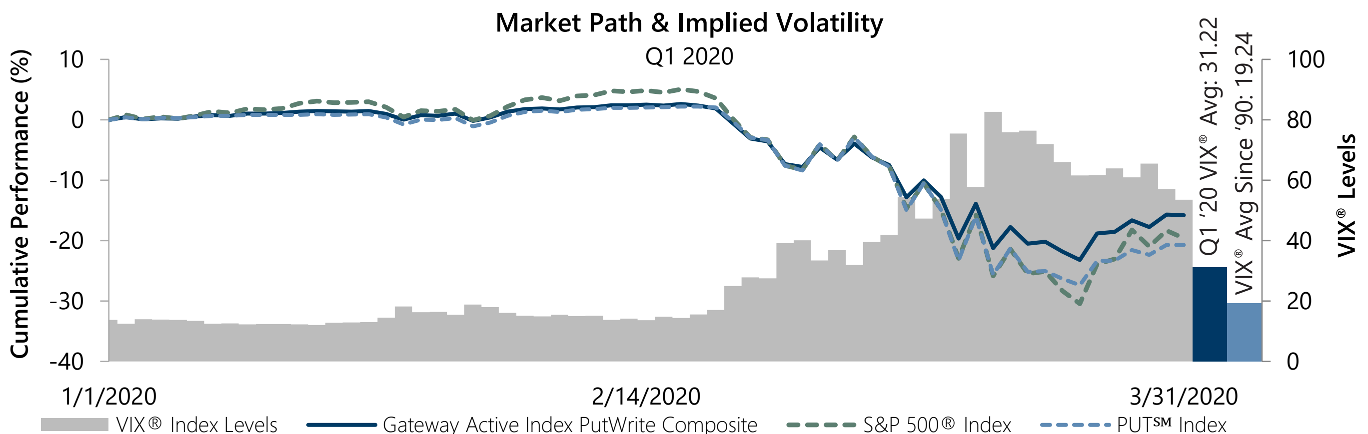
Active Index-PutWrite Composite Commentary
Q1 2020

In Brief

- Gateway Active Index-PutWrite Composite (the Composite) declined 15.78%, net of fees, in the first quarter of 2020 compared to the 20.68% decline of the Cboe® S&P 500 PutWrite℠ Index[1] (the PUT℠) and the 19.60% decline of the S&P 500® Index. (A GIPS® Composite Report is included with this Commentary.)
- The S&P 500® Index reached an intra-month low on March 23, after declining 33.79% from the market high on February 19. From March 23 through month end, the equity market staged a partial recovery of 15.57%.
- For the period February 19 through March 23, the Composite, net of fees, and the PUT℠ declined 25.15% and 28.92%, respectively. During the partial recovery from March 23 through month end, the Composite, net of fees, and the PUT℠ returned 9.64% and 9.19%, respectively.
- First quarter outperformance relative to the PUT℠ was primarily due to the Composite's diversified and active option writing approach which generated higher cash flow from written index put options and maintained relatively consistent equity market exposure as the market advanced and declined over the course of the quarter.
- Implied volatility, as measured by the Cboe® Volatility Index (the VIX®), averaged 31.22 in the first quarter of 2020, well above its historical average of 19.24. The first quarter closing high for the VIX® was 82.69 on March 16, its highest close in history and only slightly off its highest-ever intra-day value of 89.53 recorded on October 24, 2008. The intra-day high for the first quarter was 85.47 on March 18. The VIX® drifted lower to close the quarter at 53.54.
- First quarter annualized standard deviations of daily returns for the S&P 500® Index, the PUT℠ and the Composite were 56.95%, 50.96% and 39.86%, respectively.
- In a reversal from its trend, realized volatility – as measured by the annualized standard deviation of daily returns for the S&P 500® Index – exceeded average implied volatility for the quarter. The annualized standard deviation of daily returns of the S&P 500® Index reached an all-time high of 93.44% in March 2020. For comparison, the Composite and the PUT℠ had an annualized standard deviation of 65.02% and 84.11%, respectively, for the month of March.
- By several measures, March was the most volatile month in equity market history. Equity markets have recovered from the losses incurred during volatile periods of the past — sometimes quickly, sometimes slowly. While the future path of the equity market remains uncertain, history suggests that after reaching extreme highs, volatility measures can persist at above-average levels for lengthy periods of time, regardless of market direction.



