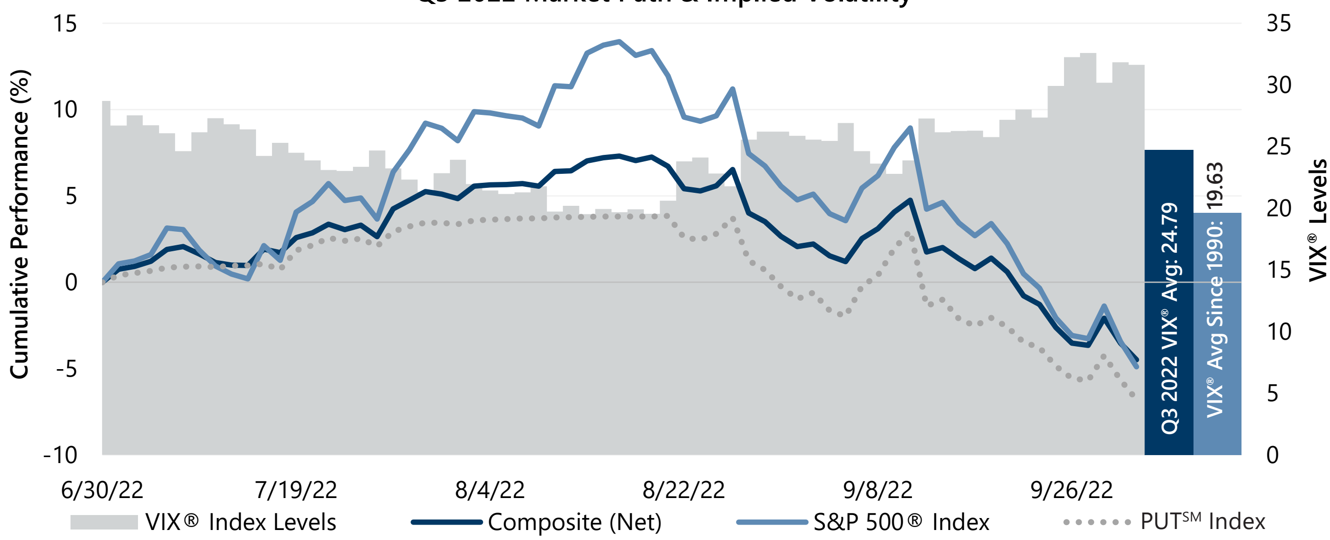
In Brief

- Gateway Active Index-PutWrite Composite (the Composite) returned -4.97%, net of fees, in the third quarter of 2022 compared to the -6.81% return of the Cboe® S&P 500 PutWrite℠ Index[i] (the PUT℠) and the -4.88% return of the S&P 500® Index. (A GIPS® Composite Report is included with this Commentary.)
- Resilient labor markets and corporate earnings reports, paired with hope that decelerating inflation could create an opening for a "dovish pivot" by the Federal Reserve (the Fed), were overshadowed by unrelenting inflation and an unwavering hawkishness from the Fed. The commitment to bring down inflation soured investor sentiment during the quarter and the S&P 500® Index fell 16.52% from August 16 through quarter-end, establishing a new year-to-date low.
- With monthly net returns of 4.70%, -2.99% and -6.44% for July, August and September, respectively, the Composite's outperformance relative to the PUT℠ was the result of outperformance in July and August.
- Implied volatility, as measured by the Cboe® Volatility Index (the VIX®), averaged 24.79 in the third quarter. Consistent with its typical relationship, average implied volatility exceeded realized volatility. The VIX® ended June at 28.71 before reaching its intra-quarter low of 19.53 on August 12. The VIX® climbed to an intra-quarter high of 32.60 on September 27, then closed the quarter at 31.62.
- The S&P 500® Index, the PUT℠ and the Composite had an annualized standard deviation of daily returns of 21.39%, 14.02% and 13.01% for the third quarter, respectively.
- As the equity market advanced during the first half of the quarter, the investment team was patient in adjusting index put options contracts. As the equity market declined during the second half of the quarter, adjustments to the written index put option portfolio took advantage of elevated implied volatility to enhance cash flow potential.
- This year's bear market has brought equity valuations lower, but are they *low*? The price-to-earnings (P/E) ratio of the S&P 500® Index began 2022 around 23, based on trailing 12-month earnings, and ended the third quarter below 20. Over the last 25 years, the average for the measure is approximately 26 and readings below 20 have been rare. While current valuations are low relative to recent history, they are high relative to the range that persisted prior to 2000. History suggests long-term returns that outpace inflation – even if recent record levels persist – are possible from current valuation levels. However, historical drawdowns when valuation levels are elevated suggest caution is warranted.

