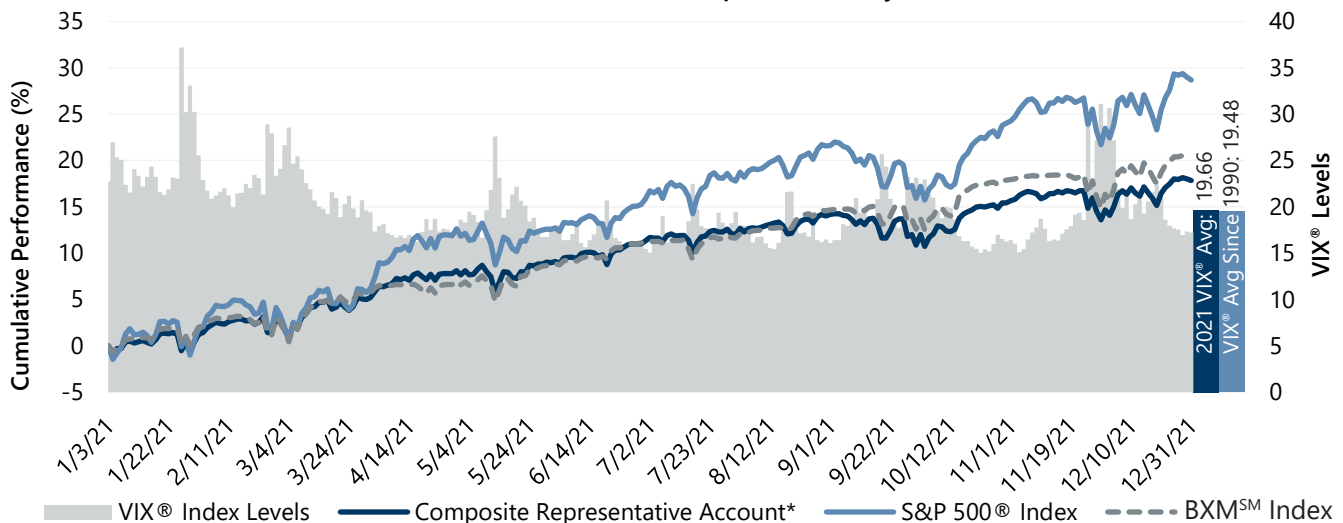


In Brief

- ◆ The Gateway Active Index-Option Overwrite Composite (the Composite) returned 6.45%, net of fees, in the fourth quarter compared to the 6.98% and 11.03% return of the Cboe® S&P 500 BuyWriteSM Indexⁱ (the BXMSM) and the S&P 500® Index, respectively. For the full year, the Composite returned 18.52%, net of fees, compared to the 20.47% return of the BXMSM and the 28.71% return of the S&P 500® Index. (A GIPS® Composite Report is included with this Commentary.)
- ◆ 2021 was the third consecutive year of double-digit return for the S&P 500® Index, powering its three-year cumulative return above 100% for the first time since early March 2012. Returns were positive in each quarter of 2021 although that streak was nearly disrupted with the year’s largest peak-to-trough decline of 5.12%, from September 2 to October 4, which brought the third quarter return to the brink of negative territory.
- ◆ Despite outperforming the BXMSM during both the equity market advance from the beginning of the quarter through November 18, and the equity market decline from November 18 through December 1, the Composite* underperformed the BXMSM for the quarter. Underperformance for the fourth quarter was primarily because the BXMSM was better positioned for a market recovery in early December, having more market exposure than usual because the index call option it wrote in November was far out of the money due to the equity market decline.
- ◆ The S&P 500® Index, the BXMSM and the Composite* had an annualized standard deviation of daily returns of 13.89%, 10.21% and 8.88% for the fourth quarter, respectively, and 13.09%, 8.61% and 8.49% for the year, respectively.
- ◆ Implied volatility, as measured by the Cboe® Volatility Index (the VIX®), averaged 19.28 in the fourth 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 spread between S&P 500® Index realized volatility and average implied volatility, often referred to as the Volatility Risk Premium (VRP), ended the quarter on a 15-month trend of readings that have been above the historical monthly average of 4.15%. The VIX® began the fourth quarter of 2021 at 21.15, reached an intra-quarter low of 15.01 on October 21 and an intra-quarter high of 31.12 on December 1. The VIX® closed the fourth quarter at 17.22.
- ◆ For most of the fourth quarter, when the term structure of implied volatility pricing was steep and the equity market was advancing, adjustments to the written index call option portfolio focused on raising weighted-average strike price while keeping time to expiration extended to take advantage of the higher implied volatility priced into longer-dated contracts. When short-term volatility increased in late November and early December, select contracts were replaced with shorter-dated contracts with lower strike prices.
- ◆ The volatility environment of 2021 was characterized by below-average realized volatility and above-average implied volatility, which drove above-average monthly spreads between implied and realized volatility. Additionally, the volatility term structure was frequently steep when it was not inverted. There is strong potential for these characteristics to continue into 2022, but investors may benefit from preparing for higher realized volatility measures in the new year.

