Active Index-Option Overwrite Composite Commentary

Q4 2018

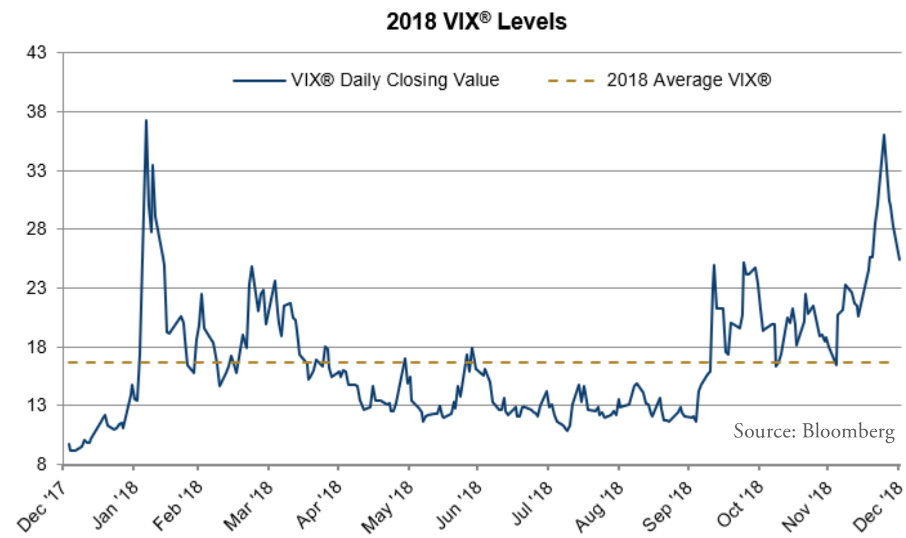
Market Recap

The S&P 500® Index returned -13.52% for the fourth quarter of 2018, resulting in a return of -4.38% for the year. The equity markets proved to be increasingly volatile throughout the quarter with the S&P 500® Index returning -6.84%, 2.04% and -9.03% for October, November and December, respectively.

The fourth quarter loss was a continuation of an equity market decline that began after the S&P 500® Index reached an all-time high in late September. The market fell persistently throughout October as investors processed concerns around trade, transitioning political leadership in Europe and geopolitical tensions in the Middle East and Central America. The decline was steady, with October 10 and October 24 standing out as the S&P 500® Index declined over 3% both days. November's gain did not come without drama. Aforementioned concerns compounded with downward revisions of earnings growth estimates, a sharp drop in the price of oil and concern that the Federal Reserve (Fed) may go too far in tightening monetary policy, drove the market to a decline of 6.29% from November 7 through November 23. Equity markets then rallied 6.06% from that point through December 3 on dovish rhetoric from Fed officials before resuming its decline with increased ferocity. By Christmas Eve, the S&P 500® Index approached bear territory, dropping a total of 19.37% from its September 20 high, before rallying 6.67% through the close of the year.

Despite these market declines and concerns of an economic slowdown, the domestic backdrop remained relatively positive throughout the fourth quarter. The 3.7% unemployment rate held steady in October and November, consistent with the Q3 close. With tightening employment conditions and a confident consumer, the November year-over-year change for the Consumer Price Index was 2.2%, in line with the Fed's 2% target. Despite large-scale damage from hurricanes and wildfires, the economy expanded, and corporate earnings grew in Q3. On December 21, the third estimate of Q3 GDP growth came in at 3.4%. The revision was a slight downgrade from the 3.5% second estimate and a slowing from the impressive Q2 GDP growth of 4.2%. Aggregate operating earnings for S&P 500® Index companies grew 7.2% in Q3, 26.9% for the year, with nearly 85% of companies meeting or exceeding analyst estimates.

