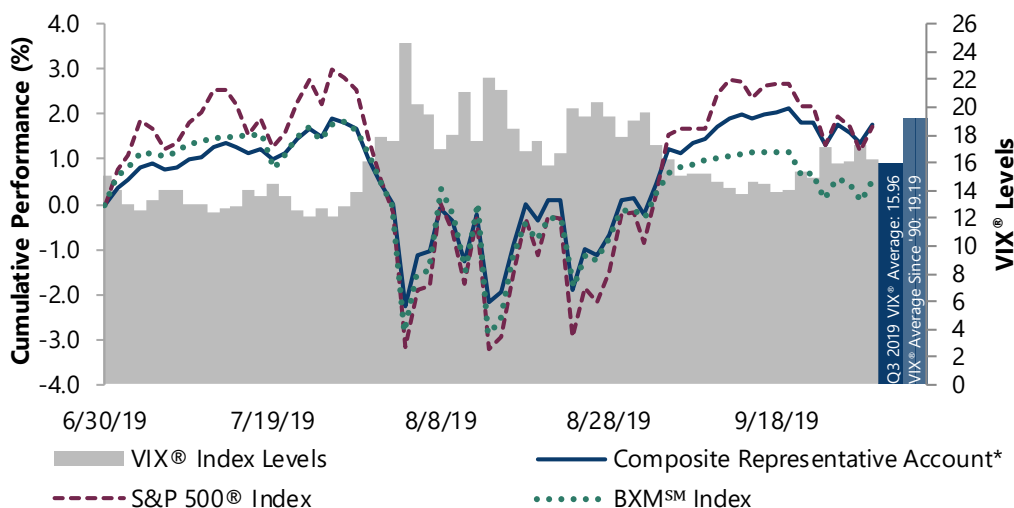


In Brief

- ◆ Gateway Active Index-Option Overwrite Composite (the Composite) returned 1.97%, net of fees, in the third quarter of 2019 compared to 0.56% return of the Cboe® S&P 500 BuyWriteSM Index (the BXMSM) and the 1.70% return of the S&P 500® Index. (A GIPS® Composite Report is included with this Commentary.)
- ◆ The fluctuating tone of U.S. and China trade negotiations drove market choppiness mid-quarter as the S&P 500® Index declined 5.99% from its all-time high on July 26 through August 14 and had three separate one-day declines over 2.50%. Specifically, the S&P 500® Index dropped 2.97%, 2.90% and 2.59% on August 5, 14 and 23, respectively.
- ◆ Throughout the quarter, the Composite* provided equity market participation and consistent downside protection with less risk relative to the S&P 500® Index. The Composite* declined 4.00% from July 26 through August 14 and declined 2.26%, 1.97% and 1.96% on August 5, 14, and 23, respectively.
- ◆ Implied volatility exceeded realized volatility with the Cboe® Volatility Index (the VIX®) averaging 15.96 for the quarter. The VIX® response to mid-quarter equity market declines was relatively muted as its high for the quarter was 24.59 on August 5 and it averaged 18.98 for the month of August. The annualized standard deviations of daily returns for the S&P 500® Index, the BXMSM, and the Composite* for the quarter were 14.84%, 12.08% and 10.03%, respectively.
- ◆ The Federal Reserve (the Fed) made two key policy adjustments in September: 1) it resumed growing its balance sheet after a liquidity crunch in overnight lending reserves roiled markets and 2) it implemented its second consecutive cut in the Federal Funds rate. The Fed has evolved significantly this year on its use of both policy tools. Will it be able to continue evolving fast enough to satisfy a market that seems to evermore insist upon accommodation?

Market Path & Implied Volatility



Source: Bloomberg, L.P. *The portfolio performance reflected for the Composite is that measured by a representative account. This information represents supplemental information to the GIPS®-compliant presentation. This representative account was selected as it is the largest account in the Composite.

