Market Commentary

Great-West Lifetime Funds

If someone ignored the day-to-day swings of financial markets and instead looked solely at their quarterly statements, the first quarter of 2016 would likely seem a boring, uneventful quarter. It was anything but. Although the S&P 500® Index eked out a marginal gain for the quarter, intra-quarter the market realized a great deal of volatility. Upon opening the year, markets began dropping markedly into the first weeks of January. This trend largely continued for about six weeks until reaching a near-term bottom on February 11. During the period from January 1 through February 11, the S&P declined a bit more than 10%. However, from the February 11 low, markets rallied about 11.5% over the following six weeks, bringing us back to our starting point and even marginally ahead of where we began the quarter.

U.S. economic growth slowed in the fourth quarter, with the final gross domestic product (GDP) numbers coming in at a seasonally-adjusted 1.4% for the fourth quarter of 2015 vs. 2.0% for the third quarter and an impressive 3.9% in the second quarter.[1] At the time of this writing, GDP growth forecasts for the first quarter remain well below the 1% mark as well.[1] Job growth, overall, remains in a fairly healthy position — job growth has exceeded 200,000 new jobs created per month for each of the past six months (with the exception of January, where the number dropped to only 168,000 new jobs).

Oil prices seem to have found a near-term bottom midway through the quarter. After peaking above $100 per barrel in 2014, oil prices began a precipitous decline that continued for around 18 months down to nearly $30 per barrel in January and February.[2] However, prices rallied to some degree from the mid-February bottom through March. Oil prices have a mixed impact on the global impact. On the one hand, lower oil prices wreak havoc on the energy producers while having a positive impact on consumer income statements, as consumers ultimately pay less at the pump. Time will tell if the recent stabilization in the price of oil is a sustainable phenomenon or merely a pause on the way down.

After deciding to increase their benchmark rate by 0.25% in December, the U.S. Federal Reserve (the Fed) paused in their tightening for both the January and March meetings. The Fed remains data dependent in determining the best course of action with respect to interest rate levels, and the economic growth situation does not appear to be supporting further increases in the immediate future.[3] We believe that the Fed is struggling to find the right balance between setting interest rates at a “normal” level and choking economic growth — which is already fairly anemic.

Fixed income benefited from the market turmoil during the first quarter as investors fled risk assets into U.S. Treasuries, driving down bond yields considerably. During the quarter the benchmark 10-year Treasury declined some 0.75%, having a positive impact to bond prices. One blight on the fixed income landscape, however, was the increasing spreads in the high yield bond space. High yield spreads had been increasing through 2015 as the decline in oil prices raised concerns about the viability of certain energy exploration companies that had been heavy issuers of high yield paper. Spreads peaked during the quarter, before coming back in a bit during March. However, relative the past several years, high yield spreads remain significantly elevated.

1 http://www.economiccalendar.com/2016/03/25/us-fourth-quarter-gdp-revised-higher-corporate-profits-decline/
2 http://www.nasdaq.com/markets/crude-oil.aspx?timeframe=1y
3 http://www.nytimes.com/2016/04/07/business/economy/fed-minutes-interest-rates.html?_r=0