The tumultuous fourth quarter served as a bookend to match the volatility of the first quarter. The year began with a continuation of 2017's record-low volatility and a spectacular market advance. The S&P 500® Index returned 7.55% through January 26, but the remainder of the first quarter gave investors a taste of how the year would end. Concerns about rising interest rates drove an abrupt change in equity markets and the S&P 500® Index lost 10.10% from January 26 through February 8. A significant portion of the decline occurred on Monday, February 5 when the S&P 500® Index lost 4.10% and volatility measures spiked to levels not seen since August of 2015. From its closing value on February 8 through March 9, the equity market staged a partial recovery that stalled out as fears of a trade war grew while technology stocks slumped. The S&P 500® Index finished the first quarter with a return of -0.76%. Strong earnings growth helped propel the equity market to a steady advance that spanned the second and third quarters as volatility returned to below-average levels. The S&P 500® Index returned 11.41% from March 31 through September 30.



Despite a first quarter equity market correction and a near bear market low at the fourth quarter, implied volatility levels were relatively subdued for most of the year. The Cboe® Volatility Index® (the VIX®) averaged 16.64 in 2018, below its long-term average of 19.27. In a reversal of the normal relationship, implied volatility was lower than realized volatility, as measured by the annualized standard deviation of daily returns for the S&P 500® Index, which came in at 17.06% for the year. On a monthly average basis, there were just two months, February and December, when VIX® registered above-average readings, coming in at 22.46 and 24.95 for each month, respectively. The 2018 closing low for the VIX® came in early January when it dipped to 9.15 while the sharp equity market correction in the first quarter drove the VIX® to its 2018 closing high of 37.32 in early February. The implied volatility response to the larger equity market decline in the fourth quarter was remarkably muted. The measure did not break above 30 in the fourth quarter until the equity market began approaching bear market territory in late December. Specifically, the VIX® breached 30 on December 21 and reached a fourth quarter high of 36.07 on December 24. The VIX® averaged 21.05 for the fourth quarter, the only quarter of the year that the VIX® averaged over 20. As was the case for the year, the relationship between implied and realized volatility was atypical as realized volatility came in at 23.76% for the fourth quarter.

The Chicago Board Options Exchange (Cboe®) S&P 500 BuyWrite℠ Index[1] (the BXM℠) had a return of -10.81% for the fourth quarter, outperforming the S&P 500® Index by 271 basis points (bps). On the third Friday of each month of the quarter, the BXM℠ wrote a new index call option as the option it wrote the previous month expired. The premiums the BXM℠ collected on written options had significant influence on mitigating the sharp equity market declines of October and December and on its upside participation during the partial equity market recovery from late November to early December. Premiums collected as a percentage of the BXM's℠ underlying value were 1.40%, 1.99% and 1.97% in October, November and December, respectively. With monthly returns of -5.46%, 2.24% and -7.73%, the BXM℠ outperformed the S&P 500® Index in each month of the quarter, with the largest differentials occurring in October and December. Premiums collected by the BXM℠ were consistent with the elevated and upwardly trending volatility levels present in the fourth quarter.

In addition to delivering some downside protection during the fourth quarter, the BXM℠ also had a smaller loss than the S&P 500® Index during the 10.10% correction from January 26 through February 8 of 2018 when it returned -7.72%. Despite its consistent intra-year delivery of downside protection, ultimately the BXM's℠ 2018 return of -4.77% was a larger loss than the S&P 500® Index return of -4.38%. This was primarily due to the BXM's lagging performance from the beginning of the year through January 26 when the S&P 500® Index returned 7.55% while the BXM℠ underperformed by 609 bps with a return of 1.46%. Over the remainder of the year, the BXM℠ recovered nearly all of its underperformance resulting from the sharp January advance with low volatility. More specifically, from January 26 through year-end, the BXM℠ returned -6.14%, outperforming the -11.10% return of the S&P 500® Index by 496 bps. Volatility levels during the market advance of the second and third quarters were persistently below the long-term average VIX® level but were meaningfully higher than levels present during the January advance. Higher volatility levels resulted in the BXM℠ collecting higher monthly premiums for writing its index call options, thus the BXM℠ had better participation as the market advanced at a slower rate than the beginning of the year. During the second quarter, the BXM℠ had nearly full market participation with a return of 3.39% compared to 3.43% for the S&P 500® Index and, during the third quarter, the BXM℠ returned 4.91% while the S&P 500® Index returned 7.71%.

