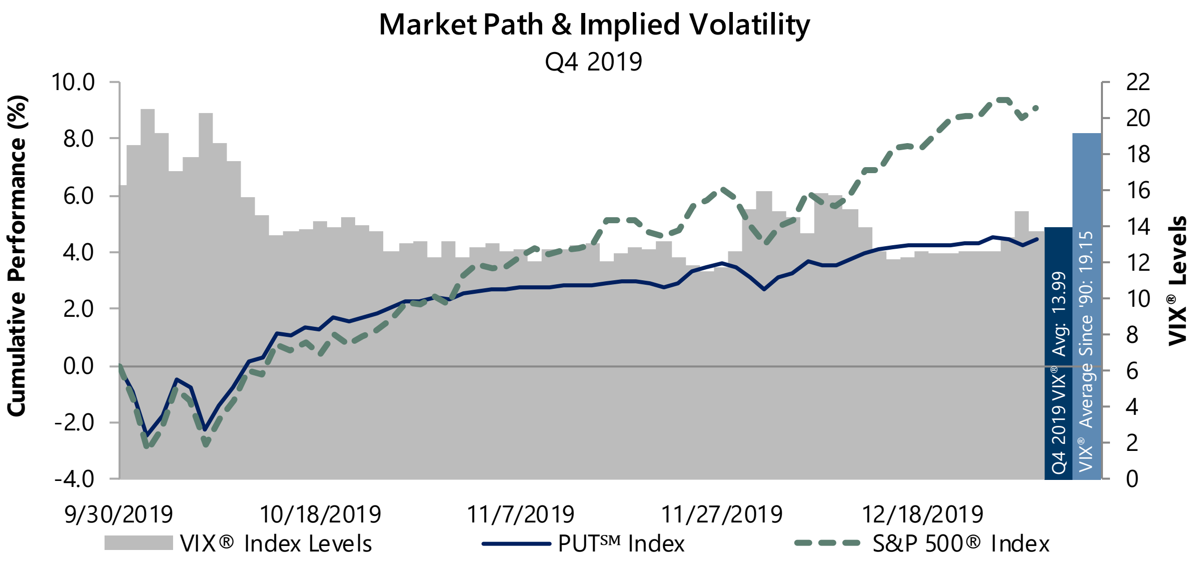
GATEWAY
INVESTMENT ADVISERS, LLC

Active Index-PutWrite Composite Commentary
Q4 2019

In Brief

- Gateway Active Index-PutWrite Composite (the Composite) returned 5.03%, net of fees, in the fourth quarter of 2019 compared to the 4.45% return of the Cboe® S&P 500 PutWrite℠ Index (the PUT℠) and the 9.07% return of the S&P 500® Index. For 2019, the Composite returned 16.73% compared to the 13.51% return of the PUT℠ and the 31.49% return of the S&P 500® Index. (A GIPS® Composite Report is included with this Commentary.)
- Removal of trade uncertainty helped propel the S&P 500® Index upward as phase one negotiations between the U.S. and China were finalized and set to be signed in early 2020, the United States-Mexico-Canada Agreement advanced to the Senate, and a decisive U.K. election brought the Brexit process closer to an end.
- The Composite's return for the fourth quarter was better than expected given the equity market's below-average implied volatility level, while lagging performance relative to the S&P 500® Index was expected as the equity market advanced at a well-above-average rate.
- The Cboe® Volatility Index® (the VIX®) averaged 13.99 for the fourth quarter of 2019 and 15.39 for the full year, both below its historical average of 19.15. The 2019 closing high for the VIX® was 25.45 on January 3, as the equity market began its recovery from near bear market territory in December 2018. The 2019 low for the VIX® was 11.54 on November 26 and it closed the year at 13.78. Average implied volatility exceeded realized volatility for the year as the S&P 500® Index had a 12.47% annualized standard deviation of daily returns.
- Despite a strong equity market advance in 2019, implied volatility levels remained above the historic lows set in 2017. This helped the Cboe® S&P 500 BuyWrite℠ Index (the BXM℠)[2] and the PUT℠ deliver their best annual returns since 2009 even though the VIX® was persistently below its historical average throughout the year. Index option writing returns were also supported by a positive spread between implied and realized volatility in all but one month of 2019.



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.

2: The BXM℠ 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.

