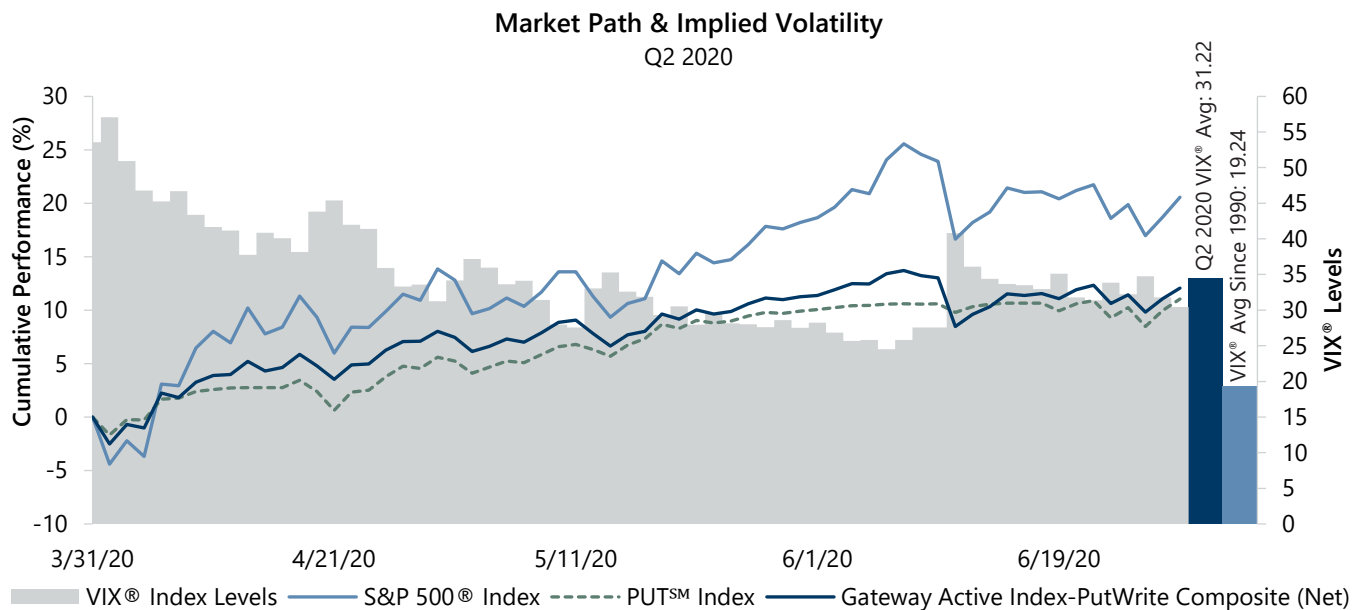


**In Brief**

- ◆ Gateway Active Index-PutWrite Composite (the Composite) returned 12.08%, net of fees, in the second quarter of 2020 compared to the 11.05% return of the Cboe® S&P 500 PutWrite<sup>SM</sup> Index<sup>i</sup> (the PUT<sup>SM</sup>) and the 20.54% return of the S&P 500® Index. (A GIPS® Composite Report is included with this Commentary.)
- ◆ Despite its highest quarterly return since the fourth quarter of 1998, the S&P 500® Index remained significantly below its first quarter 2020 peak. From its March 23 low through the end of June, the S&P 500® Index rallied 39.31%. However, the second quarter closed with the S&P 500® Index remaining 7.77% below its all-time high set on February 19.
- ◆ The Composite's second quarter outperformance relative to the PUT<sup>SM</sup> was primarily due to its diversified and active index option writing approach which provided consistent exposure during the equity market advance and more index option writing cash flow relative to the PUT<sup>SM</sup>.
- ◆ Implied volatility, as measured by the Cboe® Volatility Index (the VIX®), began the second quarter of 2020 at an intra-quarter high of 57.06 and reached an intra-quarter low of 24.52 on June 5. The VIX® closed the second quarter at 30.43, still well above its historical average of 19.37.
- ◆ Second quarter annualized standard deviations of daily returns for the S&P 500® Index, the PUT<sup>SM</sup> and the Composite were 31.88%, 12.07% and 17.01%, respectively.
- ◆ The Cboe® S&P 500 BuyWrite<sup>SM</sup> Index<sup>ii</sup> (the BXM<sup>SM</sup>) returned 9.14% in the second quarter while the PUT<sup>SM</sup> returned 11.05%. The respective outcomes of the two option-writing indexes for the quarter were determined almost solely by one day, June 19, the day their June options expired and new options with July expirations were written. For the month of June, the BXM<sup>SM</sup> returned -0.12% compared to the PUT<sup>SM</sup> return of 1.04%. This is not an unprecedented occurrence and is a reminder of one of many potential advantages active management has over passive approaches to option writing.



