

## The Durable Case for Options-Based: Understanding Performance in Varying Environments



### Key Takeaways

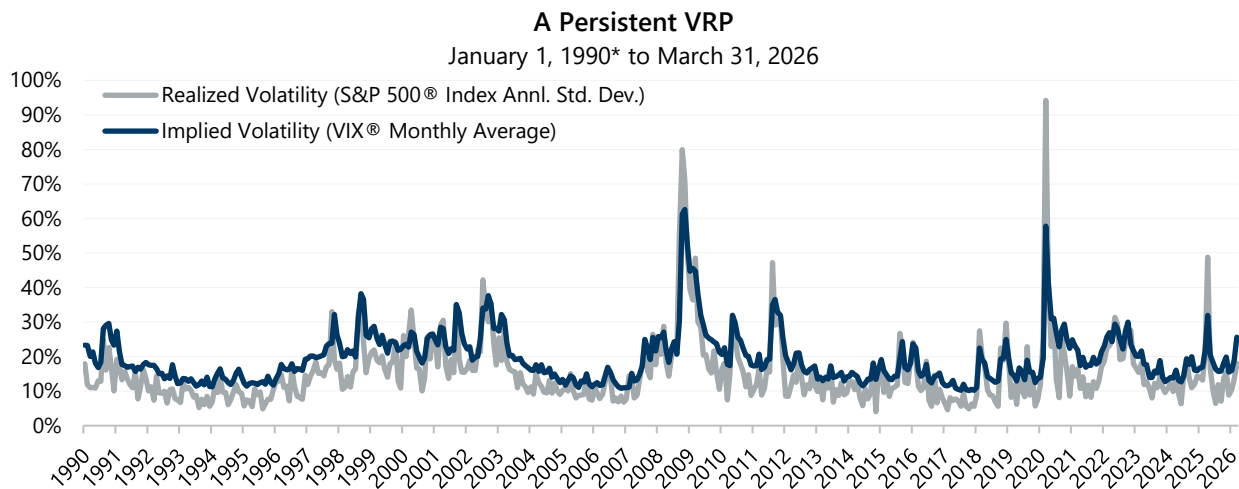
- Historical data shows that implied volatility has exceeded realized volatility over 89% of the time since 1990, creating a persistent premium for disciplined options sellers.
- With implied volatility recently spiking, active options-based strategies have demonstrated an ability to provide portfolio durability during periods of heightened market unpredictability
- By capturing the 4% average monthly gap between implied and realized volatility, or the Volatility Risk Premium (VRP), investors can mitigate equity risk without fully sacrificing long-term growth potential.

Volatility has been robust in 2026, with implied volatility averaging 20.43 from the start of the year through March 31 – peaking at 31.05 during the drawdown in March. This is just one result of the inherent unpredictability that is persistent in equity markets. For investors looking to manage risk but remain in equities, active options-based strategies can provide a level of durability to help navigate market turmoil.

### The Volatility Risk Premium

The case rests on a persistent arbitrage opportunity and an understanding of potential performance across varying equity market environments.

Options thrive on a well-documented anomaly: implied volatility has almost always exceeded realized volatility (standard deviation). In fact, this has occurred more than 89% of the time since the inception of the VIX® in January 1990. The gap between implied and realized volatility — the VRP — reflects persistent excess demand for index options from buyers seeking insurance-like protection. This has created a structural market dynamic where sellers can collect the VRP, which has a monthly average of 4% since 1990.



Past performance does not guarantee future results. Data source: Bloomberg L.P. \*VIX® data available as of January 1, 1990. Realized volatility is reflected by the annualized standard deviation of monthly S&P 500® Index returns.

### Consistency & Durability

Equities are risky – but they are also a reliable source of returns. Despite short-term risks, diversified equity portfolios have historically outpaced inflation over time. The good news is that combining equity exposure with index options can help mitigate losses while continuing to benefit from long-term market growth.

