

GATEWAY ACTIVE INDEX-OPTION OVERWRITE COMPOSITE COMMENTARY

Q4
2016

EQUITY MARKETS

The S&P 500® Index gained 3.82% for the fourth quarter, resulting in a total return of 11.96% for 2016. The quarter began with a 1.82% loss for the month of October, followed by returns of 3.70% and 1.98% for November and December, respectively.

October's loss was the only negative monthly return for the S&P 500® Index over the last 10 months of 2016 after sustaining losses in both January and February. The year began with a 10.27% loss through February 11th driven by macroeconomic concerns such as falling oil prices, slowing economic growth in China and Federal Reserve monetary policy that, to many investors, seemed overly hawkish relative to economic conditions. From this year-to-date low through year-end, the S&P 500® Index advanced 24.77% with only two downside episodes, both relatively minor and largely driven by political events.

Initial drivers of the recovery from the decline that began the year were firming oil prices and a series of monetary policy developments that included: the Bank of Japan announcing a policy of negative short-term interest rates, additional monetary stimulus from the European Central Bank and indications from the Federal Reserve that the likelihood of more than two rate increases during the year had lessened. By mid-April the market's advance slowed as attention became focused on the June 23rd United Kingdom (UK) referendum on whether to exit from or remain in the European Union (EU). A majority of UK voters surprised the market with the decision to exit the EU causing a sharp two-day selloff of 5.34% for the S&P 500® Index. However, the recovery from this was swift and the third quarter began with surprisingly calm equity market conditions. The market advance resumed, helped in part by positive June payroll data. By mid-August the market's trajectory began to plateau and then turn negative as attention shifted to the highly contentious U.S. presidential election. From August 15th through November 4th, the S&P 500® Index declined 4.38%. The decline accelerated in late October as both presidential campaigns struggled with negative developments, including news that the FBI was investigating newly obtained emails from Hillary Clinton's private server. A subsequent announcement that the emails contained no new information began a market advance that continued after the election despite the surprising outcome of a Trump victory. Anticipation of pro-growth economic policies from the incoming Trump administration plus mostly positive quarterly earnings and economic reports helped propel the equity market nearly 8% from November 4th to year-end.

Over 70% of the 498 S&P 500® Index companies that reported earnings after September 30, 2016 exceeded analysts' estimates and aggregate operating earnings for Q3 grew 3.31% from Q2, the first quarter of earnings growth since Q3 2014. The growth in earnings was not sufficient to achieve year-over-year earnings growth, however, as aggregate operating earnings declined by 2.61% from Q3 2015. The final estimate of third quarter 2016 GDP growth came in at 3.5%, which exceeded analysts' consensus estimates and was the highest rate in two years.

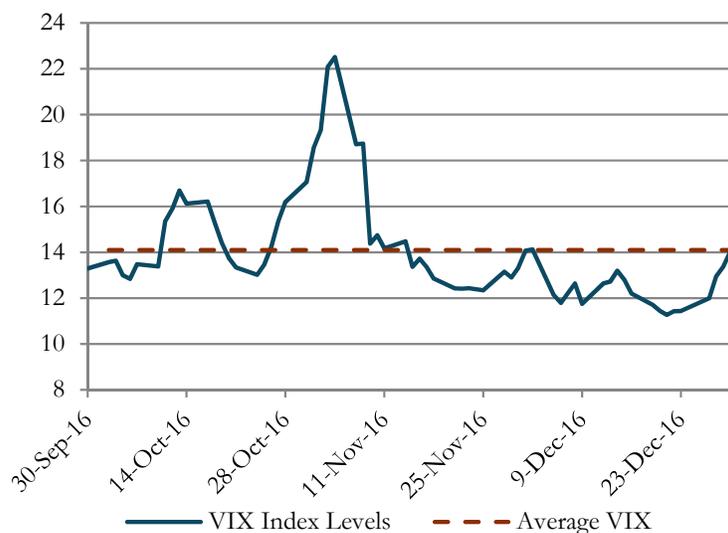
The CBOE® S&P 500® BuyWriteSM Index (the BXMSM)¹ had a return of 2.64% for the fourth quarter, resulting in a total return of 7.07% for the year. The BXMSM outperformed the S&P 500® Index in October and underperformed in November and December with monthly returns of 0.22%, 2.31% and 0.11%, respectively.

