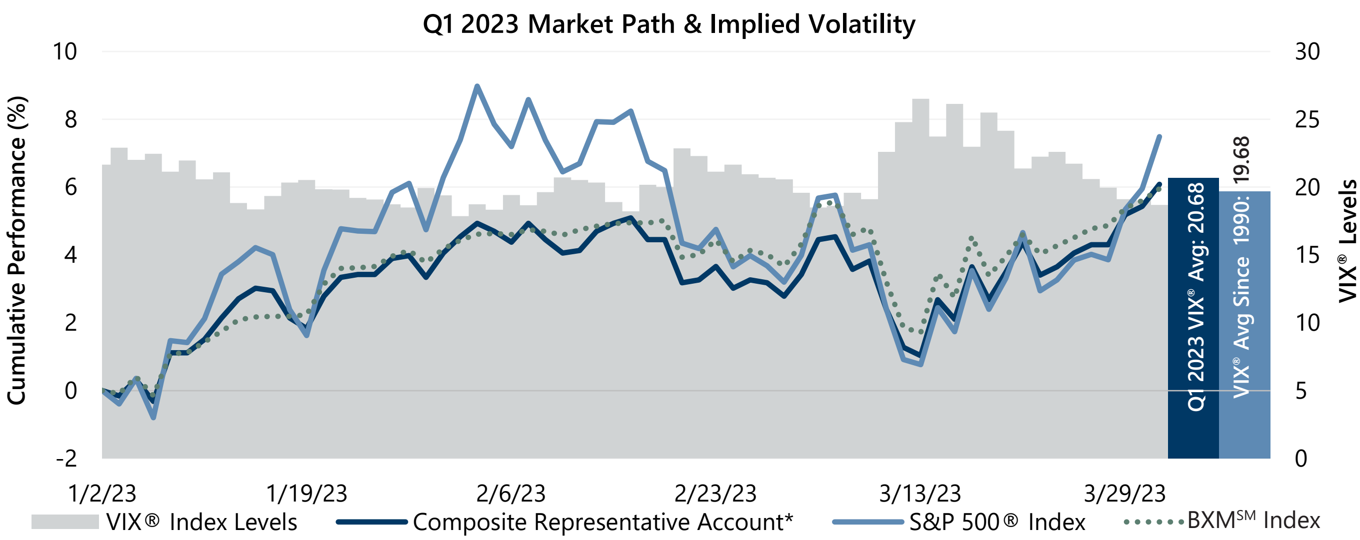
Active Index-Option Overwrite Composite Commentary
Q1 2023

In Brief

- The Gateway Active Index-Option Overwrite Composite (the Composite) returned 6.18%, net of fees, in the first quarter compared to the 5.95% and 7.50% return of the Cboe® S&P 500 BuyWrite℠ Index[i] (the BXM℠) and the S&P 500® Index, respectively. (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 382 basis points (bps) of loss mitigation relative to the S&P 500® Index with a return of -3.71%, while the BXM℠ returned -2.78%.
- The Composite provided loss mitigation relative to the S&P 500® Index through the steep market decline during the quarter, but the BXM℠ was significantly aided by the timing of when its index call options were written. While the Composite's active approach resulted in a typical and consistent amount of equity market exposure, the BXM℠ had less market exposure than usual during the start of the market's decline.
- The S&P 500® Index, the BXM℠ and the Composite* had an annualized standard deviation of daily returns of 16.80%, 9.37% and 10.22% for the first 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.
- 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.



Past performance does not guarantee future results. Source: Bloomberg, L.P. *The portfolio performance and 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.