2021 Market Path & Implied Volatility



Sources: Bloomberg, L.P. and Morningstar DirectSM. *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.

Market Recap

The S&P 500® Index returned 11.03% in the fourth quarter, bringing its year-to-date return to 28.71%. The quarter was strong, but uneven, with monthly returns of 7.01%, -0.69% and 4.48% in October, November and December, respectively. The monthly returns mask the extent of mid-quarter volatility as the 9.42% return of the S&P 500® Index from September 30 through November 18 was followed by four weeks of lateral turbulence that included a 4.02% plunge from November 18 through December 1. The equity market ended the year on a high note with a 4.38% advance for the S&P 500® Index from December 20 through year-end.

Macroeconomic data released throughout the quarter indicated modest economic growth, strong corporate earnings, an improving labor market and persistent inflation. The final estimate of Gross Domestic Product for the third quarter of 2021 showed that the U.S. grew at an annualized rate of 2.3%, outpacing the consensus expectation. The unemployment rate declined from 4.6% in October to 4.2% in November, slightly better than the consensus expectation, while the participation rate ticked up to 61.8%. Inflation data was less sanguine as the November Consumer Price Index, released on December 10, showed a 6.8% year-over-year increase, its highest reading since 1982. With nearly all companies reporting, third quarter aggregate operating earnings were on track to climb over 8% quarter-over-quarter while increasing more than 53% year-over-year. More than 83% of the companies that reported earnings met or exceeded analyst estimates.

2021 was the third consecutive year of double-digit return for the S&P 500® Index, powering its three-year cumulative return above 100% for the first time since early March 2012, a three-year period that began at the bear market bottom of the Great Financial Crisis. Additionally, returns were positive in each quarter of 2021, though the September equity market pullback brought that streak to the brink. The equity market started the year in impressive fashion with returns of 6.17% and 8.55% in the first and second quarters, respectively, as macroeconomic stabilization and improvement driven by a relaxation of pandemic mitigation policies and additional fiscal stimulus helped investors digest concerns surrounding the outlook for inflation, labor market imbalances, and rising interest rates. Equity market strength continued in July and August but the S&P 500® Index eked out a third quarter return of just 0.58% as the equity market pulled back, surrendering to a growing list of investor concerns including new COVID variants, the outlook for inflation and uncertainty surrounding fiscal and monetary policy. September's decline carried into early October as the S&P 500® Index lost 5.12% from September 2 to October 4, its largest peak-to-trough drawdown of the year. The equity market's fourth quarter was the strongest of all, despite the mid-quarter volatility, with the S&P 500® Index ending the year just shy of its all-time high reached on December 29.

The downtrend in implied volatility that began after the VIX® peaked at record levels in March 2020 continued over the first half of 2021. The VIX® spent most of the year ranging from the mid-teens to the low 20s while posting 21 days of closing values above 25, including six days when it closed above 30. The result was an average closing value of 19.66 for the year, slightly above its long-term average of 19.48. While the downtrend brought the measure to below-average levels at various points throughout the year, it never closed below 15, thus establishing a COVID-era low that was above the low readings that persisted for several years prior to the pandemic. Specifically, the VIX® averaged 14.86 during the seven year period from 2013 to 2019. While implied volatility was elevated in 2021, realized volatility, as measured by the standard deviation of daily returns for the S&P 500® Index, was below-average at 13.09% for the year. The spread between S&P 500® Index realized volatility and average implied volatility, often referred to as the VRP, was positive in 2021, as is typical. However, the spread was consistently wider than normal as VRP ended the year on a 15-month trend of readings that have been above the historical monthly average of 4.15%.

