Index/RA Composite Commentary
Q4 and Full Year 2020

In Brief

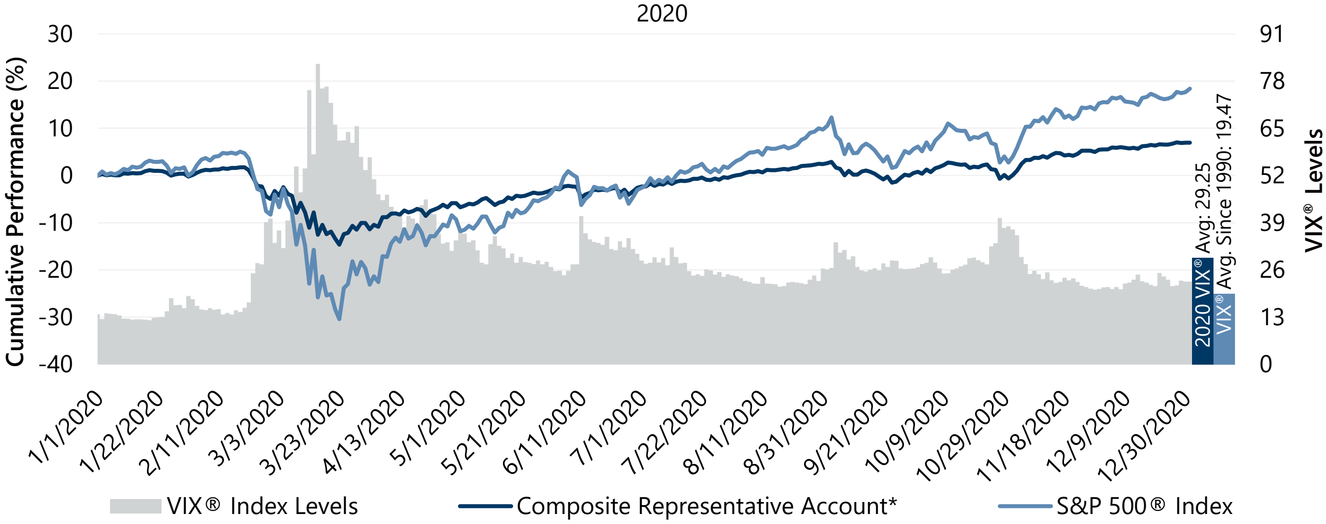
- Gateway Index/RA Composite (the Composite) returned 6.46%, net of fees, in the fourth quarter compared to the 12.15% return of the S&P 500® Index and the 0.67% return of the Bloomberg Barclays U.S. Aggregate Bond Index (the Agg). For the full year, the Composite returned 7.34%, net of fees, compared to the 18.40% and 7.51% return of the S&P 500® Index and the Agg, respectively. (A GIPS® Composite Report is included with this Commentary).
- The equity market began 2020 with a strong seven-week advance before descending into a bear market quicker than any decline in history. The recovery also happened in record time and was led primarily by technology businesses that helped facilitate home-based work, entertainment and shopping while more economically sensitive businesses lagged behind. After reaching a temporary peak in early September, the market experienced an additional sharp decline as investors processed a resurging pandemic case count and election uncertainty. Progress was made on COVID-19 vaccines in November and equity losses recovered. The S&P 500® Index continued to trend upward in December and ended the year at a new all-time high.

Performance (%)	Pre-COVID (12/31/19 – 2/19/20)	Bear Market (2/19/20 – 3/23/20)	Recovery Period (3/23/20 – 9/2/20)	Year-End Volatility (9/2/20– 12/31/20)
The Composite (Net)*	1.76	-16.12	20.49	3.96
S&P 500® Index	5.08	-33.79	61.39	5.45

All performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results.
Source: Morningstar Direct℠.