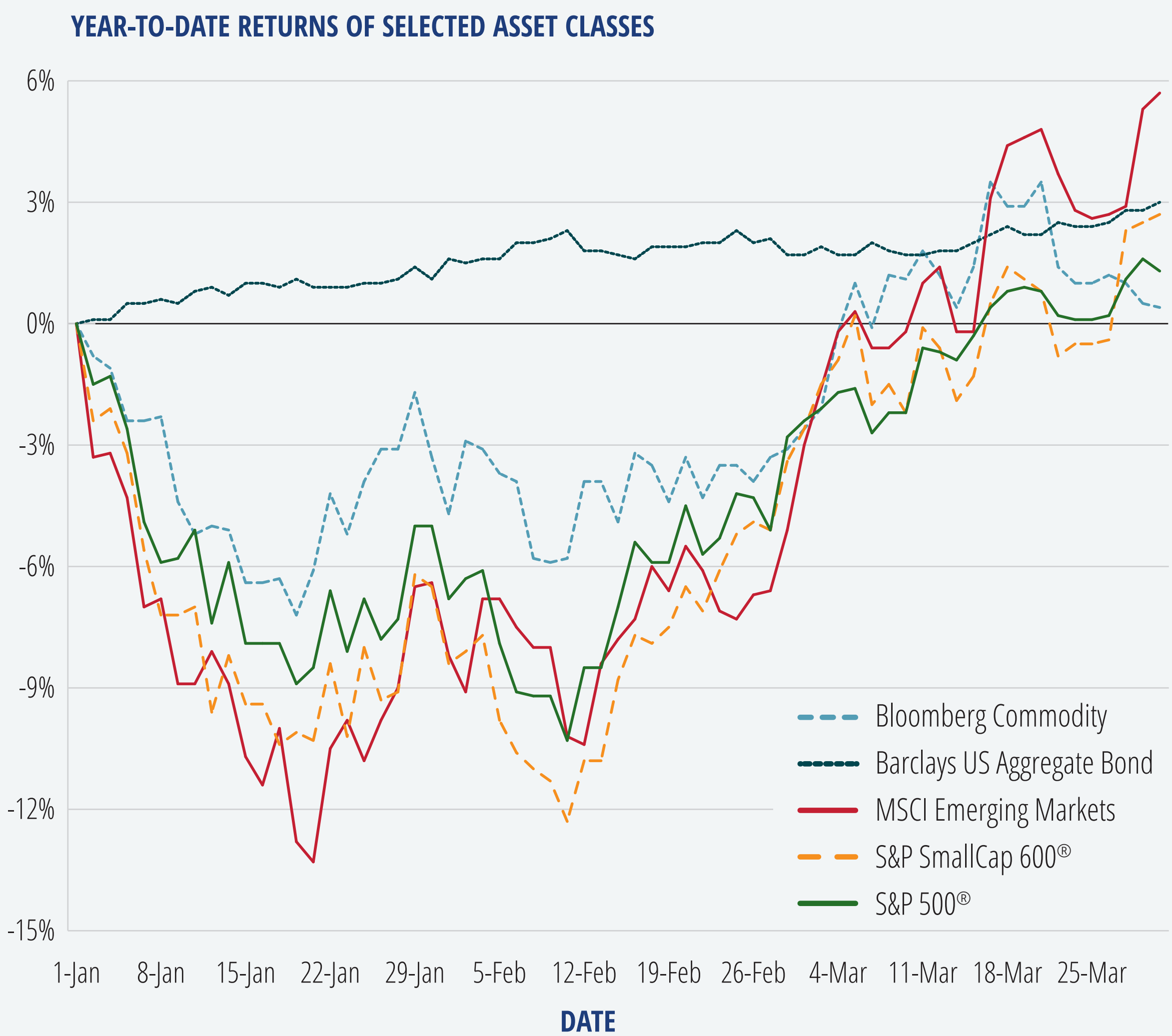
Q1 2016 was a Volatile Quarter for Many Different Assets

The first quarter was volatile for a number of different asset classes. Despite ending the quarter on a relatively flat note, many asset classes entered correction territory during the quarter vs. where they began the year.

The S&P 500 Index, for example, closed out the quarter showing a lackluster return of 1.3%. However, this single data point masks the fact that at one point the index was down more than 10% from the start of the year (February 11, 2016), before beginning the six-week rally that brought it back to positive territory for the year so far.

Emerging markets, as measured by the MSCI Emerging Markets® Index realized the largest intra-quarter decline of the major asset classes; as of January 21, 2016 the MSCI Emerging Markets Index had declined more than 13% for year. After bottoming in late January, emerging markets pulled back significantly from the lows for the next several weeks before, again, declining with the other equity asset classes. On February 12, the MSCI Emerging Markets Index bottomed again at level more than 10% below where it was at the beginning of the year. From that point, however, the MSCI Emerging Markets Index began a six-week rally that ultimately led to the MSCI Emerging Markets Index closing up nearly 6% for the quarter.

