

## EQUITY MARKETS

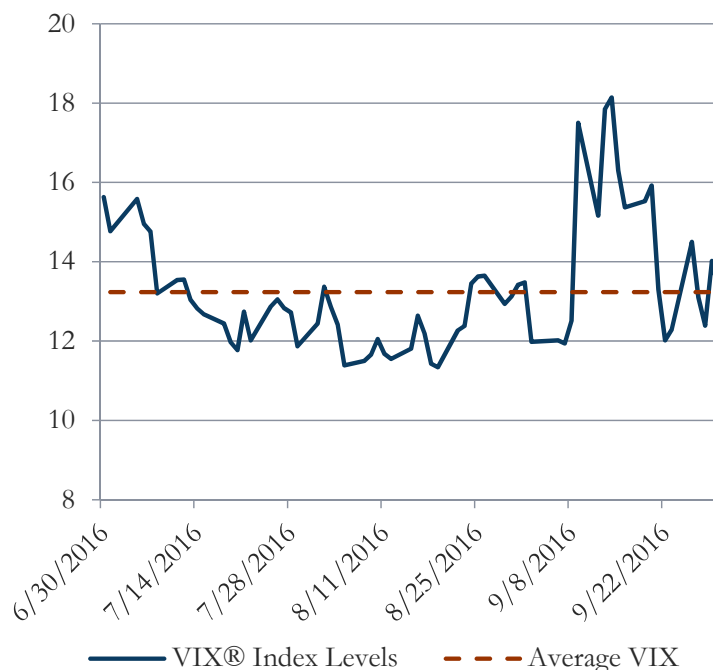
The S&P 500® Index gained 3.85% for the third quarter, bringing its year-to-date return to 7.84%. The month of July delivered most of the market's return for the quarter with an advance of 3.69% followed by returns of 0.14% and 0.02% for August and September, respectively.

The quarter began with surprisingly calm equity market conditions given the volatility related to the Brexit vote at the end of June. However, the market made a sharp advance after June payroll data was released on July 8<sup>th</sup>. From the market open on July 8<sup>th</sup> through July 15<sup>th</sup>, the S&P 500® Index returned 3.06%. From that point, the market made a more modest advance accompanied by very little realized volatility as the S&P 500® Index returned 1.47% from July 15<sup>th</sup> through September 7<sup>th</sup>. The only significant downside for the quarter materialized with a 2.71% decline from September 7<sup>th</sup> through September 14<sup>th</sup>, followed by a partial recovery through quarter-end.

Though over 70% of the 497 S&P 500® Index companies that reported earnings after June 30, 2016 exceeded analysts' estimates, aggregate operating earnings declined by 9.35% year-over-year for the period ended June 30, 2016, the sixth consecutive quarter of year-over-year operating earnings decline. The final estimate of second quarter 2016 GDP growth was revised from 1.1% to 1.4%, which exceeded analysts' consensus estimates.

Implied volatility, as measured by the Chicago Board Options Exchange Volatility Index® (the VIX®), averaged 13.23 for the quarter, exceeding S&P 500® Index realized volatility (as measured by its annualized standard deviation of daily returns) of 9.97%. The VIX® declined from 15.63 at the end of the second quarter to a post-Brexit low of 11.34 on August 19<sup>th</sup> before rising to a third quarter closing high of 18.14 on September 14<sup>th</sup>. The VIX® ended the quarter at 13.29.

## VIX® Levels



Datasource: Bloomberg, L.P.

## FIXED INCOME MARKET

The Barclays U.S. Aggregate Bond Index returned 0.46% for the second quarter, bringing its year-to-date return to 5.80%. The yield on the 10-year U.S. Treasury Note ended the second quarter at 1.47% and then declined to an all-time low of 1.36% on July 8<sup>th</sup> before rising to a high for the quarter of 1.73% on September 13<sup>th</sup>. The rate declined slightly as the equity market softened and ended the third quarter at 1.60%.

