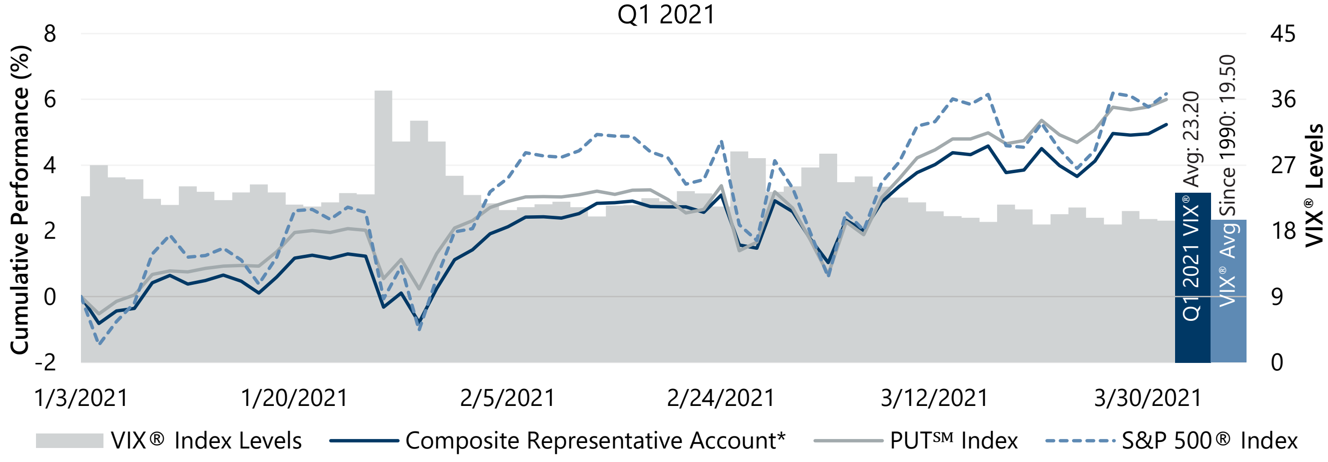
Active Index-PutWrite Carve-Out Composite Commentary
Q1 2021

In Brief

- Gateway Active Index-PutWrite Carve-Out Composite (the Composite) returned 5.48%, net of fees, in the first quarter of 2021 compared to the 6.00% return of the Cboe® S&P 500 PutWrite℠ Index[i] (the PUT℠) and the 6.17% return of the S&P 500® Index. (A GIPS® Composite Report is included with this Commentary.)
- The Composite's underperformance relative to the PUT℠ for the quarter was primarily due to results in January. The PUT℠'s passive approach was beneficial in January as its index put option contract with a February expiration was written just prior to the equity market's late January decline. This timing allowed the PUT℠ to quickly earn the time premium on its new contract and provide better downside protection. From that point, however, the Composite outperformed the PUT℠ from the beginning of February through quarter-end.
- Despite growing concerns around the outlook for inflation and rising interest rates, the first quarter equity market rally – fueled by positive trending pandemic developments and additional U.S. fiscal stimulus – could not be stopped. The advance did come with fits and starts, however, with nearly all of the first quarter return being generated after March 4.
- Implied volatility, as measured by the Cboe® Volatility Index (the VIX®), averaged 23.20 in the first quarter of 2021. Average implied volatility was significantly higher than realized volatility, as measured by the standard deviation of daily returns for the quarter. The VIX® opened the quarter at 26.97, climbed to an intra-quarter high of 37.21 on January 27, then drifted to an intra-quarter low of 18.86 on March 26. The VIX® closed the quarter at 19.40.
- The S&P 500® Index, the PUT℠ and the Composite* had an annualized standard deviation of daily returns of 15.86%, 9.39% and 8.89% for the first quarter, respectively.
- As the equity market gyrated throughout the quarter, Gateway's investment team focused on patiently earning index put option time premium from expiring contracts while adjusting select positions to maintain market exposure that is consistent with the Composite's typical profile.
- After a brief climb in the second half of February, the VIX® continued its downward trend in March. While the VIX® is lower, it is not low: March was the 13th consecutive month that the VIX® average was above 20 - the longest such streak since the 21-month streak that ended in February 2010. Additionally, the spread between implied and realized volatility, also known as the *Volatility Risk Premium*, continued to be very high in the first quarter of 2021. In fact, for the first time in the history of the VIX®, the spread has now been more than double the average quarterly spread for three consecutive quarters.