- Implied volatility, as measured by the Cboe® Volatility Index (the VIX®), began the fourth quarter of 2020 at 26.70 before reaching an intra-quarter high of 40.28 on October 28 on the heels of an equity market drawdown. As the market recovered through year-end, the VIX® drifted to an intra-quarter low of 20.57 on November 30, before closing the quarter at 22.75 – above its historical average of 19.47.
- The S&P 500® Index and the Composite* had an annualized standard deviation of daily returns of 16.28% and 7.90% for the quarter, respectively, and 34.43% and 13.88% for the year, respectively.
- The Volatility Risk Premium (VRP) was persistently high in the second half of 2020 - a trend that may continue into 2021. The positive spread between implied and realized volatility for the third and fourth quarters of 2020 were the fourth and third-highest in history, respectively, while the monthly spreads in August and December were the two highest ever recorded. Elevated VRP has been the result of multiple factors, including a changing mix of option buyers and sellers, keeping implied volatility above-average while low correlation across individual stocks, among other factors, has contributed to minimizing realized volatility.

Market Path & Implied Volatility
2020



*The portfolio performance and annualized standard deviation reflected for the Composite are those measured by a representative account. This information represents supplemental information to the GIPS® Composite Report. This representative account was selected as it is the largest account in the Composite.
Source: Bloomberg, L.P.

Market Recap

The S&P 500® Index returned 12.15% for the fourth quarter of 2020, resulting in a return of 18.40% for the year. The fourth quarter was a mirror image of the third with a loss in the first month rather than the final month as the S&P 500® Index posted a loss of 2.66% for October followed by gains of 10.95% and 3.84% in November and December, respectively.

Macroeconomic data releases during the quarter showed ongoing improvement from the negative effects of persistent COVID-19 mitigation efforts. The final estimate of Gross Domestic Product for the third quarter of 2020 showed that the U.S. economy grew at an annualized rate of 33.4%, outpacing consensus expectations. The unemployment rate improved from 6.9% in October to 6.7% in November, yet the participation rate ticked down from 61.7% to 61.5%. The November Consumer Price Index, released on December 10, showed a 1.2% year-over-year increase, above the consensus estimate of 1.1%. With over 98% of companies reporting, third quarter 2020 aggregate operating earnings were on track to decline 1.52% quarter-over-quarter and 19.35% year-over-year. More than 87% of the companies that reported earnings met or exceeded analyst estimates.

The above-average calendar year return and positive note on which 2020 ended nearly disguised the turmoil with which it began. During the pre-COVID period of January 1 through February 19, the S&P 500® Index returned 5.08% and continued its positive momentum from 2019 as investors reflected on the passage of major global trade deals and strong backward-looking economic data. A pandemic-driven bear market combined with government policies that severely restricted economic activity drove the S&P 500® Index down 33.79% from February 19 through March 23. The recovery from the bear market was led primarily by technology businesses that enabled home-based work, entertainment and shopping and powered the S&P 500® Index to a 61.39% return from March 23 to the recovery period peak on September 2. From September 2 through year-end, the S&P 500® Index returned 5.45%, but the advance was far from steady. The same businesses that powered the recovery period led a decline of 8.48% from September 2 through October 31 as investors processed a resurging pandemic case count and election uncertainty. In November, as election uncertainty faded and progress was made on COVID-19 vaccines, losses from September and October were recovered and the equity market delivered its second highest total return of any November on record. The market continued to trend upward in December with the S&P 500® Index ending the year at a new all-time high.

