Great-West Profile Funds First Quarter 2017

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Market and economic commentary

First-quarter financial headlines were largely focused on the continued market rally in the wake of the election of President Donald Trump and the potential for pro-growth policies that the market perceived as likely to be advanced by the new administration. The market languished during January before picking up steam during February. However, the equity markets pulled back a bit during March as investors began to question whether or not the White House would be successful in advancing its agenda. Failure to reach agreement with Congress on a few key initiatives has created a bit of hesitation on the part of investors. Regardless, from an equity market perspective, the first quarter goes into the books as a big win for investors. The future success that the White House has in its various policy objectives may continue to drive market volatility in the coming months and years.

Economic growth came in at a lackluster 2.1% for the fourth quarter of 2016, following an impressive 3.5% for the third quarter. While 2.1% is hardly what we would expect from a truly booming economy, other than the impressive growth in the third quarter, it remains the strongest growth that the economy has realized in 18 months.[1] On the jobs front, the U.S. economy added a net 98,000 new jobs during March following strong numbers in January and February of 216,000 and 219,000, respectively.[2] Overall, the first quarter of 2017 represented a reasonable improvement in the non-farm payrolls picture.

Oil prices began the quarter oscillating in a tight range between $53 and $55 per barrel for the months of January and February. This represents a number that is on the higher end of the range that we saw last quarter. However, as the calendar turned to March, oil prices began dipping before finally bottoming below $48 per barrel and turning back upward. At the time of this writing, crude prices are back up in the low $50s range. These prices reflect a marked improvement from a year ago, when prices were hovering in the high $20s/low $30s per barrel.[3]

After raising its widely watched Federal Funds Rate target to 50 bps (one-half of 1%) in December (the second rate increase in nearly a decade), the U.S. Federal Reserve (the Fed) elected to hike again to a 75 bps target at its March meeting. The Fed is widely expected to continue increasing rates this year in anticipation of an improving economy. At the time of this writing, the futures market is anticipating a 78% probability of at least one additional rate increase (of 25 bps) this year. The current odds of at least two increases are around 40%.[4] The Fed has repeatedly stated that subsequent decisions remain dependent on the economic data. A decline in the overall state of the economy could cause the Fed to pause on future increases, while an acceleration of economic growth could cause the Fed to move more aggressively.

Moving toward longer-term rates, the yield on the benchmark 10-year Treasury traded between roughly 2.30% and 2.60% during the quarter. Rates increased significantly during November 2016 but have remained fairly stable since that time.[5] While there is a relationship

1 https://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm
2 https://www.bls.gov/news.release/empsit.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
5 https://www.bloomberg.com/quote/USGG10YR:IND

between short-term rates that come out of the Fed and long-term rates, the relationship is fairly loose. The 10-year part of the curve is much more influenced by long-term views of investors and moves largely independently of the Fed funds rate. Increased demand from investors at higher yield levels (relative to where we have been for some time) could keep a lid on the level of rates. However, should we start to see inflation pick up steam, we would expect that investors would demand higher yields, causing upward pressure on rates.

The value of active management in volatile markets

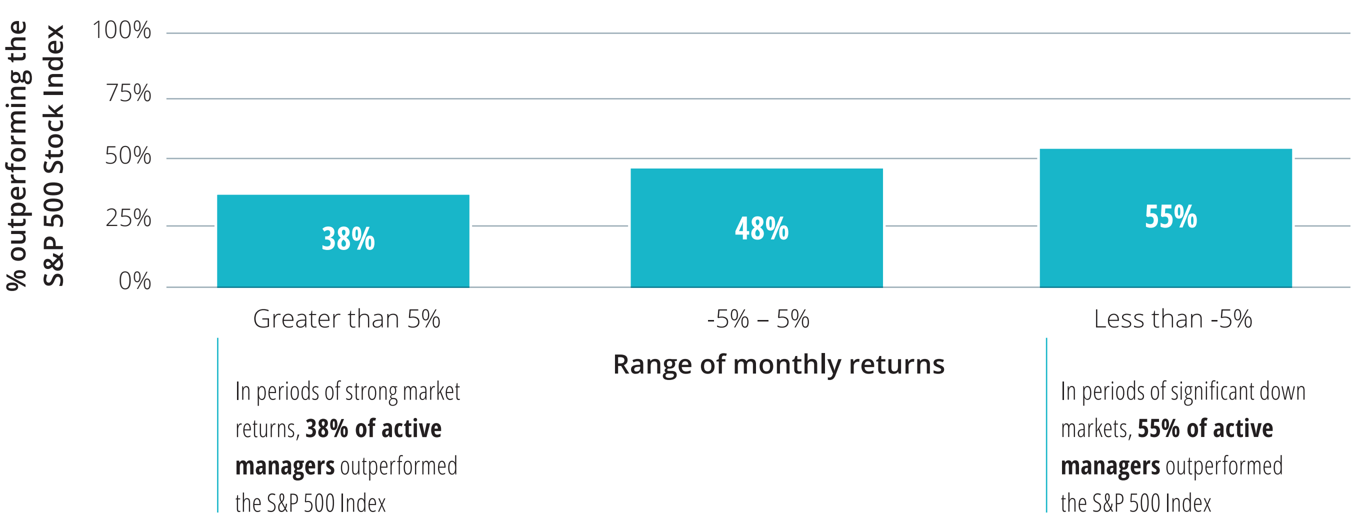
Recently Great-West Investments™ has examined the relationship between active and passive investments over time and its impact on investment portfolios. We looked at the average active fund return in various asset classes opposite the return of a relevant benchmark. In general, we find that active management adds the most value during down markets.

