2020	176	176	146	221	N/A	N/A
Great-West Lifetime Cnsrv 2025 Instl	MXOZX	5/1/15	Target-Date 2025	★★★/149	★★★/149	★★/113	33/195	N/A	N/A
Great-West Lifetime Cnsrv 2030 Instl	MXARX	4/29/16	Target-Date 2030	176	176	146	221	N/A	N/A
Great-West Lifetime Cnsrv 2035 Instl	MXRCX	5/1/15	Target-Date 2035	★★★/149	★★★/149	★★★/113	31/195	N/A	N/A
Great-West Lifetime Cnsrv 2040 Instl	MXBCX	4/29/16	Target-Date 2040	176	176	146	221	N/A	N/A
Great-West Lifetime Cnsrv 2045 Instl	MXUCX	5/1/15	Target-Date 2045	★★★/149	★★★/149	★★★/109	24/195	N/A	N/A
Great-West Lifetime Cnsrv 2050 Instl	MXBNX	4/29/16	Target-Date 2050	168	168	129	213	N/A	N/A
Great-West Lifetime Cnsrv 2055 Instl	MXXFX	5/1/15	Target-Date 2055	★★★/121	★★★/121	★★★/81	20/193	N/A	N/A

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



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 www.greatwestfunds.com. Read them carefully before investing. 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.

Where data obtained from Morningstar, ©2017 Morningstar, Inc. All Rights Reserved. The data: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and 10-year (if applicable) Morningstar Rating metrics. Morningstar rankings are based on total return, excluding sales charges and including fees and expenses, versus all funds in the category tracked by Morningstar. Morningstar®, Overall Morningstar Rating™, and Morningstar® Direct™ are trademarks or service marks of Morningstar, Inc.

The S&P 500® Index is an unmanaged index considered indicative of the domestic large-cap equity market. The MSCI EAFE® Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity performance of developed markets, excluding the U.S. and Canada. As of December 31, 2014, the MSCI EAFE® Index consisted of 22 developed market country indices. The Barclays U.S. Aggregate Bond Index covers the U.S. investment-grade bond market. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The FTSE NAREIT U.S. Real Estate Index Series is to present investors with a comprehensive U.S. REIT performance index. The FTSE EPRA/NAREIT Developed ex-U.S. Index is a subset of the FTSE EPRA/NAREIT Developed Index and is designed to track the performance of listed real estate companies and REITs outside of the U.S. The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Barclays U.S. Corporate High Yield Index is designed to measure the performance of the non-investment-grade (i.e., high yield) segment of the U.S. corporate fixed income market. The Barclays U.S. Government/Credit Long Duration is designed to measure the performance of long duration government and corporate and other credit bonds. S&P 500® Index is a registered trademark of Standard & Poor's Financial Services, LLC. Russell 2000® Index is a registered trademark of Russell Investments. MSCI EAFE® is a registered trademark of MSCI Inc.

The opinions expressed in this material represent the current, good-faith views of Great-West Capital Management, LLC (GWCM) and its portfolio managers, analysts, traders and other investment personnel at the time of publication and are provided for limited purposes, are not definitive investment advice and should not be relied on as such. The information presented in this report was developed internally and/or obtained from sources believed to be reliable; however, GWCM does not guarantee the accuracy, adequacy or completeness of such information. Predictions, opinions and other information contained in this report are subject to change continually and without notice of any kind and may no longer be true after the date indicated.

Past performance, where discussed in this report, is not a guarantee of future results. As with any investment, there is a potential for profit as well as the possibility of loss. This material is neither an endorsement of any index or sector nor a solicitation to offer investment advice or sell products or services offered by GWCM or its affiliates.

The principal underwriter of Great-West Funds, Inc. is its affiliate GWFS Equities, Inc., Member FINRA/SIPC and GWCM is the investment adviser.

Certain Great-West Funds are managed by sub-advisers who manage other mutual funds having similar names and investment objectives. While their investment management may be similar to, or modeled after, those other mutual funds, the Great-West Funds are not directly related to any other mutual funds. Shares of the series of Great-West Funds, Inc. are not available to the general public but are offered only to insurance company separate accounts for certain variable annuity contracts and variable life policies, to individual retirement account (IRA) custodians or trustees, to plan sponsors of qualified retirement plans, and to college savings programs.

Great-West Financial® and Great-West Investments™ refer to the investment, insurance and investment advisory products and services offered by Great-West Life & Annuity Insurance Company (GWL&A), Corporate Headquarters: Greenwood Village, CO; Great-West Life & Annuity Insurance Company of New York, Home Office: NY, NY, and their subsidiaries and affiliates, including GWCM and Great-West Funds, Inc. Putnam funds are managed by Putnam Investment Management. Putnam mutual funds are distributed by Putnam Retail Management. Putnam is affiliated with GWL&A and GWL&A of NY and its subsidiaries. The trademarks, logos, service marks and design elements used are owned by their respective owners and are used by permission.

©2017 Great-West Life & Annuity Insurance Company. All rights reserved. AM97772-0117

Unless otherwise noted: Not a Deposit | Not FDIC Insured | Not Bank Guaranteed | Funds May Lose Value | Not Insured by Any Federal Government Agency