Gateway Active Index-Option Overwrite Composite Commentary

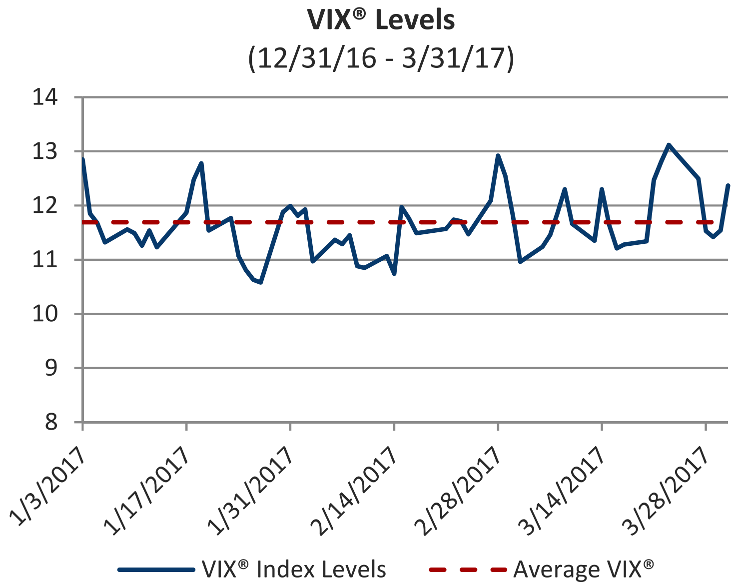
Q1 2017

EQUITY MARKETS

The S&P 500® Index gained 6.07% for the first quarter of 2017. The equity market posted positive returns each month of the quarter with the S&P 500® Index returning 1.90%, 3.97% and 0.12% for January, February and March, respectively. The equity market's advance was steady over the first two months and reached a year-to-date closing high on March 1st. The S&P 500® Index declined 2.16% from March 1st through March 27th before advancing to month-end. Realized volatility and implied volatility were persistently low throughout the quarter.

The equity market's advance in January and February was fueled by strong corporate earnings, positive economic data and optimism that the Trump administration would quickly enact its agenda of reducing regulations and reforming the tax code. The January release of the Purchasing Managers Manufacturing Index was the strongest since March 2015 and the January employment and retail sales reports exceeded expectations. Measures of business and consumer confidence reached multi-year highs. Though the Federal Reserve raised the Fed Funds rate by 25 basis points (bps) as expected in March, rhetoric about future rate increases was relatively dovish – as noted during Chairman Yellen's press conference after the rate hike and during her semi-annual testimony to Congress in February. Nearly 78% of S&P 500® Index companies reported fourth quarter earnings that met or exceeded analyst estimates and aggregate operating earnings grew 4.77%, the fastest rate since the fourth quarter of 2013. Market weakness in March was driven in part by the failure of Congress to pass a healthcare bill that repealed or modified the Affordable Care Act, calling into question the ability of the Trump Administration to enact other portions of its policy agenda. At the end of March, the final estimate of fourth quarter GDP growth came in at 2.1%, an upward revision that beat consensus estimates.

Implied volatility, as measured by the Chicago Board Options Exchange Volatility Index® (the VIX®), averaged 11.69 for the quarter, exceeding S&P 500® Index realized volatility (as measured by its annualized standard deviation of daily returns) of 6.84%. The VIX® oscillated in a narrow range throughout the quarter with a low of 10.58 and a high of 13.12.



Datasource: Bloomberg, L.P.

Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results.

The Chicago Board Options Exchange S&P 500® BuyWrite Index (the BXM℠ [1]), had a return of 4.01% for the first quarter. The premiums collected when the BXM's℠ new index call options were sold on the third Friday of each month (as the previous months' index call options expired) significantly influenced the relative return of the BXM℠ over the course of the quarter. Premiums collected as a percentage of the BXM's℠ underlying value were 0.85%, 0.89% and 0.92% for January, February and March, respectively. The premiums received were consistent with the low volatility environment that persisted throughout the quarter. Despite this environment, the BXM℠ outperformed the S&P 500® Index in January and March. With monthly returns of 2.22%, 1.39% and 0.36% for January, February and March, respectively, the BXM's℠ overall underperformance relative to the S&P 500® Index for the quarter was primarily due to call premium earned in February being insufficient to keep pace with the equity market's rapid mid-quarter advance. The BXM℠ was able to provide downside protection during the equity market's decline in March, losing only 87 bps, thus outperforming the S&P 500® Index by 129 bps.