In the chart below, we show the returns of actively managed funds in the Morningstar® large-blend category opposite the returns of the S&P 500® Index over the past 40 years. This period is long enough for us to include a number of both up markets and down markets over time. We find that in months where the S&P 500 Index has generated a return of greater than 5%, the average active manager has been unable to keep pace with index funds. However, in months where the S&P 500 Index declined by 5% or more, the average active manager outperformed the benchmark. In months where the S&P 500 Index generated returns between -5% and 5%, passive funds had a slight edge.

We believe that downside protection is very important to investors, particularly retirement investors, who are using these portfolios in order to generate a pool of assets that is ultimately intended to replace one's income in retirement.

Separately, it is the goal of Great-West Investments to identify active managers who generate compelling, long-term investment returns for our clients. It is not our goal to select "average" managers. We believe we have a demonstrable history in the successful identification and retention of investment talent that has provided exceptional investment returns for clients. While this is certainly not the case with every investment decision

Active management has added value during down markets but struggled during strong rallies (Monthly returns: April 1977 – March 2017)



Source: Great-West Capital Management, LLC analysis & Morningstar® Direct℠

made for the Great-West Profile funds, on average we have a track record of long-term success in this area and view it as one of our core competencies.

Asset class performance

Trade winds that seemed to be changing the investment narrative towards the end of 2016 continued into the first quarter of 2017 as the Trump rally continued. Broad equity markets hit new highs and turned in a better quarterly return than we've seen in over a year. International equities finally managed to participate in this particular rally and even surpassed the performance of U.S. stocks. Conversely, fixed income was positive but muted following an additional rate increase in March.

The S&P 500 Index was up 6.1% in the first quarter (its highest quarterly return since the fourth quarter of 2015) and up more than 17% over the trailing one-year period. While 2016 saw value stocks rising to the top, growth stocks were in favor early in 2017. Over the first quarter the Russell 1000 Growth® Index outperformed the Russell 1000 Value® Index by over 5.5% (8.9% and 3.3%, respectively). Coupled with this overall trend was a wide dispersion of returns from various sectors of the equity market, with the best-performing sector (Technology) up over 12.5% and the worst-performing sector (Energy) down more than 6.5%.

Just as investment style and sector selections can impact returns, the first quarter showed that market capitalization can have a profound impact as well. The S&P Small Cap 600® Index was up only 1.1%, or roughly 5% less than its large-cap counterpart. Over the trailing one-year period, the story is reversed, with small caps gaining 24.6%; more than 7% above large caps. The "growth over value" story remained consistent within small-cap stocks as the Russell 2000 Growth outperformed the Russell 2000 Value Index by over 5% (5.3% and -0.1%, respectively) over the first quarter.

International equities outperformed domestic equities during the first quarter of 2017, reversing a long-standing trend of underperformance. The MSCI EAFE® Index has lagged the S&P 500 Index over the trailing one-, three, five- and 10-year periods. But, for the first quarter the MSCI EAFE Index was up 7.2% compared to 6.1% for the S&P 500 Index. Emerging Markets equity was even more impressive, with the MSCI Emerging Markets Index posting an 11.4% return, enough to pull even with domestic equity over the trailing one-year period at 17.2%. Long-term performance for emerging markets remains challenged, however, with the three-, five- and 10-year returns all remaining within 2.0% of zero.