For 2016, the cash flow and downside protection provided by BXM'sSM written call options more than offset the market losses in February and October, helping the BXMSM to have positive returns for every month but January. The BXM'sSM downside protection was consistent throughout the year, delivering shallower losses than the S&P 500® Index in each of the three market drawdowns: from December 31st, 2015 to February 11th, 2016, the BXM'sSM -6.67% return outperformed by 360 basis points (bps), from June 23rd to June 27th, the BXM'sSM -2.93% return outperformed by 241 bps and from August 15th to November 4th, the BXM'sSM 0.93% loss outperformed by 345 bps.

But the consistently low volatility environment during 2016 produced call writing cash flow that was insufficient for the BXMSM to keep pace with the market's above-average rate of advance. From February 11th to year-end, the BXM'sSM return of 14.72% underperformed the S&P 500® Index by 10.05 percentage points.

¹ The CBOE® S&P 500 BuyWriteSM Index (the BXMSM) 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.

VIX® Levels



Datasource: Bloomberg, L.P.

Implied volatility, as measured by the Chicago Board Options Exchange (CBOE) Volatility Index (the VIX), averaged 14.10 for the fourth quarter. The measure began at 13.57 and reached a peak of 22.51 on November 4th before steadily declining to its fourth quarter low of 11.27 on December 21st. Despite below-average volatility for nearly the entire quarter, average implied volatility exceeded S&P 500® Index realized volatility of 8.74% (as measured by its annualized standard deviation of daily returns) by over five points, more than one point greater than the long-term average differential between the two statistics.

Implied volatility averaged 15.83 for the year, based on the daily closing values of the VIX. This is well below its long-term average of 19.71 and a somewhat counter-intuitive outcome for an election year that included a great deal of uncertainty and multiple unexpected events. However, below-average volatility is not uncommon in election years and the pattern of volatility in 2016 was similar to typical election years in that the highest volatility readings came early in the year, troughed in the third quarter and rose in October and November.

FIXED INCOME MARKET

The Barclays U.S. Aggregate Bond Index (the Aggregate) returned -2.98% for the fourth quarter, resulting in a return of 2.65% for 2016. The year was split almost exactly in half with regard to yield trends and total returns for investment grade fixed income. The yield on the 10-year U.S. Treasury Note fell from 2.27% on December 31st, 2015 to an all-time low of 1.36% on July 8th and ended the year at 2.44%, rising steadily at first and then spiking after the election.

Falling rates over the first half of the year drove the Aggregate to a year-to-date total return high of 6.16% on July 8th, while rising rates resulted in losses in four out of the final six months of the year. From July 8th through year-end, the Aggregate's total return was -3.31%.

COMPOSITE PERFORMANCE

The Gateway Active Index-Option Overwrite Composite (net of fees) (the Composite) returned 3.21% for the fourth quarter of 2016, outperforming the BXMSM by 57 bps and bringing its year-to-date return to 8.74%. The Composite underperformed the BXMSM in October but outperformed in November and December. October's -0.26% return for the Composite underperformed the BXMSM by 48 bps primarily due to the BXM'sSM index call option having a lower strike price than the weighted average strike price of the Composite's index call option portfolio at the beginning of the month. The BXM'sSM index call option was approximately 1% more in-the-money than the weighted average moneyness of the Composite's call option portfolio, allowing it to deliver better downside protection as the market declined. The Composite's active approach in managing index call options produced greater cash flow than the BXMSM in November and December resulting in outperformance of the benchmark. In particular, trades in early December that raised the weighted-average strike price of the index call option portfolio allowed the Composite to continue participating in the market's advance while the BXMSM was held back by the in-the-money strike price of its index call option. Also, by staying hedged throughout the month, the Composite added to its performance advantage by avoiding the loss suffered by the BXMSM during its unhedged period on the day its December index call option expired.

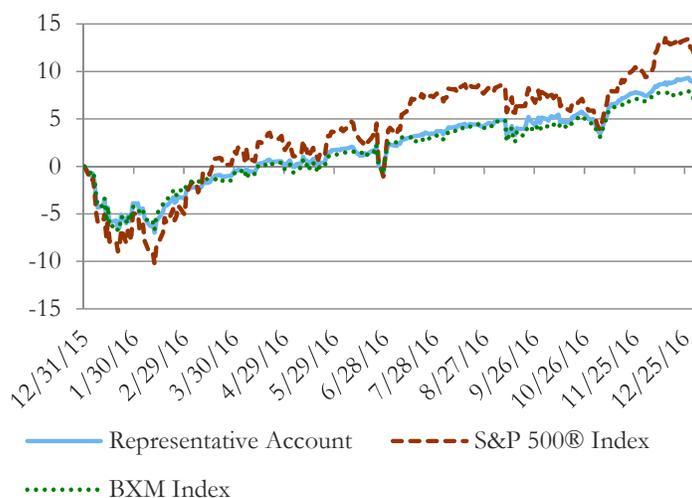
The partial period returns, portfolio performance contributions, annualized standard deviation and portfolio statistics quoted for the Composite in the following paragraphs are those measured by a representative account.*