Market Recap

After a very strong first half of 2019, the S&P 500® Index hit a relatively choppy plateau in the third quarter. Though the S&P 500® Index advanced 1.70% for the quarter, its path was not steady as monthly returns came in at 1.44%, -1.58%, and 1.87% in July, August, and September, respectively. The year-to-date return of the S&P 500® Index at the end of the third quarter was 20.55%. The middle of the quarter was particularly volatile as the S&P 500® Index experienced a 5.99% peak-to-trough decline from its all-time high on July 26 through August 14 and had three separate one-day declines of over 2.50% in August. The last time a month included three one-day declines of that magnitude was September 2011 when the equity market was reeling from the credit rating downgrade of U.S. government debt.

Third quarter choppiness was largely driven by the fluctuating tone of U.S. and China trade negotiations. August brought a flurry of exchange over the level and products affected by proposed tariffs from both sides. This back-and-forth contributed to uncertainty in

the equity markets and led to daily declines of 2.97%, 2.90%, and 2.59% on August 5, 14, and 23, respectively.

Trade tensions also impacted monetary policy in the third quarter, compelling the Fed to lower its benchmark overnight lending rate a quarter point at its meeting at the end of July and again in mid-September. Uncertainty over trade policy was cited as a key risk to continued economic expansion and the rate cuts were characterized as a “mid-cycle policy adjustment” and “insurance” against economic retrenchment. The Fed also adjusted its policy on the size of its balance sheet in September. After more than a year of allowing its balance sheet to shrink as bonds it owned matured, the Fed restarted asset purchases to address a lack of liquidity in the overnight lending market. The Fed had not engaged in such an operation since the depths of the financial crisis more than a decade ago. The Fed’s action helped calm markets that had been unnerved by a spike in overnight lending rates.

Despite the uptick in uncertainty and volatility, U.S. economic and corporate earnings data were generally positive. The third estimate of Gross Domestic Product growth for the second quarter of 2019 was 2.0%, near the upper range of consensus expectations. Corporate earnings decelerated a bit but remained positive as aggregate operating earnings for S&P 500® Index companies grew nearly 1% in the second quarter and more than 10% year-over-year. More than 82% of these companies reported second quarter earnings that met or exceeded analyst estimates. The employment situation held steady throughout the third quarter with the unemployment rate at 3.7% as reported for August. The August Consumer Price Index, released on September 12, showed a 1.7% year-over-year increase, in line with expectations.

Implied volatility, as measured by the VIX®, averaged 15.96 for the quarter, exceeding S&P 500® Index realized volatility of 14.84%, as measured by its annualized standard deviation of daily returns in the quarter. The VIX® began the quarter on a downtrend and bottomed at 12.07 on July 24. As U.S. – China trade tensions ratcheted higher and the equity market sold off, the VIX® rose to its third quarter peak of 24.59 on August 5. Despite a sizeable peak-to-trough decline that included multiple days of large losses, the VIX® response to mid-quarter equity market price volatility was relatively subdued compared to periods with similar declines. The VIX® averaged just 18.98 for the month of August and ended the third quarter at 16.24.

The BXMSM returned 0.56% in the third quarter of 2019, bringing its year-to-date return to 10.88%. On the third Friday of each month of the quarter, the BXMSM wrote a new index call option as the option it wrote the previous month expired. The premiums the BXMSM collects on written options have significant influence on its rate of return when the equity market advances and its amount of downside protection when the market declines. Premiums collected as a percentage of the BXM’sSM underlying value were 1.12%, 1.95% and 1.11% in July, August and September, respectively. With corresponding monthly returns of 1.06%, -1.14% and 0.65%, the BXMSM underperformed the S&P 500® Index in July and September, while providing 44 basis points (bps) of downside protection in August. Overall, downside protection in August did not make up for the BXM’sSM underperformance in July and September. During the 5.99% drawdown experienced by the S&P 500® Index between July 26 and August 14, the BXMSM provided 142 bps of downside protection.

The Bloomberg Barclays U.S. Aggregate Bond Index increased 2.27% in the third quarter, bringing its year-to-date return to 8.52%. The yield on the 10-year U.S. Treasury Note started the quarter at 2.02%, reached a high of 2.14% in July, then drifted lower to end the quarter at 1.67%. The lowest point of the quarter came in early September when yields reached 1.46%, more than 178 basis points (bps) below its recent peak of 3.24% on November 8, 2018. The 10-year yield also fell below the yield of the 2-year U.S. Treasury Note during the quarter, an inversion of the yield curve that in the past has preceded recessionary periods.