Source: Bloomberg

1: The PUT℠ is a passive total return index designed to track the performance of a hypothetical portfolio that sells S&P 500® Index (SPX) put options against collateralized cash reserves held in a money market account. The PUT℠ strategy is designed to sell a monthly sequence of SPX puts and invest cash at one- and three-month Treasury Bill rates. The monthly sequence entails writing one-month SPX put options 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. The number of put contracts with identical strike prices and expiration dates sold varies from month to month but is limited so that the amount held in Treasury Bills can finance the maximum possible loss from final settlement of the SPX puts.

U.S. Market Recap

The S&P 500® Index declined 19.60% in the first quarter of 2020, the worst start to any year in stock market history. The equity market decline accelerated throughout the quarter with monthly declines of 0.04%, 8.23% and 12.35% in January, February and March, respectively. From its all-time high on February 19 through March 23, the S&P 500® Index rapidly entered bear market territory with a decline of 33.79% before staging a partial recovery. Between March 23 and quarter-end, the S&P 500® Index climbed 15.57%.

The 2020's got off to a roaring start, but not in a good way. Investors witnessed the signing of major global trade deals and positive backward-looking economic data, but a global pandemic triggered extreme volatility and ended one of the longest bull markets in history. The emergence of the COVID-19 illness led governments around the world to take unprecedented steps to slow the contagion, effectively shuttering major portions of their economies. Economic data releases toward the end of the first quarter of 2020 began to show the severe impact of these measures. As of March 6, the U.S. unemployment rate was 3.5%, a 50-year low, with nonfarm payroll growth regularly exceeding the top-end of expectations. On March 26, following the previous week in which stringent social distancing guidelines were issued for many parts of the country, initial jobless claims reflected more than 3.2 million new claims. Prior to this upheaval, a tight employment situation and strong consumer confidence led to a year-over-year change for the February Consumer Price Index of 2.3%, at the top of expectations and above the Federal Reserve's (the Fed) 2% target. Also, on March 26, the third estimate of Q4 GDP growth came in at 2.1%, at the top of consensus estimates. Corporate earnings also showed growth and, with more than 86% of companies reporting, over 77% met or beat expectations with fourth quarter 2019 earnings growth nearly 2% quarter-over-quarter and nearly 3% year-over-year.

Policy responses to the pandemic and its impact on capital markets and the economy were significant. The Fed took multiple accommodative steps in a proactive attempt to stem the economic drag of the COVID-19 mitigation measures. On March 3, the Fed cut its benchmark rate by 25 basis points (bps) before cutting it again by 50 bps - on a Sunday. This marks the first time the Fed has moved to cut interest rates on two separate occasions between scheduled meetings. In addition to these actions, the Fed resurrected several crisis-era efforts to address liquidity concerns, including the purchase of Treasury and mortgage-backed securities. As the equity market declined, calls for Congress to enact fiscal stimulus intensified. The market began its partial recovery during the same week that a $2.2 trillion stimulus package was proposed, debated and passed by both houses of Congress.

The VIX® averaged 31.22 in the first quarter of 2020, well above its historical average of 19.24. The first quarter closing high for the VIX® was 82.69 on March 16, its highest close in history. The intra-day high for the first quarter was 85.47 on March 18, only slightly off its highest-ever intra-day value of 89.53 recorded on October 24, 2008. The VIX® drifted lower to close the quarter at 53.54 as the S&P 500® Index staged a partial recovery during the end of March. The first quarter closing low for the VIX® was 12.10 on January 17. In a reversal of its typical relationship, realized volatility reached 56.95% for the quarter – as measured by the annualized standard deviation of daily returns for the S&P 500® Index – and exceeded average implied volatility for the period. The implied versus realized volatility relationship broke down as the S&P 500® Index selloff intensified in late February and continued into March. In February, S&P 500® Index realized volatility reached 24.77% and, in March, it spiked to 93.44%, the highest reading in history dating back to 1928. The VIX® averages for February and March were 19.63 and 57.74, respectively.