The economic turmoil caused by the pandemic drove a significant shift in measures of market volatility including realized volatility, implied volatility and the dynamic relationship between the two. Volatility measures at the beginning of the year were consistent with the below-average readings persistent in recent years. The VIX® set a 2020 closing low of 12.10 on January 17 and did not break above its long-term average of 19.47 until February 24, the first day of 2020 in which the S&P 500® Index had a loss exceeding 3%. The VIX® closed at 25.03 on February 24 and rose as high as 85.47 on an intra-day basis on March 18, just shy of its all-time intra-day high reading of 89.53 on October 24, 2008. Realized volatility measures in 2020 were even more extreme. The S&P 500® Index would record 16 more one-day losses exceeding 3%, eight of which occurred in March alone. The large swings resulted in a 93.44% annualized standard deviation of daily returns for the S&P 500® Index in March, the highest reading of monthly standard deviation in history, dating back to 1928. The massive spike in realized volatility caused the largest-ever inversion of the relationship between implied and realized volatility. Typically, implied volatility measures exceed realized volatility, and this relationship has held about 90% of the time on a monthly basis since 1990. Implied volatility averaged nearly 58 for the month of March, based on daily closing values for the VIX®, resulting in a negative 36.5 point spread with realized volatility for the month, an inversion nearly 50% larger than the previous record established in September 2008. While it was extreme, the inversion was temporary as realized volatility normalized more quickly than implied volatility. After implied volatility peaked in mid-March, the VIX® trended lower while remaining persistently above its historical average and spiking above 40 during market pullbacks in June and October. Implied volatility remaining above-average helped normalize the implied volatility versus realized volatility relationship—as the spread not only returned to positive in April but remained positive each subsequent month of the year. Moreover, the August and December measures were the highest and second-highest implied versus realized spreads in history.

The Agg returned 0.67% for the fourth quarter of 2020, resulting in a return of 7.51% for the year. The yield on the 10-year U.S. Treasury Note (the 10-year) opened the fourth quarter at an intra-quarter low of 0.68%, touched an intra-quarter high of 0.98% on November 11 and ended the year at 0.91%. Bond market returns for 2020 were driven by interest rates that plunged to record lows in response to Fed policy and investor demand for safe-haven assets. The yield on the 10-year opened 2020 at an intra-year high of 1.92% and reached its low for the year of 0.51% on August 4. From the beginning of the year through August 4, the Agg returned 7.87% and, as rates trended up over the remainder of the year, the total return of the Agg turned negative. From its closing value on August 4 through year-end, the Agg returned -0.34%.

Gateway Index/RA Composite Performance

The Composite returned 6.46%, net of fees, in the fourth quarter, lagging the S&P 500® Index by 569 basis points (bps) and bringing its calendar year return to 7.34%, net of fees. Throughout the fourth quarter, the Composite provided equity market participation and consistent downside protection with monthly net returns of -1.15%, 5.70%, and 1.89% for October, November and December, respectively.

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.

The Composite's underlying equity portfolio returned 12.71% for the quarter, a positive performance differential of 56 bps relative to the S&P 500® Index. The Composite's index call option writing generated risk-reducing cash flow throughout the quarter and gains on written index call option positions contributed to downside protection during October's equity market decline. Gains on purchased index put options also contributed to downside protection in October, however, the Composite's call option and put option positions both detracted from returns in November and December, as expected during sharp market advances.

In achieving its low-volatility objective, the Composite's annualized standard deviation of daily returns for the quarter was 7.90%, less than half the 16.28% for the S&P 500® Index. The Composite exhibited a beta to the S&P 500® Index of 0.47 for the quarter.

As the equity market gyrated in October, Gateway's investment team focused on patiently earning index call option time premium from contracts expiring in November while adjusting select positions to maintain market exposure that is consistent with the Composite's typical profile. As the market advanced through year-end, the investment team was active in adjusting the written index call option portfolio by exchanging index call options well in advance of their expiration dates for ones with later expiration dates and higher strike prices. This was in an effort to generate attractive cash flow levels while protecting the Composite from the potentially adverse impact of a sharp reversal in market direction. For the index put option component of the strategy, the investment team maintained purchased put option coverage in a range of 80% - 95% throughout the fourth quarter and managed the cost of downside protection by trading select put option contracts in advance of their expiration while keeping weighted-average time to expiration relatively extended.

At the end of the quarter, index call options were sold against over 95% of the equity portfolio's value and had a weighted average strike price between 1.5% and 2.5% in-the-money, 35 days to expiration and annualized premium to earn between 15.0% and 20.0%. Index put options covered 80% - 95% of the portfolio and had a weighted average strike price greater than 12.5% out-of-the-money, 62 days to expiration and an annualized cost between 2.5% and 5.0%. Relative to the beginning of the quarter, this positioning represented lower net cash flow potential and slightly higher market exposure.