Gateway Active-Index Option Overwrite Composite Performance

The Composite returned 1.97%, net of fees, for the third quarter, outperforming the BXMSM by 141 bps and bringing its year-to-date return to 11.76%. Throughout the quarter, the Composite provided equity market participation and consistent downside protection. With monthly net returns of 1.01%, -0.68% and 1.64% for July, August and September, respectively, most the Composite’s outperformance relative to the BXMSM for the quarter came in September. Outperformance in September was primarily due to active adjustments to the Composite’s portfolio of written index call options that allowed it to maintain equity market exposure as the market advanced over the first half of the month. BXM’sSM static approach resulted in decreasing market exposure as the S&P 500® Index advanced past the strike price of its single written index option.

The portfolio performance contributions, annualized standard deviation, and portfolio statistics quoted for the Composite in the following paragraphs are those measured by a representative account.²

In addition to outperforming both the BXMSM and the S&P 500® Index for the month of August, the Composite had a smaller loss than the S&P 500® Index’s 5.99% drawdown from July 26 to August 14. The Composite returned

-4.00% for the period compared to -4.57% for the BXMSM. In addition, the Composite exhibited a lower risk profile than both indexes over the course of the quarter. The Composite’s annualized standard deviation of daily returns for the quarter was 10.03% as compared to 12.08% for the BXMSM and 14.84% for the S&P 500® Index. The Composite exhibited a beta to the BXMSM and S&P 500® Index of 0.80 and 0.66 for the quarter, respectively.

The Composite’s underlying equity portfolio contributed a total return of 1.59% in the third quarter, a performance differential of

negative 11 bps relative to the S&P 500® Index. The Composite's written index call option positions detracted from returns during the equity market advances in July and September. However, index call option writing generated risk-reducing cash flow throughout the quarter and gains on written index call option positions contributed to downside protection during August's equity market decline.

Gateway's investment team was active in their response to changes in market conditions and direction throughout the quarter. In periods when the equity market advanced, the team focused on exchanging index call options well in advance of their expiration dates for ones with later expiration dates and higher strike prices. This was in an effort to maintain a typical amount of equity market exposure and protect the Composite from the potentially adverse impact of a sharp reversal in market direction. As markets turned south during the middle of the quarter, the investment team took advantage of the relatively elevated volatility levels by making several index call option trades that increased potential cash flow while maintaining a typical risk profile.

At the end of the quarter, index call options were sold against over 95% of the equity portfolio's value and had a weighted average strike price between 1.5% in-the-money and 1.5% out-of-the-money, 32 days to expiration and annualized premium to earn between 10.0% and 15.0%. Relative to the beginning of the quarter, this positioning represented similar potential net cash flow and market exposure.

Market Perspective

Are the July and September Federal Fund rate cuts and renewed expansion of the Fed balance sheet signs that the policies led by Chairman Powell are falling into place? Or, are these adjustments a sign that it is falling behind?

At his final press conference in 2018, despite having just implemented the fourth rate hike of the year, Fed Chairman Powell noted fourth quarter market volatility was part of a backdrop, which included tighter financial conditions, which were less supportive of growth going forward. In that context, he stated that "Many [Federal Open Market Committee] FOMC participants had expected that economic conditions would likely call for about three more rate increases in 2019. We have brought that down a bit and now think it is more likely that the economy will grow in a way that will call for two interest rate increases over the course of next year."

Fast forward seven months from that statement and the Powell Fed had implemented zero additional rate hikes and, instead, made the first of two rate cuts so far in 2019. In July, and again in September, Chairman Powell noted that the Fed's policy evolution was driven by weak global growth, trade policy uncertainty and muted inflation.

The view that the Fed's policy has caught up to market expectations and, therefore, its policy is falling into place, is supported by Federal Funds futures pricing as of September 30, which reflected just a 40% chance of a rate cut at the upcoming October Fed meeting. Standing pat at the October meeting would also be consistent with the FOMC median 'dot plot', which projects the year-end rate expectations of each of the Fed's 17 voting members.

