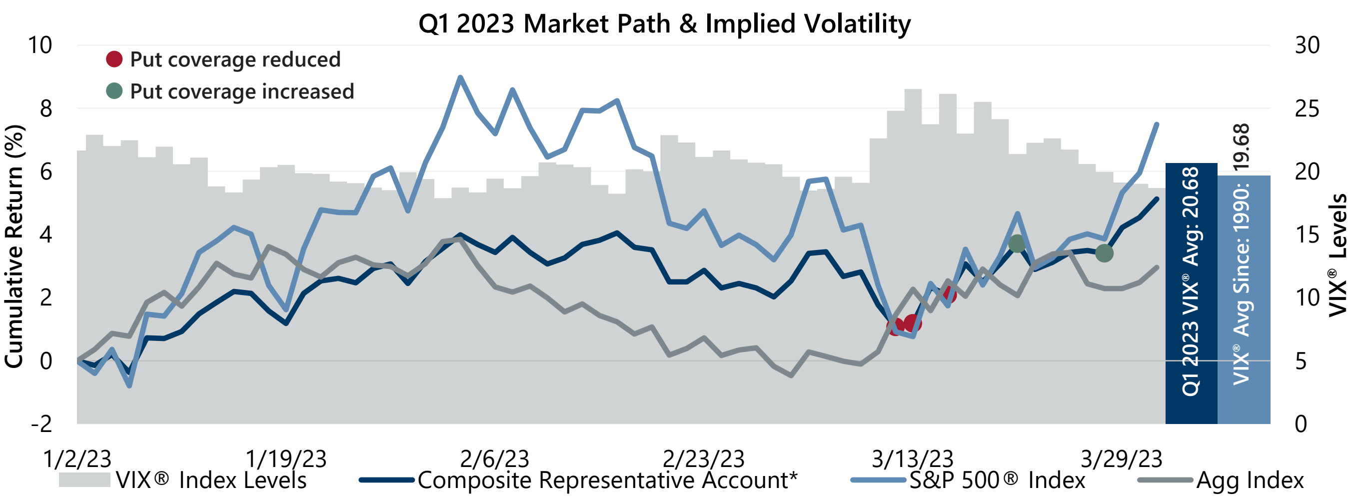
In Brief

- Gateway Index/RA Composite (the Composite) returned 5.21%, net of fees, in the first quarter compared to the 7.50% return of the S&P 500® Index and the 2.96% return of the Bloomberg U.S. Aggregate Bond Index (the Agg). (A GIPS® Composite Report is included with this Commentary).
- Shifting expectations around the potential U.S. Federal Reserve (the Fed) policy drove the equity market during the first quarter as the threat of a banking crisis highlighted the economic effects of monetary tightening. These concerns led to a -7.53% return for the S&P 500® Index from February 2 to March 13. During the drawdown, the Composite* provided 483 basis points (bps) of loss mitigation relative to the S&P 500® Index with a return of -2.70%.
- The S&P 500® Index and the Composite* had an annualized standard deviation of daily returns of 16.80% and 8.02% for the quarter, respectively.
- Implied volatility, as measured by the Cboe® Volatility Index (the VIX®), averaged 20.68 in the first quarter of 2023. Average implied volatility was higher than realized volatility, as measured by the standard deviation of daily returns for the quarter. The VIX® opened the year at 21.67, drifted to a first quarter low of 17.87 on February 1, then climbed to an intra-quarter high of 26.52 on March 13 – its highest level since October 2022. The VIX® closed the quarter at 18.70.
- Adjustments to the written index call option portfolio during the quarter focused on monetizing above-average levels of volatility. The investment team was patient in making adjustments while above-average premiums allowed for attractive participation in the market's advance and contributed to loss mitigation during periods of decline.
- The team was active in its management of the Composite's portfolio of index put options during the quarter, making several changes to the put coverage level to monetize higher implied volatility and preserve index put option gains, while maintaining a typical risk profile.
- Investors are facing many challenges and a new investment landscape in 2023 with an abundance of ongoing uncertainty – causing many more to diligently ask, "what can I expect from this investment?" Index options-based strategies that benefit from elevated and consistently overpriced implied volatility for risk reduction and risk-adjusted return enhancement may be the answer for which they're looking.



*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 oldest account in the Composite. Source: Bloomberg, L.P.