[1] The CBOE® S&P 500 BuyWrite℠ Index (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.

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FIXED INCOME MARKET

The Bloomberg Barclays U.S. Aggregate Bond Index returned 0.82% for the first quarter. The yield on the 10-year U.S. Treasury Note ended 2016 at 2.44% and ended the first quarter at 2.39%. The bellwether interest rate reached a low of 2.31% on February 24th before climbing to a high of 2.63% on March 13th, its highest level since mid-2014.

COMPOSITE PERFORMANCE

The Gateway Active Index-Option Overwrite Composite (net of fees) (the Composite) returned 3.74% for the first quarter, underperforming the BXM℠ by 27 bps. With monthly net returns of 1.37%, 1.56% and 0.77%, the Composite outperformed the BXM℠ in February and March but underperformed by 85 bps in January, resulting in overall underperformance for the quarter. The Composite's underperformance in January was primarily due to the BXM's℠ index call option having a higher strike price than the weighted average strike price of the Composite's call option portfolio at the beginning of the month, which resulted in the BXM℠ having more market exposure and, therefore, more participation in the market's advance over the first half of the month.

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.*

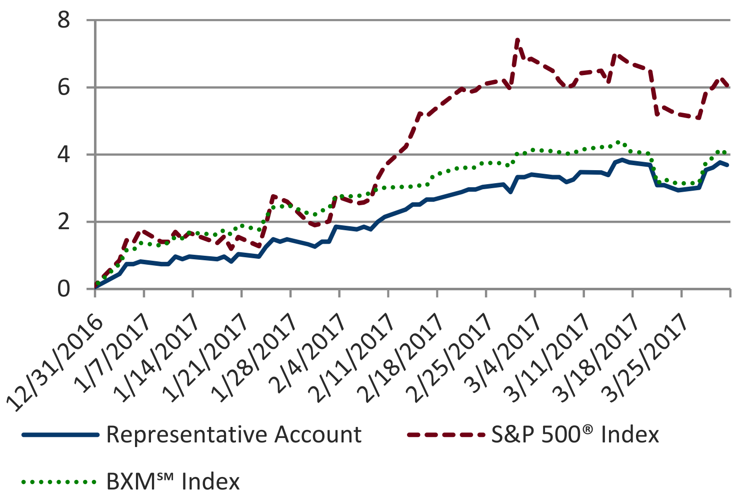
For the first quarter, the Composite's underlying equity portfolio contributed a total return of 6.27%, resulting in a positive performance differential of 20 bps relative to the S&P 500® Index. Although the Composite's index call option portfolio generated risk-reducing cash flow throughout the quarter, it detracted from returns in January and February primarily due to call premiums earned in January and February being insufficient to keep pace with the equity market's rapid mid-quarter advance. Index call options added to the Composite's return in March. The Composite's annualized standard deviation of daily returns for the quarter was 2.89% as compared to 3.49% for the BXM℠ and 6.84% for the S&P 500® Index. The Composite exhibited a beta to the BXM℠ of 0.71 for the quarter.

*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 activity during the quarter focused on increasing the weighted-average strike price of the portfolios within the Composite as the market advanced while keeping weighted-average time to expiration relatively extended. Certain longer-dated contracts offered more attractive protection in the event of a market reversal than shorter-term contracts due to their higher-dollar premiums and lower market sensitivity.

As of March 31st, the Composite's diversified equity portfolios were 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 29 days and annualized premium to earn of 5% to 7.5%. Relative to the beginning of the quarter, this positioning represented increased market exposure and lower net cashflow potential.

Cumulative Performance (%)
(12/31/16 - 3/31/17)



Datasource: Bloomberg, L.P.