Q3 2022 Market Path & Implied Volatility



Sources: Morningstar Direct℠ and Bloomberg, L.P. Past performance is not indicative of future results.

Market Recap

The S&P 500® Index returned -4.88% in the third quarter, bringing its year-to-date return to -23.87%. The market's path during the quarter was even more wild than the quarterly loss suggests and kept investors glued to their seats, delivering monthly returns of 9.22%, -4.08% and -9.21% for July, August and September, respectively. After officially entering bear market territory in the second quarter of 2022, resilient labor markets and corporate earnings reports paired with hope that decelerating inflation could create an opening for a "dovish pivot" by the Fed led the S&P 500® Index to climb 13.94% from June 30 to August 16. Unrelenting inflation and an unwavering hawkishness from the Fed soured investor sentiment however, and the S&P 500® Index fell 16.52% from August 16 through quarter-end. The drawdown over the second half of the quarter included multiple daily moves of greater than 2%, including a 3.4% drop on August 26 and a decline of more than 4.3% on September 13. The S&P 500® Index marked a new year-to-date low and maximum drawdown on September 30, 24.35% below its peak on January 3.

Macroeconomic data released in September suggested signs of a softening U.S. labor market amid aggressive monetary policy tightening and economic deceleration. The third estimate of Gross Domestic Product for the second quarter of 2022 showed that the U.S. contracted by an annualized rate of -0.6%, in line with the consensus expectation. The August unemployment rate climbed to 3.7% and was worse than the consensus estimate, while the participation rate ticked up to 62.4%. The August Consumer Price Index, released September 13, remained near record highs with a year-over-year increase of 8.3%, which was above the consensus expectation. Second quarter aggregate operating earnings were on track to decline more than 2% quarter-over-quarter while increasing nearly 17% year-over-year. With more than 98% of companies reporting, almost 80% met or exceeded analyst estimates.

Consistent with its pattern in the first half of the year, third quarter implied volatility was consistently average to well-above average while remaining resistant to spikes during periods of steep market decline. The VIX® averaged 24.79 in the third quarter of 2022. Average implied volatility exceeded realized volatility, as measured by the standard deviation of daily returns for the S&P 500® Index, which was 21.39% for the quarter. The VIX® closed June at 28.71 and drifted to an intra-quarter low of 19.53 on August 12 before trending up over the remainder of the quarter. The VIX® did not breach 30 until late in the third quarter, despite the equity market drop of more than 4% on September 13 – the one-day plunge saw the VIX® close at just 27.27. The VIX® reached its intra-quarter high of 32.60 on September 27 and closed the quarter at 31.62.

The PUT℠ returned -6.81% in the third quarter, underperforming the S&P 500® Index by 193 basis points (bps) and bringing its year-to-date return to -13.60%. With monthly returns of -5.91%, -4.28% and 3.46% in July, August and September, respectively, the PUT℠ underperformed the S&P 500® Index in each month of 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 market advances and help to mitigate losses during market declines. The premiums the PUT℠ collected as a percentage of its underlying value were 2.63%, 1.98% and 3.04% in July, August and September, respectively. From the beginning of the quarter through August 16, the PUT℠ returned 3.80%, lagging the 13.94% return of the S&P 500® Index, as premiums collected by the PUT℠ were insufficient to keep pace with the equity market's strong advance. During the equity market decline during the second half of the quarter, the premium collected on its put option written in August combined with the premium received on September 16 helped provide 629 bps of downside protection. From August 16 through quarter-end, the PUT℠ declined 10.23% compared to the 16.52% decline of the S&P 500® Index.

The Bloomberg U.S. Aggregate Bond Index (the Agg) returned -4.75% in the third quarter, bringing its year-to-date return to -14.61%. The third quarter return was the Agg's fourth worst quarterly return since 1976 and it follows first and second quarter returns that rank third and fifth worst, respectively. The yield on the 10-year U.S. Treasury Note (the 10-year) ended June at 3.01%, touched its intra-quarter low of 2.57% on August 1, then climbed to an intra-quarter high of 3.95% on September 27, before closing the quarter at 3.83%. Throughout all but two days in the third quarter of 2022, the yield curve was inverted with the yield on the 2-year U.S. Treasury Note significantly exceeding the yield on the 10-year. On the shorter end of the yield curve, U.S. Treasury Bills with maturities of 12 months and shorter had yields that climbed significantly during the third quarter. The yields on the 6-month bill and 12-month bill rose 145 bps and 119 bps to end the quarter at 3.90% and 3.93%, respectively. The yield on one- and three-month U.S. Treasury Notes climbed 169 bps and 162 bps, to end the quarter at 2.64% and 3.25%, respectively.