## GATEWAY INDEX/RA COMPOSITE PERFORMANCE

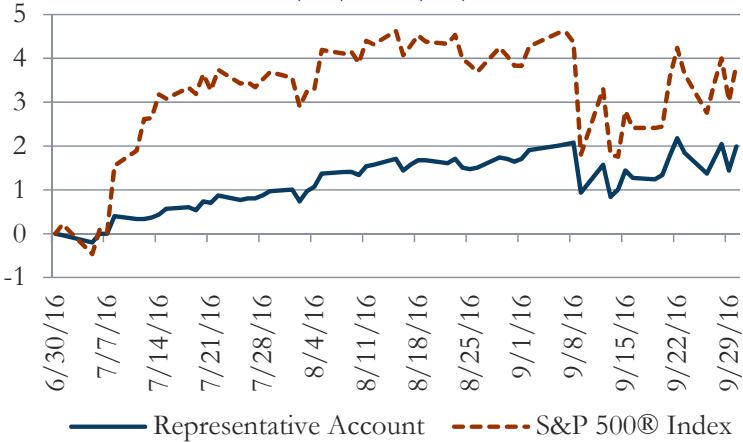
The Gateway Index/RA Composite (net of fees) (the Composite) returned 1.96% for the third quarter, underperforming the S&P 500® Index by 189 basis points (bps) and bringing its year-to-date return to 3.31%.

**GATEWAY INDEX/RA COMPOSITE  
PERFORMANCE (Continued)**

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.\*

**Cumulative Performance (%)**

6/30/16 - 9/30/16



Datasource: Bloomberg, L.P.

The Composite underperformed the S&P 500® Index in July by 272 bps while outperforming the Index by a cumulative 84 bps in August and September. July's underperformance was consistent with a sharp equity market advance in a below average volatility environment. August through September outperformance was consistent with expectations in a generally sideways market with low volatility. By way of illustration, during the modest market decline from September 7th through September 14th, the Composite outperformed the S&P 500 Index by 169 basis points.

For the third quarter, the Composite's underlying equity portfolio contributed a total return of 4.22% to its overall performance, resulting in a positive performance differential of 37 bps relative to the S&P 500® Index. The Composite's index call option portfolio detracted from returns in July but contributed positively in August and September. Index put options detracted from returns in all three months of the quarter, an expected result in a quarter that did not include any significant market declines. The Composite's annualized standard deviation of daily returns for the quarter was 4.36% as compared to 9.97% for the S&P 500® Index. The Composite exhibited a beta to the S&P 500® Index of 0.41 for the quarter.

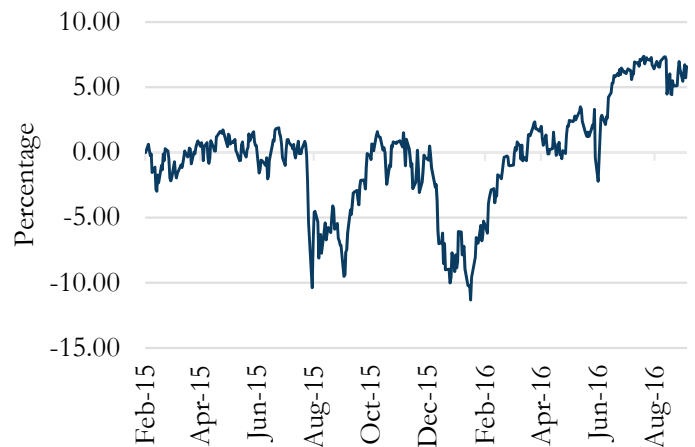
\*Represents supplemental information to the GIPS-compliant presentation. This representative account was selected as it is the largest account in the Composite.

**MARKET PERSPECTIVE**

Was the paltry 1.95% annualized rate of return the S&P 500® Index generated from February 2015 through June 2016 the pause this seven-and-a-half-year-old bull market needed to gear up for its next big advance? Or was the recovery from the selloff at the start of 2016 the last gasp of a market that has been fighting several quarters of sluggish economic growth, declining earnings and the prospect of rising interest rates? As of quarter end, despite a rally of over 20% since the year-to-date low on February 11<sup>th</sup>, 2016, the S&P 500® Index has generated a cumulative return of only 6.57% since the end of February 2015. The strong equity market rally earlier in 2016, after a period of generally sideways movement that included two double-digit corrections, has many investors scratching their heads.