The PUT℠ had a return of -20.68% for the first quarter, underperforming the S&P 500® Index by 108 bps. On the third Friday of each month, the PUT℠ wrote a new index put option as the option it wrote the previous month expired. The premiums[2] the PUT℠ collects on written options have significant influence on its return potential over a period when the market advances and help to mitigate losses during market declines. Premiums collected as a percentage of the PUT's℠ underlying value were 1.18%, 1.46% and 6.88% in January, February and March, respectively. The increasing premiums reflect the increase in implied volatility over the course of the quarter. With monthly returns of -1.09%, -7.38% and -13.42%, outperformance relative to the S&P 500® Index in February did not make up for the PUT's℠ underperformance in January and March. The sudden shift from a low- to high-volatility environment and the timing of its option expirations had a significant impact on the PUT's℠ relative return for the quarter. Relatively low option premiums collected in the low volatility periods of December and January limited the PUT's℠ participation in the market advance that began the year. From the beginning of the year through February 19, the PUT℠ returned 2.19%, underperforming the 5.08% return of the S&P 500® Index. February expiration came just prior to the shift in market volatility, resulting in relatively moderate downside protection over the majority of the market's peak-to-trough drawdown. From February 19 through March 23, the PUT℠ declined 28.92%, providing 487 bps of downside protection relative to the S&P 500® Index. The relatively large premium collected by the PUT℠ on March 20 helped improve downside protection during the last two days of the market's drawdown, however, the return potential provided by the PUT's℠ March premium was small relative to the strong market advance at the end of the quarter. From March 23 through quarter end, the PUT℠ returned 9.19%, lagging the S&P 500® Index by 638 bps.

The Bloomberg Barclays U.S. Aggregate Bond Index (the Agg) returned 3.15% in the first quarter of 2020, benefiting from a drastic decline in interest rates. The yield on the 10-year U.S. Treasury Note (the 10-year) started the first quarter at its intra-quarter high

2: Premiums are calculated as a percentage of the written index put option's strike price. The number of put options written is limited such that the maximum potential loss of the written puts cannot exceed cash on hand. The writer of an index put option is obligated to deliver cash in an amount equal to the difference between the put contract's strike price and the value of the index at expiration. The maximum potential loss of a written index put option would occur if the value of the index, in this case the S&P 500® Index, fell to zero. Since the writer of an index put option is obligated to deliver cash in an amount equal to the difference between the put contract's strike price and the value of the index at expiration, the maximum potential loss would be equal to the strike price times the number of contracts written.

of 1.92% and ended the quarter significantly lower at 0.67%. On March 9, the yield on the 10-year declined to an intra-quarter low of 0.54% before briefly spiking to 1.19% on March 18. These swings demonstrated that the bond market was not immune from volatility and losses as, from March 9 through March 19, the Agg declined 6.30%. On the shorter-end of the yield curve, investors witnessed yields dip into negative territory, with one-month U.S. Treasury Notes yielding -0.17% on March 25 before ending the quarter in positive territory.

Gateway Active Index-PutWrite Composite Performance

The Composite returned -15.78%, net of fees, for the first quarter, outpacing the PUT℠ by 490 bps. The Composite posted monthly net returns of -0.15%, -7.67% and -8.65% in January, February and March, respectively, with outperformance relative to PUT℠ in January and March more than compensating for slight underperformance in February. In achieving its low-volatility objective for the quarter, the Composite had a standard deviation of 39.86% relative to the 50.96% standard deviation of the PUT℠.

The Composite's active and diversified approach added value relative to the PUT℠ in all phases of the tumultuous first quarter. Specifically, the Composite returned 2.64%, net of fees, from the start of 2020 to the market's all-time high on February 19, outperforming the 2.19% return of the PUT℠ by 45 bps as the S&P 500® Index advanced 5.08%. Over this period, the investment team's active adjustments to the Composite's diversified portfolio of written index put options focused on gradually raising the weighted-average strike price as the equity market advanced. During the equity market drawdown from February 19 through March 23, the Composite returned -25.15%, net of fees, a performance advantage of 377 bps relative to the PUT's℠ return of -28.92% over the same period. The Composite delivered 864 bps of downside protection relative to the -33.79% decline of the S&P 500® Index during the drawdown period. The active adjustments to the Composite's written index put option portfolio during the market decline were focused on taking advantage of extremely high implied volatility levels to increase the cash flow potential of the strategy. This, in combination with lowering the weighted-average strike price of the portfolio as the market declined resulted in outperformance relative to the PUT℠. As the equity market staged a partial recovery from March 23 to quarter-end the Composite returned 9.64%, net of fees, outperforming the 9.19% return of the PUT℠ by 45 bps as the S&P 500® Index advanced 15.57%. During the market advance that began the quarter, upward adjustment of strike prices helped the Composite outperform the PUT℠.