The Bloomberg Barclays U.S. Aggregate Bond Index (the Aggregate) returned 1.64% for the fourth quarter, bringing its year-to-date return to 0.01%. The yield on the 10-year U.S. Treasury Note (the 10-year) ended the third quarter at 3.06% and rose to a fourth quarter high of 3.24% on November 8 before falling to end the year at 2.69%. Over 2018, the yield on the 10-year generally climbed as the Fed followed through with its commitment to normalize monetary policy. A flattening yield curve, however, added to investor concerns as the spread between the 2- and 10-year U.S. Treasury Notes narrowed from an intra-year high of 78 bps on February 12 to the intra-year low of 11 bps on December 19. As expectations of future Fed actions turned less hawkish, spreads widened to 20 bps by the end of the year.

Gateway Active Index-Option Overwrite Composite Performance

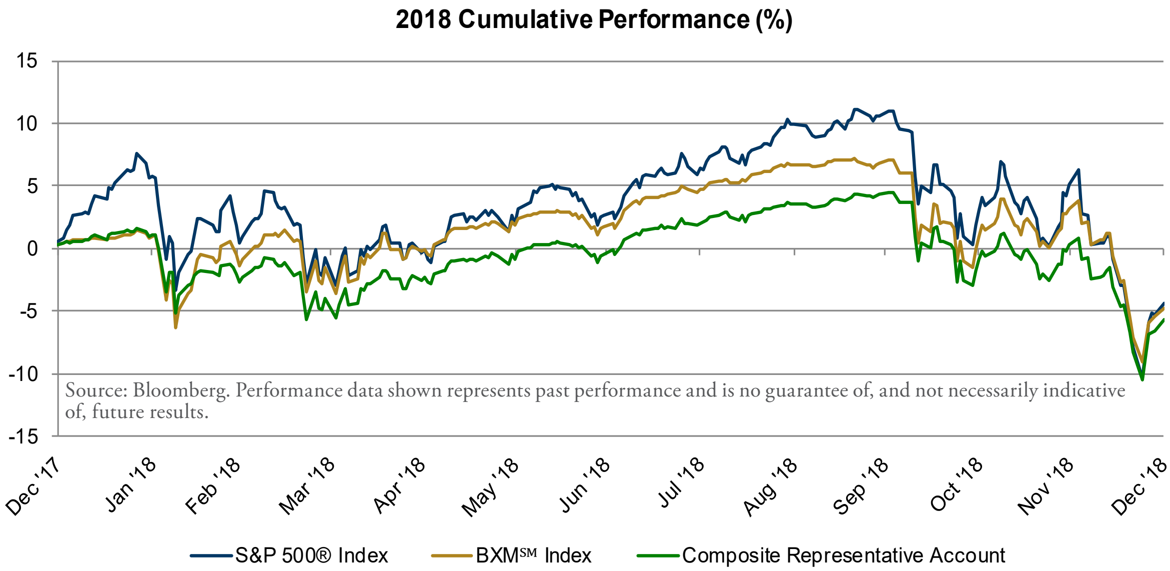
The Gateway Active Index-Option Overwrite Composite (the Composite) returned -9.53% for the fourth quarter, outperforming the BXM℠ by 128 bps and delivering 399 bps of downside protection relative to the S&P 500® Index. With monthly returns of -5.01%, 1.40% and -6.07% for October, November and December, respectively, the Composite delivered better downside protection than the BXM℠ in October and December but underperformed in November.

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.[2]

The Composite's underlying equity portfolio contributed a total return of -13.19% in the fourth quarter, resulting in a positive performance differential of 33 bps relative to the S&P 500® Index. Throughout the dynamic market environment of the fourth quarter, Gateway's investment team was focused on adjustments to the index call option portfolio that increased potential cash flow while guarding the portfolio against the potential adverse effects of sharp market reversals.

The Composite's annualized standard deviation of daily returns for the quarter was 18.24% as compared to 19.15% for the BXM℠ and 23.76% for the S&P 500® Index. The Composite exhibited a beta to the BXM℠ of 0.94 for the quarter.