Gateway Active Index-PutWrite Carve-Out Composite Performance

The Composite returned -4.97%, net of fees, in the third quarter, outperforming the PUT℠ by 184 bps, bringing its year-to-date return to -17.95%. With monthly net returns of 4.70%, -2.99% and -6.44% in July, August and September, respectively, the Composite's outperformance relative to the PUT℠ in July and August more than compensated for underperformance in September. Throughout the quarter, the Composite provided consistent participation in equity market advances and loss mitigation during equity market declines.

Most of the Composite's outperformance versus the PUT℠ came during the equity market advance during the first half of the quarter. The Composite's active and diversified approach resulted in a typical amount of market exposure over the course of the market advance while the rules-based timing of the PUT℠'s replacement of its single written index put contract resulted in the PUT℠ having less exposure to the market than usual. Specifically, the Composite returned 7.30% from June 30 to August 16 relative to the 3.80% return of the PUT℠. Though the Composite outperformed the PUT℠ over the period, it lagged the return of the S&P 500® Index. From August 16 through quarter end, the Composite returned -10.98%, providing 554 bps of loss mitigation relative to the S&P 500® Index, but slightly underperformed the PUT℠.

For the third quarter, the Composite's underlying Treasury bill portfolio contributed a total return of 0.31%. The Composite's written index put options detracted from return during the quarter.

In achieving its low-volatility objective, the Composite's annualized standard deviation of daily returns for the quarter was 13.01% compared to 21.39% and 14.02% for the S&P 500® Index and the PUT℠, respectively. The Composite exhibited a beta to the S&P 500® Index of 0.59 for the quarter.

Gateway's investment team was active in their response to changes in equity market conditions and direction throughout the third quarter. As the equity market advanced during the first half of the quarter, the investment team was patient in adjusting index put option contracts. Select contracts were traded in advance of their expiration dates and exchanged for ones with higher strike prices and later expiration dates. These adjustments, and above-average premiums due to elevated implied volatility, allowed for attractive participation in the market's advance. As the equity market declined during the second half of the quarter, adjustments to the written index put option portfolio focused on lowering the weighted-average strike price to maintain market exposure that is consistent with the Composite's typical profile while taking advantage of elevated implied volatility to enhance cash flow potential. As these adjustments were made, weighted-average time to expiration was kept relatively extended in an effort to shield the Composite from the potentially adverse impact of sharp reversals in market direction.

At the end of the quarter, the full value of the Composite's maximum potential loss on written index put options was secured with Treasury bills and cash. The Composite's diversified portfolio of written index put options had a weighted-average strike price of greater than 2.5% in-the-money, weighted-average time to expiration of 42 days and annualized premium to earn between 2.5% to 5.0%. Relative to the beginning of the quarter, this positioning represented slightly higher market exposure and lower cash flow potential.

Performance & Risk (%)	Q3 2022	YTD 2022	1 Year	3 Years	5 Years	Inception (4/1/2015)	Inception Risk[1]
The Composite (Net)	-4.97	-17.95	-12.25	3.28	3.40	5.09	10.08
PUT℠ Index	-6.81	-13.60	-7.58	3.93	3.27	5.10	10.72
S&P 500® Index	-4.88	-23.87	-15.47	8.16	9.24	9.67	15.79