Market Path & Implied Volatility
Q1 2021



*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 oldest account in the Composite. Source: Bloomberg, L.P.

Market Recap

The S&P 500® Index returned 6.17% in the first quarter of 2021. With monthly returns of -1.01%, 2.76% and 4.38% for January, February and March, respectively, the advance came in fits and starts with nearly all of the first quarter return generated after March 4. After January's decline, the S&P 500® Index climbed 6.01% through February 12 on positive-trending developments surrounding COVID-19 paired with growing prospects for additional fiscal stimulus. Over the second half of February, increasing concerns over rising interest rates and the outlook for inflation gripped investors and the S&P 500® Index fell 4.13% from February 12 through March 4. Congress passed a new economic stimulus package in early March and the S&P 500® Index returned 5.53% from March 4 through quarter-end.

Macroeconomic data released throughout the quarter reflected stabilization and recovery as the pandemic mitigation restrictions continued to ease in the U.S. The third estimate of Gross Domestic Product for the fourth quarter of 2020 showed that the U.S. grew at an annualized rate of 4.3%, beating the consensus expectation. The decline in unemployment rate was also better than expected as it came in at 6.2% for February, while the participation rate held steady at 61.4%. The February Consumer Price Index, released on March 10, showed a 1.7% year-over-year increase which was in line with the consensus estimate. With over 99% of companies reporting, fourth quarter aggregate operating earnings were on track to decline 0.80% quarter-over-quarter and 22.11% year-over-year. More than 80% of the companies that reported earnings met or exceeded analyst estimates.

Implied volatility, as measured by the VIX®, averaged 23.20 in the first quarter of 2021. Average implied volatility was significantly higher than realized volatility, as measured by the standard deviation of daily returns for the S&P 500® Index, which was 15.86% for the quarter. The VIX® opened the quarter at 26.97, climbed to an intra-quarter high of 37.21 on January 27, then drifted to an intra-quarter low of 18.86 on March 26. The VIX® closed the quarter at 19.40.

The PUT℠ returned 6.00% in the first quarter of 2021, underperforming the S&P 500® Index by 17 basis points (bps). With monthly returns of 0.24%, 1.42% and 4.26% in January, February and March, respectively, the PUT's℠ outperformance in January could not compensate for its underperformance in February and March. On the third Friday of each month, the PUT℠ writes a new index put option as the option it wrote the previous month expires. The premiums[ii] the PUT℠ collects on its written index put options have significant influence on its return potential during equity market advances and help to mitigate market declines. The premiums the PUT℠ collected as a percentage of the PUT's℠ underlying value were 2.21%, 1.76% and 1.77% in January, February and March, respectively. The decline in premiums reflects the decrease in implied volatility over the course of the quarter. Underperformance for the quarter was primarily due to the PUT's℠ lagging return during the S&P 500® Index's advance of 5.48% from February 1 through February 18, the day prior to the expiration of the PUT's℠ February put option. The equity market decline at the end of January left the PUT℠ in position for strong return potential during a market advance as its written index put option was in-the-money, which increased its market exposure. Though this positioning, combined with the premium it collected in January, contributed to the PUT's℠ historically strong short-term return of 3.00% from February 1 through February 18, it was not enough to keep pace with the market as it lagged the S&P 500® Index by 248 bps.

The Bloomberg Barclays U.S. Aggregate Bond Index (the Agg) declined 3.37% in the first quarter of the year as interest rates ticked higher. It was 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) started the year at its intra-quarter low of 0.91% before beginning its climb to a quarterly high and first quarter close of 1.74% - a level not seen since January 2020. On the shorter-end of the yield curve, one-month U.S. Treasury Bills started the first quarter with a yield of 0.04% and closed the quarter at 0.00%.