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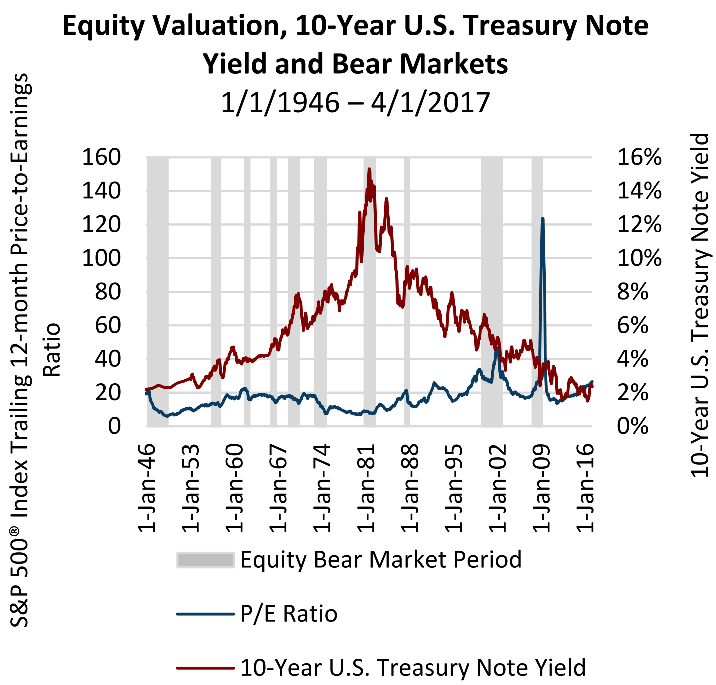
MARKET PERSPECTIVE

Despite high equity market valuations, cautious long-term investors should consider the possibility that equity investments may still outperform fixed income investments over their investment horizons. Although elevated equity valuations have persisted in the market landscape over the last 20 years, the current combination of very low bond yields and very high equity market valuations is historically rare. The last time interest rates were similarly low and equity market valuations were similarly high was the early 1960s. On January 1st, 1961, the yield on the 10-year U.S. Treasury Note stood at 3.84% while the trailing 12-month price-to-earnings ratio (P/E) on the S&P 500® Index was 18.60 and climbed to a high of 22.64 by November of that year.

Those figures compare to a yield of 2.35% and P/E of 26.48 at the end of the first quarter of 2017.

Investors looking for lessons from the early 1960s will find a mix of good and bad news. Economic growth was above average. Corporate earnings were above average and outpaced the market's return, which was below average. The S&P 500® Index had a cumulative total return of 38.24% (5.54% annualized) from December 31st, 1960 to December 31st 1966 while the cumulative growth of S&P 500® Index earnings was 53.72% (7.43% annualized). The high market valuation at the beginning of the period was a signal that significant earnings growth was already priced into the market. But the below average market return wasn't the only evidence that earnings growth did not meet expectations—there were also two bear markets in the six-year span.[2] Remarkably, despite below average returns and two bear markets, investors who remained in the equity market from 1961 through 1966 fared better than intermediate government bond investors who earned an annualized return of just 3.12% as the yield on the 10-year U.S. Treasury Note climbed from 3.84% in January 1961 to a high of 5.16% in November 1966.



Datasource: Multpl.com for P/E and yield, Bloomberg, L.P. for bear market periods

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[2] From December 12th, 1961 to June 26th, 1962 the S&P 500® Index lost 27.97% and from February 9th to October 7th, 1966 the S&P 500® Index lost 22.18%.

Historically, bear markets materialized in 1946, 1961 and 1987[3] – soon after the trailing 12-month P/E ratio on the S&P 500® Index climbed above 20. At other times, however, high equity valuations were normalized through earnings growth rather than deep market declines. The early 1990s was one such time, when earnings growth was sufficient to catch up to the market price and significant downside volatility was avoided.