However, a mismatch between futures market pricing and the dot plot could support the idea that Fed policy is falling behind. Federal Funds futures pricing on September 30 also reflected a 70% chance of a rate cut by year-end (at either the October or December meeting). Furthermore, as of the September FOMC meeting, less than half the voting members, specifically seven of seventeen, project a lower rate by year-end, and five of the seventeen project a rate hike at one of the two remaining meetings of 2019. In short, it appears that a significant portion of bond futures market participants have assessed Fed policy as behind and in need of additional evolution.

While the Fed may or may not be playing catch-up with respect to its policy rate, for three days in September it appeared the Fed was behind the curve with respect to a different policy tool. After more than a year of allowing its balance sheet to shrink as the government bonds it owned matured, the Fed restarted asset purchases to address a lack of liquidity in the overnight lending market. From September 16 through 18, the effective Federal Funds rate (the interest rate at which overnight borrowers within the Federal Reserve system actually pay) spiked well above the mid-point of the target range and even went above the upper bound of the targeted range on September 17. The spike was driven by a shortage of liquid reserves that could be lent within the system. To remedy the situation, the Fed was compelled to conduct market operations involving the purchase of longer-term assets from lending institutions, thus supplying them with liquid reserves that could be used to satisfy demand for overnight loans. The Fed had not enacted such transactions since the financial crisis 11 years ago.

Though the Fed's action brought the effective Federal Fund's rate back to the mid-point of its target range and helped calm markets that had been unnerved by the overnight reserves rate spike, the change in policy is a potentially troubling sign. This is because Chairman Powell had earlier indicated that the policy approach was such that open market operations, like September's, would not be needed. Specifically, when pressed for clarification on its balance sheet policy during a post-meeting press conference in January, Chairman Powell explicitly articulated that the "ample reserves" policy approach of the Fed would entail setting the Federal Funds rate "without managing the supply of reserves actively." He went so far as to say that their approach would provide "good control of short-term money market rates in a variety of market conditions and effective transmission of those rates to broader financial conditions." In mid-September the market sent a clear signal that reserves were not "ample" enough and a resumption in the growth of the Fed's balance sheet ensued.

Whether the Fed policy evolution is ahead, behind or right on-time remains uncertain. What is more certain is that, if the Fed fails to continue meeting market expectations, there is significant potential for an increase in volatility and a possible disruption of the strong

returns posted by both equity and fixed income markets so far this year. As we wrote in our May and August Market Perspectives, we see the differing responses to upticks in uncertainty from implied volatility markets and interest rate markets as an indicator that many market participants are counting on the Fed to be effective managers of investment risk. Recently, at the same time there has been a strong downtrend in interest rate markets in response to negative developments and increasing uncertainty, there has been a muted response from markets that price future equity volatility, like the VIX®.

The combined signals from interest rate and implied volatility markets send the message that if interest rates go down, equity market volatility is likely to be low. As investors ponder the contingency in that statement, consider that the mandate of the Fed is to manage employment levels and price stability (inflation). Investors counting on the Fed to perform a function not explicitly part of its mandate may be setting themselves up for disappointment.

Important Information

All data as of September 30, 2019, unless noted otherwise.

1: The Cboe® S&P 500 BuyWriteSM Index (the BXMSM) is a passive total return index designed to track the performance of a hypothetical buy-write strategy on the S&P 500® Index. The construction methodology of the index includes buying an equity portfolio replicating the holdings of the S&P 500® Index and selling a single one-month S&P 500® Index call option with a strike price approximately at-the-money each month on the Friday of the standard index-option expiration cycle and holding that position until the next expiration.

2: Represents supplemental information to the GIPS-compliant presentation. This representative account was selected as it is the largest account in the Composite.

For more information and access to additional insights from Gateway Investment Advisers, LLC, please visit www.gia.com.

Gateway Investment Advisers, LLC (Gateway) is an independent registered adviser and a successor in interest to Gateway Investment Advisers, L.P. as of February 15, 2008. Performance information for Gateway Active Index-Option Overwrite Composite (the Composite) shown in this illustration is an asset-weighted composite of discretionary accounts under Gateway's management which share the same investment objectives and hedging strategies.

The Gateway Active Index-Option Overwrite Composite was created on April 1, 2008.

The Composite's net of fee performance results reflect the reinvestment of dividends and other earnings and reflect the deduction of investment advisory fees.

