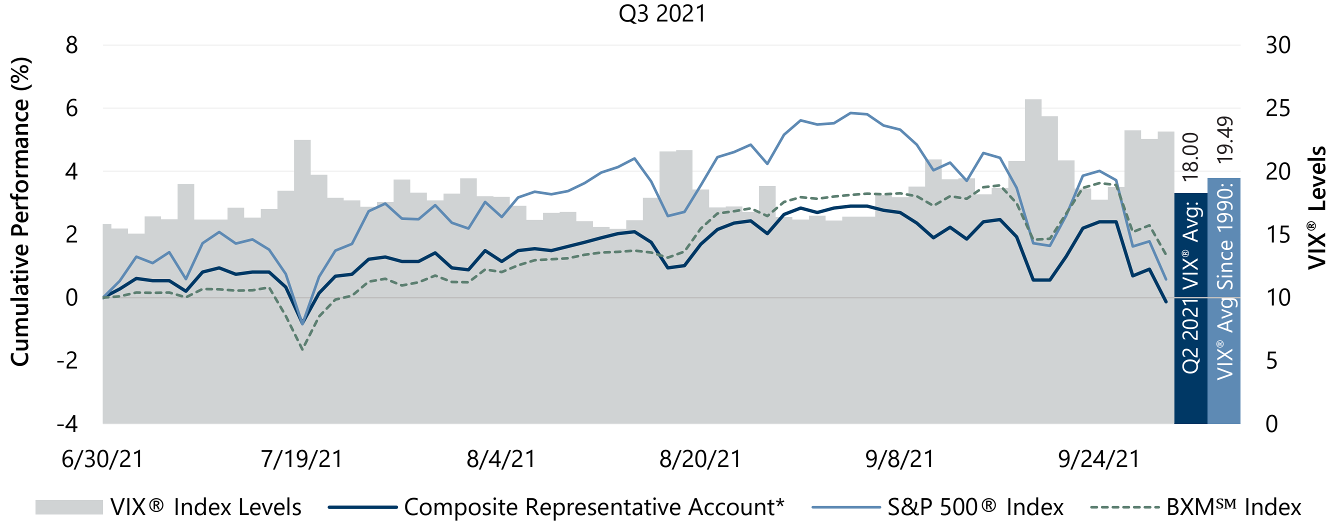
Active Index-Option Overwrite Composite Commentary
Q3 2021

In Brief

- The Gateway Active Index-Option Overwrite Composite (the Composite) returned 0.03%, net of fees, in the third quarter compared to the 1.35% and 0.58% return of the Cboe® S&P 500 BuyWrite℠ Index[i] (the BXM℠) and the S&P 500® Index, respectively. (A GIPS® Composite Report is included with this Commentary.)
- The culmination of concerns over coronavirus variants, the outlook for inflation, potential negative impacts of China's largest property developer falling short on its debt obligations and the struggle of U.S. lawmakers to agree to terms that would avoid a government shutdown led to a new year-to-date max drawdown for the equity market. From September 2 through quarter-end, the S&P 500® Index returned -4.97%.
- The Composite* and the BXM℠ both provided significant downside protection during the September 2 through quarter-end equity market decline, with returns of -2.95% (net) and -1.84%, respectively. However, the BXM℠ was better positioned for downside protection due to the strong month-end market advance in August. The Composite's active approach resulted in a typical amount of market exposure while the BXM℠ had less market exposure than usual because the option it wrote in August was deep in-the-money due to the market move in August.
- The S&P 500® Index, the BXM℠ and the Composite* had an annualized standard deviation of daily returns of 11.16%, 6.73% and 7.72% for the third quarter, respectively.
- Implied volatility, as measured by the Cboe® Volatility Index (the VIX®), averaged 18.29 in the third quarter of 2021. Consistent with its normal relationship, average implied volatility exceeded realized volatility, as measured by the standard deviation of daily returns for the quarter. The VIX® began the third quarter of 2021 at 15.48, reached an intra-quarter low of 15.07 on July 2 and an intra-quarter high of 25.71 on September 20. The VIX® closed the third quarter at 23.14.
- As the market advanced in July and August, Gateway's index call option activity focused on trading contracts well in advance of their expiration dates to take advantage of elevated implied volatility priced into longer-dated contracts. Index call option activity in September was selective, with a focus on patiently earning the time premium priced into the longer-dated written index call options in the Composite's portfolio.
- After the September Federal Open Market Committee (FOMC) meeting, Chairman Powell noted that the inflation and employment measures "all but met" the substantial progress tests needed to begin tapering of asset purchases and that the decision to taper may come as soon as the FOMC's next meeting. The historical relationship between implied volatility and changes in the growth rate of the Federal Reserve's (the Fed's) balance sheet shows that the market was more susceptible to elevated volatility in response to adverse events when the Fed was not actively purchasing assets.



