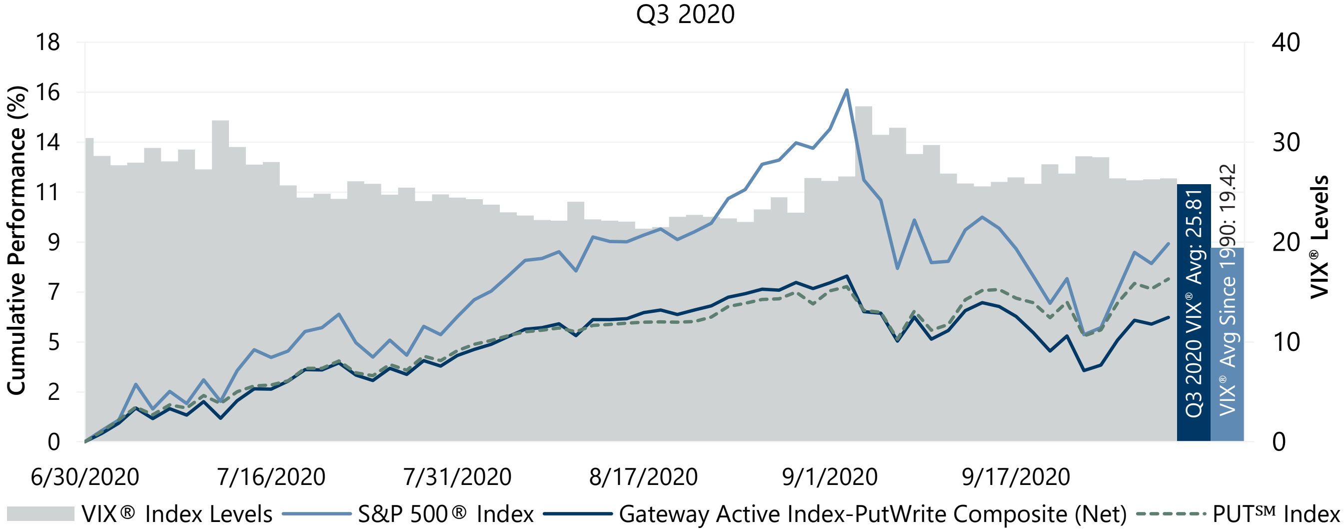
Active Index-PutWrite Composite Commentary
Q3 2020

In Brief

- Gateway Active Index-PutWrite Composite (the Composite) returned 5.56%, net of fees, in the third quarter of 2020 compared to the 7.34% return of the Cboe® S&P 500 PutWrite℠ Index[i] (the PUT℠) and the 8.93% return of the S&P 500® Index. (A GIPS® Composite Report is included with this Commentary.)
- The S&P 500® Index climbed above pre-COVID levels during the third quarter, marking new all-time highs as the economy navigated negative economic effects lingering from pandemic mitigation efforts. The climb was put on pause when the S&P 500® Index had a significant drawdown of 9.52% from September 2 through September 23. During this same period, the Composite and the PUT℠ provided significant downside protection, declining 3.97% and 2.07%, respectively.
- The Composite's underperformance for the quarter, relative to the PUT℠, was primarily due to results in September. Consistent with its active approach, the Composite began September with the weighted-average strike price of its written index put option portfolio approximately at-the-money, resulting in more exposure to the market's decline than the PUT℠, which began the month with very low market exposure as the strong market advance in August put its passively managed written index put option far out-of-the-money.
- Implied volatility, as measured by the Cboe® Volatility Index (the VIX®), began the third quarter of 2020 at 28.62 before drifting to its intra-quarter low of 21.35 on August 17. The VIX® reached an intra-quarter high of 33.60 on September 3, relatively early into the equity market's September drawdown. The VIX® closed the third quarter at 26.37, well above its long-term historical average of 19.42.
- Third quarter annualized standard deviations of daily returns for the S&P 500® Index, the PUT℠ and the Composite were 16.90%, 7.79% and 8.75%, respectively.
- Historically, equity market volatility has been below-average in presidential election years. Counterintuitively, volatility levels in the last six months of election years have been particularly low, with August, September and December the three lowest-volatility election year months. The well-above-average volatility of September 2020 and the recent shape of the VIX® futures curve suggest that investors should be prepared for a fourth quarter that is significantly different than the typical election year.