For the first quarter, the Composite's underlying Treasury bill portfolio contributed a total return of 0.62%. The Composite's written index put options detracted from return in each month of the first quarter. Losses on written index put options are expected in periods when put premiums collected are smaller than the decrease in value of the S&P 500® Index.

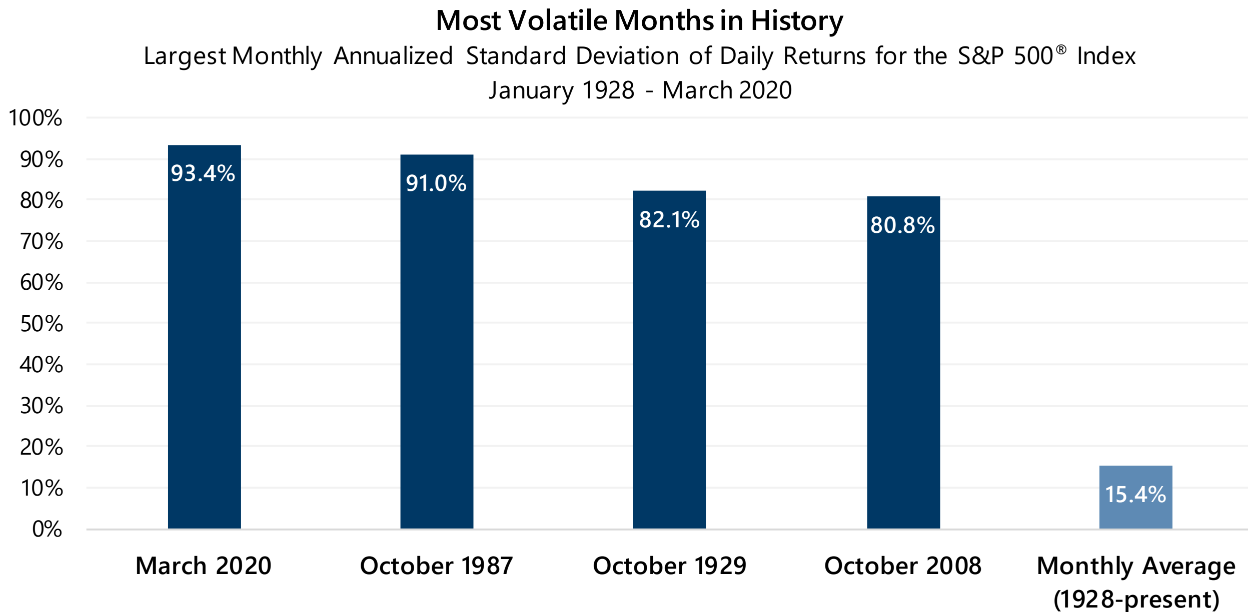
As of quarter end, the full value of the Composite's maximum potential loss on written index put options was secured with Treasury bills and cash. The Composite's diversified portfolio of written index put options had a weighted-average strike price between 1.5% in-the-money and 1.5% out-of-the-money, weighted-average time to expiration of 20 days and annualized premium to earn between 60% to 65%. Relative to the beginning of the quarter, this positioning represented slightly higher market exposure and significantly higher cash flow potential.

Average Annual Performance (%)	Q1 2020	1 Year	3 Years	Since Inception*
Gateway Active Index-PutWrite Composite (Net)	-15.78	-8.38	-0.04	3.11
Cboe® S&P 500 PutWrite Index	-20.68	-14.65	-3.25	1.40
S&P 500® Index	-19.60	-6.98	5.10	6.73

* Inception of Gateway Active Index-PutWrite Composite is April 1, 2015. Sources: Bloomberg, L.P., Morningstar Direct℠ and Gateway Investment Advisers, LLC. Periods over one year are annualized. Past performance is no guarantee of future results. See GIPS® Composite Report included with this commentary.