Source: Bloomberg, L.P.

## Market Recap

The S&P 500<sup>®</sup> Index returned 20.54% in the second quarter, bringing its year-to-date return to -3.08%. The strong advance was driven by macroeconomic data that was starkly negative, but better than expected, as individual states began to roll back some COVID-19 mitigation efforts. The S&P 500<sup>®</sup> Index had a positive return in each month of the quarter with returns of 12.82%, 4.76% and 1.99% in April, May and June, respectively. Though the strong advance was relatively steady, it came with above average volatility and several instances of daily declines exceeding 2%, including a one-day drop of 5.88% on June 11. Despite its highest quarterly return since the fourth quarter of 1998, the S&P 500<sup>®</sup> Index remained significantly below its first quarter 2020 peak. At the end of the second quarter, after rallying 39.31% from its March 23 low, the S&P 500<sup>®</sup> Index was 7.77% below its all-time high set on February 19.

Macroeconomic data reflected a partial rebound from the negative effects of COVID-19 mitigation efforts. U.S. Gross Domestic Product growth for the first quarter of 2020 came in at -5.0%, in line with consensus estimates. The unemployment rate declined from 14.7% in April to 13.3% in May, far below the consensus estimate of 19.8%, as the employment participation rate ticked up to 60.8%. The May Consumer Price Index, released on June 10, showed a 0.1% year-over-year increase, slightly below consensus estimates of 0.2%. Corporate earnings reflected challenges posed by COVID-19. With more than 99% of companies reporting, first quarter aggregate operating earnings growth declined 11.77% quarter-over-quarter and declined 9.42% year-over-year. Of the companies that have reported earnings, 70% met or exceeded analyst expectations.

Implied volatility, as measured by the VIX<sup>®</sup>, averaged 34.49 in the second quarter of 2020. 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<sup>®</sup> Index, which was 31.84% for the quarter. Implied volatility generally trended down over the period, continuing to moderate from extreme levels witnessed in the first quarter of 2020. The VIX<sup>®</sup> began the second quarter of 2020 at an intra-quarter high of 57.06 and reached an intra-quarter low of 24.52 on June 5. The VIX<sup>®</sup> closed the second quarter at 30.43, still well above its historical average of 19.37.