Market Path & Implied Volatility
Q3 2020



Source: Bloomberg, L.P.

Market Recap

The S&P 500® Index returned 8.93% in the third quarter, bringing its year-to-date return to 5.57%. Over the quarter, the S&P 500® Index climbed 5.64% and 7.19% in July and August, respectively, but faced a significant drawdown in September which led to a decline of 3.80% for the month. The S&P 500® Index declined 9.52% from September 2 through September 23. The tech-heavy NASDAQ 100 fared worse with a decline of 12.76% over the same period, as the pullback was driven by losses in many of the technology companies that lead the market's advance from April through August. Despite the September pullback, the S&P 500® Index has climbed 51.75% from its March 23 low through September 30.

Macroeconomic data showed consistent improvement from the negative effects of COVID-19 mitigation efforts. The third estimate of Gross Domestic Product for the second quarter of 2020 showed that the U.S. economy shrunk at an annualized rate of -31.4%, slightly better than the second estimate of -31.7% and within consensus range. The unemployment rate reflected ongoing economic normalization efforts and declined from 10.2% in July to 8.4% in August, outperforming consensus expectations, while the participation rate climbed to 61.7%. The August Consumer Price Index, released on September 11, showed a 1.3% year-over-year increase, above the consensus estimate of 1.2%. With over 99% of companies reporting, second quarter aggregate operating earnings were on track to decline 9.63% quarter-over-quarter and 18.93% year-over-year. More than 84% of the companies that have reported earnings met or exceeded analyst estimates.

Implied volatility, as measured by the VIX®, averaged 25.81 in the third 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® Index, which was 16.90% for the quarter. Implied volatility generally trended down over the first half of the third quarter of 2020 before rising in September. The VIX® began the third quarter of 2020 at 28.62 before dipping to an intra-quarter low of 21.35 on August 17. The VIX® then climbed to its third quarter high of 33.60 on September 3 before closing at 26.37, well above its historical average of 19.42.

The PUT℠ had a return of 7.34% for the third quarter, underperforming the S&P 500® Index by 159 basis points (bps) and bringing its year-to-date return to -5.45%. On the third Friday of each month, the PUT℠ wrote a new index put option as the option it wrote the previous month expired. The premiums[ii] the PUT℠ collects on written options have significant influence on its return potential over a period when the equity market advances and help to mitigate losses during market declines. Premiums collected as a percentage of the PUT's℠ underlying value were 2.69%, 1.91% and 2.39% in July, August and September, respectively. With monthly returns of 4.10%, 2.02% and 1.06% for July, August and September, respectively, strong downside protection from the PUT℠ in September did not make up for its significant underperformance in August, resulting in underperformance for the quarter. Underperformance in August was primarily due to the premiums collected by the PUT℠ in July and August providing insufficient return potential to keep pace with the S&P 500® Index's rapid advance. The equity market's 7.19% return in August put the PUT's℠ September expiration index put option far out-of-the-money, resulting in very low market exposure when the market peaked on September 2. The written put option thus provided significant downside protection during the first leg of the equity market selloff. From the beginning of the month through September 18, the expiration date of its option, the PUT℠ returned 0.06% while the S&P 500® Index fell 5.08%. The premium collected when the PUT℠ wrote its new index put option with an October expiration provided downside protection as the equity market continued to decline through September 23 and allowed for participation in the equity market advance over the last week of September. From September 18 through month-end, the PUT℠ returned 1.00% while the S&P 500® Index returned 1.35%.

The Bloomberg Barclays U.S. Aggregate Bond Index returned 0.62% in the third quarter of 2020, bringing its year-to-date return to 6.79%. The yield on the 10-year U.S. Treasury Note (the 10-year) started the quarter at 0.68% and reached an intra-quarter low of 0.51% on August 4 before climbing to an intra-quarter high of 0.75% on August 27. The yield on the 10-year then drifted lower to close the quarter at 0.68%.

Gateway Active Index-PutWrite Composite Performance

The Composite returned 5.56%, net of fees, in the third quarter, underperforming the PUT℠ by 178 bps and bringing its year-to-date return to -0.37%. Despite underperformance for the quarter, the Composite ended the quarter with a 508-basis point return advantage over the PUT℠ on a year-to-date basis. With monthly returns of 3.89%, 2.89% and -1.25%, respectively, the Composite's underperformance relative to the PUT℠ was primarily due to results in September. Consistent with its active approach, the Composite began September with the weighted-average strike price of its written index put option portfolio approximately at-the-money, resulting in more exposure to the market's decline than the PUT℠, which began the month with very low market exposure as the strong market advance in August put its written index put option far out-of-the-money. The Composite and the PUT℠, returning -3.97% and -2.07%, respectively, both provided significant downside protection relative to the S&P 500® Index return of -9.52% during the September 2 through 23 drawdown.