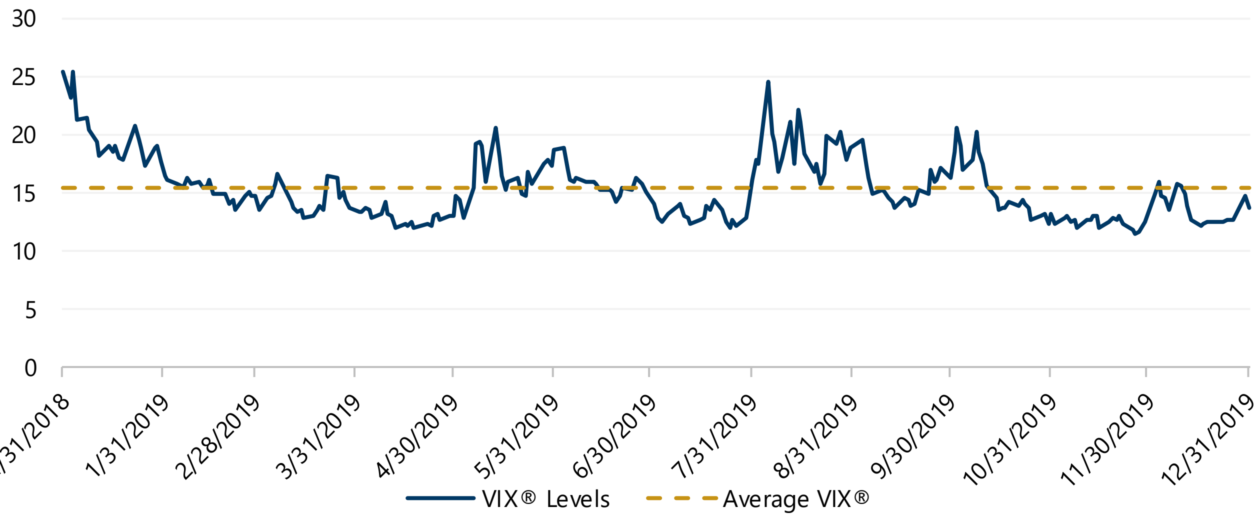
U.S. Market Recap

The S&P 500® Index returned 9.07% for the fourth quarter of 2019, resulting in a return of 31.49% for the year. The fourth quarter advance was steady with the S&P 500® Index posting returns of 2.17%, 3.63% and 3.02% in October, November and December, respectively.

Fourth quarter returns were buoyed by increasing clarity around U.S. trade negotiations. Specifically, 'phase one' negotiations between the U.S. and China were finalized and set to be signed in early 2020. Additionally, the United States-Mexico-Canada Agreement advanced to the Senate for ratification after Democrats in the House of Representatives agreed to modifications negotiated with the Trump Administration and a decisive U.K. election brought the Brexit process closer to an end. The domestic economic environment showed strength on many fronts. On December 20, the final read of Q3 GDP growth came in at 2.1%, at the top of consensus estimates. The unemployment rate settled the quarter at 3.5%, a 50-year low, after nonfarm payrolls crushed expectations. A tight employment situation and a confident consumer led the year-over-year change for the November Consumer Price Index to 2.1%, at the top of expectations and in line with the Federal Reserves (the Fed) 2% target. On the corporate front, third quarter earnings declined less than 1% quarter-over-quarter and grew nearly 2% year-over-year. Though earnings shrank in aggregate for the quarter, results were better than expected with nearly 82% of reporting companies meeting or exceeding analyst estimates.

The VIX® averaged 13.99 for the fourth quarter of 2019 and 15.39 for the full year, both below its historical average of 19.15. The 2019 closing high for the VIX® was 25.45 on January 3, as equity markets recovered from nearly-bear market territory in December 2018. The 2019 low for the VIX® was 11.54 on November 26, amidst strong returns in the equity market, before it closed the year at 13.78. Consistent with its typical relationship, average implied volatility exceeded realized volatility, as measured by the annualized standard deviation of daily returns for the S&P 500® Index, which was 12.47% for the year. The implied versus realized volatility relationship was consistent throughout 2019 with average implied volatility exceeding realized volatility in 11 months. The singular exception was August, when realized volatility averaged 22.70% while the implied volatility response to the market's large drawdown and sharp daily losses was muted, resulting in a VIX® average of just 18.98 for the month.

VIX® Levels
2019



Source: Bloomberg

The PUT℠ returned 4.45% in the fourth quarter, bringing its year-to-date return to 13.51%. 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[4] collected on these written index put options may have a significant influence on the PUT's℠ rate of return when the equity market advances and its amount of downside protection when the market declines. The premiums collected as a percentage of the PUT's℠ underlying value were 1.32%, 1.24%, and 0.90% in October, November, and December, respectively. With monthly returns of 2.33%, 1.12%, and 0.94%, the PUT℠ underperformed the S&P 500® Index in each month of the quarter, other than October, as the equity markets advanced at a well-above-average rate. Premiums collected by the PUT℠ were consistent with the low and downward trending volatility levels present in the fourth quarter.