After rebounding in 2016, commodities find themselves in negative territory once again in 2017. Over the first quarter the Bloomberg Commodity® Index, which tracks the return of a broad-based basket of various commodities, lost 2.3%. While the trailing one-year return was a healthy 8.7%, the three-, five-, and 10-year returns remain in negative territory.

As previously mentioned, fixed income turned in a subdued quarter as the Fed raised rates in both December and March. As 10-year Treasury yields remained anchored around 2.50% for much of the first quarter, the Bloomberg Barclays U.S. Aggregate Bond® Index, which measures a broad cross-section of the U.S. investment-grade bond market, posted a 0.8% return in the first quarter and only 0.4% over the trailing one-year period. Non-U.S. and non-investment grade corners of the market proved to be more successful. The Bloomberg Barclays U.S. Corporate High Yield Bond® Index posted a 2.7% return over the quarter as spreads compressed slightly. The Bloomberg Barclays Global Aggregate Bond ex-USD® and JPMorgan Emerging Markets Bond® Indices returned 2.5% and 3.9%, respectively.

Finally, the domestic real estate market, as measured by the performance of the FTSE NAREIT All Equity REITs® Index, was also muted in the first quarter. The index posted a gain of 2.5% for the quarter while its international counterpart, the FTSE EPRA/NAREIT Developed Ex-U.S. Index, returned 4.9%.

Performance of the Great-West Profile funds[6]

Each of the Great-West Profile funds closed out the quarter with positive returns. Quarterly returns ranged from 2.3% for the Great-West Conservative Profile Fund and 5.4% for the Great-West Aggressive Profile Fund. For the full year, the returns for the funds ranged from 7.0% for the Great-West Conservative Profile Fund to 16.7% for the Great-West Aggressive Profile Fund. 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.

Over the longer term, the funds have continued to perform in line with Great-West Capital Management, LLC's (GWCM's) expectations. Given the relatively strong performance of the equity markets (relative to fixed income) over longer-term periods, we have seen the funds with greater equity exposure (the Aggressive and Moderately Aggressive Profile funds) generate outperformance relative to the more conservative funds (the Conservative Profile and Moderately Conservative funds). The Moderate Profile Fund has generated returns in between those of the other funds.

One positive driver of relative performance for the funds was their investment in the Great-West Ariel Mid Cap Value Fund. This particular underlying fund has been a key holding in the each of the funds. The Great-West Ariel Mid Cap Value Fund pursues a bottom-up stock selection process which targets the mid-cap value space and includes a socially conscious screen. This fund ranked within its category's top 1% of peers during the first quarter of 2017.[7]

Another positive driver of fund performance for the year was the Great-West Templeton Global Bond Fund. This strategy leverages Franklin Templeton's Global Macro team's research and takes an often contrarian approach to non-U.S. fixed-income investing. Despite a higher level of volatility than some of its peers, the Great-West Templeton Global Bond Fund has had an impressive run over the past several years.[8]

During the quarter, each of the Profile funds was reconstituted to reflect a refreshed portfolio optimization exercise performed by GWCM. This change had some minor impacts on the target weightings of certain underlying funds within the allocation models. No underlying funds were added or removed during the quarter.

6 The Great-West Profile Funds are managed by Great-West Capital Management, LLC (GWCM) and may invest in other funds advised by GWCM, funds that are sub-advised by affiliated and unaffiliated subadvisers 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). As of May, 2017, the initial share class was renamed the Investor share class. 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.

7 The Great-West Ariel Mid Cap Value Fund Institutional Shares ranked five of 406 funds in the Morningstar mid-blend category for the three-month period. The returns for periods longer than one year reflect the Initial Class Shares prior to the inception of the Institutional Shares (May 1, 2015).

8 The Great-West Templeton Global Bond Fund returns represent the Institutional Shares. The returns for periods longer than one year reflect the Initial Class Shares prior to the inception of the Institutional Shares (May 1, 2015).