*The portfolio performance and standard deviation reflected for the Composite are those measured by a representative account. This information represents supplemental information to the GIPS® Composite Report. This representative account was selected as it is the largest account in the Composite. All performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results. Sources: Bloomberg, L.P. and Morningstar Direct℠.

Market Recap

The S&P 500® Index returned 0.58% in the third quarter, bringing its year-to-date return to 15.92%. After strong monthly advances of 2.38% and 3.04% in July and August, respectively, the S&P 500® Index surrendered to a growing list of investor concerns in September and declined 4.65%, suffering its first monthly loss since January of this year. Strong corporate earnings reports helped provide resilience to the market advance during the first two months of the quarter as the S&P 500® Index quickly recovered from dips of -2.86% and -1.75% in July and August, respectively. The downside moves in July and August were driven in part by concerns over the spread of coronavirus variants and the outlook for inflation. These concerns persisted into September while investors processed the potential negative impacts of China's second-largest property developer falling short on its debt obligations and the struggle of U.S. lawmakers to agree to terms that would avoid a government shutdown. The culmination of these concerns was a simultaneous selloff in both the equity and bond markets after the S&P 500® Index reached a year-to-date high in early September. From September 2 through quarter-end, the Bloomberg Barclays U.S. Aggregate Bond Index (the Agg) lost 0.97% as interest rates rose while the S&P 500® Index slid 4.97%, its largest peak-to-trough decline so far in 2021.

Macroeconomic data released throughout the quarter reflected a steady but cautious domestic economy as the negative effects of pandemic mitigation efforts continued to fade and investors' sights began to shift elsewhere. The third estimate of Gross Domestic Product for the second quarter of 2021 showed that the U.S. grew at an annualized rate of 6.7%, matching the consensus expectation. The unemployment rate declined from 5.4% in July to 5.2% in August, matching the consensus expectation, while the participation rate held steady at 61.7%. Inflation matched the consensus estimate as the August Consumer Price Index, released on September 14, showed a 5.3% year-over-year increase. With over 99% of companies reporting, second quarter aggregate operating earnings were on track to climb nearly 17% quarter-over-quarter while increasing more than 40% year-over-year. More than 89% of the companies that reported earnings met or exceeded analyst estimates.

Implied volatility, as measured by the VIX®, averaged 18.29 in the third quarter of 2021. Consistent with its normal relationship, average implied volatility exceeded realized volatility, as measured by the standard deviation of daily returns for the S&P 500® Index, which was 11.16% for the quarter. Implied volatility was generally rangebound until September when it shifted higher on an array of growing investor concerns. The VIX® began the third quarter of 2021 at 15.48, reached an intra-quarter low of 15.07 on July 2 and an intra-quarter high of 25.71 on September 20. The VIX® closed the third quarter at 23.14.

The BXM℠ returned 1.35% in the third quarter of 2021, outperforming the S&P 500® Index by 77 basis points (bps) and bringing its year-to-date return to 12.61%. With monthly returns of 0.50%, 2.62% and -1.72% in July, August and September, respectively, the BXM℠ lagged the S&P 500® Index over the first two months but downside protection during the September equity market decline was the main driver of the BXM's℠ outperformance for the quarter. On the third Friday of each month, the BXM℠ writes a new index call option as the option it wrote the previous month expires. The premiums the BXM℠ collects on its written index call options have significant influence on its return potential during equity market advances and help to mitigate market declines. The premiums the BXM℠ collected as a percentage of the BXM's℠ underlying value were 1.39%, 1.50% and 1.54% in July, August and September, respectively. From the beginning of the quarter through September 2, the BXM℠ returned 3.26%, lagging the 5.84% return of the S&P 500® Index by 258 bps, as premiums collected by the BXM℠ were insufficient to keep pace with the equity market's strong advance. During September's equity market decline, the remaining premium collected on its call option written in August, combined with the premium received on September 17, helped provide over 300 bps of downside protection. From September 2 through September 30, the BXM℠ declined 1.84% compared to the 4.97% decline of the S&P 500® Index.

The Agg returned 0.05% in the third quarter of the year, bringing its year-to-date return to -1.55%. Interest rates trended down during the beginning of the quarter but ultimately ended just slightly above the point at which they started. The yield on the 10-year U.S. Treasury Note (the 10-year) started the quarter at 1.46%, reached its intra-quarter low of 1.17% on August 3, then climbed to its intra-quarter high of 1.54% on September 28. The 10-year ended the quarter with a yield of 1.49%.

Gateway Active-Index Option Overwrite Composite Performance

The Composite returned 0.03%, net of fees, in the third quarter, underperforming the BXM℠ by 132 bps and bringing its year-to-date net return to 11.34%. With monthly net returns of 0.99%, 1.81% and -2.71% in July, August and September, respectively, the Composite's underperformance relative to the BXM℠ was primarily due to a larger loss in September.