The BXMSM returned 6.98% in the fourth quarter of 2021, lagging the S&P 500® Index by 405 basis points (bps), and bringing its full year return to 20.47%. The BXMSM underperformed the S&P 500® Index in each month of the quarter with returns of 4.67%, -1.50% and 3.77% in October, November and December, respectively. On the third Friday of each month, the BXMSM writes a new index call option as the option it wrote the previous month expires. The premiums the BXMSM 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 BXMSM collected as a percentage of the BXM'sSM underlying value were 1.39%, 1.44% and 1.84% in October, November and December, respectively. The BXM'sSM underperformance for the quarter was primarily due to return potential provided by the premium it collected when it wrote its call option with a November expiration on October 15 being insufficient to keep pace with the equity market's strong advance from mid-October to mid-November. The S&P 500® Index returned 5.21% from October 15 through November 19, while the BXMSM returned 1.49%, lagging the S&P 500® Index by 372 bps. While elevated implied volatility levels helped the BXMSM deliver its best annual return since 2009, premiums collected from written index call options were insufficient to keep pace with the seemingly relentless advance of the equity market, resulting in lagging performance for the year relative to the S&P 500® Index. However, index call writing premiums lowered risk relative to the equity market as the BXMSM exhibited a standard deviation of daily returns of 8.61% for 2021 and delivered 320 bps of downside protection with a return of -1.92% during the S&P 500® Index's maximum drawdown period from September 2 to October 4.

The Bloomberg U.S. Aggregate Bond Index (the Agg) returned 0.01% for the fourth quarter of 2021, resulting in a return of -1.54% for the year. The bond market's loss for the year, its first annual loss since 2013, was mainly driven by a significant climb in interest rates during the first quarter of the year, which resulted in a first quarter loss of 3.37%, the Agg's worst quarterly return since the third quarter of 1981. The yield on the 10-year U.S. Treasury Note (the 10-year) opened 2021 at 0.91%, its lowest reading of the year, and reached its 2021 high of 1.74% on March 31 – a level not seen since January 2020. The Agg recovered a portion of its loss in the second quarter as the yield on the 10-year drifted down. The 10-year yield was range bound over the second half of the year and the Agg's return was flat, earning just 0.06% from June 30 through year-end. The 10-year ended the year with a yield of 1.51%.

Gateway Active-Index Option Overwrite Composite Performance

The Composite returned 6.45%, net of fees, in the fourth quarter, underperforming the BXMSM by 53 bps and bringing its full year net return to 18.52%. With monthly net returns of 4.18%, -0.74% and 2.94% in October, November and December, respectively, the Composite's underperformance relative to the BXMSM was primarily due to underperformance as the market recovered from the loss incurred during heightened volatility in late November and early December. Prior to that, however, the Composite outperformed the BXMSM.

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

From the beginning of the quarter through November 18, the Composite returned 5.28%, net of fees, outperforming the 5.19% return of the BXMSM by nine bps. From November 18 through December 1, the Composite returned -2.67%, net of fees, incurring a smaller loss than the BXMSM and providing 135 bps of loss mitigation relative to the S&P 500[®] Index. As the equity market began to recover in early December, the BXMSM was better positioned for a market advance, having more market exposure than usual because the index call option it wrote in November was far out-of-the-money after the equity market decline. The Composite, in contrast, had less market exposure than the BXMSM because its actively managed approach lowered the weighted-average strike price of its portfolio of written call options as the market declined in order to maintain its typical risk profile. Consequently, as the market advanced over the remainder of December, the BXMSM returned 4.86%, while the Composite returned 3.73%, net of fees, underperforming by 113 bps.

The Composite's underlying equity portfolio returned 10.83% in the fourth quarter, a negative performance differential of 20 bps relative to the S&P 500[®] Index. Index call option writing provided risk-reducing cash flow throughout the quarter and generated gains during the equity market drawdown, but detracted from returns for the quarter overall, as expected in periods featuring above-average equity market advances. In achieving its low-volatility objective, the Composite's annualized standard deviation of daily returns for the quarter was 8.88% compared to 13.89% and 10.21% for the S&P 500[®] Index and the BXMSM, respectively. The Composite exhibited a beta to the S&P 500[®] Index of 0.62 for the quarter.