The PUT<sup>SM</sup> had a return of 11.05% for the second quarter, underperforming the S&P 500<sup>®</sup> Index by 949 basis points (bps) and bringing its year-to-date return to -11.91%. On the third Friday of each month, the PUT<sup>SM</sup> wrote a new index put option as the option it wrote the previous month expired. The premiums the PUT<sup>SM</sup> collects on written options have significant influence on its return potential over a period when the market advances and help to mitigate losses during market declines. Premiums collected as a percentage of the PUT<sup>SM</sup>'s underlying value were 3.87%, 3.71% and 2.84% in April, May and June, respectively. The decreasing premiums reflect the decline in implied volatility over the course of the second quarter. With monthly returns of 5.23%, 4.44% and 1.04%, the PUT<sup>SM</sup> underperformed the S&P 500<sup>®</sup> Index in all three months with most of the underperformance occurring in April. The premiums collected by the PUT<sup>SM</sup> in March and April were not enough to keep pace with early April's rapid equity market advance. Most of the PUT<sup>SM</sup>'s April return was generated early in the month as it earned the remainder of the premium collected from the index put option written in March. From the beginning of the month through April 8, the PUT<sup>SM</sup> returned 2.38% while the S&P 500<sup>®</sup> Index advanced 6.46%. The equity market's rapid advance placed the PUT<sup>SM</sup>'s April index put option far out-of-the-money, resulting in very low market exposure and little return potential as the market continued to trend up. From its closing value on April 8 through April 17, the expiration date of its option, the PUT<sup>SM</sup> returned 1.02% while the S&P 500<sup>®</sup> Index returned 4.57%. After mid-April, the rate of the equity market's advance slowed and the premiums the PUT<sup>SM</sup> collected in April, May and June allowed it to capture a larger portion of the market's return. From its closing value on April 17 through June 30, the PUT<sup>SM</sup> returned 7.37% while the S&P 500<sup>®</sup> Index returned 8.28%.

The Bloomberg Barclays U.S. Aggregate Bond Index returned 2.90% in the second quarter of 2020, bringing its year-to-date return to 6.14%. The yield on the 10-year U.S. Treasury Note (the 10-year) started the quarter at 0.58% and reached an intra-quarter low of 0.57% on April 21 before climbing to an intra-quarter high of 0.90% on June 5. The 10-year closed the quarter at 0.66%. On the shorter-end of the yield curve, one-month U.S. Treasury Notes started the second quarter with a yield of -0.01%, climbed to an intra-quarter high of 0.15% and ended the quarter with a yield of 0.09%.

## Gateway Active Index-PutWrite Composite Performance

The Composite returned 12.08%, net of fees, in the second quarter, outperforming the PUT<sup>SM</sup> by 103 bps and bringing its year-to-date return to -5.61%. With monthly returns of 7.43%, 3.56% and 0.74%, respectively, the Composite's outperformance relative to the PUT<sup>SM</sup> in April more than compensated for its underperformance in May and June. For the second quarter, the Composite's outperformance relative to the PUT<sup>SM</sup> was primarily due to its diversified and active index option writing approach which provided consistent exposure during the equity market advance and more cash flow relative to the PUT<sup>SM</sup>.

During the equity market advance in the second quarter, Gateway made active adjustments to the written index put option portfolio by exchanging contracts ahead of their expiration dates for ones with later expiration dates and higher strike prices. These adjustments increased cash flow and provided consistent market exposure while maintaining a typical risk profile. The Composite's written index put options contributed to return in each month of the second quarter. For the second quarter, the Composite's underlying Treasury bill portfolio contributed a total return of 0.04%.

As of quarter end, the full value of the Composite's maximum potential loss on written index put options was secured with Treasury bills and cash. The Composite's diversified portfolio of written index put options had a weighted-average strike price between 1.5% in-the-money and 1.5% out-of-the-money, weighted-average time to expiration of 45 days and annualized premium to earn between 25% to 30%. Relative to the beginning of the quarter, this positioning represented slightly higher market exposure and lower cash flow potential.

Performance & Risk	Q2 2020	1 Year	3 Years	5 Years	Inception (4/1/2015)	Inception Risk*
Gateway Active Index-PutWrite Composite (Net)	12.08%	0.82%	3.08%	5.05%	5.22%	9.30%
Cboe® S&P 500 PutWrite Index	11.05%	-7.47%	-0.69%	3.01%	3.37%	10.41%
S&P 500® Index	20.54%	7.51%	10.73%	10.73%	10.25%	14.45%

\*Based on standard deviation of monthly returns since Composite inception date of April 1, 2015. Periods over one year are annualized. Past performance is no guarantee of future results. See GIPS® Composite Report included with this commentary. Data as of June 30, 2020. Sources: Bloomberg, L.P., Morningstar Direct<sup>SM</sup> and Gateway Investment Advisers, LLC.

