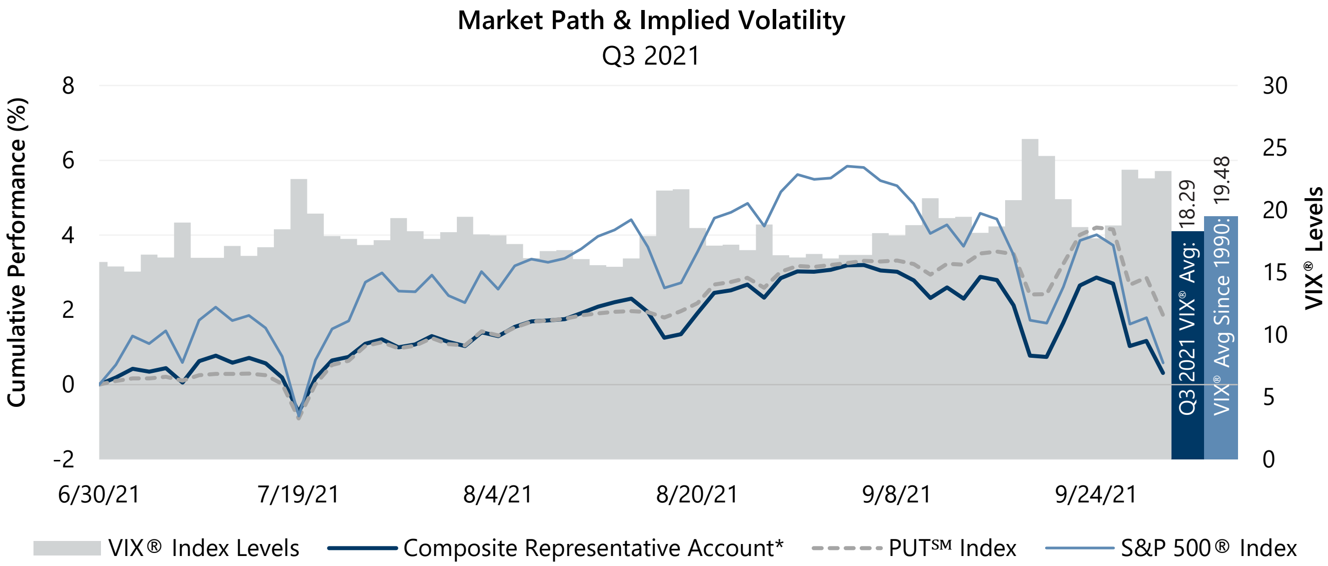
Active Index-PutWrite Carve-Out Composite Commentary
Q3 2021

In Brief

- Gateway Active Index-PutWrite Carve-Out Composite (the Composite) returned 0.26%, net of fees, in the third quarter of 2021 compared to the 1.86% return of the Cboe® S&P 500 PutWrite℠ Index[i] (the PUT℠) and the 0.58% return of the S&P 500® Index. (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 PUT℠ both provided significant downside protection during the September 2 through quarter-end equity market decline, with returns of -2.79% (net) and -1.34%, respectively. However, the PUT℠ 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 PUT℠ had less market exposure than usual because the option it wrote in August was significantly out-of-the-money due to the market move in August.
- 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.
- The S&P 500® Index, the PUT℠ and the Composite* had an annualized standard deviation of daily returns of 11.16%, 5.91% and 7.25% for the third quarter, respectively.
- As the market advanced in July and August, Gateway's index put 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 put option activity in September was selective, with a focus on patiently earning the time premium priced into the longer-dated written index put 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 oldest account in the Composite. Source: Bloomberg, L.P.

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 PUT℠ returned 1.86% in the third quarter of 2021, outperforming the S&P 500® Index by 128 basis points (bps) and bringing its year-to-date return to 13.86%. With monthly returns of 1.08%, 2.05% and -1.24% in July, August and September, respectively, the PUT℠ 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 PUT's℠ outperformance for the quarter. 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 1.66%, 1.52% and 1.70% in July, August and September, respectively. From the beginning of the quarter through September 2, the PUT℠ returned 3.25%, lagging the 5.84% return of the S&P 500® Index by 259 bps, as premiums collected by the PUT℠ were insufficient to keep pace with the equity market's strong advance. During September's equity market decline, the remaining premium collected on its put 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 PUT℠ declined 1.34% 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-PutWrite Carve-Out Composite Performance

The Composite returned 0.26%, net of fees, in the third quarter, bringing its year-to-date net return to 10.94%. The PUT℠ returned 1.86% in the third quarter, bringing its year-to-date return to 13.86%. With monthly net returns of 1.08%, 1.88% and -2.64% in July, August and September, respectively, the Composite's underperformance relative to the PUT℠ 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.[iii]

The Composite and the PUT℠ 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 PUT℠ 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 PUT℠ had less market exposure than usual because the option it wrote in August was significantly out-of-the-money due to the market move in August. From September 2 through quarter-end, the Composite returned -2.79%, providing 218 bps of downside protection relative to the S&P 500® Index while underperforming the PUT℠ by 145 bps.

For the third quarter, the Composite's underlying Treasury bill portfolio contributed a total return of 0.01%, 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 contributed positively to returns in July and August but detracted from returns in September.

In achieving its low-volatility objective, the Composite's annualized standard deviation of daily returns for the quarter was 7.25% compared to 11.16% and 5.91% for the S&P 500® Index and the PUT℠, respectively. The Composite exhibited a beta to the S&P 500® Index of 0.63 for the quarter.