3: 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.

The Bloomberg Barclays U.S. Aggregate Bond Index returned 0.18% for the fourth quarter of 2019, resulting in a return of 8.72% for the year. The yield on the 10-year U.S. Treasury Note (the 10-year) ended the third quarter at 1.66% and rose to a fourth quarter high of 1.94% on November 8 before falling to end the year at 1.92%. As equity market volatility subsided in the fourth quarter, the spread between the 2- and 10-year widened to a 2019 high of 35 basis points (bps) on December 31. For the quarter, the yield on the one-month U.S. Treasury Note declined 34 bps while the yield on the three- and six-month U.S. Treasury Notes declined 22 and 21 bps, respectively.

Gateway Active Index-PutWrite Composite Performance

The Composite returned 5.03%, net of fees, for the fourth quarter, outperforming the PUT℠ by 58 bps and bringing its full-year return to 16.73% compared to the 13.51% return of the PUT℠. With monthly net returns of 1.81%, 1.73% and 1.41% for October, November, and December, respectively, the Composite's outperformance relative to the PUT℠ in November and December more than made up for the underperformance in October. For the year, the Composite had a standard deviation of 6.92%.

Outperformance relative to the PUT℠ was primarily due to the Composite's diversified and active put writing approach which provided consistent exposure to the advancing market and more option writing cash flow for the quarter while the PUT's℠ passive, single contract approach resulted in decreasing market exposure during market advances and less cash flow. For the fourth quarter, the Composite's underlying Treasury bill portfolio contributed a total return of 0.44%. The Composite's index put option portfolio contributed positively to returns throughout the quarter. Gateway's index put option activity throughout the fourth quarter focused on exchanging contracts 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 strategy from the potentially adverse impact of a sharp reversal in market direction.

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 57 days and annualized premium to earn between 7.5% to 10.0%. Relative to the beginning of the quarter, this positioning represented slightly lower market exposure and slightly less cash flow potential.

Average Annual Performance (%)	1 Year	3 Years	Since Inception*
Gateway Active Index-PutWrite Composite (Net)	16.73	7.05	7.07
Cboe® S&P 500 PutWrite Index	13.51	5.78	6.54
S&P 500® Index	31.49	15.27	12.13

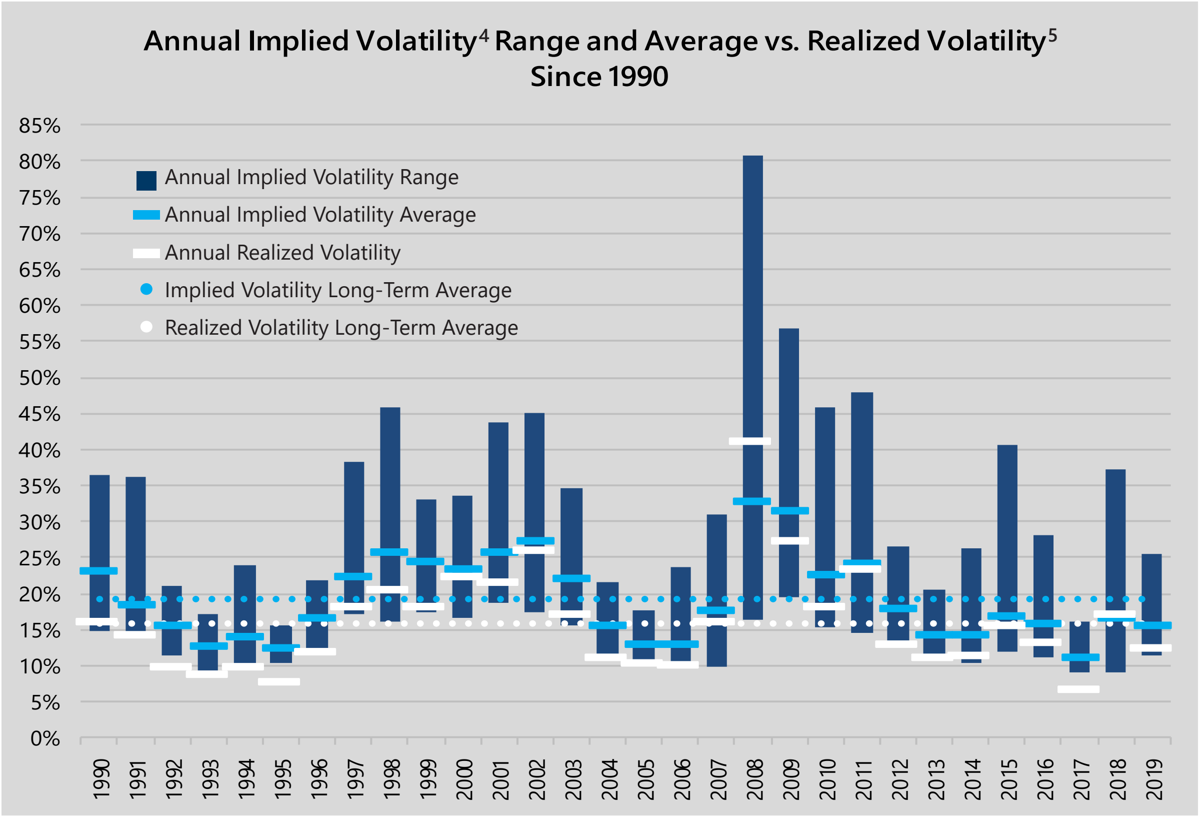
* Inception of Gateway Active Index-PutWrite Composite is April 1, 2015. Sources: Bloomberg, L.P., Morningstar Direct℠ and Gateway Investment Advisers, LLC. Periods over one year are annualized. Past performance is no guarantee of future results. See GIPS® Composite Report included with this commentary.