## Market Perspective

Investors who seek to reduce equity market exposure while accessing the potential risk-adjusted, return-enhancing benefits of the option market's propensity to overprice future volatility can choose between index covered call writing and cash-secured index put writing. The historical outcomes of simple implementations of these two approaches are illustrated by the BXM<sup>SM</sup> and the PUT<sup>SM</sup>. The historical returns of the two option-writing indexes suggest that writing index put options has clear advantages over writing index call options. However, a deeper look reveals that some small, but consequential, details of each index's construction methodology have a large impact on their respective outcomes.

### Theory and Practice

Models based on standard option pricing theory project identical returns from holding cash and writing one-month, ATM index put options and owning the equity index and writing one-month ATM (at-the-money) index call options.

As a practical matter, however, the PUT<sup>SM</sup> has generated better long-term returns than the BXM<sup>SM</sup>. In fact, for the last 30 years, the PUT<sup>SM</sup> has outperformed the BXM<sup>SM</sup> by more than one percentage point (annualized) while the two indexes have exhibited a similar standard deviation. Over the same period, the PUT<sup>SM</sup> outperformed the BXM<sup>SM</sup> nearly 55% of the time on a monthly basis. In June 2020, the PUT's<sup>SM</sup> result was particularly strong as it returned a 1.04% gain compared to the BXM's<sup>SM</sup> loss of 0.12% for the month.

### It Happened on a Friday

The respective outcomes of the two option-writing indexes for the month of June were determined almost solely by one day, June 19, when BXM's<sup>SM</sup> decline of 1.75% was 109 bps lower than the PUT's<sup>SM</sup> decline of 0.66%. This is only somewhat unusual. A one-day return differential greater than 100 bps for the two indexes is a very rare occurrence. This oddity has happened just 28 times in the last 30 years—that is less than one-half of one percent of all days the equity market has been open in those same 30 years. The size of the June 19 differential was unusual, but the timing was not. It was not unusual that it happened on a Friday, and specifically on the third Friday of the month, which is the standard expiration day for the monthly options written by the BXM<sup>SM</sup> and the PUT<sup>SM</sup>. Of the 28 one-day return differentials exceeding 1%, 23 of them occurred on an expiration Friday.

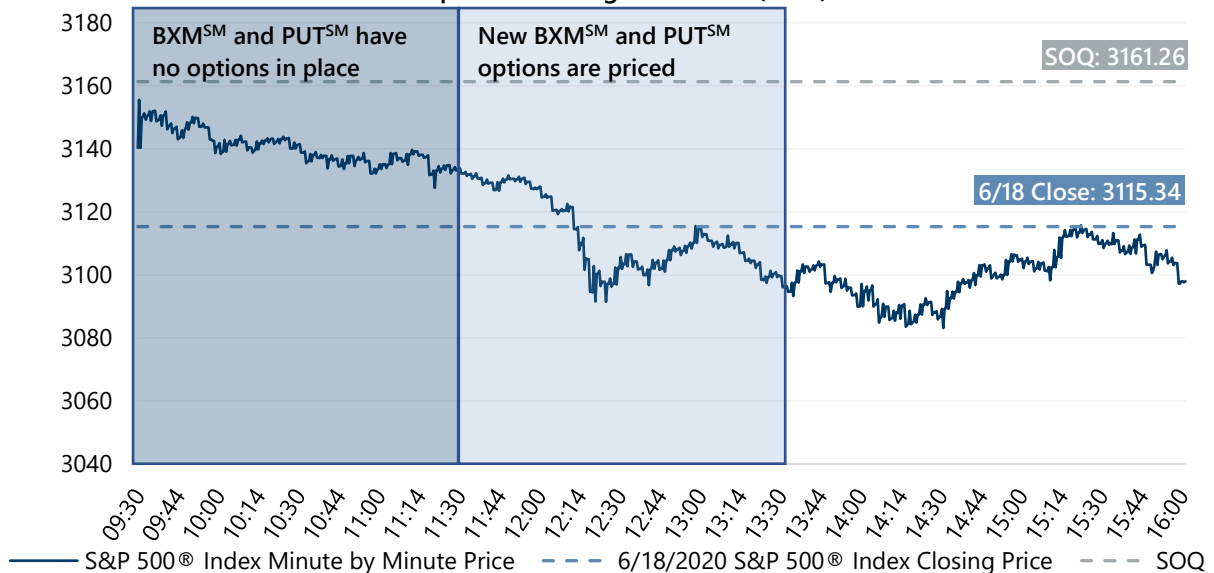
An examination of daily return differentials between the BXM<sup>SM</sup> and the PUT<sup>SM</sup> shows that Fridays tend to be outliers relative to other days of the week across several metrics. Fridays have had larger return differentials on average, the largest single return differentials have occurred on Fridays, and the standard deviation of Friday returns is at least twice as high as the standard deviations of the other weekdays. Conversely, the statistics for Tuesday through Thursday show the returns of the two indexes are on average, nearly identical, much closer to what standard option pricing models would predict.