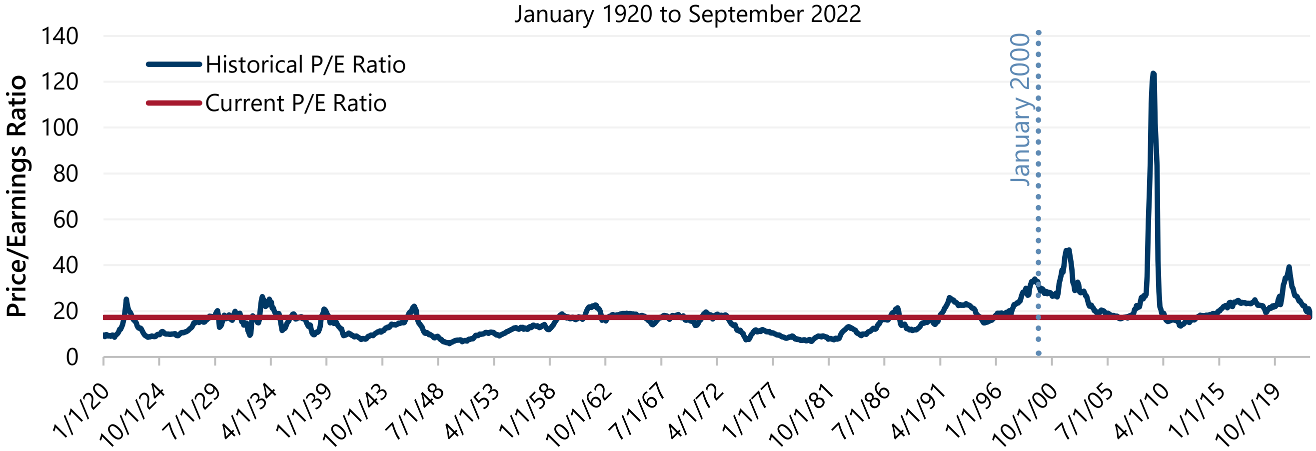
Periods less than one year are not annualized. Past performance is not indicative of future results. Data as of September 30, 2022. Source: Morningstar Direct℠.
1: Based on standard deviation of monthly returns since Composite inception date of April 1, 2015.

Market Perspective – Are Equites on Sale?

Savvy shoppers know a "25% Off" sale is not necessarily a good deal. Is the item discounted from a fair price, or did the retailer increase the price before marking it down? Determining whether the equity market offers a compelling buying opportunity also requires more information than simply knowing how much its price has fallen from its peak—even when the price has dropped by nearly 25%.

This year's bear market has brought equity valuations lower, but are they *low*? The P/E of the S&P 500® Index began 2022 around 23, based on trailing 12-month earnings, and ended the third quarter around 17. Over the last 25 years, the average P/E is approximately 26 and readings below 17 have occurred just 14% of the time. As Figure 1 illustrates, current valuations are low relative to recent history. However, they are high relative to the range that persisted prior to 2000.

Figure 1: S&P 500® Price/Earnings Ratio Remains High Relative to Pre-2000 Levels
January 1920 to September 2022



Data Source: Bloomberg, L.P. Past performance is not indicative of future results

As the table in Figure 2 shows, when the starting P/E of the S&P 500® Index is 17 or higher, the average annualized returns over 3-, 5- and 10-year periods have been much higher than typical levels of inflation, and returns over these multi-year periods have frequently been higher than even the record level of inflation that the economy has been experiencing recently.

Figure 2: Rolling S&P 500 Index® Returns Following a P/E of 17 or Higher
January 1, 1960 to December 31, 2000

	3-Year (%)	5-Year (%)	10-Year (%)
Average Return	9.08	8.48	7.10
Min Return	-14.55	-4.52	-3.43
Max Return	30.77	24.82	17.37
Smallest Drawdown	-6.19	-9.38	-15.37
Largest Drawdown	-44.73	-44.73	-50.95

Average min and max returns are annualized. Drawdowns are cumulative loss. Past performance is not indicative of future results. Data sources: Bloomberg, L.P. and Morningstar Direct℠.

While long-term returns have historically been attractive on-average, history also suggests that when valuations are at current levels or higher, the market can deliver short-term losses that can test the commitment of long-term investors. Data in Figure 2 also shows that investing at valuation levels similar or higher than current levels can produce negative long-term returns as well as significant shorter-term drawdowns. With uncertainty over inflation and the Fed policy, supply-chain issues, and the on-going conflict between Russia and Ukraine with the adjacent burgeoning European energy crisis, the current investment landscape includes multiple risk factors that could limit long-term returns and potentially trigger additional market downside.

At the end of the third quarter, equity market valuation was at a significant discount relative to valuation levels present for most of the 2000s. Investors may benefit from taking a longer view of history as they decide whether the current discount represents a compelling buy. History has shown that equity market returns from these valuation levels can be attractive, but investors must remain vigilant against downside risks. Strategies that utilize index options to reduce risk and generate attractive cash flow could be a great addition to any portfolio. With central bank policy, inflation and other potential risk factors present in fixed income markets, investors may be interested in alternatives such as the approach Gateway has taken to low-volatility equity investing since 1977.

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.

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 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 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
2020	8.26	7.87	100	2.13	18.40	12.29	14.03	18.80	1	5	9,963
2021	18.93	18.51	100	21.79	28.71	11.22	13.06	17.41	1	4	11,556

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 December 31, 2021. The verification reports are available upon request. A firm that claims compliance with the GIPS® standards must establish policies and procedure for complying with all the applicable requirements of the GIPS® standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS® standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

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.