The Composite's fourth quarter return resulted in an overall 2018 return of -5.71%, 94 bps lower than the return of the BXM℠. The Composite's underperformance relative to the BXM℠ for the year was ultimately due to the Composite's lower first quarter return of -3.91% while the BXM℠ returned -1.56%. Within the first quarter, the Composite outperformed the BXM℠ during the January market advance and delivered better downside protection relative to the BXM℠ during the first quarter equity market correction. More specifically, from the beginning of the year through February 8, the Composite had a return of -5.09% while the BXM℠ had a lower return of -6.37%. However, this market correction resulted in the Composite and the BXM℠ having different amounts of market exposure over the remainder of the first quarter. The static approach of the BXM℠ resulted in its written index call option being very far out-of-the money when the equity market began its recovery, thus giving the BXM℠ nearly full market exposure, while the Composite's active approach had gradually lowered the strike prices of its diversified portfolio of written call options as the market declined. This resulted in the Composite having less market exposure than the BXM℠ when the market began its recovery and thus less participation in the market advance. Specifically, from February 8 through quarter-end, the Composite returned 1.24% while the BXM℠ returned 5.14%. The Composite's 8.56% return outpaced the 8.47% return of the BXM℠ over the course of the second and third quarters.



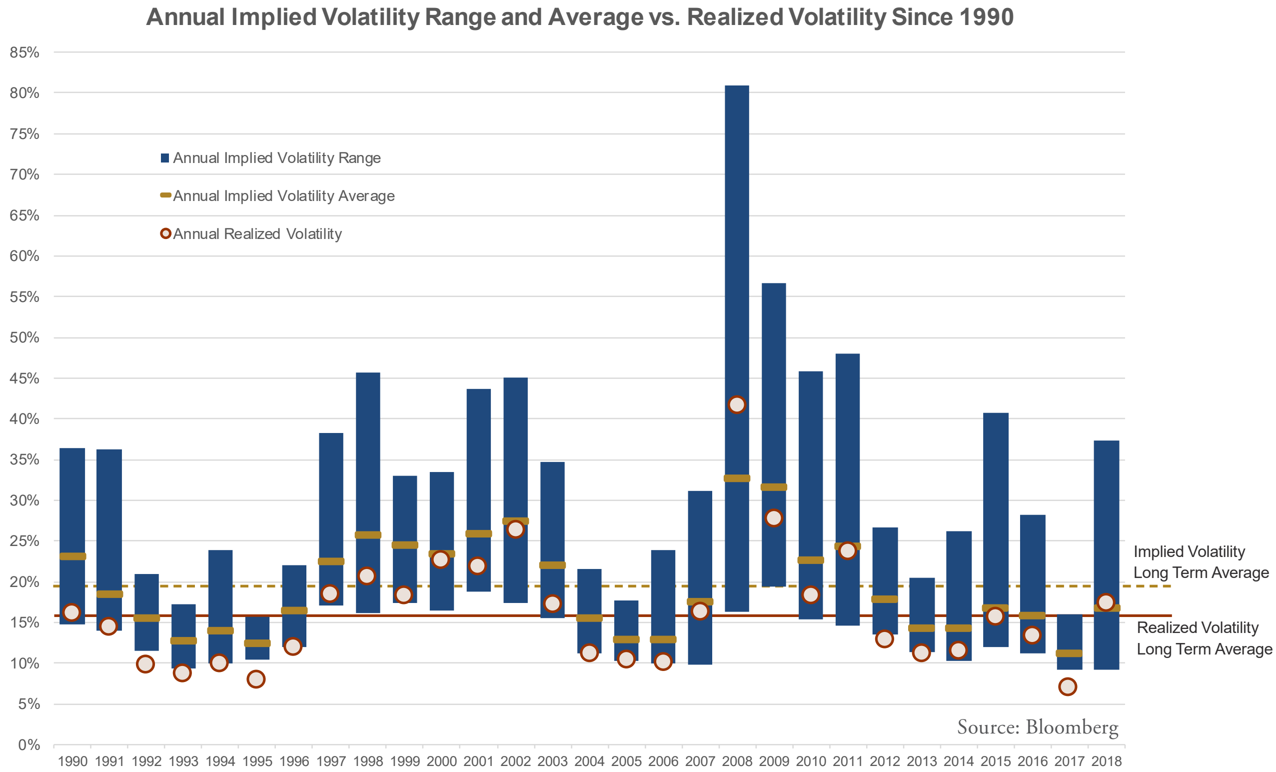
As of December 31, the Composite's diversified equity portfolio was over 95% hedged with index call options with the weighted-average strike price between 1.5% in-the-money and 1.5% out-of-the-money, average time to expiration of 27 days and annualized premium to earn of 20% to 25%. Relative to the beginning of the quarter, this positioning represented slightly higher market exposure and significantly higher net cash flow potential.