Gateway Active Index-PutWrite Composite Performance

The Composite returned 5.48%, net of fees, in the first quarter, underperforming the PUT℠ by 52 bps. With monthly net returns of -0.63%, 2.28% and 3.78% in January, February and March, respectively, strong outperformance relative to the PUT℠ in February did not compensate for the Composite's underperformance in January and March.

The Composite's underperformance relative to the PUT℠ for the quarter was primarily due to results in January. The PUT's℠ passive approach was beneficial in January as its index put option contract with a February expiration was written just prior to the equity market's late January decline. This timing allowed the PUT℠ to quickly earn the time premium on its new contract and provide better downside protection. From that point, however, the Composite outperformed the PUT℠ from the beginning of February through quarter-end.

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.[iii]

For the first quarter, the Composite's underlying Treasury bill portfolio contributed a total return of 0.02%, as ultra-low yields on short-maturity instruments limited the return of the strategy's cash collateral portfolio. The Composite's written index put options detracted from return in January, while contributing positively to returns in February and March.

In achieving its low-volatility objective, the Composite's annualized standard deviation of daily returns for the quarter was 8.89% compared to 15.86% and 9.39% for the S&P 500® Index and the PUT℠, respectively. The Composite exhibited a beta to the S&P 500® Index of 0.55 for the quarter.

As the equity market gyrated throughout the quarter, Gateway's investment team focused on patiently earning index put option time premium from expiring contracts while adjusting select positions to maintain market exposure that is consistent with the Composite's typical profile. During periods when the equity market advanced, the investment team actively adjusted the written index put option portfolio by exchanging index put options well in advance of their expiration dates for ones with later expiration dates and higher strike prices. During periods of market decline throughout the quarter, the investment team took advantage of relatively elevated volatility levels by making several index put option trades that increased potential cash flow while maintaining a typical risk profile.

At the end of the quarter, 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 24 days and annualized premium to earn between 15% to 20%. Relative to the beginning of the quarter, this positioning represented higher market exposure and similar cash flow potential.

Performance & Risk (%)	Q1 2021	1 Year	3 Years	5 Years	Inception (4/1/2015)	Inception Risk[1]
Gateway Active Index-PutWrite Composite (Net)	5.48	35.45	9.04	8.81	7.96	9.53
PUT℠ Index	6.00	36.48	5.87	6.93	6.54	10.70
S&P 500® Index	6.17	56.35	16.78	16.29	13.74	14.82

1: Based on standard deviation of monthly returns since Composite inception date of April 1, 2015. All performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results. Data as of March 31, 2021. Source: Morningstar Direct℠.

Market Perspective: The Alternative to "There is No Alternative"

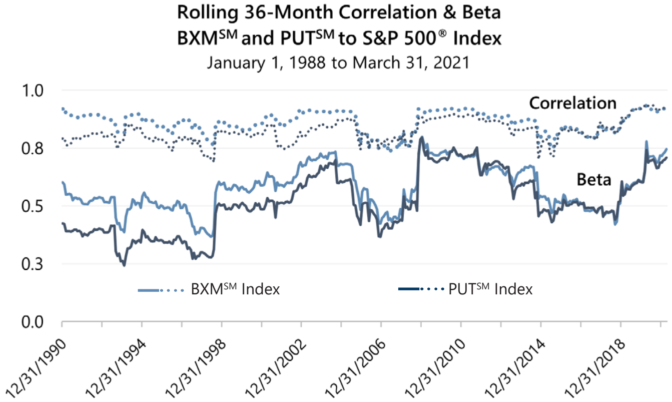
The S&P 500® Index returned a staggering 56.35% for the 12-month period ending March 31 while the Agg returned just 0.71%. This disparity has helped intensify the asset allocation debate. A troublesome narrative is taking hold that implies investors have no choice but to endure the risks of the equity market, but risk management remains essential and recent market conditions favor managing risk with index options.