Morningstar® Ratings as of March 31, 2017

FUND NAME	TICKER	INCEPTION	CATEGORY	MORNINGSTAR RATING/ TOTAL # OF INVESTMENTS				TOTAL RETURN RANK CATEGORY*/# OF FUNDS			
				OVERALL	3-YEAR	5-YEAR	10-YEAR	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Great-West Agg Profile II Instl	MXGTX	5/1/15	US Fund Allocation—85%+ Equity	★★★★★ /139	★★★★★ /139	★★★★★ /125	★★★★ /102	27/161	N/A	N/A	N/A
Great-West Moderately Agg Prfl II Instl	MXHRX	5/1/15	US Fund Allocation—70% to 85% Equity	★★★★ /347	★★★★★ /347	★★★★ /286	★★★★ /216	145/397	N/A	N/A	N/A
Great-West Moderate Prfl II Instl	MXITX	5/1/15	US Fund Allocation—50% to 70% Equity	★★★★ /721	★★★★ /721	★★★★ /616	★★★ /424	196/824	N/A	N/A	N/A
Great-West Moderately Cnsrv Pfl II Instl	MXJUX	5/1/15	US Fund Allocation—30% to 50% Equity	★★★★ /408	★★★★★ /408	★★★★ /350	★★★★ /243	106/513	N/A	N/A	N/A
Great-West Conservative Prfl II Instl	MXKVX	5/1/15	US Fund Allocation—15% to 30% Equity	★★★★★ /171	★★★★★ /171	★★★★ /151	★★★★★ /86	24/202	N/A	N/A	N/A
Great-West Agg Profile I Init	MXPPX	9/11/97	US Fund Allocation—85%+ Equity	★★★★★ /139	★★★★★ /139	★★★★★ /125	★★★★ /102	45/161	9/139	8/125	11/102
Great-West Moderately Agg Prfl I Init	MXRPX	9/11/97	US Fund Allocation—70% to 85% Equity	★★★★ /347	★★★★ /347	★★★★ /286	★★★★ /216	179/397	68/347	82/286	34/216
Great-West Moderate Prfl I Init	MXOPX	9/11/97	US Fund Allocation—50% to 70% Equity	★★★ /721	★★★ /721	★★★ /616	★★★ /424	291/824	268/721	298/616	153/424
Great-West Moderately Cnsrv Prfl I Init	MXTPX	9/11/97	US Fund Allocation—30% to 50% Equity	★★★★ /408	★★★★ /408	★★★★ /350	★★★★ /243	146/513	61/408	73/350	53/243
Great-West Conservative Prfl I Init	MXVPX	9/11/97	US Fund Allocation—15% to 30% Equity	★★★★ /171	★★★★ /171	★★★★ /151	★★★★ /86	33/202	34/171	29/151	22/86

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

Note: On May 2017, the Initial share class was renamed to the Investor share class.

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Fund Performance as of March 31, 2017

FUND NAME	TICKER	INCEPTION	NET EXPENSE RATIO[9]	GROSS EXPENSE RATIO	1-YEAR RETURN	3-YEAR RETURN	5-YEAR RETURN	10-YEAR RETURN	SINCE INCEPTION RETURN
Great-West Agg Profile I Init	MXPPX	9/11/97	1.32	1.36	16.00	7.18	10.80	5.66	6.71
Great-West Moderately Agg Profile I Init	MXRPX	9/11/97	1.19	1.25	12.65	5.79	8.51	5.60	7.51
Great-West Moderate Profile I Init	MXOPX	9/11/97	1.10	1.19	10.84	5.13	7.30	5.46	6.18
Great-West Moderately Cnsrv Profile I Init	MXTPX	9/11/97	1.02	1.07	8.91	4.30	5.98	5.06	5.48
Great-West Conservative Profile I Init	MXVPX	9/11/97	0.98	1.07	7.03	3.45	4.67	4.59	5.22
Great-West Agg Profile II Instl	MXGTX	5/1/15	0.81	0.86	16.67	7.58	11.12	5.89	6.61
Great-West Moderately Agg Profile II Instl	MXHRX	5/1/15	0.68	0.74	13.14	6.20	8.80	5.81	5.43
Great-West Moderate Profile II Instl	MXITX	5/1/15	0.60	0.69	11.44	5.51	7.60	5.68	4.81
Great-West Moderately Cnsrv Profile II Instl	MXJUX	5/1/15	0.52	0.62	9.45	4.70	6.30	5.28	4.14
Great-West Conservative Profile II Instl	MXKVX	5/1/15	0.47	0.56	7.70	3.92	5.00	4.83	3.49

9 The net expense ratio is less applicable fee waivers or expense reimbursements that the investment adviser and/or administrator may have agreed upon, either voluntarily or by contractual agreement, while the gross expense ratio is not. Fee waivers and reimbursements may be modified or terminated at any time. Additional information can be found in the fund's prospectus and/or other disclosure documents regarding effective dates and/or whether waivers or reimbursements are voluntary or by contractual agreement. 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.

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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.

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