Regardless of market direction, a disciplined and actively managed options-based strategy - backed by an experienced and focused team - is a compelling source for portfolio durability. Consider the following five market environments and expected results based on trailing 12-month performance since January 1988:

- 1 Severe Downturn: Market Down More Than 25%**
  - Option strategies can shine during severe drawdowns — potentially capturing less than half of the market decline.
  - Net positive cash flow from combining the purchase of protective index put options with premium income from selling index call options can meaningfully limit losses while maintaining market exposure to benefit from recoveries.
- 2 Moderate Drawdown: Market Down 5-25%**
  - The downside mitigation embedded in options strategies tends to show up clearly, with the chance to capture less than half of the market decline and reducing volatility.
- 3 Flat Markets: Returns +/- 5%**
  - Options strategies can differentiate themselves here and could actually *outpace* the broad equity market.
  - The steady collection of index option premiums provides a return engine when markets stall, adding value even when the market is stuck.
- 4 Moderate Bull Markets: Market Up 5-25%**
  - Options strategies can participate meaningfully, possibly capturing most of the broad market return.
  - For strategies such as Gateway’s flagship, performance gaps include the cost of protective index put options — insurance — a knowable, manageable trade-off.
- 5 Strong Bull Markets: Market Up More Than 25%**
  - The relative performance gap has the potential to widen, with the strategy capturing less than half of the rally.
  - In exchange for meaningful downside protection, generating income from index call overwriting can limit upside capture — a rational trade-off for risk-conscious investors.

In four of five environments, Gateway’s flagship strategy was able to provide significant loss mitigation while maintaining strong up-market participation – either outperforming (in flat markets) or capturing a majority of the equity market advance. In only one environment, strong bull markets, does the rational choice of paying for insurance have the potential to widen the gap in relative performance.

Time Period	Severe Downturn	Moderate Downturn	Flat	Moderate Bull Market	Strong Bull Market
January 1, 1998 to March 31, 2026	Down >25%	Down 5-25%	+/- 5%	Up 5-25%	Up >25%
Occurrence	2.23%	11.16%	10.27%	56.70%	19.64%
S&P 500® Index Return	-35.19%	-13.90%	0.96%	14.67%	32.57%
<b>Index/RA Composite (net)</b>	<b>-15.27%</b>	<b>-3.34%</b>	<b>2.46%</b>	<b>8.60%</b>	<b>13.84%</b>

Past performance does not guarantee future results. Data Source: MorningStar Direct<sup>SM</sup>.

### Go With the Experts

Actively managed options-based equity strategies offer a distinctive combination: genuine downside protection, income generation, and meaningful participation — all at significantly lower volatility than the broad equity market. For risk-conscious investors looking for a more durable path through market uncertainty, these strategies merit consideration.

Founded in 1977, Gateway is a pioneer in options-based investing – first using options shortly after Cboe® began trading modern contracts. Over nearly 50 years, the firm has developed a single-source, unified framework for alpha and risk management, applying a rigorous, quantitatively driven approach to navigate market complexities and unlock value.

Standard Performance Table	1 Year	3 Year	5 Year	10 Year	Index/RA Inception <sup>1</sup>
Index/RA Composite (Net)	10.30	10.72	6.40	6.55	7.02
S&P 500 <sup>®</sup> Index	17.80	18.32	12.06	14.16	11.25

Past performance does not guarantee future results. Periods greater than one year are annualized. Data as of March 31, 2026, unless noted otherwise. Data source: Morningstar Direct<sup>SM</sup>. 1: Index/RA Composite inception date is January 1, 1988.

### Important Information

Past performance does not guarantee future results. Gateway does not provide tax advice. Tax treatment and rates can and do vary over time. Investment decisions should be made based on an investor’s objectives and circumstances and in consultation with his or her investment and/or tax advisors. Data sources: Bloomberg, L.P. and Morningstar Direct<sup>SM</sup>.

The **Cboe<sup>®</sup> Volatility Index (the VIX<sup>®</sup>)** is a financial benchmark designed to be an up-to-the-minute market estimate of expected volatility of the S&P 500<sup>®</sup> Index and is calculated by using the midpoint of real-time S&P 500<sup>®</sup> Index (SPX) option bid/ask quotes. More specifically, the VIX<sup>®</sup> is intended to provide an instantaneous measure of how much the market thinks the S&P 500<sup>®</sup> Index will fluctuate in the 30 days from the time of each tick of the VIX<sup>®</sup>.

The **Bloomberg<sup>®</sup> U.S. Aggregate Bond Index (Agg Index)** is a broad-based index that covers the U.S.-dollar-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, government-related, corporate, mortgage-backed securities, asset-backed securities, and collateralized mortgage-backed securities sectors.

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