Market Perspective

Implied volatility moderated in 2019, after spending much of 2017 at or near record lows and experiencing extreme highs during two volatility spikes in 2018. In 2019, the VIX® adhered to the usual pattern of falling during market advances and increasing during market pullbacks. However, with a 2019 closing low of 11.54 on November 26 and a closing high of 25.45 on January 3, it did not collapse to record lows during the strong equity market advances in Q1 and Q4, nor did it spike to extremes during the market drawdowns of Q2 and Q3.

Though the range of implied volatility was more moderate in 2019, as seen in the following chart, it maintained the persistent below-average trend of recent years. The VIX® averaged 15.39 for the year, below its long-term average of 19.15. Despite below-average implied volatility levels, option writing indexes such as the BXM℠ and the PUT℠ delivered returns that were not only above their long-term averages but also their best annual returns since 2009. The lack of a collapse in implied volatility despite strong equity market advances helped option writing returns in 2019. Option writing returns were also helped by a positive spread between implied and realized volatility. Realized volatility, based on the standard deviation of daily returns for the S&P 500® Index, came in at 12.47% for 2019, about three percentage points lower than average implied volatility. Notably, the relationship between implied and realized volatility returned to normal in 2019 after flipping in 2018 for the first time since 2009. Moreover, the relationship was persistent throughout the year with monthly averages for implied exceeding realized volatility in all but one month of the year.

What roles can option writing strategies play in investor portfolios in this environment? If current market and economic trends continue in 2020, then both the equity bull market and the U.S. economic expansion are poised to enter their 12th consecutive year in March and July, respectively. While the economic expansion has already set a record for duration, the equity market begins 2020 just a year-and-a-half shy of the longest bull market on record. A continuation of economic expansion, the equity bull market and the low volatility trend is uncertain due to several potential threats including domestic politics, geopolitical tensions and monetary policy challenges.



4: Implied volatility shown is based on the VIX® daily closing values. 5: Realized volatility is based on the standard deviation of daily returns for the S&P 500® Index. Source: Bloomberg, L.P.

For investors who anticipate that recent market tranquility is temporary, option writing strategies that seek to consistently deliver lower risk and less downside than the equity market may be an appealing way to reduce equity market exposure and risk.

Investors with a more sanguine outlook may find the absolute return and risk-adjusted return potential of option writing strategies appealing relative to other lower volatility investments. A possible continuation of richer-than normal option pricing combined with low realized volatility creates the potential for option writing strategies to deliver attractive risk-adjusted returns with lower-than-normal volatility. Attractive risk-adjusted returns never go out of style and, in the current environment of low interest rates with the potential to rise over time, there are possible advantages to seek returns through allocations to option writing strategies. If low or rising interest rates keep bond market returns depressed, diversified investors may benefit from investments that do not have interest rate sensitivity and can complement intermediate to long-term bonds' historical profile of low volatility and attractive risk-adjusted returns.

In either application, option writing exposure to richly-priced implied volatility has the potential to generate attractive risk-adjusted returns over the long-term.

Important Information

All data as of December 31, 2019, 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.

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

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Gateway Active Index-PutWrite Composite

GIPS® Composite Report

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
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 December 31, 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-PutWrite Composite has had a performance examination for the periods April 1, 2015 through December 31, 2019. The verification and performance examination reports are available upon request.

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.