Market Perspective

The S&P 500® Index faced the bear in 2018 with a 19.37% peak-to-trough decline, ranking fifth among the largest intra-year declines of the last 30 years. However, in looking at measures of equity market volatility, the year 2018 was not exactly extreme. The following chart shows that 2018 averages for implied and realized volatility were below long-term averages.

The 2018 VIX® high of 37.32 more than doubled 2017's high but ranks just 10th among the annual highs of the last 30 years. Interestingly, the high in 2018 coincided with the 10.10% correction of the S&P 500® Index during the first quarter, rather than during the larger fourth quarter drawdown when the VIX® peaked at 36.07. The years 1997, 1998, 2010, 2011 and 2015 had higher annual VIX® highs than 2018, despite the S&P 500® Index delivering shallower drawdowns.

In the five years between 1990 and 2017 that featured S&P 500® Index drawdowns between 15% and 20% (1990, 1998, 2000, 2010 and 2011), each featured at least two quarters when the VIX® averaged 24 or higher and all but the years 1990 and 2000 featured a VIX® closing high that was higher than that of 2018.



The muted response of the bond market was also notable. When equities experience steep declines, the bond market typically experiences a rally in high quality bonds while U.S. Treasury yields decline. That occurred over the 2018 equity market drawdown period of September 20 through December 24, during which the yield on the 10-year U.S. Treasury Note declined 32 bps to 2.74%, while the Aggregate returned 1.61%. However, the 2018 bond market response pales in comparison to the two other S&P 500® Index drawdowns of more than 15% that have occurred during the current bull market that began in March 2009. Specifically, in 2010, the S&P 500® Index dropped 15.63% from April 23 through July 2 while the 10-year yield declined 83 bps to 2.98% and the Aggregate returned 3.00%. In 2011, the S&P 500® Index declined 18.64% from April 29 through October 3 while the 10-year yield declined 153 bps to 1.76% and the Aggregate returned 5.35%. In short, the larger equity market decline in 2018 elicited a fraction of the 10-year yield change with lower returns to investment grade bond holders as compared to the smaller drawdowns of 2010 and 2011.

The bond market's muted response during the 2018 equity market decline may be linked to monetary policy. The Fed's commitment to raising interest rates with a goal of normalizing monetary policy has likely reduced investor demand for low yielding, interest rate sensitive assets, given the potential for low returns in a rising rate environment. Fed policy may have also impacted bond market dynamics by turning some long-term, strategic owners of investment grade bonds into shorter-term oriented traders. In other words, strategic investors may be more inclined to sell their positions when experiencing short-term price gains that they would not otherwise receive on a hold-to-maturity basis. Realizing these gains may give such investors an opportunity to re-establish their positions at lower prices, and higher yields, after the flight-to-quality has subsided. Thus, offsetting selling pressure may dilute downward pressure on high-quality bond yields from flight-to-quality-driven upticks in demand. This selling pressure may have been less pronounced during periods of more accommodative monetary policy.