Throughout 2020, the Composite's two-part option strategy delivered equity market participation during the periods in which the equity market advanced and significant downside protection during market declines. Specifically, from the beginning of the year to the pre-COVID equity market high on February 19, the Composite returned 1.76%, underperforming the S&P 500® Index by 3.32 percentage points. When the equity market has a strong advance combined with below-average implied volatility levels, underperformance is expected as the risk-reducing option strategy generates losses that detract from the return of the Composite's index-tracking equity portfolio. During the bear market from February 19 to March 23, the Composite declined 16.12%, less than half the 33.79% decline of the S&P 500® Index, as gains from its option strategy provided 17.67 percentage points of downside protection. The Composite returned 20.49% during the market recovery from March 23 to the temporary recovery peak on September 2 as compared to 61.39% for the S&P 500® Index. The Composite's return differential with its benchmark over this period was primarily due to losses from its option strategy, though above-average implied volatility levels resulted in smaller losses than would have otherwise been incurred. From September 2 through year-end, during a 5.45% S&P 500® Index advance that was far from steady, sustained implied volatility levels helped the Composite deliver strong market participation with a return of 3.96%, capturing nearly 75% of the market return. This volatile timeframe included a decline of 8.48% for the S&P 500® Index from September 2 through October 31 and the Composite again provided downside protection with a return of -3.42% over the same period.

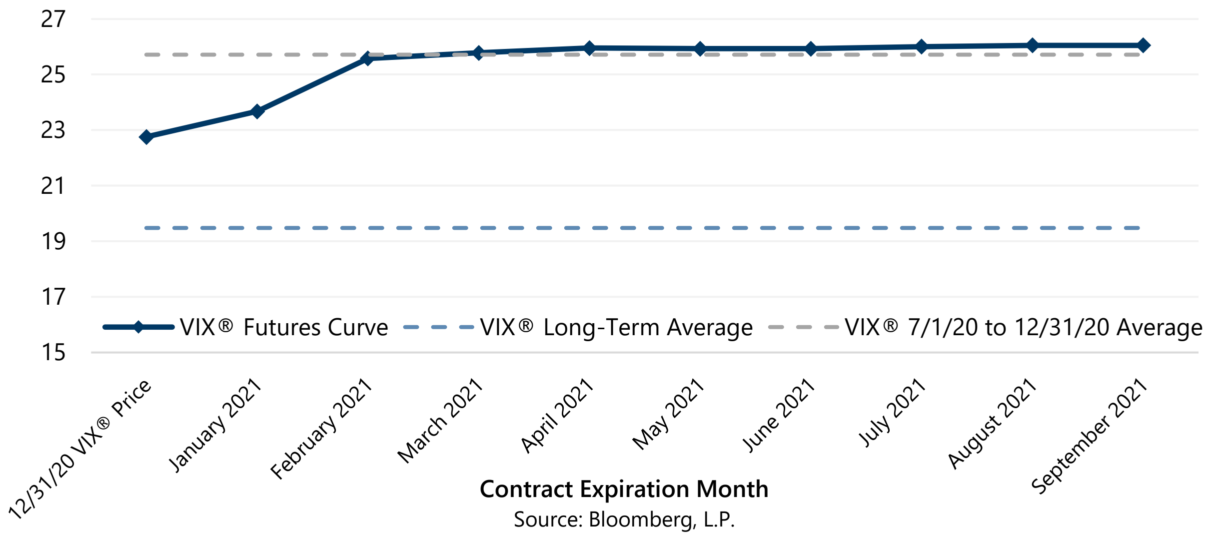
Performance & Risk (%)	Q4 2020	1 Year	3 Year	5 Year	10 Year	Inception (1/1/1988)	Inception Risk[1]
The Composite (Net)	6.46%	7.34%	4.66%	5.90%	5.21%	7.06%	6.46%
S&P 500® Index	12.15%	18.40%	14.18%	15.22%	13.88%	11.01%	14.51%
Bloomberg Barclays U.S. Aggregate Bond Index	0.67%	7.51%	5.34%	4.44%	3.84%	6.27%	3.69%

1: Based on standard deviation of monthly returns since Composite inception of January 1, 1988. All performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results. Data as of December 31, 2020. Source: Morningstar Direct℠.