Market Perspective

Measures taken to prevent the spread of COVID-19 have caused radical changes to our everyday lives. We have had to adjust how we work, play, shop, eat and travel. Naturally, the restrictions on these activities will have a significant and negative impact on overall economic activity. This impact was reflected in equity market action in the first quarter of 2020. The first quarter witnessed not only the quickest-ever bear market decline, but also the most volatile month in stock market history. The standard deviation of daily returns for the S&P 500® Index in March 2020 was higher than any point in history, including the Great Depression, October 1987 and the financial crisis of 2008.



Source: Bloomberg, L.P.

Are extreme volatility spikes harbingers of tough economic times to come? Not necessarily. The second-most volatile month in history was October 1987. It did not pre-sage economic doom nor the beginning of a protracted equity bear market. In early December 1987, the market started a steady recovery from its Black Monday losses and reached new all-time highs by July 1989. The U.S. economic expansion that began in November 1982 was not interrupted and the next recession did not begin until July 1990.

Rather than being predictive of future outcomes for the equity market and economy, extreme volatility measures are more likely reflective of the kind of uncertainty that makes investment decision-making challenging. In the investment arena, uncertainty and risk are related, but distinct. In crisis environments, volatility becomes a crude measuring stick that encompasses both.

Risk is present when the range of outcomes is known and probabilities can be estimated. Wagering on a game of dice is risky, but odds can be calculated and bets can be sized to fit the likelihood of a favorable outcome. Uncertainty, on the other hand, is suspecting the dice are loaded.

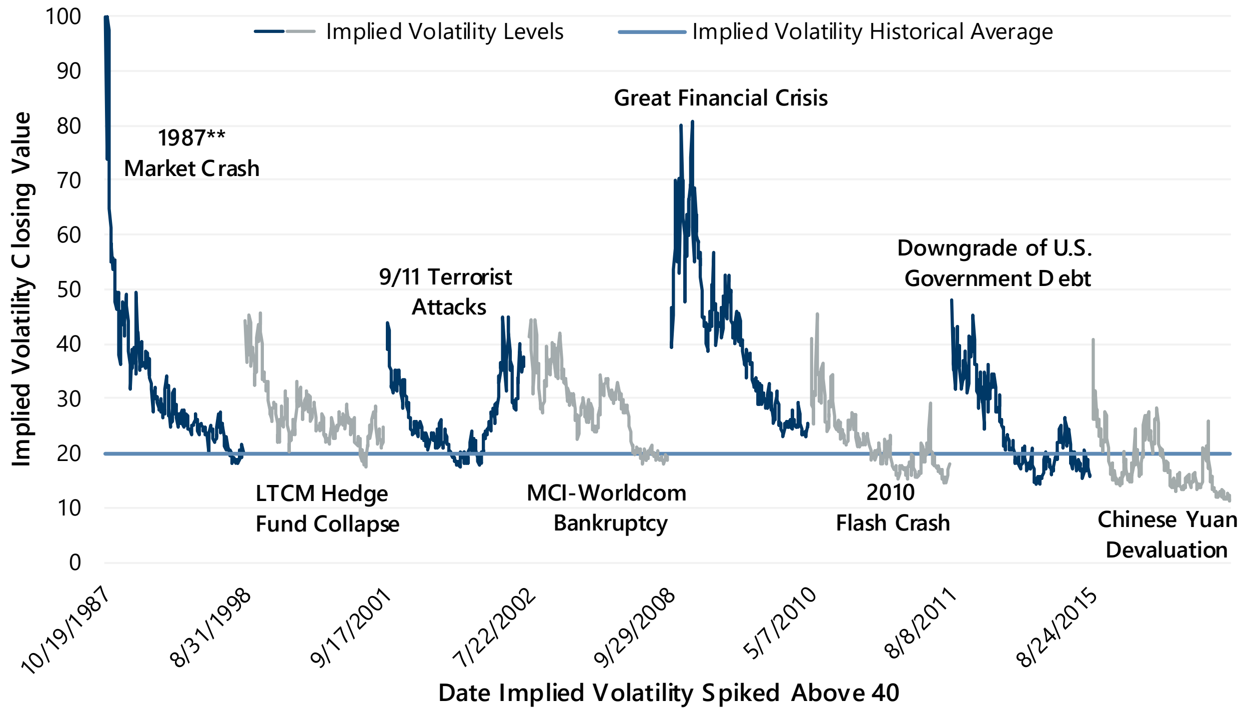
Similarly, wagering on the next card to be drawn from a deck of playing cards is risky but, under the right conditions, information underlying the game improves over time. Knowing what cards have already been drawn from the deck improves the odds of correctly guessing subsequent cards. However, if the deck of cards is non-standard or consists of an undisclosed number of standard decks, players cannot get an accurate calculation of the odds. A game with these conditions is not merely risky, its outcomes are completely uncertain and only a foolish person would participate.