Gateway's investment team was active in their response to changes in equity market conditions and direction throughout the third quarter of 2021. As the equity market advanced in July and August, Gateway's index put option activity focused on taking advantage of elevated implied volatility priced into longer-dated contracts by trading select contracts in advance of their expiration dates in an effort to maintain market exposure while extending weighted-average time to expiration. This was done cautiously and incrementally in an effort to maintain the strategy's typical risk profile while protecting against the potential adverse effects of a change in market direction. Index put option activity in September focused on taking advantage of elevated implied volatility levels to increase the cash flow potential of the strategy.

Throughout the quarter, the full value of the Composite's maximum potential loss on written index put options was secured with Treasury bills and cash. As of quarter-end, the Composite's diversified portfolio of written index put options had a weighted-average strike price between 2.5% and 5.0% in-the-money, weighted-average time to expiration of 29 days and annualized premium to earn between 2.5% and 5.0%. Relative to the beginning of the quarter, this positioning represented greater market exposure and lower cash flow potential.

Performance & Risk (%)	Q3 2021	1 Year	3 Years	5 Years	Inception (4/1/2015)	Inception Risk[1]
The Composite (Net)	0.26	20.12	7.85	8.75	8.17	9.28
PUT℠ Index	1.86	22.99	5.41	7.24	7.20	10.36
S&P 500® Index	0.58	30.00	15.99	16.90	14.15	14.54

1: Based on standard deviation of monthly returns since Composite inception date of April 1, 2015. Data for periods of less than one year are not annualized. 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℠.

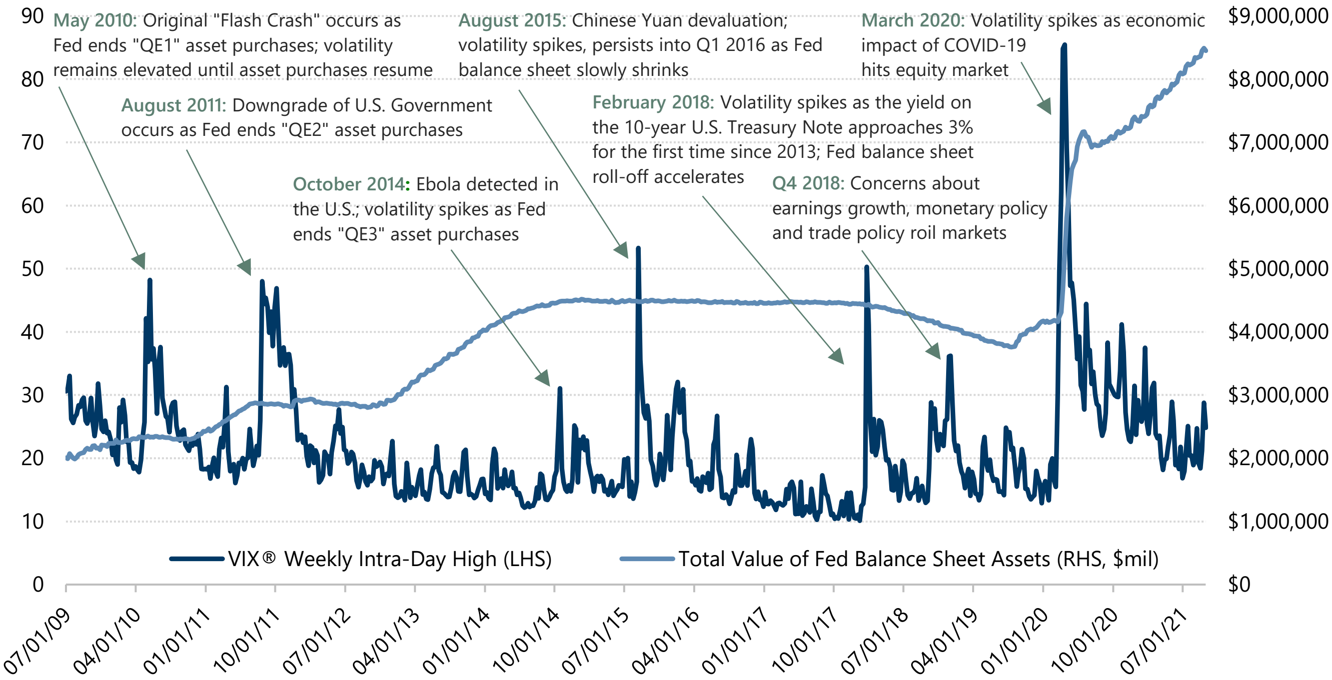
Market Perspective – What Will Taper Do to Implied Volatility?

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 following chart 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 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.

All data as of September 30, 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℠

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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	Carve- Out Composite Assets (millions)	Firm Assets (millions)
	Carve-Out Composite Gross Returns	Carve-Out Composite Net Returns	PUT℠ Index	S&P 500® Index	Carve-Out 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	8.46	8.09	7.77	11.96	N/A	N/A	N/A	2	98.4	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 Composite Account (Standalone Portfolio):

Year End	Annual Performance Results		Standalone Composite Assets (millions)
	Standalone Gross Returns	Standalone Net Returns	
9 Months Ended 12/31/2015	4.34%	4.07%	$ 5
2016	8.76	8.37	6
2017	12.15	11.75	5
2018	-5.61	-5.96	4
2019	17.15	16.73	5
2020	8.26	7.87	5

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%, applied monthly. 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 standalone segregated account managed in 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. 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 Carve-Out Composite has had a performance examination for the periods April 1, 2015 through December 31, 2020. The verification and performance examination reports are available upon request. The GIPS® Composite Report for the standalone portfolio within the Gateway Active Index-PutWrite Carve-Out Composite is also 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.