Gateway's investment team was active in adjusting the Composite's written index put option portfolio throughout the quarter. In periods when the equity market advanced, the team focused on exchanging index put options well in advance of their expiration dates for ones with later expiration dates and higher strike prices. This was in an effort to maintain a typical amount of equity market exposure and protect the Composite from the potentially adverse impact of a sharp reversal in market direction. As the equity market turned south in September, the investment team took advantage of the relatively elevated volatility levels by making several index put option trades that increased potential cash flow while maintaining a typical risk profile. The Composite's written index put options contributed positively to return during July and August, while detracting from returns in September. For the third 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 37 days and annualized premium to earn between 25% to 30%. Relative to the beginning of the quarter, this positioning represented slightly lower market exposure and higher cash flow potential.

Performance & Risk	Q3 2020	1 Year	3 Years	5 Years	Inception (4/1/2015)	Inception Risk[iii]
Gateway Active Index-PutWrite Composite (Net)	5.56%	4.65%	3.93%	6.88%	6.01%	9.29%
Cboe® S&P 500 PutWrite Index	7.34%	-1.24%	1.09%	4.79%	4.55%	10.32%
S&P 500® Index	8.93%	15.15%	12.28%	14.15%	13.54%	14.65%

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 September 30, 2020. Sources: Bloomberg, L.P., Morningstar Direct℠ and Gateway Investment Advisers, LLC.

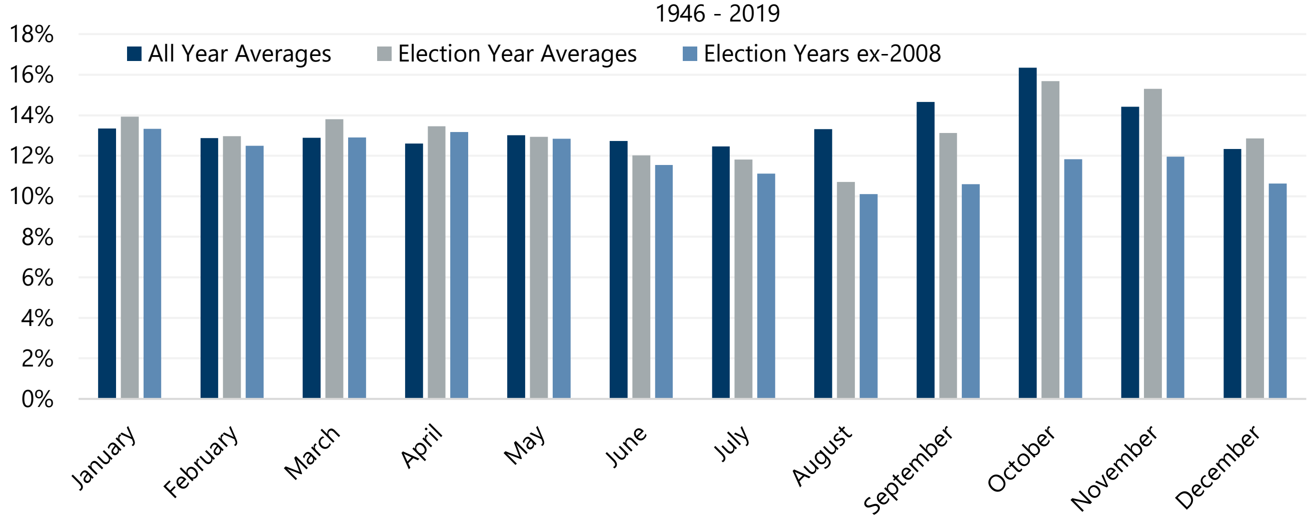
Market Perspective

Typically, presidential election years feature below-average equity market volatility. Volatility levels tend to decline from the first half to the second half of election years, with volatility levels in the first half more similar to non-election years. Needless to say, 2020 has not been typical. Moreover, volatility futures markets are indicating an expectation that abnormal volatility levels will continue over the remainder of the year. How should investors prepare for a potentially volatile fourth quarter?