The unprecedented social distancing measures taken in response to the pandemic changed the nature of valuing investments. Investing is always risky, and social distancing measures (and the degree to which they are adhered to) have created a wider range of outcomes for the economy, the market and individual companies than existed prior to the outbreak. On top of that, investing became uncertain, more like a game of dice or cards in which the odds cannot be calculated, because the current circumstances are unprecedented. Parameters for estimating the probability of specific outcomes simply did not exist when policies to slow the spread of the pandemic were put in place.

As time passes, uncertainty may decrease, but risk will remain. Knowing that policymakers can respond promptly with policy countermeasures like stimulus bills and monetary action removes some uncertainty. The effectiveness of countermeasures can be tracked, evaluated and modeled, which is how risk is managed – not eliminated, but managed. The spread of the disease has been frighteningly fast, and infection and fatality rates have differed by location, but the mere fact that a growing data set exists means uncertainty has been reduced and information exists to manage the risks of the pandemic. Healthcare workers, policymakers and investors increasingly have the ability to act based on real information to reduce the risk of adverse outcomes and increase the likelihood of positive outcomes. As the amount of information on the current state of the world increases, uncertainty is removed but risk will persist. Equity markets may remain susceptible to sharp spikes in volatility – particularly if there is severe and unexpected deterioration in statistics relating to the spread of the pandemic, fatality rates and economic activity.

Equity markets have recovered from the losses incurred during volatile periods of the past — sometimes quickly, sometimes slowly. While the future path of the equity market remains uncertain, history suggests that after reaching extreme highs, volatility measures can persist at above-average levels for lengthy periods of time, regardless of market direction. Examining periods following months in which the annualized standard deviation of daily returns for the equity market exceeded 50% shows that realized volatility remained above average for most of the subsequent year, and in some cases much longer, as was the case during volatility spikes associated with the Great Depression and the more recent financial crisis of 2008. Implied volatility, which has been priced since 1985, shows a similar pattern. When implied volatility has spiked above 40 in the past, daily closing values have typically remained above average for most of the subsequent year.

Extreme Implied Volatility* Has Typically been Followed by Persistent Above-Average Volatility
Implied Volatility Levels During the 12-months Following an Extreme Spike
October 1987 - March 2020



*Implied volatility levels displayed are a combination of the Cboe® S&P 100 Volatility Index® (the VXO®) and the Cboe® Volatility Index® (the VIX®). Daily pricing for the VIX® is available from January 2, 1990 to present. VXO® prices are used for dates prior to 1990. **Graph is truncated for readability. The VXO® was priced at 150.19 on Black Monday, October 19, 1987. Source: Bloomberg, L.P.

History suggests that equity market volatility will subside over time. First, as the world becomes less uncertain, the component of market volatility associated with uncertainty will diminish. What remains in the near-term is a higher level of risk, reflecting the grim realities of the pandemic. In time, the risks posed by the pandemic will be managed down as healthcare providers and health policymakers treat the disease and slow its spread. The history of market crises suggest that equity market volatility may also decline as progress is made. At the same time, economic and financial policymakers will have more information and more tools to manage the economic fallout of the pandemic, and investors will have more information to manage the specific risks to which they are sensitive. How long this process will take is unknown. Progress will be made, but the pace will vary and there will likely be setbacks along the way.