Gateway's investment team was active in their response to changes in market conditions and direction throughout the quarter. For most of the fourth quarter, when the term structure of implied volatility pricing was steep and the equity market was advancing, adjustments to the written index call option portfolio focused on raising weighted-average strike price while keeping time to expiration extended to take advantage of the higher implied volatility priced into longer-dated contracts. When short-term volatility increased in late November and early December, select contracts were replaced with shorter-dated contracts with lower strike prices. 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.

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 between 1.5% in-the-money and 1.5% out-of-the-money, 52 days to expiration and annualized premium to earn between 10.0% and 12.5%. Relative to the beginning of the quarter, this positioning represented higher net cash flow potential and less market exposure.

While generating its highest calendar-year return since inception, the Composite's diversified and active index call option writing approach generated risk reducing cash flow throughout 2021 while delivering equity market participation during periods in which the equity market advanced and downside protection during market declines. Specifically, the Composite's positive but lagging net returns of 5.21%, 5.52% and 6.29% in the first, second and fourth quarters of 2021 led to underperformance for the year as they were unable to keep pace with the S&P 500[®] Index's strong advances. When the equity market advances at an above-average rate, underperformance is expected as the risk-reducing option strategy generates losses that detract from return. Furthermore, the Composite provided loss mitigation of 204 bps during the maximum drawdown period for the S&P 500[®] Index with a net return of -3.08% from September 2 through October 4.

Lastly, its standard deviation of daily returns for the year was 8.49%, approximately 35% lower than the same statistic for the S&P 500® Index. After performing in line with the BXMSM in the first half of the year with a net return of 11.02% compared to the BXM'sSM return of 11.10%, the Composite underperformed in the second half with a return of 6.16%, compared to the BXM'sSM return of 8.43%. Lagging performance in the second half resulted in underperformance for the year.

Performance & Risk (%)	Q4 2021	1 Year	3 Year	5 Year	10 Year	Inception (4/1/2008)	Inception Risk ¹
The Composite (net)	6.45	18.52	14.75	10.20	9.78	7.81	10.16
BXM SM Index	6.98	20.47	10.66	7.84	7.54	5.74	11.83
S&P 500® Index	11.03	28.71	26.07	18.47	16.55	12.05	15.66

Data as of December 31, 2021. Source: Morningstar DirectSM. All performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results. 1: Based on standard deviation of monthly returns since Composite inception of April 1, 2008.

Market Perspective – Too Much of a Good Thing?

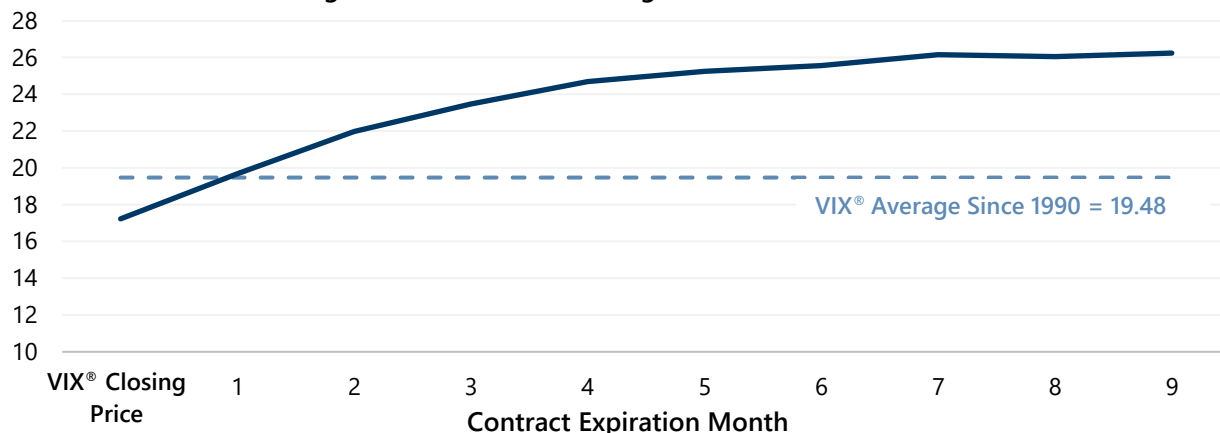
After 2021's strong equity market return, investors may want to pump the brakes. The 28.71% return of the S&P 500® Index for 2021 is the tenth-highest annual return of the last 50 years and brought its trailing three-year cumulative return to more than 100%. Historically, volatile equity market conditions have ensued after the S&P 500® Index has returned 100% or more over a three-year period, which should raise a caution flag for investors. In nearly all cases over the last 50 yearsⁱⁱ, three-year periods with a return greater than 100% for the S&P 500® Index were followed by higher-than-average realized volatility, i.e. S&P 500® Index standard deviations up to 43% above normal and equity market drawdowns from 15% to 45% within the next three years.