Market Perspective

Market conditions reflected an unusual mix of resilience and anxiety as 2020 came to a close. The equity market advanced in November and December despite worsening pandemic statistics, political tension over election results and partisan bickering over the economic relief bill. Meanwhile, the VIX® remained solidly above its long-term average even as the market ascended to new highs. At year-end, the VIX® futures curve reflected expectations of the VIX® remaining in the mid-20's well into 2021.

VIX® Futures Curve
as of December 31, 2020



Contract Expiration Month
Source: Bloomberg, L.P.

As illustrated in the chart above, there is potential for certain aspects of the 2021 volatility environment to be consistent with 2020. Specifically, as the VIX® futures curve suggests, above-average implied volatility may continue and, if it does, attractive VRP, the spread between implied volatility and realized volatility, may continue also.

Investors faced new risk factors early in 2020 and their novelty helped explain the extreme volatility of the first quarter. Realized and implied volatility levels both retreated from first quarter extremes as investors gained a better understanding of the risk factors, though implied volatility remained above-average in the second half of 2020. Since many of the risk factors present in 2020 may continue to exist in 2021, it is not surprising that the VIX® futures curve reflects expectations of levels similar to the VIX® average over the last half of 2020. We acknowledge that the VIX® futures pricing is an indicator of current sentiment rather than a reliable forecast of future volatility and, as a result, current expectations of future volatility could be either too high or too low.

Above-average implied volatility led to very attractive VRP levels in the second half of 2020—August and December were, respectively, the highest and second-highest monthly spreads between implied and realized volatility over the history of the VIX®. Somewhat surprisingly, though, low realized volatility contributed as well. A factor driving relatively low realized volatility has been low correlation across individual stocks. Prospects for businesses related to home-based work, entertainment and shopping have waxed and waned opposite to the prospects for more economically sensitive businesses as the prospects for changes to COVID-19 mitigation and economic stimulus policies have changed. The low correlation of price movements across business sectors has had a volatility-reducing diversification effect on the broader market. The disparate impact of pandemic-related policy changes on businesses that have benefitted versus businesses that have been hurt by the pandemic is a trend that may persist into 2021, regardless of how long the pandemic persists.

A subtle but important factor that may contribute to 2020 volatility conditions continuing into 2021 is how the mix of buyers and sellers in the options market shifted in 2020. Analysis of option contract volume suggests that new buyers, primarily focused on options on individual stocks, have entered the space while several sizable sellers of volatility-linked options on indexes have exited.

Contract volume for options on individual stocks exploded in 2020, coming in 68% higher than 2019 according to Options Clearing Corporation (OCC) data. Most of the increase in volume occurred after the first quarter and this increase in volume is consistent with the behavior of investors seeking upside leverage to the equity market recovery through call option purchases.

This individual stock option buying activity impacts the overall market for index options, potentially inducing market making firms to buy volatility-linked index option contracts on broad based indexes like the S&P 500® Index or the VIX® itself, thus adding upward pressure to implied volatility levels. Specifically, market makers who sell options on individual stocks to meet the demand of buyers often hedge the risk exposures that result from their market-making. For example, market makers who write (sell) options of high volatility stocks like Apple, Microsoft or Netflix to meet the demand of buyers may end up with sizeable short positions in implied volatility, due to the high implied volatility priced into the options of such stocks. These market makers are potentially exposed to significant losses if volatility spikes. To hedge this risk, market makers may seek long exposure to implied volatility through purchases of volatility-linked index option contracts. Market maker volume in these contracts is consistent with this activity as it increased 13% for S&P 500® Index contracts and 18% for VIX® contracts from 2019 to 2020.