Strategies that combine equity market exposure with index option writing may be an attractive solution for investors who need to stay positioned for long-term growth or need a lower risk means of earning back equity market losses. With risk elevated and likely to stay that way for a while, investors may benefit from reliable risk reduction and downside protection. Gateway's index-option based approach to managing risk and pursuing return has a history of generating higher cash flow in periods of elevated equity market volatility. Higher cash flow helps position Gateway strategies for attractive participation in an equity market recovery, but also provides the potential for robust downside protection should additional market declines lie ahead. In this uncertain time, investors can rely on Gateway to stick with the discipline it has maintained for over 40 years.

Important Information

All data as of March 31, 2020, unless noted otherwise.

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

Gateway Active Index-PutWrite Composite contains a fully discretionary option writing account that sells (writes) index put options. The written put options are exchange-traded and fully cash-secured. Indexes utilized for put option activity are liquid U.S. equity indexes that include all sectors of the economy. Put writing activity provides cash flow and equity market correlation. The Composite was created on April 1, 2015. The Composite net of fee performance results reflect the reinvestment of any earnings, and reflect the deduction of a model advisory fee of 0.35%. Fees, including the model advisory fee netted from this Composite, may be less or more than fees that other accounts would pay for this strategy in the future. A more detailed description of Gateway's standardized fees is included in Form ADV, Part 2.

For comparison purposes, the Composite may be measured against the following indexes: Cboe® S&P 500 PutWrite℠ Index (PUT℠ Index), a passive total return index designed to track the performance of a hypothetical put-write strategy on the S&P 500® Index; S&P 500® Index, a popular indicator of the performance of the large capitalization sector of the U.S. stock market. Performance results are expressed in U. S. dollars;

Selling index put options can reduce the risk of equity market volatility, 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 put 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. Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results.

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.

The GIPS® Composite Report for the Gateway Active Index-PutWrite Composite is included with this document. Additional copies are available upon request by calling 513.719.1100.

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Data sources: Gateway Investment Advisers, LLC, Bloomberg, L.P., and Morningstar Direct℠

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GATEWAY
INVESTMENT ADVISERS, LLC

Gateway Active Index-PutWrite Composite

GIPS® Composite Report

Year End	Annual Performance Results: Composite Gross	Composite Net	% of Non-Fee Paying	PUT℠ Index	S&P 500® Index	3-Year Standard Deviation: Composite	PUT℠ Index	S&P 500® Index	Number of Composite Accounts	Composite Assets (millions)	Firm Assets (millions)
9 Months Ended 12/31/2015	4.34%	4.07%	100%	5.94%	0.45%	N/A	N/A	N/A	1	$ 5	$ 12,210
2016	8.76	8.37	100	7.77	11.96	N/A	N/A	N/A	1	6	11,601
2017	12.15	11.75	100	10.85	21.83	N/A	N/A	N/A	1	5	12,559
2018	-5.61	-5.96	100	-5.93	-4.38	6.89%	7.50%	10.95%	1	4	11,641
2019	17.15	16.73	100	13.51	31.49	7.52	7.92	12.10	1	5	10,950

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-PutWrite Composite contains fully discretionary option writing accounts that sell (write) index put options. The written put options are fully cash-secured. Indexes utilized for put option activity are U.S. domestic equity indexes that include all sectors of the economy. This put writing activity provides cash flow and equity market correlation. The creation and inception date of the Gateway Active Index-PutWrite Composite was April 1, 2015.

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

Performance results are expressed in U.S. dollars. Performance returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using the Composite's highest tier of the current fee schedule of 0.35%. Past performance is not indicative of future results. The 3-year standard deviation is calculated using gross returns.

The investment management fee for the Composite is 0.35%. 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 March 31, 2020. 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-PutWrite Composite has had a performance examination for the periods April 1, 2015 through March 31, 2020. The verification and performance examination reports are available upon request.

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Policies for valuing portfolios, calculating performance and preparing GIPS® reports are available upon request. Gateway's lists of composite descriptions and broad distribution pooled funds are also available upon request.