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 the VIX®, averaged 20.68 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 BXM℠ returned 5.95% in the first quarter, underperforming the S&P 500® Index by 155 bps. The BXM℠ returned 4.18%, -0.16% and 1.86% in January, February and March, respectively. On the third Friday of each month, the BXM℠ writes a new index call option as the option it wrote the previous month expires. The premiums the BXM℠ collects on its written index call options have significant influence on its return potential during market advances and help to mitigate market declines. The above-average implied volatility during the quarter was reflected in relatively elevated premiums. The premiums the BXM℠ collected as a percentage of the BXM's℠ underlying value were 2.28%, 2.08% and 2.80% in January, February and March, respectively. The passive, rules-based BXM℠ entered the quarter with an out-of-the-money written index call option, resulting in relatively high market exposure. When paired with the remaining time premium from its written call option, the BXM℠ returned 2.23% from the start of the year through its January 19 expiration - outpacing the 1.62% return of the S&P 500® Index. As the market continued to advance, the BXM℠ entered February with an in-the-money written call option, resulting in relatively low market exposure during the first two weeks of February. This positioning, combined with premium collected from writing a new index call option with a March expiration, contributed to significant downside protection during the equity market's mid-quarter decline. As the S&P 500® Index returned -7.53% from February 2 to March 13, the BXM℠ provided 475 bps of risk mitigation with a return of -2.78%. In March, the BXM℠ wrote a new index call option with an April expiration, and a portion of the premium it received contributed to the return of the BXM℠ over the remainder of the quarter. From March 13 through quarter-end, the BXM℠ returned 4.17% compared to the 6.67% return of the S&P 500® Index.

The Bloomberg U.S. Aggregate Bond Index 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 Active-Index Option Overwrite Composite Performance

The Composite returned 6.18%, net of fees, in the first quarter, compared to the 5.95% return of the BXM℠. The Composite returned 4.08%, -0.78% and 2.82% in January, February and March, respectively. Elevated implied volatility continued to support higher index option premiums and potential net cash flow during the quarter, which helped the Composite participate in the intra-quarter market advances while providing loss mitigation during periods of decline.

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 Account)[ii].

Most of the Account's outperformance relative to the BXM℠ occurred during March, as its active approach led to consistent market exposure and risk profile throughout the month, while the BXM℠'s single-contract, rules-based approach led to relatively high equity market exposure during the market's intra-month decline. Specifically, the Account returned 4.93% compared to the 4.61% return of the BXM℠ from the start of 2023 through February 2. The S&P 500® Index returned 8.98% in this period. During the equity market advance from March 13 to the end of the quarter, the Account's 4.99% outpaced the 4.17% return of the BXM℠ while the S&P 500® Index climbed 6.67%.

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 during the market's decline. Index call option positions detracted from returns in January and March which is expected during sharp market advances. In achieving its low-volatility objective, the Account's annualized standard deviation of daily returns for the quarter was 10.22% compared to 16.80% and 9.37% for the S&P 500® Index and the BXM℠, respectively. The Account exhibited a beta to the S&P 500® Index of 0.58 for the quarter.

Gateway's investment team was active in its management of the Account's index option portfolio during the quarter. As the equity market trended down from February 2 to March 13, adjustments to the written index call option portfolio focused on lowering the weighted-average strike price to maintain market exposure that is consistent with its 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.

At the end of the quarter, the Account's index call options were sold against over 95% of the equity portfolio's value with a weighted average strike price between 1.5% and 2.5% out-of-the-money, 27 days to expiration and annualized premium to earn between 15.0% and 20.0%. Relative to the beginning of the quarter, this positioning represented greater net cash flow potential and slightly lower market exposure.

Market Perspective – Steady Turbulance

Performance & Risk (%)	Q1 2023	1 Year	3 Year	5 Year	10 Year	Inception (4/1/2008)	Inception Risk[1]
The Composite (net)	6.18	-2.40	12.98	6.95	7.47	6.72	10.60
BXM℠ Index	5.95	-6.86	12.25	4.25	5.83	4.81	11.97
S&P 500® Index	7.50	-7.73	18.60	11.19	12.24	10.06	16.28

Data as of March 31, 2023. Past performance does not guarantee future results. Periods greater than one year are annualized. Source: Morningstar Direct℠.
1: Based on standard deviation of monthly returns since Composite inception date of April 1, 2008.