*Represents supplemental information to the GIPS-compliant presentation. This representative account was selected as it is the largest account in the Composite.

The Composite's index call option portfolio contributed positively to return in October as the equity market declined. Losses on index call options during a market advance are typical and the equity market's relatively sharp post-election advance generated index call option losses that more than offset October's option gains. In The Composite's annualized standard deviation of daily returns for the quarter was 5.29% as compared to 5.06% and 8.74% for the BXMSM and the S&P 500[®] Index, respectively. The Composite exhibited a beta to the BXMSM of 1.00 for the quarter.

As volatility increased in October, Gateway's index call option activity was focused on selling contracts that offered attractive combinations of cash flow and market exposure. As the U.S. presidential election approached, the investment management team took advantage of election-related volatility by selling contracts with early-November expirations. After the election, call option activity focused on trading several contracts well in advance of their expirations. This was done to increase cash flow generation while implied volatility was elevated and, later in the month and into December, strike prices were adjusted higher to maintain typical market exposure as the market rallied.

Cumulative Performance (%)
(12/31/2015 - 12/31/2016)



Datasource: Bloomberg, L.P.

Throughout 2016, the Composite's cash flow from index call option writing delivered protection during market declines and participation during market advances. The Composite's downside protection was consistent throughout the year, delivering shallower losses than the S&P 500[®] Index in each of the three market drawdowns: from December 31st, 2015 to February 11th, 2016, the Composite's -6.97% return outperformed the S&P 500[®] Index by 330 bps, from June 23rd to June 27th, the Composite's -2.96% return outperformed by 238 bps and from August 15th to November 4th, the Composite's 1.05% loss outperformed by 333 bps. But the consistently low volatility environment during the year produced cash flow from call writing that was insufficient for the Composite to keep pace with the market's above-average rate of advance. From February 11th to year-end, the Composite's return of 16.91% underperformed the S&P 500[®] Index by 7.86 percentage points.

As of December 31st, the Composite's diversified equity portfolio was over 95% hedged with index call options with average strike prices between 1.5% in-the-money and 1.5% out-of-the-money, average time to expiration of 38 days and annualized premium to earn of 10% to 12.5%. Relative to the beginning of the quarter, this positioning represented slightly less market exposure and slightly lower cash flow potential.

MARKET PERSPECTIVE

As we transition from the old year to the new one, we close the books on a year of unexpected events. But with several notable phenomena and trends—both within and outside of the market—2017 may deliver some significant directional turning points of its own. As these inflection points play out, they could contribute significantly either on the positive or negative side for stocks and bonds.

Here are the main inflection points and their potential impact on stock and bond markets:

Interest rates and monetary policy – The amount debtors pay to borrow money has been increasing since mid-2016 and that accelerated after the U.S. Presidential election in November. It looks to be developing into a trend that bears remarkable resemblance to the 2013 'Taper Tantrum' when the yield on the 10-year U.S. Treasury note rose from 1.62% to 3.03% in a matter of months. So far, the stock market has embraced rising rates as a harbinger of economic acceleration. However, as rates rose over the second half of 2016, the bond market gave back about half of its peak year-to-date return. As this happened, credit spreads narrowed and mortgage refinancing slowed resulting in increased interest rate sensitivity for many types of bonds.

Meanwhile, the Federal Reserve has prepared the market for additional rate hikes in 2017, creating a similar expectation as at year-end 2015. Will the Federal Reserve be able to follow through on its anticipated policy path in 2017? Or will events conspire to delay their plans and drive interest rates back toward historic lows as in the first half of 2016? Only time will tell. The impact that potential short-term rate hikes may have on longer-term bond yields is also unknown. Whether rates increase or decrease in 2017, the magnitude of investment grade bond gains or losses may be surprising given their increase in rate sensitivity.