The effectiveness of Gateway's strategy might be reduced if the portfolio doesn't correlate to the performance of the index underlying its option positions. Rebalancing of a portfolio may involve tax consequences.

Selling index call options can reduce the risk of owning stocks, but limits the opportunity to profit from an increase in the market value of stocks in exchange for up-front cash at the time of selling the call option. Unusual market conditions or the lack of a ready market for any particular option at a specific time may reduce the effectiveness of the Composite's option strategy, and for these and other reasons the Composite's option strategy may not reduce the volatility to the extent desired.

Past performance is no guarantee of future results. A more detailed description of Gateway's standardized fees is included in Form ADV, Part 2.

The Annual Disclosure Presentation for the Gateway Active Index-Option Overwrite Composite is included with this document. Additional copies are available upon request by calling 513.719.1100.

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Data Source: Gateway Investment Advisers, LLC and Morningstar DirectSM

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Year End	Annual Performance Results				3-Year Standard Deviation			Number of Composite Accounts	Composite Assets (millions)	Firm Assets (millions)
	Composite Gross	Composite Net	S&P 500® Index	BXM SM Index	Composite	S&P 500® Index	BXM SM Index			
9 Months Ended 12/31/2008	-19.54%	-19.72%	-30.43%	-26.10%	N/A	N/A	N/A	1	\$492	\$7,071
2009	15.15	14.78	26.46	25.91	N/A	N/A	N/A	1	502	7,188
2010	13.30	12.91	15.06	5.86	N/A	N/A	N/A	1	516	7,699
2011	6.73	6.33	2.11	5.72	11.26%	18.97%	13.66%	1	496	8,081
2012	11.46	11.02	16.00	5.20	8.54	15.30	11.56	4	717	10,517
2013	14.91	14.46	32.39	13.26	6.28	12.11	9.39	4	1,233	12,475
2014	7.64	7.26	13.69	5.64	4.37	9.10	6.07	5	2,263	12,239
2015	5.98	5.57	1.38	5.24	5.37	10.62	6.52	6	2,404	12,210
2016	9.10	8.74	11.96	7.07	5.83	10.74	6.68	4	2,627	11,601
2017	13.83	13.44	21.83	13.00	5.47	10.07	5.83	4	2,665	12,559
2018	-4.86	-5.18	-4.38	-4.77	6.79	10.95	7.48	3	2,298	11,641

N/A: The gross three-year annualized ex-post standard deviation of the Composite and benchmarks is not presented as 36-month returns are not available. For all periods shown, the Composite has less than six accounts for the full year. As such, the Composite dispersion of portfolio returns is not applicable.

Gateway Active Index-Option Overwrite Composite contains fully discretionary hedged equity accounts that hold common stock and sell index call options on at least 95% of the underlying stock value. Indexes utilized for call option activity are U.S. domestic equity indexes that include all sectors of the economy. This call activity reduces volatility and provides cash flow. The creation and inception date of the Gateway Active Index-Option Overwrite Composite was April 1, 2008.

For comparison purposes the Composite is measured against two indexes, the S&P 500® Index, a popular indicator of the performance of the large capitalization sector of the U. S. stock market, and the Cboe® S&P 500 BuyWriteSM Index (BXMSM Index), a passive total return index designed to track the performance of a hypothetical buy-write strategy on the S&P 500® Index.

Performance results are expressed in U. S. dollars. Returns are presented gross and net of actual management fees and include the reinvestment of all income. Past performance is not indicative of future results. The 3-year standard deviation is calculated using gross returns. Net of fee performance was calculated using actual management fees. The current investment management fee schedule is as follows: 0.85% on the first \$5 million; 0.65% on the next \$5 million; 0.50% on the next \$40 million; and 0.45% on assets in excess of \$50 million. Actual investment management fees incurred by Composite accounts may vary.

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 claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Gateway has been independently verified for the periods January 1, 1993 through September 30, 2019. A firm that claims compliance with the GIPS® standards must establish policies and procedures for complying with all the applicable requirements of the GIPS® standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS® standards and have been implemented on a firm-wide basis. The Gateway Active Index-Option Overwrite Composite has had a performance examination for the periods April 1, 2008 through September 30, 2019. The verification and performance examination reports are available upon request.

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