

### An Unsuspecting Year

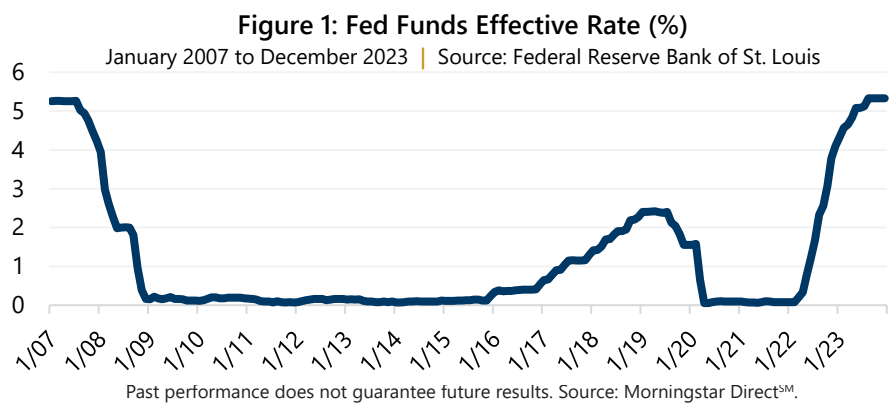
2023's year-end rally helped mark the S&P 500® Index's sixth strongest annual return in the last 25 years, seemingly fueled by optimism surrounding the direction of monetary policy. Specifically, as inflation continued its descent from record heights, the U.S. Federal Reserve (the Fed) continued the pause of its recent and aggressive interest rate hiking cycle. The extended pause and changing tone of the Fed led to increasing expectations of rate cuts in 2024, prompting cheers from investors as 2023 ended.

The most interesting thing about expectations, however, is that they rarely align with reality. For instance, at the onset of 2023, with a rapid and significant departure from the quantitative easing approach of the prior decade or more, the consensus was that the Fed had been too aggressive and risked pushing the U.S. economy into recession. Reality checked-in, though, with a surprisingly strong economy and resilient labor market that helped drive a more than 26% advance in the S&P 500® Index. So, what is next?

### Forget Your Crystal Ball

Predicting performance for 2024 is a fool's game of course, but a review of historical data may help investors prepare for a variety of outcomes. Over the past 25 years the S&P 500® Index has advanced at an annual rate of 20% or more eight times. The average return for the S&P 500® Index over that timeframe was 9.2%, but in the years following a 20% or more advance, the equity market return averaged just 3.8%. Positive, but hardly as exciting as 2023's results or the period average. Group this with ample drivers of volatility on the horizon such as a U.S. presidential election, growing geopolitical tensions, and ongoing wars, and risk management may be prudent in 2024.

Adding to the uncertainty, and likely to remain in focus, are the decisions to be made by the Fed. As Figure 1 shows, after starting 2022 at 0.08%, the Fed Funds Rate was increased to 5.33% by August 2023, before being held steady through year-end. As a result, monetary policy has departed the comfort of quantitative easing and, instead, interest rates may settle into a range more closely aligned with the long-term averages. For instance, the rate on a 3-month U.S. Treasury Bill has averaged 4.19% since 1954 and closed 2023 at 5.24%.



Drastic changes to monetary policy and other macro drivers of uncertainty have also shifted implied volatility, as measured by the Cboe® Volatility Index (the VIX®), to more normal ranges than experienced during quantitative easing. After the Great Financial Crisis (GFC), as the Fed carefully managed the recovery, the VIX® fell from crisis highs to an all-time low of 9.14 on November 3, 2017. Since the Fed started tightening monetary policy in 2022 through the close of 2023, the VIX® has ranged from 12.07 to 36.45.

### Prepping

When using options, investors may recall that interest rates and volatility – two components of the Black-Scholes option pricing model – play a significant role in option pricing. These two components to pricing were less-than-robust in their contributions to option-based strategies during the quantitative easing period. However, these factors may persist in their recent shift higher and that this environment might continue to benefit option-based strategies.

In this [new environment](#), for instance, Gateway's option-based strategies had some of their strongest returns ever. 2023 marked the best year in 25 years for Gateway's flagship Index/RA Composite ([Index/RA](#)). Index/RA captured 36% of the equity market advance in 2019 with a return of 11.29%, net of fees, contrasting with 2023's market environment in which Index/RA returned 14.85%, net of fees, and captured 56% of the S&P 500® Index's 26.29% return. Gateway's Active Index-Option Overwrite Composite ([AIOO](#)) had a similar outcome, posting its best annual return since its 2008 inception. AIOO climbed 17.42% and 19.26%, net of fees, in 2019 and 2023, respectively, and captured 55% of the market advance in 2019 while capturing 73% during 2023. (A GIPS® Composite Report for Index/RA and AIOO is included with this Commentary.)

Gateway's investment philosophy holds that the equity market is the most reliable source of long-term real returns and consistency is the key to long-term investment success. 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 can also benefit from higher levels of interest rates, helping to offset some risks associated with rising interest rates. This combination, prevalent in today's challenging environment, provides investors with the potential to generate attractive risk-adjusted returns over the long-term.

While predicting the future can be a fool's errand, history suggests that both interest rates and implied volatility may remain near levels closer to their historical average than those experienced during the quantitative easing period post-GFC. Strategies such as those managed by Gateway, which can actively take advantage of a dynamic market environment, may be positioned well for 2024. Such strategies are designed to help investors despite their expectations for the year. Specifically, Gateway can help investors maintain market exposure in the case reality surprises to the upside, or manage risk should 2024 produce a less-than-pleasant reality check.

Standard Performance Table	1 Year	3 Year	5 Year	10 Year	Index/RA Inception <sup>1</sup>	AIOO Inception <sup>1</sup>
Index/RA Composite (Net)	14.85	4.24	6.23	4.83	6.82	
AIOO Composite (Net)	19.26	7.86	9.85	7.80		7.17
S&P 500® Index	26.29	10.00	15.69	12.03	10.93	10.68

Past performance does not guarantee future results. Periods greater than one year are annualized. Data as of December 31, 2023, unless noted otherwise. Data source: Morningstar Direct<sup>SM</sup>. 1: Index/RA Composite inception date is January 1, 1988. AIOO Composite inception date is April 1, 2008.

#### IMPORTANT INFORMATION

Past performance does not guarantee future results. Data sources: Bloomberg, L.P., Morningstar Direct<sup>SM</sup>, and St. Louis Federal Reserve Bank of St. Louis. For more information and access to additional insights from Gateway Investment Advisers, LLC, please visit [www.gia.com/insights](http://www.gia.com/insights).

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.



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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.

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 <sup>SM</sup> Index	Composite	S&P 500® Index	BXM <sup>SM</sup> 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<sup>SM</sup> Index (BXM<sup>SM</sup> 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.

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