Daily Return Differentials (BXM <sup>SM</sup> Daily Return Minus PUT <sup>SM</sup> Daily Return)								
	BXM <sup>SM</sup> -PUT <sup>SM</sup>	BXM <sup>SM</sup> -PUT <sup>SM</sup>	BXM <sup>SM</sup> -PUT <sup>SM</sup>	BXM <sup>SM</sup> -PUT <sup>SM</sup>	BXM <sup>SM</sup> -PUT <sup>SM</sup>	BXM <sup>SM</sup> -PUT <sup>SM</sup>	BXM <sup>SM</sup> >PUT <sup>SM</sup>	BXM <sup>SM</sup> <PUT <sup>SM</sup>
	Average	>0 Avg	<0 Avg	Min	Max	Std Dev	% Days	% Days
Mondays	-0.02%	0.09%	-0.10%	-1.78%	0.98%	0.15%	43%	57%
Tuesdays	0.00%	0.09%	-0.08%	-0.73%	1.97%	0.14%	48%	52%
Wednesdays	0.01%	0.08%	-0.08%	-1.59%	0.70%	0.13%	57%	43%
Thursdays	0.01%	0.09%	-0.09%	-0.75%	1.32%	0.13%	54%	46%
Fridays	-0.02%	0.13%	-0.19%	-2.81%	3.33%	0.30%	51%	49%
<b>Expiration Days</b>	<b>-0.11%</b>	<b>0.36%</b>	<b>-0.43%</b>	<b>-2.81%</b>	<b>3.33%</b>	<b>0.57%</b>	<b>41%</b>	<b>59%</b>

Data from June 30, 1990 to June 30, 2020. Source: Bloomberg, L.P.

Isolating the return differentials on days in which the options written by the two indexes expire (nearly all standard expirations are on Fridays, with the rare exceptions being when the third Friday of the month is a holiday, in which case expiration is on the preceding Thursday), shows that these are the days that produced the most variation in return differential. There are two scenarios that can occur on expiration days that have the potential to significantly impact the relative returns of the BXM<sup>SM</sup> and the PUT<sup>SM</sup>. The index's respective returns on June 19 provide an opportunity to examine the impact of both. The first factor is how the expiration price of standard index options is determined. The second is the timeframe over which the new options written by the BXM<sup>SM</sup> and the PUT<sup>SM</sup> are priced and established. Chart 1 illustrates all these factors against a timeline of S&P 500<sup>®</sup> Index price changes on June 19.

**Chart 1: June 19 S&P 500<sup>®</sup> Index Prices Relative to June 18 Closing Price and Special Offering Quotation (SOQ)**



Source: Bloomberg, L.P.