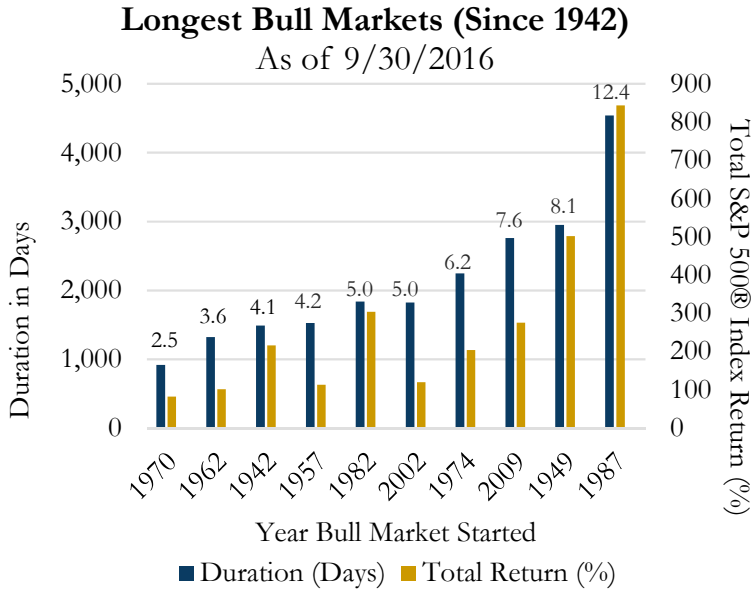
**S&P 500® Index Cumulative Return**

2/27/15-9/30/16



Datasource: Bloomberg, L.P.

Short-term return patterns may not be the best gauge of a nearing market peak, but with bond yields rising from historic lows, investors may find cause for concern in multiple components of their portfolios. Taking a longer term view, the chart below shows that the current bull market, which began in 2009, is about six months away from becoming the second longest bull market since 1942. However, despite the current bull market's duration, its 276% cumulative total return only ranks fourth among all recorded bull market returns and a doubling of its return would still place it well short of the highest-returning bull market in history.



An aging bull market along with a strong short-term rally after a period of economic headwinds and muted returns may be a combination that tempts some investors to sell equities and increase cash allocations. Doing so may protect these investors from the next correction or bear market. But it may also cause these same investors to miss out on a possible next phase of this bull market, which could be significant yet still not result in an unprecedented outcome in terms of duration or cumulative total return. The timing of the next market downturn is as uncertain as its occurrence inevitable. We firmly believe it is best to stick with a consistent and sound investing strategy through all phases of the equity market’s cycles. This has been our investment philosophy at Gateway for almost 40 years, a long history of utilizing low-volatility equity strategies to seek favorable risk-adjusted performance.

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# Standard Performance

Average Annual Performance							Risk** Since Inception*
As of September 30, 2016							
	1 Year	3 Years	5 Years	10 Years	20 Years	Return Since Inception*	
Index/RA (Net)	6.19%	4.33%	5.67%	3.25%	5.08%	7.19%	6.35%
S&P 500® Index	15.43%	11.16%	16.37%	7.24%	7.91%	10.28%	14.30%
Barclays U.S. Aggregate Bond Index	5.19%	4.03%	3.08%	4.79%	5.60%	6.63%	3.75%

\*Inception of Gateway Index/RA Composite is January 1, 1988

\*\* Standard deviation is based on monthly performance

Periods over one year are annualized.

Datasource: Morningstar Direct<sup>SM</sup> and Gateway Investment Advisers, LLC

Past performance is no guarantee of future results.

For important disclosures, please refer to page 5.

# GATEWAY INVESTMENT ADVISERS, LLC

## GATEWAY INDEX/RA COMPOSITE

### ANNUAL DISCLOSURE PRESENTATION

Year End	Annual Performance Results				Composite 3-Year Std. Dev	S&P 500® 3-Year Std. Dev	BBg Barclays 3-Year Std. Dev	Number of Composite Accounts	Composite Dispersion	Composite Assets (millions)	Firm Assets (millions)
	Composite		S&P 500®	Bloomberg Barclays Aggregate							
	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

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.

**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 Gateway Index/RA Composite was created 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 Barclays 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). Prior to April 2008, the Lehman Brothers U. S. Intermediate Government/Credit Bond Index was utilized for comparison. The bond index change was made as the Bloomberg Barclays U. S. Aggregate Bond Index is widely viewed as more broadly representative of the fixed income markets and was considered to be more in line with the historical volatility associated with the Composite's investment strategy.

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 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 June 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 Index/RA Composite has been examined for the periods January 1, 1993 through June 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.