On the fixed income side, results were much less dramatic than on the equity side. As shown in the chart below, while equity markets exhibited considerable volatility through the quarter, the Barclays U.S. Aggregate Bond Index followed a slow, upward-sloping path through the quarter before ending with a return of 3.0% for the year-to-date period.



Source: GWCM analysis; Morningstar® Direct℠

Asset Class Performance

The first quarter of 2016 exhibited considerable volatility in the global financial markets with strong drawdowns in many asset classes in January, before bottoming around mid-February and coming back through the second half of February and March. Like recent quarters, intra-quarter volatility was significant even if the end result for the quarter ended mixed. Domestic equities realized an okay quarter, while performance for bonds was stronger. International developed equity markets struggled a bit.

Intra-quarter volatility, notwithstanding the domestic equity markets ended positive for the quarter, with the S&P 500 Index posting a first quarter return of 1.3% on the heels of a strong fourth quarter 2015 return of 7.0%. These two quarters combined to bring the one-year return for the S&P 500 Index into positive territory, with a return of 1.8%. Longer-term returns for the Index remain much more impressive, with the three-year and five-year returns showing at 11.8% and 11.6% annualized, respectively.

Small cap stocks, as measured by the S&P SmallCap 600® Index, had a stronger quarter than the large cap stocks, but longer-term numbers have lagged the domestic large cap names, on average. For the quarter, the S&P SmallCap 600 Index posted a return of 2.7%, however the one-year number remains in negative territory at -3.2%. Longer-term returns are more compelling, but continue to lag the large cap index. The annualized three- and five-year number as of March 31, 2016, were each 10.4%.

Outside of the U.S., equity markets were somewhat mixed in the quarter. 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 -3.0% on the quarter. However, the MSCI Emerging Markets Index outperformed both the non-U.S. developed markets and the domestic markets for the quarter, posting a quarterly return of 5.7% representing one of the best-performing asset classes. In the one-year period, however, emerging market stocks, which are often highly dependent on the performance of commodities, have underperformed developed stocks. The MSCI EAFE posted a one-year return of -8.3% which actually outperformed the returns of the MSCI Emerging Markets Index of -12.0%. This trend continues when looking to longer time periods as well. The MSCI EAFE returned 2.2% and 2.3% on an annualized basis for the three- and five-year periods, opposite an annualized decline of some 4.5% and 4.1%, respectively, for the MSCI Emerging Markets Index.

Overseas equities have been challenged in recent years due to weaker overall economic growth (vs. the U.S.) and a stronger dollar.

The recent decline in commodities markets was curbed a bit in the first quarter, led by oil prices that finally seemed to find a bottom after their recent precipitous decline. The Bloomberg Commodity Index, which tracks a broad-based basket of various commodities, realized a positive return of 0.4% for the first quarter. However, commodities are still off nearly 20% over the past 12 months.

The first quarter was generally a good time for fixed income investors who benefited from a falling rate environment. The yield on the benchmark 10-year Treasury declined from 2.27% at the end of 2015 to 1.54% by the end of the first quarter (a decline of nearly 0.75%). This decline in rates helped to drive strong performance in various fixed income sectors. The Barclays U.S. Aggregate Bond Index posted a return of 3.0% for the quarter. This number was impressive for a single quarter considering that the one-year number for the Index is only 2.0% and the annualized three- and five-year returns were 2.5% and 3.8%, respectively.

High yield bonds have been a considerable focus of the financial press in recent months. Spreads in the space have come in considerably from their peak. The decline in oil prices has been a factor as many exploration and production (E&P) companies had been large issuers of high yield fixed income. Additionally, much of the press coverage has focused around the collapse of the Third Avenue Focused Credit Fund in late 2015.[4] Despite the headlines, however, high yield bonds posted a reasonable quarter, with the Barclays U.S. Corporate High Yield Index up 3.4% for the quarter, though still down 3.7% for the one-year period.

Finally, the domestic real estate market, as measured by the performance of the FTSE NAREIT All Equity REITs Index also had a good quarter with the Index posting a first quarter return of 5.8%. Allocations to real estate securities were a strong contributor for portfolios allocating to the space in the first quarter.