Market Recap

The S&P 500® Index returned 7.50% in the first quarter of 2023 with monthly returns of 6.28%, -2.44% and 3.67% for January, February and March, respectively. Persistently high inflation showed signs of softening in January and fueled optimism that the Fed would take a less-hawkish tone and slow the pace of monetary tightening. From the start of January through February 2, the S&P 500® Index climbed 8.98%. Euphoria turned to despair as strong macroeconomic data led the Fed to underline a commitment to raising interest rates in an effort to tame record inflation. Potential economic effects of Fed actions are yet to be fully seen, but it has devalued fixed income securities and, paired with significant depositor withdrawals in March, led to the collapse of several banks. The S&P 500® Index returned -7.53% from February 2 to March 13. Emergency measures to mitigate failing confidence in the financial system and a reversion to expecting a less-hawkish Fed in wake of the banking crisis led the equity market to advance 6.67% from March 13 through quarter-end.

Data released in March showed a steady but potentially cooling U.S. economy. The third estimate of Gross Domestic Product for the fourth quarter of 2022 showed that the U.S. continued to grow by an annualized rate of 2.6%, slightly below the consensus expectation of 2.7% and trending down from initial estimates in January. The February unemployment rate of 3.6% was an increase from the prior month and worse than the consensus estimate, while the participation rate ticked up to 62.5%. The February Consumer Price Index, released March 14, showed a year-over-year increase of 6.0%, matching the consensus expectation. Fourth quarter aggregate operating earnings were on track to decline over 3% quarter-over-quarter while decreasing more than 5% year-over-year. With over 99% of S&P 500® Index companies reporting, 73% met or exceeded analyst estimates.

Implied volatility, as measured by the VIX®, averaged 20.69 in the first quarter. Consistent with its typical relationship, average implied volatility exceeded realized volatility, as measured by the standard deviation of daily returns for the S&P 500® Index, which was 16.80% for the quarter. The VIX® ended 2022 at 21.67 before declining to a first quarter low of 17.87 on February 1. A whiff of banking crisis led the VIX® to an intra-quarter high of 26.52 on March 13 – its highest level since October 2022 – before closing the quarter at 18.70.

The Agg returned 2.96% in the first quarter as interest rates retreated slightly in response to turmoil in the banking sector. The yield on the 10-year U.S. Treasury Note (the 10-year) ended 2022 at 3.87% before drifting to a low of 3.37% on January 18. The 10-year yield rose to an intra-quarter high of 4.06% on March 2. As banks began to collapse and hopes climbed of a pause in monetary tightening, the yield on the 10-year drifted to close the quarter at 3.47%. The yield on the 2-year U.S. Treasury Note exceeded that of the 10-year for the entire quarter, an inversion of its typical relationship that began on July 5, 2022.

Gateway Index/RA Composite Performance

The Composite returned 5.21%, net of fees, in the first quarter, compared to the S&P 500® Index return of 7.50%. With monthly returns of 3.18%, -0.79% and 2.78% for January, February and March, respectively, most of the Composite's underperformance came during January's rapid market advance. Throughout the quarter, the Composite provided equity market participation and consistent loss mitigation.

The portfolio performance, contributions, annualized standard deviation and portfolio statistics quoted for the Composite in the following paragraphs are those measured by the net-of-fee returns of a representative account (the Account)[i].

From the start of the year through February 2, the Account returned 3.99% relative to the impressive 8.98% climb of the S&P 500® Index. Shifting expectations around potential Fed policy and the threat of a banking crisis led to a -7.53% return for the S&P 500® Index from February 2 to March 13. During the drawdown, the Account provided 483 bps of loss mitigation relative to the S&P 500® Index with a return of -2.70%. The Account returned 3.90% from March 13 through quarter end, lagging the S&P 500® Index's 6.67% rise, which is expected during periods of rapid market advance.

The Account'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 in February. Gains on purchased index put options also contributed to downside protection during the equity market's mid-quarter drawdown; however, the Account's index call and put option positions both detracted from returns during the quarter, as expected during sharp market advances.

In achieving its low-volatility objective, the Account's annualized standard deviation of daily returns for the quarter was 8.02%, less than half of the 16.80% for the S&P 500® Index. The Account exhibited a beta to the S&P 500® Index of 0.47 for the quarter.

Gateway's investment team was active in its management of the Account's index option portfolios during the quarter. During the equity market's mid-quarter decline, adjustments to the written index call option portfolio focused on lowering the weighted-average strike price to maintain market exposure that is consistent with the Account's typical profile while taking advantage of elevated implied volatility to enhance cash flow potential. During periods of market advance, the team exchanged select index call option contracts well in advance of their expiration dates for ones with later expiration dates and higher strike prices. These adjustments were made to benefit from the relatively elevated volatility priced into later-dated contracts.