The expiration price of standard index options is determined by the Special Offering Quotation (SOQ) rather than the price of the S&P 500<sup>®</sup> Index at the opening or closing bell on expiration day. The SOQ is computed by summing the opening prices of each individual company in the S&P 500<sup>®</sup> Index. The SOQ can vary significantly from the price of the S&P 500<sup>®</sup> Index at the opening bell if a significant portion of the index has a delayed opening. On June 19, the SOQ was calculated as 3161.26, nearly 46 points higher than the closing value of the S&P 500<sup>®</sup> Index on June 18. With a strike price of 2835, the BXM's<sup>SM</sup> expiring contract was already in-the-money so the elevated SOQ increased the price of its written index call option by over \$46, detracting approximately 1.45% from the BXM's<sup>SM</sup> return. The PUT<sup>SM</sup>'s expiring index put option contract, on the other hand, had a strike price of 2830, which was significantly out-of-the-money and, therefore, the contract would be worth zero at expiration. In short, the SOQ had a large negative impact on the BXM<sup>SM</sup> and no impact on the PUT<sup>SM</sup>.

The second factor that can impact the relative returns of the BXM<sup>SM</sup> and the PUT<sup>SM</sup> is indicated by the shading on Chart 1. For the first two hours of equity market operations on the third Friday of each month, the BXM<sup>SM</sup> and the PUT<sup>SM</sup> have no written options in place. This leaves each index without one of its two components and results in the BXM's<sup>SM</sup> return during that window of time being solely a function of the change in S&P 500<sup>®</sup> Index price while the PUT's<sup>SM</sup> return is solely a function of the price change of its U.S. Treasury bill portfolio. Over the next two hours (from 11:30 a.m. to 1:30 p.m.), the new options written by the BXM<sup>SM</sup> and the PUT<sup>SM</sup> are priced. Equity market volatility in this window will impact relative return of the BXM<sup>SM</sup> and the PUT<sup>SM</sup>—falling S&P 500<sup>®</sup> Index prices will hurt equity market-exposed BXM<sup>SM</sup> relative to the U.S. Treasury bill-invested PUT<sup>SM</sup> while rising S&P 500<sup>®</sup> Index prices will help the BXM<sup>SM</sup> relative to the PUT<sup>SM</sup>. On June 19, the decline of the S&P 500<sup>®</sup> Index from its opening value to mid-afternoon detracted from both the BXM's<sup>SM</sup>'s absolute return and its return relative to the PUT<sup>SM</sup> for the day.

### Implications

The historical returns of the BXM<sup>SM</sup> and the PUT<sup>SM</sup> may give a misleading impression of the relative merits of index call writing and index put writing. The frequent occurrence of lower returns for the BXM<sup>SM</sup> relative to the PUT<sup>SM</sup> on the days their contracts expire is evidence of opportunities for active managers to add value. Specifically, active managers can trade soon-to-expire contracts in an effort to avoid pricing anomalies created by the SOQ. Additionally, active managers diversify across multiple option contracts with various strike prices and expiration dates, rather than rely on the single contract approach of the BXM<sup>SM</sup> and the PUT<sup>SM</sup>, which risks creating windows of time when a strategy has no options in place. These simple, common sense techniques are among the active management elements Gateway Investment Advisers has utilized for decades in its effort to harness the full benefits of writing index options for its clients

## Important Information

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

<sup>ii</sup> The BXM<sup>SM</sup> is a passive total return index designed to track the performance of a hypothetical buy-write strategy on the S&P 500<sup>®</sup> Index. The construction methodology of the index includes buying an equity portfolio replicating the holdings of the S&P 500<sup>®</sup> Index and selling a single one-month S&P 500<sup>®</sup> 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.

<sup>iii</sup> 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<sup>®</sup> 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.

All data as of June 30, 2020, unless noted otherwise.

For more information and access to additional insights from Gateway Investment Advisers, LLC, please visit [www.gia.com/insights](http://www.gia.com/insights).

Gateway Active Index-PutWrite Composite contains a fully discretionary option writing account that sells (writes) index put options. The written put options are exchange-traded and fully cash-secured. Indexes utilized for put option activity are liquid U.S. equity indexes that include all sectors of the economy. Put writing activity provides cash flow and equity market correlation. The Composite was created on April 1, 2015. The Composite net of fee performance results reflect the reinvestment of any earnings, and reflect the deduction of a model advisory fee of 0.35%. Fees, including the model advisory fee netted from this Composite, may be less or more than fees that other accounts would pay for this strategy in the future. A more detailed description of Gateway's standardized fees is included in Form ADV, Part 2.