Performance of the Great-West Lifetime Funds[5]

The Great-West Lifetime Funds (the Funds) each closed out the quarter with positive returns ranging from 1.1% to 2.4%. However, the one-year numbers continue to be challenged by certain quarters in which financial markets, and thus the Funds,

4 http://www.wsj.com/articles/numericable-sfr-completes-biggest-ever-sale-of-a-single-junk-bond-1460034611

struggled. Each of the Funds posted a net loss for the one-year period ranging from 0.4% to 3.9%. The returns at the Fund level largely reflect the weighted returns of the underlying funds. 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.

Longer term, however, the Funds' results continue to match our expectations for performance. Over longer time periods, the performance variations among asset classes become far more pronounced. The Series I Funds (conservative), which tend to have less equity exposure and are structured to place greater emphasis on downside protection — relative to their peers, have generally lagged their Morningstar® categories. This underperformance aligns with our expectations given the strong performance of equity markets over the past several years relative to fixed income markets. The Series III Funds (aggressive), which have significantly greater exposure to equity securities and are intended to target more upside market capture, have generally outperformed their Morningstar® categories over longer term periods — again, in line with our expectations. The Series II Funds (moderate) have generally performed at a level in between the other two series.

One positive driver of relative fund performance was the inclusion of the Great-West MFS International Value Fund as an underlying fund within each of the Lifetime Funds.[6] This is a fund that has consistently delivered value for fund shareholders since its inclusion in each of the Funds in October 2012. Despite the departure of one of the fund's long-time managers (Barnaby Wiener) at the end of 2014, the fund has continued to deliver outperformance. For the quarter, the fund realized a return of 2.2% versus a loss of 4.0% for the fund's benchmark (MSCI EAFE Value Index).[7] Longer-term returns have also contributed materially to the performance of each of the funds. In the three-year period, the Great-West MFS International Value Fund returned 9.1% annually, relative to only 0.6% for benchmark, reflecting annualized outperformance of more than 8.50%.[8,9] The fund has also earned an overall five-star rating from Morningstar®.[10]

Another positive driver of fund performance for the quarter was the Great-West T. Rowe Price Equity Income Fund. This fund had been challenged in recent years, but a recent manager change as of November 1, 2015, was generally seen as a positive development. The new portfolio manager, John Linehan, has a compelling track record in the large-cap value space and appears to be off to a great start managing the fund. The fund posted a return of 2.8% in the quarter, relative to a return of the Russell 1000 Value Index of only 1.2%. Long-term returns, unfortunately, have been more challenging. In the five-year period, the fund returned 8.0%, opposite a return of 10.3% for the Russell 1000 Value Index.[8,11]

During the quarter, one of the underlying funds, Great-West American Century Growth, was merged into the Great-West S&P Small Cap 600 Index Fund and is no longer an investment within the Great-West Lifetime Funds.

5 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 (GWL&A). 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. Ratings information prior to the inception date of the Institutional Class shares is for the Initial Class shares. 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.

6 Foreign investments involve special risks, including currency fluctuations, taxation differences and political developments.

7 A benchmark index is not actively managed, does not have a defined investment objective, and does not incur fees or expenses. Therefore, performance of a fund will generally be less than its benchmark index. You cannot invest directly in a benchmark index.

8 Source: Morningstar® Direct℠

9 Great-West MFS International Value Fund Institutional Class performance as of 3/31/2016, performance for the 1-, 3-, 5-, 10-year and since inception periods was 2.34%, 9.28%, 9.67%, 3.18% and 6.21% respectively. The date of inception for the fund was 5/1/2015. The gross expense ratio as of 3/31/2016 is .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.

10 The Great-West MFS International Value Fund Institutional Class was ranked against the following number of funds in the Morningstar large value category. For the 3-year period 4 out of 783 funds. For the 5-year period 2 out of 719 funds. For the 10-year period 90 out of 532 funds. Past performance is no guarantee of future results. Rankings are calculated upon risk-adjusted returns. Different share classes may have different rankings. Morningstar rankings do not reflect the deduction of sales charges, which, if reflected, would reduce returns. With respect to these large value funds, Great-West MFS International Value Fund Institutional Class received a Morningstar Rating of 5 stars, 5 stars and 4 stars for the 3-, 5- and 10-year periods, respectively. Past performance is no guarantee of future results.