Given the bond market's low current yields and negative 2021 return, investors who want to be prepared for an increase in volatility may find strategies that reduce risk with index option writing to be attractive relative to using bonds to lower risk. 2021 was a strong year for option writing indexes such as the BXMSM and the Cboe® S&P 500 PutWriteSM Index (the PUTSM). Both the BXMSM and the PUTSM, generated returns of over 20% in 2021, something neither had done since 2009, while exhibiting lower standard deviation and smaller drawdowns than the S&P 500® Index. Moreover, in a year when the equity market delivered above-average return with below-average risk, both the BXMSM and the PUTSM delivered a higher risk-adjusted return than the S&P 500® Index.

The returns and risk-adjusted returns of the two option writing indexes were supported by an above-average VRP, the spread between implied volatility, as measured by VIX® and realized volatility, as measured by the standard deviation of daily returns for the S&P 500® Index. In each month of 2021, the average closing level of the VIX® exceeded realized volatility. The monthly VRP ranged from 4.33% to 9.24% and on average were more than 60% higher than the normal spread of 4.1%.

Importantly, the pricing curve for futures contracts on the VIX®, or VIX® term structure, indicates that the volatility conditions of 2021 may continue into 2022. While VIX® ended 2021 at a below-average level, the price of futures contracts with expiration dates two months or more away reflected market expectations of volatility that is significantly above-average.

Figure 1: VIX® Futures Pricing as of December 31, 2021



Source: Bloomberg, L.P.

The shape of the VIX[®] futures curve at year-end is consistent with its shape for much of 2021—from March to December, in all but two months, the month-end closing value of the VIX[®] was below-average while futures contracts two months and beyond had above-average prices. The two exceptions to this were September and November, when readings were well above-average across the entire curve. While it is typical for the VIX[®] term structure to slope upward, it is very rare for near-term volatility pricing to be below-average while longer-term pricing is above-average. In fact, as we noted in our [July 2021 Market Perspective](#), before VIX[®] term structure spent most of 2021 with that unusual steepness, it had happened less than 11% of the time over the history of the VIX[®] futures market, which began in 2006.

Why this unusual steepness in the VIX[®] term structure? We believe that the pricing of longer-dated VIX[®] contracts may reflect persistent intermediate-term risks such as inflation and the potential economic impact of spreading COVID variants. Meanwhile, investor responses to the changing day-to-day outlook for such risk factors produced low correlation among growth-oriented stocks and economically sensitive stocks. Below-average correlation throughout 2021 kept surface-level realized (actual) volatility low while the crosscurrents of the market churned below. The short-end of the VIX[®] pricing curve seems to suggest the expectation that the low correlation environment may continue in the near-term.

History suggests that market risks have a tendency to be realized after extended periods of well-above average returns. If realized volatility increases in 2022 to match or exceed the expectations reflected in VIX[®] futures prices, investors who are interested in alternatives to bonds for risk reduction may benefit from index option writing strategies. Gateway's approach to benefiting from the risk reduction and risk-adjusted return enhancement that index option writing can provide combines decades of experience and flexible active management within a consistent risk framework. Gateway is uniquely positioned to assist investors seeking attractive long-term returns with less risk than equity markets and will remain vigilant, ready to respond to what lies ahead in the new year.

Important Information

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

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.

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

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

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

Gateway Investment Advisers, LLC (Gateway) is an independent registered investment adviser and a successor in interest to Gateway Investment Advisers, L.P. as of February 15, 2008. Gateway claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Gateway has been independently verified for the periods January 1, 1993 through 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.

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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.