Specifically, from December 31st, 1991 through December 31st 1994, S&P 500® Index earnings grew more than 20% annualized. The trailing 12-month P/E began the period at 15.35, climbed above 20 by mid-1991 and stayed above that threshold until the first quarter of 1994. Due in part to the market's high starting valuation, however, the annualized total return of the S&P 500® Index was only 6.25% over that three-year period. Despite this below average return, robust earnings growth appeared to have contributed to keeping significant downside volatility out of the market. The worst peak-to-trough decline in the S&P 500® Index over this period was a drawdown of 8.47% from February 2nd to April 4th, 1994.

Interestingly, earnings growth forecasts for 2017 are similar to the earnings growth rate of the early 1990s. Consensus bottom-up estimates as of March 23rd for S&P 500® Index operating profits are currently about $130, an increase of more than 20% over S&P 500® Index operating earnings as of December 31st, 2016. Earnings growth and market action of the early 1990s suggest S&P 500® Index companies may need to sustain that level of earnings growth for more than one year if equity investors are to avoid a significant downside event. Optimistic equity investors may want to temper their outlook with the possibility that robust earnings growth going forward may only serve to keep downside volatility out of the market, rather than drive average to above-average equity market returns.

It is also worth noting that, despite higher yields on investment grade bonds relative to today and the 1960s, the stock market still performed better than the bond market from 1991 through 1994. The Bloomberg Barclays U.S. Aggregate Bond Index returned just 4.60% annualized over the three-year period, underperforming stocks by more than 1.5% per year on average. This happened despite the 10-year U.S. Treasury Note yielding over 8% at the beginning of 1991 and total-return boosting rate declines over the next two years. Rising rates during 1994 drove losses in the bond market that erased a portion of the gains generated in the first two years of the period.

[3] S&P 500® Index bear market returns and dates: May 29th, 1946 to June 13th, 1949: -29.61%, August 25th, 1987 to December 4th, 1987: -33.51%, See Note 1 for bear market returns in 1961 and 1966.

Analyzing equity and bond market returns in these high valuation periods illustrate that while high market valuations don't always presage bear markets, neither does above average earnings growth always result in above average equity market returns. This is especially true when high valuations are an indicator of priced-in future earnings growth. Moreover, bear markets can occur even during a period of expanding earnings. The early to mid-1960s period shows that, perhaps surprisingly, equities can outperform bonds over multi-year periods even when equity market returns are below average and the period includes a bear market. Low and/or rising bond yields can be a key contributor to such outcomes.

Long-term investors face an asset allocation conundrum over high equity market valuations and the possibility that interest rates may soon rise. Namely, exposure to equity market risk may not be rewarded with typical equity market returns, and an overweight position in bonds could mean sacrificing long-term equity returns. Realizing this conundrum is only a small step toward solving it.

Long-term investors may benefit from seeking approaches beyond just blending traditional asset classes to achieve the optimal middle ground between stocks and bonds. Adding equity correlated investments that combine reliable downside protection and greater long-term return potential than bonds may be particularly beneficial.

Standard Performance

Average Annual Performance					
As of March 31, 2017					
	One Year	**Three Years**	**Five Years**	**Return Since Inception***	**Risk** Since Inception***
Active Index-Option Overwrite (Net)	13.41%	7.90%	8.96%	6.72%	10.12%
BXM℠ Index	12.20%	6.52%	7.04%	4.89%	11.72%
S&P 500® Index	17.17%	10.37%	13.30%	9.01%	15.63%

*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 Direct℠ 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 Gross	Composite Net	S&P 500®	BXM℠ Index	Composite 3-Year Std. Dev.	S&P 500® 3-Year Std. Dev.	BXM℠ Index 3-Year Std. Dev.	Number of Composite Accounts	Composite Assets (millions)	Firm Assets (millions)
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
2016	9.10	8.74	11.96	7.07	5.83	10.74	6.68	4	2,627	11,601

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 BuyWrite℠ Index (the BXM℠ Index), a passive total return index designed to track the performance of a hypothetical buy-write strategy on the S&P 500® Index. The BXM℠ 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. The annual Composite dispersion, if applicable, is an asset-weighted standard deviation calculated for the accounts in the Composite the entire year.

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 December 31, 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 December 31, 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.