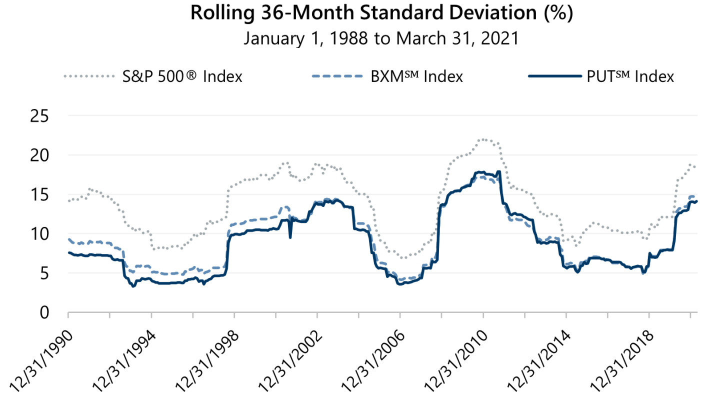
As the stock market continued its upward charge and reached new heights in the first quarter, the Agg posted its worst quarterly return in nearly 40 years. Though the increase in interest rates that drove the bond market bloodbath makes bonds slightly more attractive going forward, the 1.74% yield the U.S. 10-Year sported at quarter-end would be considered paltry relative to its level at just about any other point in history outside the preceding 10 months.

The state of the bond market is such that, despite current equity market valuations at levels not seen since the tech bubble was about to pop, some investors believe there is no alternative to stocks when it comes to making investment allocation decisions. The concept, referred to as "TINA", gets frequent mention in social media as well as on the pages and airwaves of the major financial press.

While low and rising interest rates change the value proposition for using bonds to manage portfolio risk, financial professionals should resist the idea that investors who find bonds unappealing have no choice but to face the vagaries of the equity market without protection.

Risk management strategies that combine equity market exposure with premiums from writing index options have the potential to reliably lower risk while enhancing risk-adjusted return. Option writing indexes like Cboe® S&P 500 BuyWrite℠ Index (the BXM℠)[iv] and the PUT℠ have a multi-decade history of exhibiting a consistent low-volatility equity profile: high equity market correlation with lower standard deviation and smaller losses. Over the long-term, this profile has historically delivered what many investors with diversified portfolios seek: earning a majority of the equity market's return at a lower level of risk.