Figure 1 illustrates the counter intuitive pattern of typical presidential election years. On average, presidential election years experience their highest volatility months in the first four months of the year, followed by declining volatility in the summer months and rising volatility toward year-end, though volatility levels in the last three months have tended to stay below average in most election years. Of course, every year is different and 2008 stands out as a year that did not follow the typical election year pattern. However, the extreme volatility levels in the final months of 2008 were driven far more by the Great Financial Crisis than by election year dynamics. To eliminate the impact of the Great Financial Crisis on the volatility pattern of election years, 2008 was removed from the dataset represented by the light blue bars.

Figure 1: Average Monthly Standard Deviation of S&P 500® Index Daily Returns

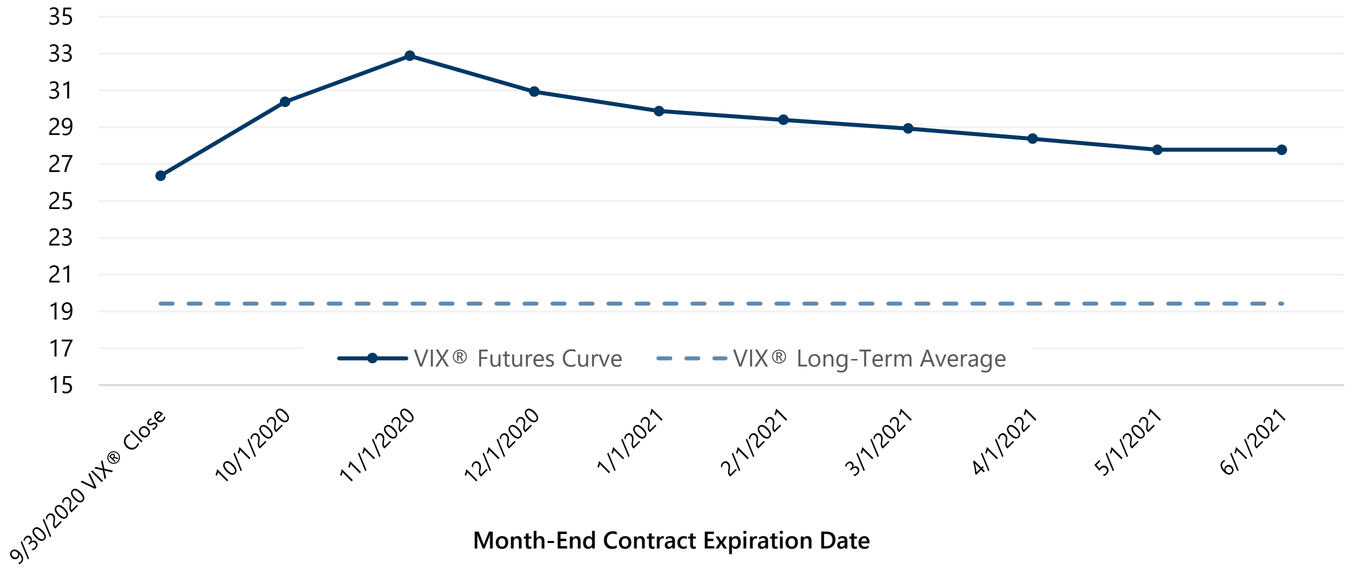
1946 - 2019



Source: Bloomberg, L.P.

One aspect of volatility levels in 2020 has been consistent with the typical pattern of presidential election years: declining volatility in the summer months followed by an increase in September (see *Figure 3*, below). Interestingly, volatility this August was below average, even for an election year, while September volatility was above average, relative to both election years and non-election years. The well-above-average volatility of September and the recent shape of the volatility futures curve suggest that investors should be prepared for a fourth quarter that is significantly different than a typical election year. At the end of September 2020, month-end expirations of the VIX® futures contracts, reflected expectations of above-average volatility for the remainder of the year.