Drivers of the muted implied volatility response are more challenging to discern. One likely factor is that volumes and open interest in certain volatility-linked derivatives, such as VIX® futures contracts, have declined since the first quarter of 2018. Multiple products dedicated to selling such derivatives liquidated after the VIX® spike in early February. This spike may have been exacerbated by such volatility sellers seeking, in concert, to buy back their positions to avoid additional losses. As volatility increased in the fourth quarter, a smaller population of such market participants may have provided less long volatility demand. Additionally, as noted in our September 2018 *Market Perspective*, the Cboe® SKEW Index (SKEW) set an all-time high in August and remained elevated through the third quarter. As SKEW is a measure of index put prices relative to index call prices and, therefore, an indicator of relative demand for the two types of options, it was clear that demand for index puts was elevated. High third quarter SKEW may have implied that a meaningful portion of investors who wanted equity market downside protection had it in place prior to the drawdown. When the decline materialized, fewer investors may have scrambled to add downside protection, generating less incremental demand to drive up index put options prices and implied volatility than there may have been otherwise.

Does a muted response to equity market downside from implied volatility and bond markets provide insight on future equity market direction? Not necessarily. It is Gateway's belief that, regardless of how the markets behave as 2019 begins, several key drivers of recent volatility will likely persist. These drivers include concerns about decelerating corporate earnings growth, slowing Chinese economic growth, monetary policy and trade policy.

Gateway's investment philosophy is informed by its long history and maintains that the U.S. equity market is the most reliable source of attractive long-term returns, despite its high volatility relative to other asset classes and tendency to periodically deliver significant short-term losses. Gateway's investment philosophy also holds that consistency is key to long-term success and that generating cash flow, rather than seeking to forecast the market, can be a lower-risk means to participate in equity markets. By staying true to this philosophy and continuing to manage strategies consistent with the firm's historical approach, Gateway assists investors in managing risk while pursuing long-term returns in an uncertain environment.

Average Annual Performance (%)	1 Year	3 Years	5 Years	10 Years	Since Inception[3]	Risk[4] Since Inception
Active Index-Option Overwrite Composite (Net)	- 5.18	5.36	5.78	8.78	5.95	9.76%
S&P 500® Index	- 4.77	4.84	5.08	7.96	4.40	11.26%
Bloomberg Barclays US Aggregate Bond Index	- 4.38	9.26	8.49	13.12	8.43	15.06%

3: Inception of Gateway Active Index-Option Overwrite Composite is April 1, 2008. 4: Standard deviation is based on monthly performance.
Source: Morningstar Direct℠ and Gateway Investment Advisers, LLC. Periods over one year are annualized. Past performance is no guarantee of future results. For important disclosures, refer to the Annual Disclosure Presentation.

Important Information

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

All data as of 12.31.2018, unless noted otherwise.

For more information and access to additional insights from Gateway Investment Advisers, LLC, please visit www.gia.com/insights.

Gateway Investment Advisers, LLC (Gateway) is an independent registered adviser and a successor in interest to Gateway Investment Advisers, L.P. as of February 15, 2008. Performance information for Gateway Active Index-Option Overwrite Composite (the Composite) shown in this illustration is an asset-weighted composite of discretionary accounts under Gateway's management which share the same investment objectives and hedging strategies.

The Gateway Active Index-Option Overwrite Composite was created on April 1, 2008.

The Composite's net of fee performance results reflect the reinvestment of dividends and other earnings and reflect the deduction of investment advisory fees.

The effectiveness of Gateway's strategy might be reduced if the portfolio doesn't correlate to the performance of the index underlying its option positions. Rebalancing of a portfolio may involve tax consequences.

Selling index call options can reduce the risk of owning stocks, but limits the opportunity to profit from an increase in the market value of stocks in exchange for up-front cash at the time of selling the call option. Unusual market conditions or the lack of a ready market for any particular option at a specific time may reduce the effectiveness of the Composite's option strategy, and for these and other reasons the Composite's option strategy may not reduce the volatility to the extent desired.

Past performance is no guarantee of future results. A more detailed description of Gateway's standardized fees is included in Form ADV, Part 2.

The Annual Disclosure Presentation for the Gateway Active Index-Option Overwrite Composite is included with this document. Additional copies are available upon request by calling 513.719.1100.

Data Source: Gateway Investment Advisers, LLC and Morningstar Direct℠

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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℠ Index 3-Year Std. Dev	Number of Composite Accounts	Composite Assets (millions)	Firm Assets (millions)
	Composite Gross	Composite Net	S&P 500®	BXM℠ 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

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.

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 September30, 2018.

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, 2018. 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.