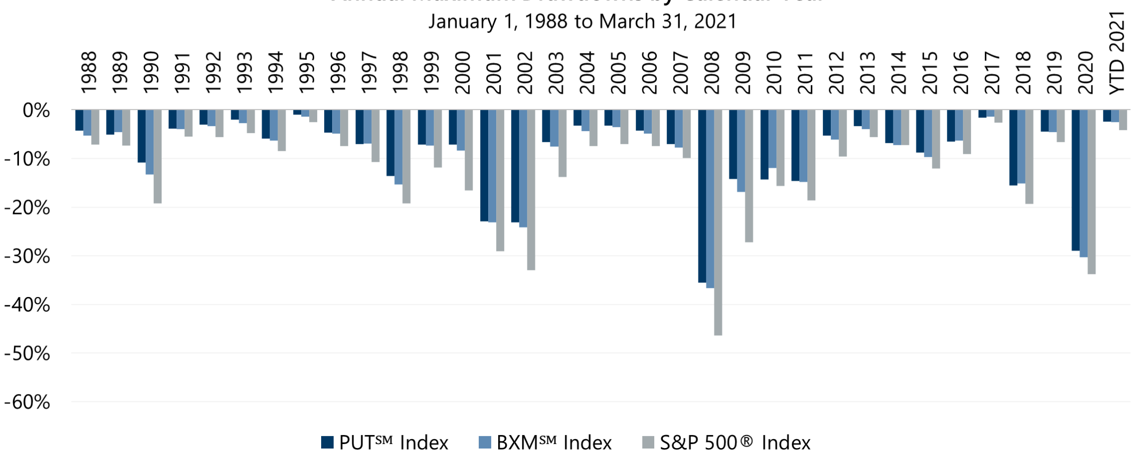




Source: Morningstar Direct℠

Annual Maximum Drawdowns by Calendar Year*

January 1, 1988 to March 31, 2021

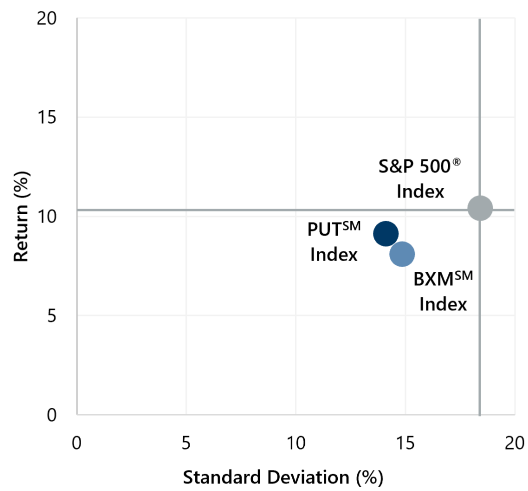


*Using daily total returns. Source: Bloomberg, L.P.

Active management of written index options can achieve a risk profile tailored to specific investor preferences and potentially deliver improved results relative to passive, rules-based option writing indexes. Additionally, index put buying can be combined with index option writing to achieve lower risk profiles and enhanced downside protection.

Annualized Return and Risk**

April 1, 1991 - March 31, 2021



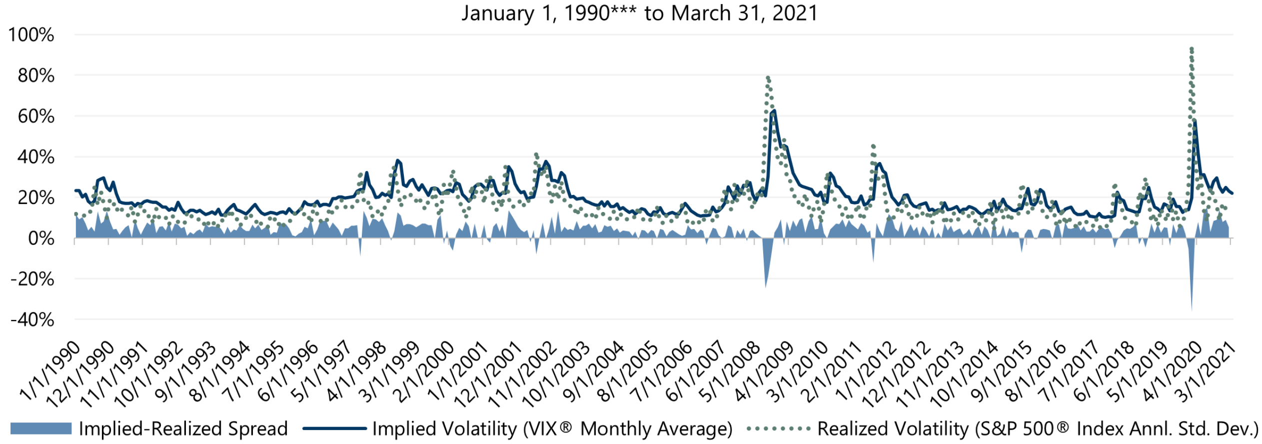
**Standard Deviation based on monthly returns. Source: Morningstar DirectSM

Risk-reduction from index option writing is largely a function of the amount of premium collected, which is closely tied to how much future volatility is implied by the prices of index options. Option premiums increase with expectations of future, or implied, volatility. Implied volatility is measured by the VIX®, and while it has come down significantly relative to the extreme highs of March 2020, it remained elevated in the first quarter of 2021. In fact, March was the 13th consecutive month that the VIX® average was above 20 (it's long-term average is 19.50) - the longest such streak since the 21-month streak that ended in February 2010. Higher implied volatility results in larger premiums received from option writing and potentially improved risk reduction and greater cushion against equity market losses.

In addition to reliably lowering risk, index option writing strategies have the potential to enhance risk-adjusted return from exposure to the *Volatility Risk Premium* (VRP), i.e. the propensity of the index option market to overprice risk. VRP is measured as the differential between implied volatility and the actual realized volatility the equity market experiences, measured by its standard deviation of returns. VRP fluctuates over time, but as the following chart shows, on a monthly basis the differential between implied and realized volatility is frequently positive and has averaged 4.1% since 1990. Recently, implied volatility has been much more overpriced than usual and this level of overpricing has been

Average Implied Volatility for S&P 500® Index Options vs. Realized Volatility for S&P 500® Index

January 1, 1990*** to March 31, 2021



***VIX® data available as of January 1, 1990. Source: Bloomberg, L.P.

sustained for a record period of time. As of March 2021, for the first time in the history of the VIX®, the spread between implied and realized volatility has been more than double the average quarterly spread for three consecutive quarters.