Interestingly, the increase in market maker volume for these index option contracts occurred as the total volume for the contracts decreased. Customers (including hedge funds, mutual funds, pension funds and individual investors) of OCC Clearing Member firms traded fewer S&P 500® Index option contracts and VIX® option contracts in 2020 relative to 2019. The decrease in customer activity was large enough to lower overall volume in these contracts despite the increase in market maker volume. This change in customer volume is consistent with reports that several sizable volatility-selling strategies ceased operations after incurring large losses when volatility spiked to record levels in the first quarter. Volatility-selling strategies typically sell volatility-linked derivatives such as options on the S&P 500® Index and the VIX®, potentially adding downward pressure to implied volatility levels when the managers of such strategies are active in the market.

Gateway has helped investors navigate through markets during periods of unexpectedly high volatility, and periods of unexpectedly low volatility. Similarly, though our strategy benefits from periods when implied volatility exceeds realized volatility, Gateway's active and disciplined approach has successfully maintained the risk profiles of its strategies during reversals of the typical relationship between the two statistics. Whatever 2021 may bring, the firm will remain committed to its consistent approach that has, for over 40 years, assisted clients in their pursuit of long-term returns with lower risk than the equity market.

Important Information

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

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

Gateway Investment Advisers, LLC (Gateway) is an independent registered adviser and a successor in interest to Gateway Investment Advisers, L.P. as of February 15, 2008. Performance information for the Gateway Index/RA Composite (the Composite) shown in this illustration is an asset-weighted composite of discretionary accounts under Gateway's management which share the same investment objectives and hedging strategies.

The Composite was created in January 1993. Prior to January 1, 1993, not all fully discretionary portfolios were represented in composites. Results shown for 1988 through 1992 are those of one representative account.

The Composite net of fee performance results reflect the reinvestment of dividends and other earnings, and reflect the deduction of investment advisory and fees.

The effectiveness of Gateway's strategy might be reduced if the portfolio doesn't correlate to the performance of the index underlying its option positions. Rebalancing of a portfolio may involve tax consequences.

Selling index call options can reduce the risk of owning stocks, but limits the opportunity to profit from an increase in the market value of stocks in exchange for up-front cash at the time of selling the call option. Unusual market conditions or the lack of a ready market for any particular option at a specific time may reduce the effectiveness of the Composite's option strategy, and for these and other reasons the Composite's option strategy may not reduce the volatility to the extent desired.

Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results. A more detailed description of Gateway's standardized fees is included in Form ADV, Part 2.

The GIPS® Composite Report for the Gateway Index/RA 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 Index/RA Composite

