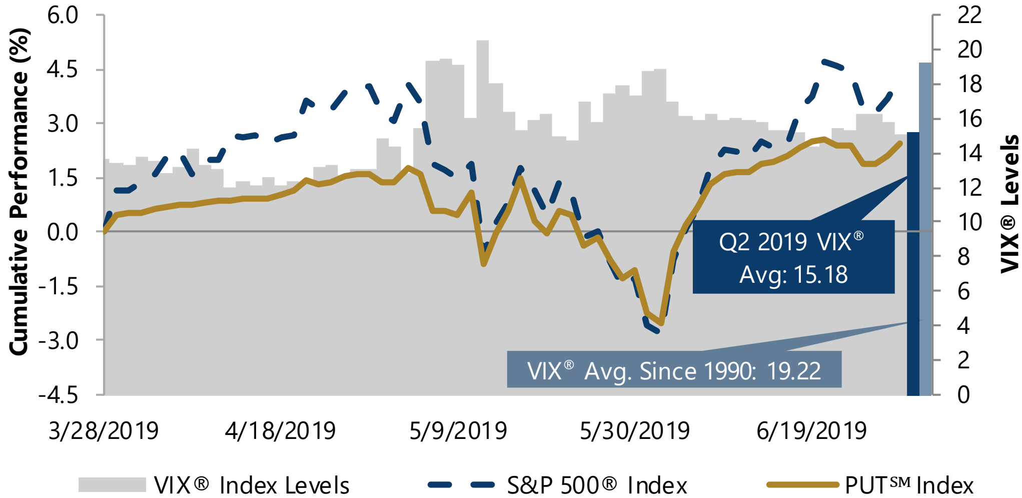
Active Index-PutWrite Composite Commentary
Q2 2019

In Brief

- Gateway Active Index-PutWrite Composite (the Composite) returned 1.85%, net of fees, in the second quarter of 2019 compared to the 2.44% return of the Chicago Board Options Exchange (Cboe®) S&P 500 PutWrite℠ Index (the PUT℠) and the 4.30% return of the S&P 500® Index.
- The Composite started the quarter strong, outperforming the PUT℠ in April due to longer-dated index put option contracts relative to passive, rules-based approach of the PUT℠. During May's equity market retreat, lowering the Composite's index put option strike prices led to slightly better downside protection as compared to the PUT℠. In June, the Composite had relatively lower market exposure during the significant market advance which ultimately led to its underperformance versus the PUT℠ for the quarter.
- Trade policy and global growth concerns peaked in May when the S&P 500® Index booked 2019's largest monthly drawdown of 6.35%. The Federal Reserve (the Fed), however, helped allay investor concerns by shifting toward a dovish stance.
- Implied volatility exceeded realized volatility with the Cboe® Volatility Index (VIX®) averaging 15.18 for the quarter while the annualized standard deviation of the S&P 500® Index was 11.51%.
- Investors should contemplate the path forward and explore potential risks and rewards associated with uncertainty around global growth, monetary policy and trade policy. In particular, investors should consider the potential negative impact to both stock and bond markets if the Fed does not deliver the multiple rate cuts currently reflected in bond futures market prices.

Market Path & Implied Volatility



Market Recap

The S&P 500® Index weathered the storms in the second quarter of 2019 to return 4.30%, bringing its year-to-date return to an impressive 18.54%. The second quarter started strong with a 4.05% climb in April, digested 2019's largest monthly drawdown of 6.35% in May, then recovered by ending on a positive note with June's 7.05% return.

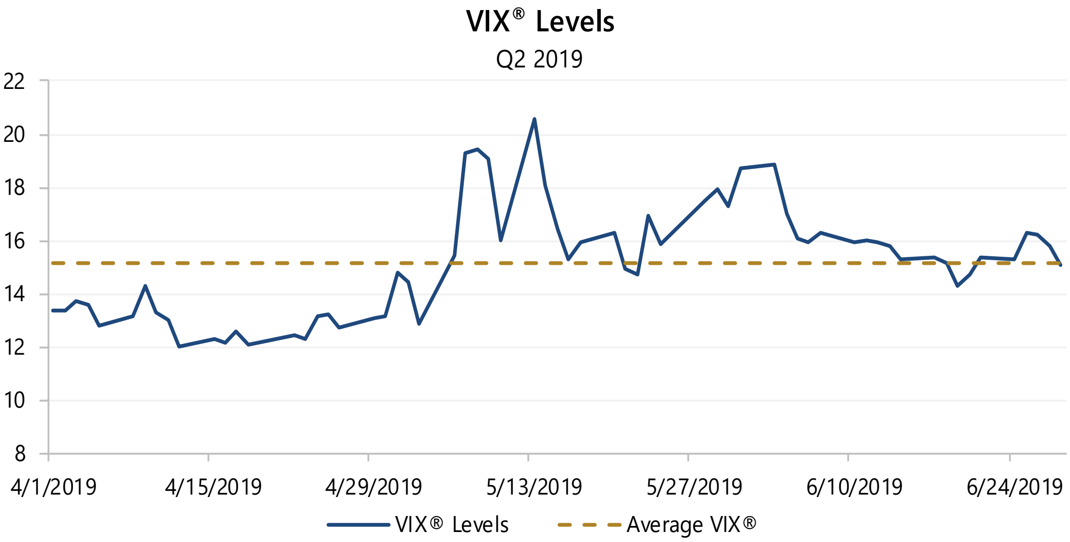
The second quarter faced a quagmire of concerns around trade policy and global growth. These issues percolated throughout the quarter but peaked in May as tensions between the U.S., China and Mexico ratcheted higher. The Fed was quick in its attempt to allay investor fears with a more dovish stance than originally portrayed heading into the quarter. As the Fed acknowledged slowing