As the market began to decline in February, the investment team monetized higher volatility being priced into index put option contracts in an effort to preserve index put option gains while maintaining the Account's typical risk profile. The team closed out multiple index put option positions as the selloff intensified in March. Put gains were first monetized on March 10, then again on March 13 and March 15. These adjustments brought put coverage down from full to a range of 50% to 60%, a level maintained until March 21. As the market advanced and volatility levels drifted lower, the team incrementally added index put options at two points before quarter-end. The first increase came on March 21 and the second instance was on March 28, which resulted in put coverage at a range of 80% to 95% through quarter-end. In addition to adjustments to put coverage, the investment team managed the cost of downside protection throughout the quarter by trading select index put option contracts in advance of their expirations.

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% in-the-money and 1.5% out-of-the-money, 26 days to expiration and annualized premium to earn between 12.5% and 15.0%. Index put options coverage of the portfolio ranged from 80% and 95% with a weighted-average strike price greater than 12.5% out-of-the-money, 94 days to expiration and an annualized cost less than 2.5%. Relative to the beginning of the quarter, this positioning represented increased net cash flow potential and slightly lower market exposure.

Performance & Risk (%)	Q1 2023	1 Year	3 Year	5 Year	10 Year	Inception (1/1/1988)	Inception Risk[1]
The Composite (Net)	5.21	-4.10	7.34	4.05	4.40	6.71	6.70
S&P 500® Index	7.50	-7.73	18.60	11.19	12.24	10.66	14.76
Bloomberg U.S. Aggregate Bond Index	2.96	-4.78	-2.77	0.91	1.36	5.48	4.05

Past performance does not guarantee future results. Periods greater than one year are annualized. Data as of March 31, 2023. Source: Morningstar Direct℠.
1: Based on standard deviation of monthly returns since Composite inception of January 1, 1988. See disclosure and GIPS® Composite Report.

Market Perspective – Steady Turbulance

- Investors are facing many challenges and a new investment landscape. Equity valuations are lower, but not *cheap*, and volatility levels have shifted higher. On the flip side, on a real-return basis, bonds face their own challenges as interest rates are on the rise.
- By taking advantage of current interest rate and volatility dynamics, index options-based strategies that seek to benefit from the consistent overpricing of implied volatility, as seen in the Volatility Risk Premium (VRP), are showing the ability to generate meaningful cash flow for investors and a potential source of improved risk-adjusted return.

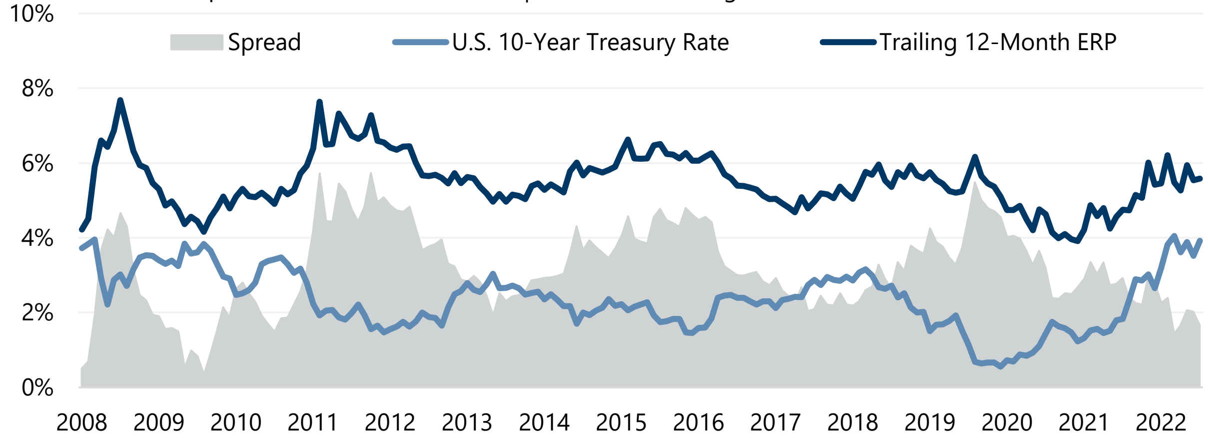
Like a simple two-sided coin toss, a sharp move in an investment one way or the other is almost certain to result in a winner and a loser. The rapid rise in interest rates that investors are grappling with is starting to provide a similar profile of potential outcomes. There is an old adage on Wall Street that suggests the Fed will raise rates until something breaks, which raises curiosity about those shadows lurking around the next decision by the central bank.