GIPS® Composite Report

Year End	Annual Performance Results: Composite Gross	Annual Performance Results: Composite Net	Annual Performance Results: S&P 500® Index	Annual Performance Results: Bloomberg Barclays U.S. Aggregate Bond Index	3-Year Standard Deviation: Composite	3-Year Standard Deviation: S&P 500® Index	3-Year Standard Deviation: Bloomberg Barclays U.S. Aggregate Bond Index	Number of Composite Accounts	Composite Dispersion	Composite Assets (millions)	Firm Assets (millions)
1993	8.44%	7.75%	10.08%	9.75%	N/A	N/A	N/A	15	0.7	$348	$408
1994	6.27	5.62	1.32	-2.92	N/A	N/A	N/A	14	0.5	303	660
1995	12.52	11.75	37.58	18.47	4.07%	8.34%	4.30%	12	1.6	283	473
1996	11.83	11.11	22.96	3.63	4.44	9.72	4.65	27	0.9	329	360
1997	13.34	12.58	33.36	9.65	3.83	11.30	4.06	27	1.1	399	476
1998	13.21	12.49	28.58	8.69	5.53	16.24	3.58	44	1.2	686	805
1999	12.94	12.27	21.04	-0.82	5.39	16.76	3.25	76	1.4	1,348	1,470
2000	6.55	6.08	-9.10	11.63	5.30	17.67	3.06	107	1.2	2,052	2,206
2001	-2.69	-3.28	-11.89	8.44	6.29	16.94	3.40	85	0.5	1,853	1,944
2002	-3.87	-4.45	-22.10	10.25	9.41	18.81	3.40	67	0.4	1,651	1,744
2003	12.53	11.84	28.68	4.10	9.70	18.32	4.26	59	0.4	2,029	2,160
2004	7.84	7.22	10.88	4.34	8.35	15.07	4.34	53	0.5	3,350	3,636
2005	5.86	5.17	4.91	2.43	4.09	9.17	4.12	35	0.5	3,879	6,134
2006	11.06	10.35	15.79	4.33	2.64	6.92	3.25	29	0.5	4,569	6,946
2007	8.67	7.99	5.49	6.97	3.10	7.79	2.80	25	0.5	4,780	7,892
2008	-13.39	-13.95	-37.00	5.24	8.41	15.29	4.03	22	1.0	5,073	7,071
2009	7.37	6.70	26.46	5.93	10.36	19.91	4.17	15	0.4	5,054	7,188
2010	5.76	5.11	15.06	6.54	11.01	22.16	4.22	12	0.1	5,552	7,699
2011	3.82	3.16	2.11	7.84	8.27	18.97	2.82	11	0.3	5,729	8,081
2012	5.41	4.74	16.00	4.22	5.84	15.30	2.42	10	0.2	7,424	10,517
2013	9.35	8.64	32.39	-2.02	4.23	12.11	2.75	11	0.2	8,899	12,475
2014	4.23	3.59	13.69	5.97	3.45	9.10	2.67	10	0.3	8,997	12,239
2015	3.20	2.54	1.38	0.55	3.97	10.62	2.92	11	0.2	8,783	12,210
2016	6.23	5.57	11.96	2.65	4.30	10.74	3.02	10	0.3	8,159	11,601
2017	10.73	10.07	21.83	3.54	4.01	10.07	2.81	10	0.2	9,028	12,559
2018	-3.43	-4.04	-4.38	0.01	5.11	10.95	2.88	10	0.1	8,534	11,641
2019	11.97	11.29	31.49	8.72	5.57	12.10	2.91	9	0.2	8,545	10,950
2020	8.03	7.34	18.40	7.51	8.62	18.80	3.40	9	0.1	7,486	9,963

N/A: The gross three-year annualized ex-post standard deviation of the Composite and benchmarks is not presented as 36-month returns are not available.

Gateway Index/RA Composite contains fully discretionary hedged equity accounts which hold common stock and sell index call options on at least 95% of the underlying stock value. This call activity reduces volatility and provides cash flow. The accounts typically buy index put options that can protect the Composite from a significant market decline that may occur over a short period of time. Indexes utilized for call and put option activity are U. S. domestic equity indexes that include all sectors of the economy. The creation and inception date of the Gateway Index/RA Composite was January 1, 1993. As of June 1, 2009, the Composite definition was refined to more accurately reflect the criteria used to determine membership. No membership changes resulted from the revision.

For comparison purposes the Gateway Index/RA Composite is measured against two indexes, the S&P 500® Index (a popular indicator of the performance of the large capitalization sector of the U. S. stock market) and the Bloomberg Barclays U. S. Aggregate Bond Index (an unmanaged index of investment-grade bonds with one- to ten-year maturities issued by the U. S. government, its agencies and U. S. corporations).

Performance results are based on fully discretionary accounts under management, including accounts that may no longer be with the firm, and are expressed in U.S. dollars.

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

Gateway Investment Advisers, LLC (Gateway) is an independent registered investment adviser and a successor in interest to Gateway Investment Advisers, L.P. as of February 15, 2008. Gateway claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Gateway has been independently verified for the periods January 1, 1993 through December 31, 2020. A firm that claims compliance with the GIPS® standards must establish policies and procedures for complying with all the applicable requirements of the GIPS® standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS® standards and have been implemented on a firm-wide basis. The Gateway Index/RA Composite has had a performance examination for the periods January 1, 1993 through December 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.