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.[ii]

The Composite and the BXM℠ provided equity market participation during the S&P 500® Index advance from the beginning of the quarter through September 2. Over the remainder of the quarter, the BXM℠ was better positioned for downside protection due to the strong month-end market advance in August. The Composite's active approach resulted in a typical amount of market exposure while the BXM℠ had less market exposure than usual because the option it wrote in August was deep in-the-money due to the market move in August. From September 2 through quarter-end, the Composite returned -2.95%, net of fees, providing 202 bps of downside protection relative to the S&P 500® Index while underperforming the BXM℠ by 111 bps.

The Composite's underlying equity portfolio returned 0.20% in the third quarter, a negative performance differential of 38 bps relative to the S&P 500® Index. Index call option writing generated risk-reducing cash flow throughout the quarter and contributed positively to the Composite's return in September while detracting from returns in July and August, as expected during months when the equity market returns are above-average. In achieving its low-volatility objective, the Composite's annualized standard deviation of daily returns for the quarter was 7.72% compared to 11.16% and 6.73% for the S&P 500® Index and the BXM℠, respectively. The Composite exhibited a beta to the S&P 500® Index of 0.67 for the quarter.

Gateway's investment team was active in their response to changes in market conditions and direction throughout the quarter. As the market advanced in July and August, Gateway's index call option activity focused on trading contracts well in advance of their expiration dates, raising weighted-average strike price and extending weighted-average time to expiration to take advantage of elevated implied volatility priced into longer-dated contracts. This was done cautiously and incrementally in an effort to maintain the Composite's typical risk profile while protecting against the potential adverse effects of a change in market direction. Index call option activity in September was selective, with a focus on patiently earning the time premium priced into the longer-dated written index call options in the Composite's portfolio.

At the end of the quarter, the Composite's index call options were sold against over 95% of the equity portfolio's value with a weighted average strike price greater than 2.5% out-of-the-money, 27 days to expiration and annualized premium to earn between 2.5% and 5.0%. Relative to the beginning of the quarter, this positioning represented lower net cash flow potential and greater market exposure.

Performance & Risk (%)	Q3 2021	1 Year	3 Year	5 Year	10 Year	Inception (4/1/2008)	Inception Risk[1]
The Composite (net)	0.03	21.37	8.69	9.52	10.12	7.46	10.18
BXM℠ Index	1.35	21.10	4.15	6.95	8.38	5.32	11.84
S&P 500® Index	0.58	30.00	15.99	16.90	16.63	11.42	15.69

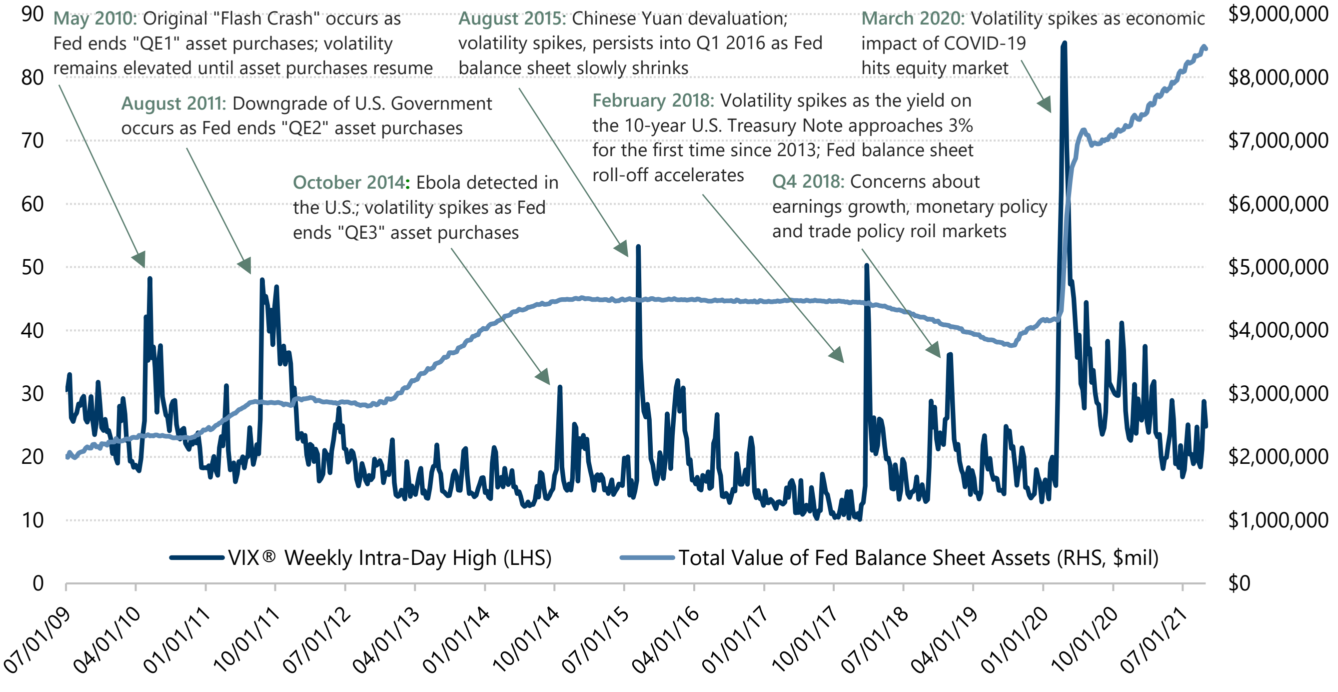
1: Based on standard deviation of monthly returns since Composite inception of April 1, 2008. All performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results. Data as of September 30, 2021. Source: Morningstar Direct℠.