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.

global growth and potential negative impacts on domestic growth stemming from trade tensions, investors appeared sufficiently encouraged and helped the S&P 500® Index resume an impressive climb to record highs.

On the domestic front, the third estimate of Gross Domestic Product growth for the first quarter of 2019 came in at 3.1%, in line with consensus expectations. Corporate earnings also remained positive with more than 81% of companies reporting first quarter earnings that met or exceeded analyst estimates and aggregate operating earnings for S&P 500® Index companies grew nearly 16% year-over-year. The employment situation improved throughout the second quarter with the May unemployment rate declining to 3.6% from 3.8% reported in March. The May Consumer Price Index, released on June 12, showed a 1.8% year-over-year increase, in line with expectations yet below the 2% level targeted by the Fed.

Implied volatility, as measured by VIX®, averaged 15.18 for the quarter. VIX® exceeded S&P 500® Index realized volatility, as measured by its annualized standard deviation of daily returns, of 11.51% for the quarter. VIX® started the second quarter at 13.40, before drifting to its intra-quarter low of 12.01 on April 12, then peaked at 20.55 on May 13 before closing the quarter at 15.08.



Gateway Active Index-PutWrite Composite Performance

The Composite returned 1.85%, net of fees, for the second quarter. With monthly returns of 2.12%, -3.67% and 3.54% for April, May, and June, respectively, the Composite's outperformance in April and May did not make up for lagging performance as compared to the PUT℠ in June. As equity markets climbed gradually in April, the Composite's active approach utilized longer-dated index put options than the single contract the PUT℠ had exposure to for much of the month. More specifically, maintaining an index put option portfolio with a relatively long time to expiration while raising index put option strike prices as the market advanced allowed the Composite to earn more time premium, resulting in outperformance of the passive, rules-based approach of the PUT℠ in April. As equity markets retreated in May, the Composite replaced select written index put option contracts for those with lower strike prices to maintain typical market exposure as the market declined, resulting in slightly better downside protection than the PUT℠ delivered relative to the S&P 500® Index. The Composite's underperformance in June was primarily due to less market exposure than the PUT℠ over the first three weeks of the month. May's market decline resulted in the PUT's℠ single written index put option being relatively deep in-the-money at the beginning of June whereas the Composite's portfolio of written index put options had a lower weighted-average strike price, thus providing less market exposure as the market recovered sharply from May's decline.

For the second quarter, the Composite's underlying Treasury bill portfolio contributed a total return of 0.60%. The Composite's index put option portfolio contributed positively to returns in April and June while detracting from returns in May. 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 written index put 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 put option trades that increased potential cash flow while maintaining a typical risk profile.

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.

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 26 days and annualized premium to earn between 12.5% to 15.0%. Relative to the beginning of the quarter, this positioning represented slightly lower market exposure and lower net cash flow potential.

Market Perspective

The first half of 2019 unfolded in a way few predicted coming into the year. The equity market not only recovered to new all-time highs in the second quarter, but it approached and even surpassed levels that many prognosticators had predicted for the full year. Meanwhile, in the bond market, falling interest rates and expectations of future rate cuts helped the Bloomberg Barclays U.S. Aggregate Bond Index deliver its best total return over the first half of a year since 1995.

Given the surprises thus far in 2019, what should investors expect going forward? There are few, if any, scenarios in which both stocks and bonds continue to deliver the very high returns of the last six months. In other words, what is good for stocks in the short-term is likely to be bad for bonds and vice versa. Furthermore, since strength in both markets has coincided with increasing expectations that the Federal Reserve will cut short-term rates in the second half of the year, downside risk in both markets may have increased.