So far in 2023, investors are adjusting their portfolios given the reality of this new interest rate environment. Fixed income instruments may seem attractive on an absolute basis, however, once accounting for current inflation, real return expectations start to diminish as discussed in Real Return Conundrum. Using the price-to-earnings (P/E) ratio of the S&P 500® Index, equities still appear to be relatively expensive with a P/E of 18.5 at close of March 2023, compared to six months prior - when the same ratio was around 16.0. While corporations adjust to the growing number of challenges in a post-COVID world – partially by raising prices - and valuations remain elevated, the Fed has been committed to raising rates in an effort to tame inflation. Given the shift in market dynamics, investors now more diligently seek to answer the question "*what can I expect from this investment?*"

Figure 1 below shows the spread between Treasury Bond rates and the Equity Risk Premium (ERP). As shown in the grey area, this difference has compressed significantly since early-2020 as rates continue to rise. Going back to the end of 2008, the average spread between these two is 3.15% whereas current levels have now fallen below 2.0%. The "TINA" (there is no alternative) environment known to investors during the quantitative easing era is gone now, which has squeezed the spread between risk and riskless assets.

Figure 1: U.S. 10-Year Treasury Bond Rates vs. ERP

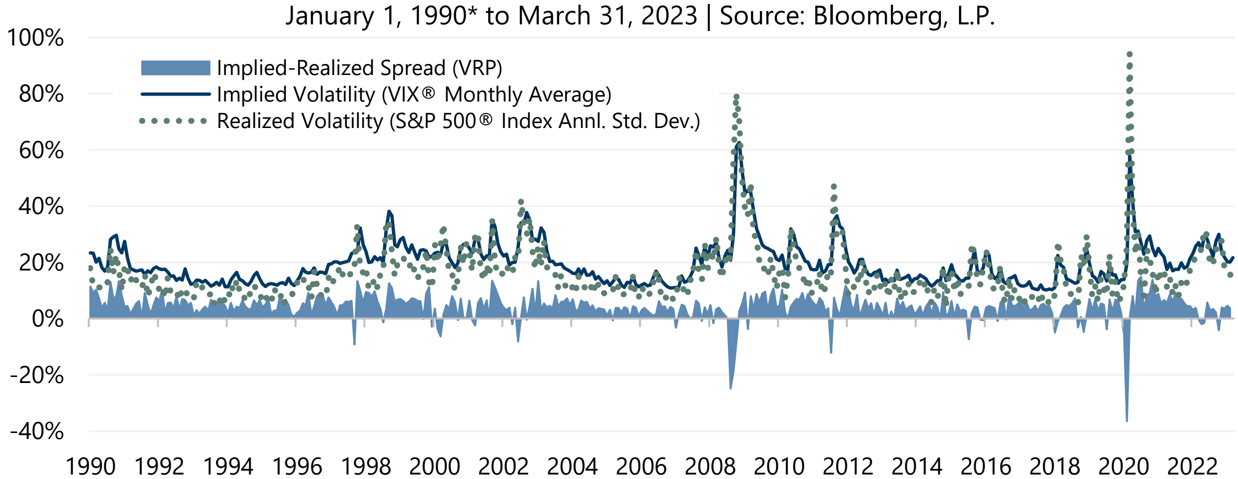
September 2008 to March 2023 | Source: Bloomberg, L.P. and Aswath Damodaran



In a challenging environment, however, the VRP remains steady, and frequently above average. The VRP premium represents the difference between implied volatility, as measured by the average closing price of the VIX®, and realized volatility, as measured by the standard deviation of daily returns for the S&P 500® Index. As shown in Figure 2, going back to the VIX® inception in January 1990 through March 2023, the VRP has been positive 89% of the time with an average of 4.1%.

Figure 2: Average Implied Volatility for S&P 500® Index Options vs. Realized Volatility for S&P 500® Index

January 1, 1990* to March 31, 2023 | Source: Bloomberg, L.P.



Gateway's investment philosophy holds that consistency is the key to long-term investment success and that generating cash flow through monetizing volatility, rather than seeking to forecast the rise and fall of the market, can be a lower risk means to participate in equity markets. Strategies that employ index option writing offer exposure to richly priced implied volatility and benefit from both higher levels of interest rates and implied volatility, creating the potential to generate attractive risk-adjusted returns over the long-term.

Important Information

i: Represents supplemental information to the GIPS® Composite Report. This representative account was selected as it is the oldest 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 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.

Past performance does not guarantee 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℠

GATEWAY
INVESTMENT ADVISERS, LLC

Gateway Index/RA Composite

GIPS® Composite Report

Year End	Annual Performance Results				3-Year Standard Deviation			Number of Composite Accounts	Composite Dispersion	Composite Assets (millions)	Firm Assets (millions)
	Composite		S&P 500® Index	Bloomberg U.S. Aggregate Bond Index	Composite	S&P 500® Index	Bloomberg U.S. Aggregate Bond Index				
	Gross	Net									
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
2021	12.35	11.71	28.71	-1.54	7.89	17.41	3.40	8	0.1	8,523	11,556
2022	-11.19	-11.73	-18.11	-13.01	10.37	21.16	5.85	6	0.0	6,586	8,593

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 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 0.30% 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, 2022. 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, 2022. 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.