

# GATEWAY INDEX/RA — EQUITY MARKET VOLATILITY ONCE AGAIN INCREASED IN THE SECOND QUARTER OF 2010

## MARKET BACKGROUND AND GATEWAY INDEX/RA PERFORMANCE

The second quarter of 2010 presented equity investors with both good and bad news. On the positive side, the equity markets advanced in April, with the S&P 500 Index increasing 1.58%. In fact, on April 23 the S&P 500 Index achieved its highest level since the credit crisis, closing the day at 1217.28. On the other hand, the months of May (-7.99%) and June (-5.23%) were abysmal for equities. On May 20, the Index closed below its 200-day moving average for the first time since June of 2009. On June 7 investors witnessed the first “lower low” since the rally began in March of 2009 as the market closed at 1050.47, just below the closing price of 1056.74 on February 8, 2010, which marked the end of the first quarter’s slight correction. When time expired on the second quarter, the bears commanded the field, with the S&P 500 Index down 11.42% at 1030.71.

Equity market volatility reversed a downtrend during the quarter. Reminiscent of November during the Dubai crisis and January during the beginning of the euro-zone crisis, the Chicago Board Options Exchange Volatility Index (the “VIX”) moved sharply above 20, but unlike during those earlier periods, it remained firmly entrenched in elevated territory. Unlike the isolated instances of the prior periods, this time market volatility was reinforced by underlying economic uncertainties, particularly in the stagnant domestic employment and deteriorating consumer confidence data. For the quarter, the VIX increased from 17.59 to 34.54 while reaching an intra-day high of 48.20 on May 21.

For the second quarter, Gateway Index/RA declined 5.20%, net of fees, as compared to the aforementioned 11.42% decline by the S&P 500 Index. While higher option premiums provided attractive cash flow for Gateway Index/RA and allowed the strategy to incur less than half the market decline, market volatility presented both challenges and opportunities. Notably, on May 6, the day of the

“Flash Crash,” the portfolio team was able to extract profits from index put options as well as take advantage of the higher volatility by replacing index call options with new contracts possessing lower strike prices. This was the most dramatic of several instances during the quarter when the management team moved to reset strike prices to realize profits in index put options and reposition index call options to accommodate new market levels and premium potential. Gateway engaged in active put option trading during market rallies on May 10 (when the 1.1 billion euro stabilization package was announced) and June 15 when the S&P 500 Index rallied 2.35%, taking advantage of lower index put option prices to replace soon-to-expire put options. June 29 was a fateful day as Asian shares fell, led by a decline in Chinese markets, and the S&P 500 Index fell by nearly 3.1% for the day. This one-day decline afforded yet another opportunity to capture attractive premium as Gateway’s investment management team reset a call option at a lower strike.

As of the end of June, the Barclays Capital U. S. Aggregate Bond Index had achieved a year-to-date-return of 5.33% as the Index’s strong first quarter was bested by a second quarter return of 3.49%. Returns in the bond market have been driven by a combination of a flight to quality that typically accompanies equity market volatility and a continued preference for bond funds over equity funds on behalf of individual investors. Through the first five months of the year investors added over \$134 billion in net new money to bond funds after investing nearly \$395 billion in 2009. Net new money to equity funds was paltry in comparison, totaling approximately \$60 billion so far in 2010 and just \$72 billion for all of 2009. Many market observers have expressed concern over the continued popularity of bond funds. Not the least cause of concern is the number of past financial market upheavals caused by new money persistently flowing into overvalued markets. Further compounding the concern is the fact that most of these flows were directed toward the short-intermediate end of the yield curve.

(CONTINUED)

# GATEWAY INDEX/RA — EQUITY MARKET VOLATILITY ONCE AGAIN INCREASED IN THE SECOND QUARTER OF 2010 (CONTINUED)

Gateway Investment Advisers, LLC (“Gateway”) is an independent registered investment adviser and a successor in interest to Gateway Investment Advisers, L.P. as of February 15, 2008. Gateway Index/RA performance in this document is an asset-weighted composite of discretionary accounts under Gateway’s management which share the same investment objectives and hedging strategies.

The composite was created in January 1993. Prior to January 1, 1993, not all fully discretionary portfolios were represented in composites. Results shown for 1988 through 1992 are those of one representative account.

Gateway Index/RA performance results reflect the deduction of investment advisory fees and the reinvestment of dividends and other earnings. Past performance is no guarantee of future results. A more detailed description of Gateway’s fees is included in Form ADV, Part II.

The Annual Disclosure Presentation for Gateway Index/RA is available on the “Literature” page of this website or by calling 513.719.1100 extension 443.

	AVERAGE ANNUAL TOTAL RETURNS AS OF JUNE 30, 2010		
	GATEWAY INDEX/RA (NET OF FEES)	Barclays Capital U. S. Aggregate Bond Index	S&P 500 Index
One Year	3.50%	9.50%	14.43%
Three Years	-3.30	7.55	-9.81
Five Years	1.52	5.54	-0.80
Ten Years	2.10	6.47	-1.59
Since 1/1/88	7.64	7.46	8.99

The S&P 500 Index is a widely recognized measure of performance for the U. S. stock market. The S&P 500 Index figures represent the prices of a capitalization-weighted index of 500 common stocks and assume reinvestment of all dividends paid on the stocks in the index.

The Barclays Capital U. S. Aggregate Bond Index is an index comprised of approximately 6,000 publicly traded bonds including U. S. government, mortgage-backed, corporate and Yankee bonds with an average maturity of approximately 10 years. The index is weighted by the market value of the bonds included in the index. This index represents asset types which are subject to risk, including loss of principal.

Data Source: Gateway Investment Advisers, LLC and Thomson Reuters