As surprising as the first half returns of the stock and bond markets have been, the environment in which the returns have transpired makes them even more surprising. The strong returns of the equity market came despite a significant slow-down in the growth rate of corporate earnings. After growing at a rate of more than 6% in each of the first three quarters of 2018, S&P 500® Index operating earnings expanded at a rate of less than 1% in both Q4 2018 and Q1 2019 and are currently expected to grow less than 1% in Q2 2019. Slowing growth appears to be primarily a corporate phenomenon rather than a sign of broader domestic economic deterioration.

The bond market environment has changed dramatically over the last six months. After their December 2018 meeting, the Fed had prepared the market to expect two rate hikes in 2019. Market seers who had forecast low to negative returns from bonds based on the Fed's outlook are, to this point, off by more than a country mile. The yield on the 10-year U.S. Treasury Note has defied both the Fed and market prophets by briefly falling below 2% during the second quarter, a mark that put it within spitting distance of all-time lows. Moreover, at the end of Q2 2019, futures market prices for the Fed funds rate reflected a 100% probability of at least one rate cut this year, with the first likely to come as soon as July. Futures pricing also reflected rising probabilities of additional cuts by year-end. Falling rates and strong bond market returns occurred despite robust Q1 2019 GDP growth, strong employment figures and an elevated Conference Board Leading Economic Index.

Looking forward, continued economic expansion may be necessary to support a reacceleration of earnings growth that would justify current market valuations and support a continuation of the robust equity market advance. However, this would likely put upward pressure on interest rates and lower the likelihood that the Fed could justify the multiple future rate cuts currently priced into futures markets. Similarly, significant progress on trade policy, specifically between the U.S. and China, may benefit stocks but would also likely alleviate some of the concerns about a global economic growth slowdown that may have contributed to expectations of future rate cuts by the Fed. Conversely, if economic data begin to conclusively show that the domestic economy is deteriorating due to tariffs, slowing global growth or some other phenomena, the bond market may continue to rally. However, any or all of these developments would be negative for the stock market.

While it is difficult to envision scenarios that would allow both the stock and bond markets to simultaneously continue their high returns, there is a scenario with the potential to trigger a simultaneous retrenchment in both markets. If the Fed is unable to deliver on the rate cut expectations currently reflected in bond futures market prices, both stock and bond markets could potentially give back a substantial portion of their recent gains.

Investors may be compelled to attempt shifting money to the winning horse that has gotten out to a stronger than expected start. Gateway believes investors are best served by maintaining exposures that are consistent with their risk tolerance. Shifting portfolio allocation toward the asset class that is expected to do the best over the short term could result in exceeding risk tolerance, or unnecessarily lowering risk below tolerance. Gateway strategies, which combine equity exposure and index option-based cash flow to lower risk, are a potentially attractive middle ground for investors who see long-term opportunity in equities but shorter-term risks in both stock and bond markets.

VIX® ended the second quarter at 15.08. While this is below its historical average, it is notable because the S&P 500® Index was above 2900 and near its all-time high. VIX® ended the second quarter significantly higher than its reading the previous times the

S&P 500® Index made new highs above 2900. Specifically, VIX® was 28% higher than it was at the market peak on September 20, 2018 and 17% higher than the peak on May 3, 2019. The implied volatility represented by VIX® is the vital component of strategies that write index options to lower the risk of equity market exposure. Higher VIX® levels result in higher cash flow from index option writing. Higher cash flow has the potential to translate into greater returns if the equity market advance continues. Increased cash flow can also provide improved protection if downside risk materializes in the equity market.

Gateway strategies have a long history of utilizing cash flow from option writing to achieve a lower risk profile than the broader equity market. Investors seeking to maintain their historical risk profile while reducing direct exposure to the potential risks of stock and bond markets may find a useful role for Gateway strategies in their diversified portfolios.

Important Information

All data as of 06.30.2019, unless noted otherwise.

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

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

Data Source: Gateway Investment Advisers, LLC and Morningstar Direct℠

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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	% of Non-Fee Paying	PUT℠ Index	S&P 500® Index	Composite	PUT℠ Index	S&P 500® Index			
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

N/A: The 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 Gateway Active Index-PutWrite Composite was created April 1, 2015. From July 1, 2016 to January 27, 2017, the Composite was named the Gateway Active Index-PutWrite U.S. Composite.

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 stated model fee of 0.35%. Past performance is not indicative of future results. The annual Composite dispersion, if applicable, is an asset-weighted standard deviation calculated for the accounts in the Composite the entire year.

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 June 30, 2019.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. The Gateway Active Index-PutWrite Composite has been examined for the periods April 1, 2015 through June 30, 2019. The verification and performance examination reports are available upon request.

Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. A list of composite descriptions is also available upon request.