Market Perspective – What Will Taper Do to Implied Volatility?

Implied volatility, as measured by the VIX®, rose in September as investors processed a laundry list of concerns including coronavirus variants, inflation and U.S. political dysfunction. At the press conference after the FOMC on September 22, Chairman Powell indicated that the FOMC was keeping close watch on how economic and financial conditions may be impacted by such concerns, among others. He also indicated the likelihood of a FOMC decision in the near-term that may have a lasting impact on volatility. Chairman Powell noted that recent inflation and employment measures "all but met" the substantial progress tests needed to begin tapering of asset purchases and that the decision to taper may come as soon as the FOMC's next meeting. The historical relationship between implied volatility and changes in the growth rate of the Fed's balance sheet shows that the market was more susceptible to elevated volatility in response to adverse events when the Fed was not actively purchasing assets.

As the chart on the following shows, implied volatility has generally declined or remained below its long-term average of approximately 20 during periods of balance sheet growth through multiple quantitative easing asset purchase programs. Conversely, implied volatility has been relatively elevated during periods when the balance sheet size plateaus or decreases. Furthermore, multiple volatility spikes have coincided with quantitative easing programs coming to an end. The implication of this connection is not that changes in the Fed's balance sheet caused changes in implied volatility, rather it appears that the market was more susceptible to elevated volatility in response to adverse events during periods when the Fed was not actively purchasing assets.

Implied Volatility and Changes in Size of Fed Balance Sheet
August 1, 2009 to September 30, 2021



Source: Bloomberg, L.P.

It remains to be seen whether the historical relationship between implied volatility and changes in the size of the Fed's balance sheet will continue. However, we believe that investor anxiety over changes to Fed policies, including both interest rate policy and asset purchase policy, is on the list of phenomena that have the potential to keep implied volatility relatively elevated for the remainder of the year.

With interest rates trending up, but still low by historical standards, and amidst a growing number of threats to the equity market's advance, investment strategies that combine equity market exposure with cash flow from writing index options may have increased appeal for investors seeking long-term return with lower risk than the equity market. Higher implied volatility has the potential to result in higher cash flows from index option writing which, in turn, may improve such strategies' return potential if the equity market climbs, while also enhancing their potential downside protection if the equity market declines. Conversely, if higher implied volatility trends lower, index option-based low volatility equity strategies may continue to be a compelling alternative to fixed income investments that have reduced return potential in a low to rising interest rate environment.

Gateway's investment philosophy holds that consistency is the key to long-term investment success and that generating cash flow, rather than seeking to forecast the rise and fall of the market, can be a lower risk means to participate in equity markets. As always, Gateway will look for opportunities to take advantage of the current environment while vigilantly preparing to take appropriate action should conditions change.

Important Information

[i] 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.

[ii] Represents supplemental information to the GIPS® Composite Report. 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 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 GIPS® Composite Report for the Gateway Active Index-Option Overwrite 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-Option Overwrite Composite

GIPS® Composite Report

Year End	Annual Performance Results: Composite Gross	Composite Net	S&P 500® Index	BXM℠ Index	3-Year Standard Deviation: Composite	S&P 500® Index	BXM℠ Index	Number of Composite Accounts	Composite Assets (millions)	Firm Assets (millions)
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
2019	17.85	17.42	31.49	15.68	7.41	12.10	7.95	2	1,486	10,950
2020	9.03	8.57	18.40	-2.75	12.33	18.80	14.72	2	1,491	9,963

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 BuyWrite℠ Index (BXM℠ 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 December 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-Option Overwrite Composite has had a performance examination for the periods April 1, 2008 through December 31, 2020. The verification and performance examination reports are available upon request.

Policies for valuing investments, 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.