11 Great-West T. Rowe Price Equity Income Fund Institutional Class performance as of 3/31/2016, performance for the 1-, 3-, 5-, 10-year and since inception periods was -2.91%, 6.36%, 8.04%, 5.26% and 8.74% respectively. The date of inception for the fund was 5/1/2015. The gross expense ratio as of 3/31/2016 is .48%. 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.

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.

The date in a target date fund's name represents an approximate date when an investor is expected to retire (which is assumed to be at age 65). The principal value of the funds is not guaranteed at any time, including the target date. For more information, please refer to the fund prospectus.

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 www.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.

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, 2015, the MSCI EAFE® Index consisted of 21 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.

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

FUND NAME	TICKER	INCEPTION DATE	CATEGORY	MORNINGSTAR RATING / TOTAL # OF FUNDS			TOTAL RET. RANK CATEGORY*/# OF FUNDS		
				OVERALL	3-YEAR	5-YEAR	OVERALL	3-YEAR	5-YEAR
Great-West Lifetime 2015 I T1	MXLUX	5/1/2009	Target Date 2011-2015	★★★/120	★★/120	★★★/91	55/161	88/120	57/91
Great-West Lifetime 2025 I T1	MXBLX	5/1/2009	Target Date 2021-2025	★★★/161	★★/161	★★★/116	51/207	132/161	83/116
Great-West Lifetime 2035 I T1	MXHLX	5/1/2009	Target Date 2031-2035	★★★/161	★★★/161	★★★/116	39/207	109/161	61/116
Great-West Lifetime 2045 I T1	MXNLX	5/1/2009	Target Date 2041-2045	★★★/161	★★★/161	★★★/115	53/207	96/161	58/115
Great-West Lifetime 2055 I T1	MXTLX	5/1/2009	Target Date 2051+	★★★/132	★★/132	★★★/65	79/259	109/132	50/65
Great-West Lifetime 2015 II T1	MXLWX	5/1/2009	Target Date 2011-2015	★★★/120	★★★/120	★★★/91	66/161	54/120	31/91
Great-West Lifetime 2025 II T1	MXDLX	5/1/2009	Target Date 2021-2025	★★★/161	★★★/161	★★★/116	72/207	74/161	40/116
Great-West Lifetime 2035 II T1	MXJLX	5/1/2009	Target Date 2031-2035	★★★/161	★★★★/161	★★★/116	60/207	48/161	34/116
Great-West Lifetime 2045 II T1	MXPLX	5/1/2009	Target Date 2041-2045	★★★/161	★★★/161	★★★/115	63/207	67/161	42/115
Great-West Lifetime 2055 II T1	MXVLX	5/1/2009	Target Date 2051+	★★★/132	★★★/132	★★★/65	95/259	83/132	41/65
Great-West Lifetime 2015 III T1	MXLZX	5/1/2009	Target Date 2011-2015	★★★★/120	★★★★/120	★★★★/91	81/161	24/120	24/91
Great-West Lifetime 2025 III T1	MXFLX	5/1/2009	Target Date 2021-2025	★★★★/161	★★★★/161	★★★★/116	101/207	22/161	23/116
Great-West Lifetime 2035 III T1	MXLLX	5/1/2009	Target Date 2031-2035	★★★★/161	★★★★/161	★★★★/116	89/207	22/161	24/116
Great-West Lifetime 2045 III T1	MXRLX	5/1/2009	Target Date 2041-2045	★★★/161	★★★/161	★★★/115	77/207	50/161	38/115
Great-West Lifetime 2055 III T1	MXXLX	5/1/2009	Target Date 2051+	★★★/132	★★★/132	★★★/65	109/259	75/132	38/65

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

For each fund with at least a three-year history, Morningstar calculates a Morningstar RatingTM 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 RatingTM, and Morningstar® Direct℠ are trademarks or service marks of Morningstar, Inc. *Past performance is no guarantee of future results.*

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