Market volatility – While market volatility seemed surprisingly low in 2016, that economic aspect actually went according to script. Historically, typical election years produce below average market volatility relative to non-election years. There are several potential volatility triggers in play for 2017. Some are pre-existing, like concern over the pace of interest rate hikes and geopolitical tensions, and some are newer, such as policy uncertainty under the new U.S. presidential administration.

Corporate earnings – Domestic corporate earnings may be affected positively by promised pro-growth policies under a Trump administration, and the market appears to have priced in at least some of that potential with its post-election advance. After several quarters of declines in aggregate earnings for the S&P 500® Index, growth resumed in the third quarter of 2016. Corporate-friendly tax cuts and deregulation could help to accelerate or extend that growth. On the flip side, stock prices could face headwinds from currently high equity valuations, rising interest rates, a strong dollar and any potential changes to trade policy including tariffs on imports, especially if such policies inspire retaliatory moves by trade partners.

Several different scenarios are possible as these three inflection points unfold. As we enter 2017, stock market indexes are near record highs and just a few months shy of extending to the second longest bull market in history. Just because the bull market is extended doesn't mean that a bear market is imminent. Even if the bull market would continue for more than four years and more than double, it still wouldn't be the longest or highest-returning bull market in history.

However, given the number of uncertainties facing the markets, if positive assumptions priced into the market today do not come to pass, stocks could endure a correction or possibly even a bear market. Whether or not stocks continue to advance, an increase in day-to-day volatility is certainly possible as the dynamics of the various inflection points play out. With a recent survey showing that the equity risk concentration (the portion of total portfolio risk driven by equity exposure) has been climbing in recent years and is currently over 90%***, investors may not be adequately prepared for an increase in volatility or a significant downside event.

This is particularly true at a time when many investors have reached for yield in both bond and equity investments and have exhibited a marked preference for passive approaches, such as passive stock index funds and ETFs, in lieu of actively managed funds with flexibility to mitigate risk. This means that, should an increase in volatility or market correction materialize, investors may be more exposed to the negative effects of such scenarios than they realize.

Regardless of what the new year brings, investors seeking a smoother path towards reaching long-term investment objectives may benefit from remaining diversified while incorporating different approaches to risk management. As the inflection points play out in this economic and political environment, incorporating low volatility equity investments with reduced interest rate sensitivity may prove beneficial.

*** *Moderate Portfolio Trends Report*, October 2016, Natixis Global Asset Management, Portfolio Research and Consulting Group.

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Standard Performance

Average Annual Performance

As of December 31, 2016

	One Year	Three Years	Five Years	Return Since Inception*	Risk** Since Inception*
Active Index-Option Overwrite (Net)	8.74%	7.18%	9.37%	6.47%	10.26%
BXM SM Index	7.07%	5.98%	7.24%	4.56%	11.87%
S&P 500 [®] Index	11.96%	8.87%	14.66%	8.54%	15.81%

*Inception of Gateway Active Index-Option Overwrite Composite is April 1, 2008

** Standard deviation is based on monthly performance

Periods over one year are annualized.

Datasource: Morningstar DirectSM and Gateway Investment Advisers, LLC

Past performance is no guarantee of future results.

GATEWAY INVESTMENT ADVISERS, LLC
GATEWAY ACTIVE INDEX-OPTION OVERWRITE COMPOSITE
ANNUAL DISCLOSURE PRESENTATION

Year End	Annual Performance Results				Composite 3-Year Std. Dev.	S&P 500® 3-Year Std. Dev.	BXM SM Index 3-Year Std. Dev.	Number of Composite Accounts	Composite Assets (millions)	Firm Assets (millions)
	Composite		S&P 500®	BXM SM Index						
	Gross	Net								
9 months ended 12/31/08	-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

N/A: The 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 Gateway Active Index-Option Overwrite Composite was created April 1, 2008. Prior to January 1, 2014, the Gateway Active Index-Option Overwrite Composite was named the Gateway Equity Premium Income Composite.

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, beginning January 1, 2014, the CBOE® S&P 500 BuyWriteSM Index (the BXMSM Index), a passive total return index designed to track the performance of a hypothetical buy-write strategy on the S&P 500® Index. The BXMSM Index was added as a secondary index as it is viewed to be representative of the Composite strategy.

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.

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 0.45% 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 September 30, 2016.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. The Gateway Active Index-Option Overwrite Composite has been examined for the periods April 1, 2008 through September 30, 2016. The verification and performance examination reports are available upon request.

Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. A list of composite descriptions is also available upon request.