Interest rates are low, but equity market risks remain high. Going all-in on stocks because the bond market may malfunction is like stepping on a car's accelerator because the brakes do not work. Risk management remains paramount for investors. Reducing risk while enhancing risk-adjusted return with index option strategies may be the alternative that investors need most.

Important Information

[i] The PUT℠ is a passive total return index designed to track the performance of a hypothetical portfolio that sells S&P 500® Index put options against collateralized cash reserves held in a money market account. The PUT℠ strategy is designed to sell a monthly sequence of S&P 500® Index puts and invest cash at one- and three-month Treasury Bill rates. The monthly sequence entails writing one-month S&P 500® Index 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 expiration. 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 S&P 500® Index puts.

[ii] 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.

[iii] Represents supplemental information to the GIPS® Composite Report. This representative account was selected as it is the largest account in the Composite.

[vi] 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.

All data as of March 31, 2021, unless noted otherwise.

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

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. Performance information for Gateway Active Index-PutWrite Carve-Out Composite (the Composite) shown in this illustration is an asset-weighted composite of a portfolio sleeve of certain discretionary accounts under Gateway's management which share the same investment objectives and hedging strategies.

The Composite contains fully discretionary option writing accounts that sell (write) index put options on the S&P 500® Index. 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 U.S. 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 dividends and any other earnings, and was calculated using the Composite's highest tier of the current fee schedule of 0.35%. Fees 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, 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.

The GIPS® Composite Report for the Gateway Active Index-PutWrite Carve-Out 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℠

GATEWAY
INVESTMENT ADVISERS, LLC
312 Walnut Street, Suite 3500
Cincinnati, OH 45202
513.719.1100

888 Boylston Street
Boston, MA 02199
www.gia.com | Follow us:

GATEWAY INVESTMENT ADVISERS, LLC
GATEWAY ACTIVE INDEX-PUTWRITE CARVE-OUT COMPOSITE
GIPS® COMPOSITE REPORT

Year End	Annual Performance Results				3-Year Standard Deviation			Number of Composite Accounts	% of Composite Assets Representing Carve-Out	Composite Assets (millions)	Firm Assets (millions)
	Composite										
	Gross	Net	PUT℠ Index	S&P 500® Index	Composite	PUT℠ Index	S&P 500® Index				
9 Months Ended 12/31/2015	4.34%	4.07%	5.94%	0.45%	N/A	N/A	N/A	1	0%	$ 5	$ 12,210
2016	8.85	8.48	7.77	11.96	N/A	N/A	N/A	2	98.5	361	11,601
2017	12.42	12.03	10.85	21.83	N/A	N/A	N/A	2	98.6	371	12,559
2018	-5.58	-5.91	-5.93	-4.38	6.95%	7.50%	10.95%	2	98.9	362	11,641
2019	17.32	16.93	13.51	31.49	7.59	7.92	12.10	2	98.8	418	10,950
2020	8.28	7.89	2.13	18.40	12.38	14.03	18.80	2	99.0	458	9,963

N/A: The gross three-year annualized ex-post standard deviation of the Composite 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 Carve-Out Composite contains fully discretionary option writing accounts that sell (write) index put options. The written put options are exchange-traded and 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 Carve-Out 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. Cash is a component of average assets per performance period, which is proportionately split based on the weighting of each carve out sleeve.

The investment management fee for the Composite is 0.35%. Actual investment management fees incurred by Composite accounts may vary.

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. The verification report(s) is/are available upon request. 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. Verification does not provide assurance on the accuracy of any specific performance report. The GIPS® Composite Report for the standalone portfolio within the Gateway Active-Index PutWrite Carve-Out Composite is available upon request.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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.