- 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.

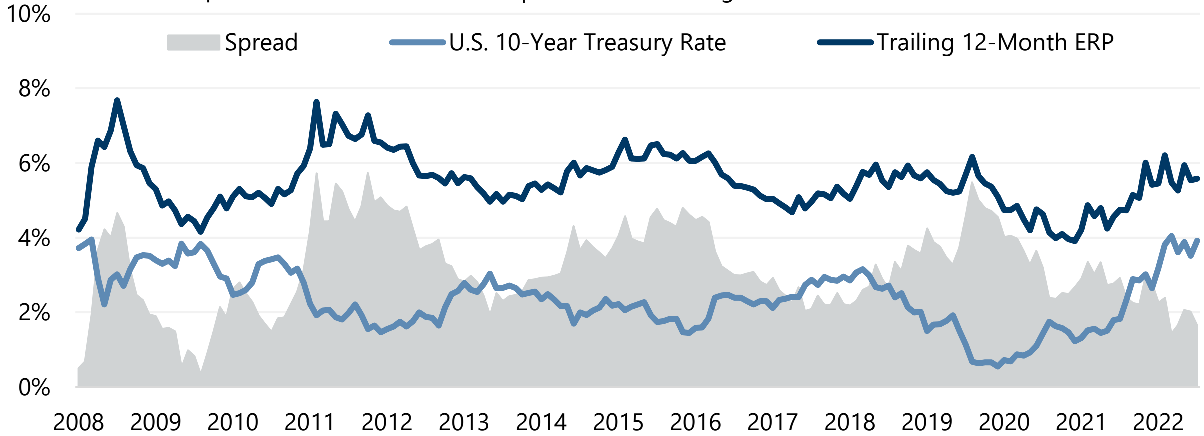
Like a simple two-sided coin toss, a sharp move in an investment one way or the other is almost certain to result in a winner and a loser. The rapid rise in interest rates that investors are grappling with is starting to provide a similar profile of potential outcomes. There is an old adage on Wall Street 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

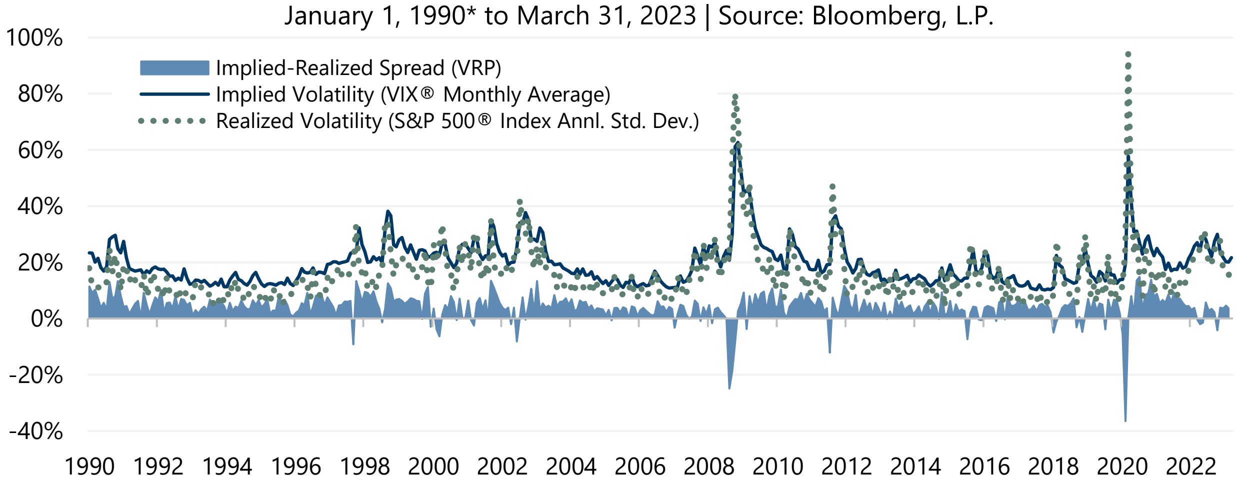
September 2008 to March 2023 | Source: Bloomberg, L.P. and Aswath Damodaran



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] The BXM℠ is a passive total return index designed to track the performance of a hypothetical buy-write strategy on the S&P 500® Index. The construction methodology of the index includes buying an equity portfolio replicating the holdings of the S&P 500® Index and selling a single one-month S&P 500® Index call option with a strike price approximately at-the-money each month on the Friday of the standard index-option expiration cycle and holding that position until the next expiration.