For comparison purposes, the Composite may be measured against the following indexes: Cboe<sup>®</sup> S&P 500 PutWrite<sup>SM</sup> Index (PUT<sup>SM</sup> Index), a passive total return index designed to track the performance of a hypothetical put-write strategy on the S&P 500<sup>®</sup> Index; S&P 500<sup>®</sup> Index, a popular indicator of the performance of the large capitalization sector of the U.S. stock market. Performance results are expressed in U. S. dollars;

Selling index put options can reduce the risk of equity market volatility, but limits the opportunity to profit from an increase in the market value of stocks in exchange for up-front cash at the time of selling the put option. Unusual market conditions or the lack of a ready market for any particular option at a specific time may reduce the effectiveness of the Composite's option strategy, and for these and other reasons the Composite's option strategy may not reduce the volatility to the extent desired. Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results.

Gateway Investment Advisers, LLC (Gateway) is an independent registered investment adviser and a successor in interest to Gateway Investment Advisers, L.P. as of February 15, 2008.

The GIPS<sup>®</sup> Composite Report for the Gateway Active Index-PutWrite Composite is included with this document. Additional copies are available upon request by calling 513.719.1100.

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

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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	% of Non-Fee Paying	PUT <sup>SM</sup> Index	S&P 500® Index	Composite	PUT <sup>SM</sup> Index	S&P 500® Index			
9 Months Ended 12/31/2015	4.34%	4.07%	100%	5.94%	0.45%	N/A	N/A	N/A	1	\$ 5	\$ 12,210
2016	8.76	8.37	100	7.77	11.96	N/A	N/A	N/A	1	6	11,601
2017	12.15	11.75	100	10.85	21.83	N/A	N/A	N/A	1	5	12,559
2018	-5.61	-5.96	100	-5.93	-4.38	6.89%	7.50%	10.95%	1	4	11,641
2019	17.15	16.73	100	13.51	31.49	7.52	7.92	12.10	1	5	10,950

N/A: The gross three-year annualized ex-post standard deviation of the Composite and benchmarks is not presented as 36-month returns are not available. For all periods shown, the Composite has less than six accounts for the full year. As such, the Composite dispersion of portfolio returns is not applicable.

Gateway Active Index-PutWrite Composite contains fully discretionary option writing accounts that sell (write) index put options. The written put options are fully cash-secured. Indexes utilized for put option activity are U.S. domestic equity indexes that include all sectors of the economy. This put writing activity provides cash flow and equity market correlation. The creation and inception date of the Gateway Active Index-PutWrite Composite was April 1, 2015.

For comparison purposes, the Composite is measured against two indexes: the Cboe® S&P 500 PutWrite<sup>SM</sup> Index (PUT<sup>SM</sup> Index), a passive total return index designed to track the performance of a hypothetical put-write strategy on the S&P 500® Index and the S&P 500® Index, a popular indicator of the performance of the large capitalization sector of the U.S. stock market.

Performance results are expressed in U.S. dollars. Performance returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using the Composite's highest tier of the current fee schedule of 0.35%. Past performance is not indicative of future results. The 3-year standard deviation is calculated using gross returns.

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

Gateway Investment Advisers, LLC (Gateway) is an independent registered investment adviser and a successor in interest to Gateway Investment Advisers, L.P. as of February 15, 2008. Gateway claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Gateway has been independently verified for the periods January 1, 1993 through March 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 Composite has had a performance examination for the periods April 1, 2015 through March 31, 2020. The verification and performance examination reports are available upon request.

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Policies for valuing portfolios, calculating performance and preparing GIPS® reports are available upon request. Gateway's lists of composite descriptions and broad distribution pooled funds are also available upon request.