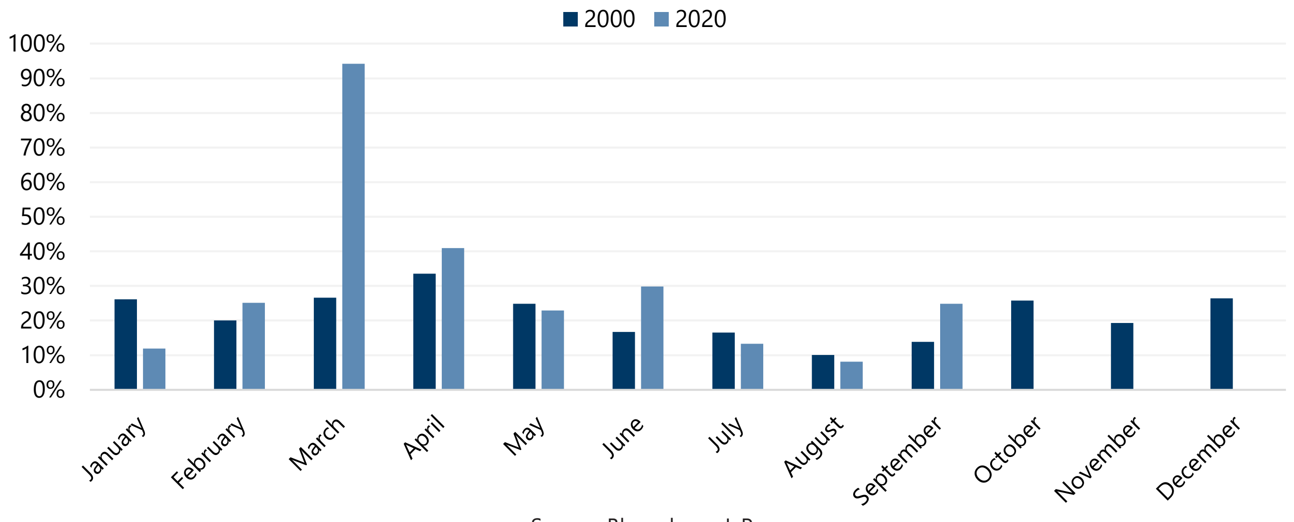
Figure 2: VIX® Futures Curve vs VIX® Long-Term Average
as of September 30, 2020



Source: Bloomberg, L.P.

The year 2000 stands out as a year in which the presidential election had an impact on equity market volatility. It may be an apt comparison to this year as expectations of elevated volatility in the fourth quarter may be associated with the possibility of an uncertain election outcome rather than the market's anticipated response to a clear victory by one candidate. Weeks after election day, the election of 2000 was ultimately decided by a Supreme Court decision that resulted in Florida's electoral college votes being allocated to George W. Bush. Bush's opponent, Al Gore, conceded on December 13, 2000. With the COVID-19 pandemic leading to expanded vote-by-mail options, some investors anticipate greater-than-usual potential for a delay in this year's election results.

Figure 3: Monthly Standard Deviation of S&P 500® Index Daily Returns



Source: Bloomberg, L.P.

In addition to elevated volatility, the fourth quarter of 2000 also featured a decline of 7.82% for the S&P 500® Index, with a November return of -7.88% and a slight loss and a slight gain for the months of October and December, respectively.

Will election results, or lack thereof, lead to higher equity market volatility? As always, Gateway will take a wait-and-see approach rather than try to anticipate the outcome of events and market direction. We believe it is prudent for long-term investors to be prepared to stay invested through a wide range of possible outcomes. Our risk-first approach is focused on keeping the risk profiles of our strategies as consistent as possible. A potential benefit of the elevated volatility that has existed recently is that it has resulted in increased cash flow potential for the option-writing components of our strategies: higher volatility results in higher option premiums and increased cash flow from option writing. Higher cash flow can result in attractive equity market participation in the event that market volatility is expressed to the upside, at the same time, higher cash flow can result in significant downside protection if volatility is associated with a downside event. As the remainder of 2020 unfolds, Gateway's investment team will be vigilantly monitoring option markets for opportunities to enhance cash flow in an effort to help our investors meet their long-term goals.

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] Based on standard deviation of monthly returns since Composite inception date of April 1, 2015.

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

For more information and access to additional insights from Gateway Investment Advisers, LLC, please visit 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® 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; 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.

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® 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.

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

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Gateway Active Index-PutWrite Composite

GIPS® Composite Report

Year End	Annual Performance Results: Composite Gross	Composite Net	% of Non-Fee Paying	PUT℠ Index	S&P 500® Index	3-Year Standard Deviation: Composite	PUT℠ Index	S&P 500® Index	Number of Composite Accounts	Composite Assets (millions)	Firm Assets (millions)
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℠ 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.

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.

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.