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

Past performance is not indicative of future results. For more information and access to additional insights from Gateway Investment Advisers, LLC, please visit www.gia.com.

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 Gateway Active Index-Option Overwrite 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 on April 1, 2008.

The Composite's 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.

A more detailed description of Gateway's standardized fees is included in Form ADV, Part 2.

The GIPS® Composite Report for the Gateway Active Index-Option Overwrite 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
312 Walnut Street, Suite 3500
Cincinnati, OH 45202
513.719.1100

888 Boylston Street
Boston, MA 02199
www.gia.com | Follow us:

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Gateway Active Index-Option Overwrite Composite

GIPS® Composite Report

Year End	Annual Performance Results				3-Year Standard Deviation			Number of Composite Accounts	Composite Assets (millions)	Firm Assets (millions)
	Composite Gross	Composite Net	S&P 500® Index	BXM℠ Index	Composite	S&P 500® Index	BXM℠ Index			
9 Months Ended 12/31/2008	-19.54%	-19.72%	-30.43%	-26.10%	N/A	N/A	N/A	1	$492	$7,071
2009	15.15	14.78	26.46	25.91	N/A	N/A	N/A	1	502	7,188
2010	13.30	12.91	15.06	5.86	N/A	N/A	N/A	1	516	7,699
2011	6.73	6.33	2.11	5.72	11.26%	18.97%	13.66%	1	496	8,081
2012	11.46	11.02	16.00	5.20	8.54	15.30	11.56	4	717	10,517
2013	14.91	14.46	32.39	13.26	6.28	12.11	9.39	4	1,233	12,475
2014	7.64	7.26	13.69	5.64	4.37	9.10	6.07	5	2,263	12,239
2015	5.98	5.57	1.38	5.24	5.37	10.62	6.52	6	2,404	12,210
2016	9.10	8.74	11.96	7.07	5.83	10.74	6.68	4	2,627	11,601
2017	13.83	13.44	21.83	13.00	5.47	10.07	5.83	4	2,665	12,559
2018	-4.86	-5.18	-4.38	-4.77	6.79	10.95	7.48	3	2,298	11,641
2019	17.85	17.42	31.49	15.68	7.41	12.10	7.95	2	1,486	10,950
2020	9.03	8.57	18.40	-2.75	12.33	18.80	14.72	2	1,491	9,963
2021	19.04	18.52	28.71	20.47	11.44	17.41	13.93	2	1,695	11,556
2022	-10.81	-11.22	-18.11	-11.37	14.16	21.16	15.75	2	1,448	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. 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-Option Overwrite Composite contains fully discretionary hedged equity accounts that hold common stock and sell index call options on at least 95% of the underlying stock value. Indexes utilized for call option activity are U.S. domestic equity indexes that include all sectors of the economy. This call activity reduces volatility and provides cash flow. The creation and inception date of the Gateway Active Index-Option Overwrite Composite was April 1, 2008.

For comparison purposes the 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 Cboe® S&P 500 BuyWrite℠ Index (BXM℠ Index), a passive total return index designed to track the performance of a hypothetical buy-write strategy on the S&P 500® Index.

Performance results are expressed in U. S. dollars. Returns are presented gross and net of actual management fees and include the reinvestment of all income. Past performance is not indicative of future results. 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 Active Index-Option Overwrite Composite has had a performance examination for the periods April 1, 2008 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.