

## EQUITY MARKETS

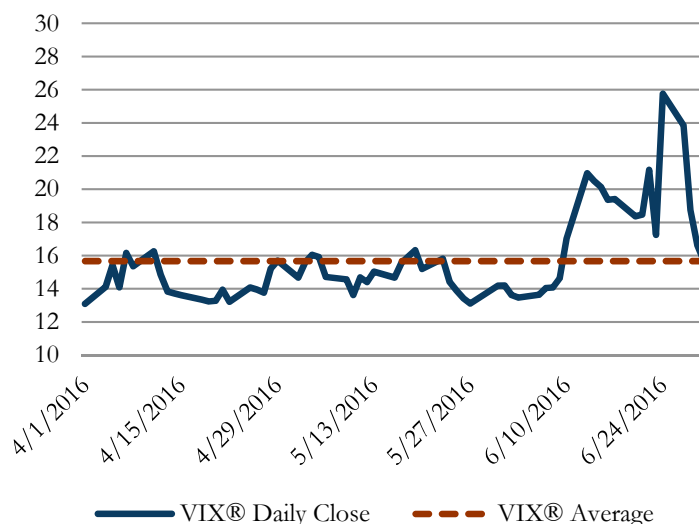
The S&P 500® Index gained 2.46% for the second quarter, bringing its year-to-date return to 3.84%. The United Kingdom (UK) referendum on whether to exit from the European Union (EU) took place on June 23<sup>rd</sup> and was a significant element of the market backdrop as the date approached. Market action was muted prior to the vote with monthly returns for the S&P 500® Index of 0.39% and 1.80% in April and May, respectively. Despite a sharp two-day selloff of 5.34% after a majority of British voters surprised the market with the decision to exit the EU, a swift recovery over the last three days of the month allowed the S&P 500® Index to eke out a gain of 0.26% for June.

The equity market traded sideways for nearly the first two months of the quarter until a strong advance was sparked on May 24<sup>th</sup>. The advance was driven by opinion polls showing a majority of Britons favored staying in the EU and by the strongest U.S. data on monthly new home sales since 2008. This propelled the S&P 500® Index to a quarter-to-date return of 3.33% through June 8<sup>th</sup>, resulting in a 16.71% advance from the 2016 market low on February 11<sup>th</sup>. From June 8<sup>th</sup> through June 27<sup>th</sup>, the S&P 500® Index declined 5.52% before nearly fully recovering with a three-day 4.95% rally to end the quarter.

Though over 72% of the 499 S&P 500® Index companies which reported earnings after March 31<sup>st</sup> exceeded analysts' estimates, aggregate operating earnings declined by 11.56% year-over-year, the fifth consecutive quarter of year-over-year operating earnings decline. The final estimate of first quarter 2016 GDP growth was revised from 0.8% to 1.1%, which exceeded analysts' consensus estimates.

Implied volatility, as measured by the Chicago Board Options Exchange Volatility Index® (the VIX®), averaged 15.68 for the quarter, exceeding S&P 500® Index realized volatility (as measured by its annualized standard deviation of daily returns) which was 13.89%. The VIX® rose from 13.10 on April 1<sup>st</sup> to a closing high of 25.76 on June 24<sup>th</sup> before declining to end the quarter at 15.63.

## VIX®



Datasource: Bloomberg, L.P.

## FIXED INCOME MARKET

The Barclays U.S. Aggregate Bond Index (the Aggregate) returned 2.21% for the second quarter, bringing its year-to-date return to 5.31%. The yield on the 10-year U.S. Treasury Note declined from 1.77% on March 31<sup>st</sup> to a low of 1.44% on June 27<sup>th</sup>, just 5 bps from its all-time low of 1.39% registered in July of 2012. The rate rose slightly as the equity market recovered and ended the quarter at 1.47%.

## GATEWAY INDEX/RA COMPOSITE PERFORMANCE

The Gateway Index/RA Composite (net of fees) (the Composite) returned 1.96% for the second quarter, underperforming the S&P 500® Index by 51 bps and bringing its year to date return to 1.31%. The Composite's lower rate of return as compared to the S&P 500® Index was mostly due to May's equity market rally. In May, the Composite underperformed the S&P 500® Index by 64 bps. The Composite and S&P 500® Index both returned 0.39% in April and the Composite outperformed the S&P 500® Index in June by 13 bps.

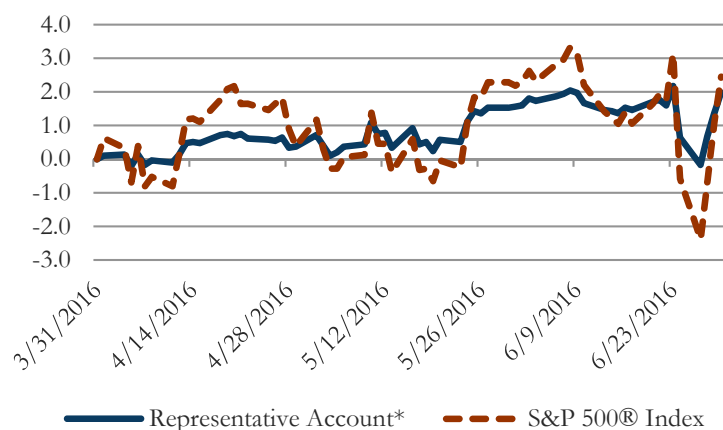
**GATEWAY INDEX/RA COMPOSITE  
PERFORMANCE (Continued)**

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.\*

The Composite provided significant participation in the market's advance from the start of the quarter through June 8<sup>th</sup>, returning 2.04% and underperforming the S&P 500<sup>®</sup> Index by 129 bps. Both the absolute and relative returns of the Composite are consistent with a moderate to strong equity market advance and below average implied volatility as was the case during this period. From June 8<sup>th</sup> through quarter-end, the Composite delivered meaningful downside protection, declining just 6 bps while the S&P 500<sup>®</sup> Index declined 84 bps.

For the second quarter, the Composite's underlying equity portfolio contributed a total return of 2.75%, resulting in a positive performance differential of 29 bps relative to the S&P 500<sup>®</sup> Index. The Composite's index call option portfolio contributed positively to returns in April and June, but detracted from return in May. Index put options detracted from returns in all three months of the quarter, consistent with expectations in a moderate to strong equity market advance with below average implied volatility. The Composite's annualized standard deviation of daily returns of 5.78% for the quarter was less than half that of the equity market when compared to 13.89% for the S&P 500<sup>®</sup> Index. The Composite exhibited a beta to the S&P 500<sup>®</sup> Index of 0.39 for the quarter.

**Cumulative Performance (%)**



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

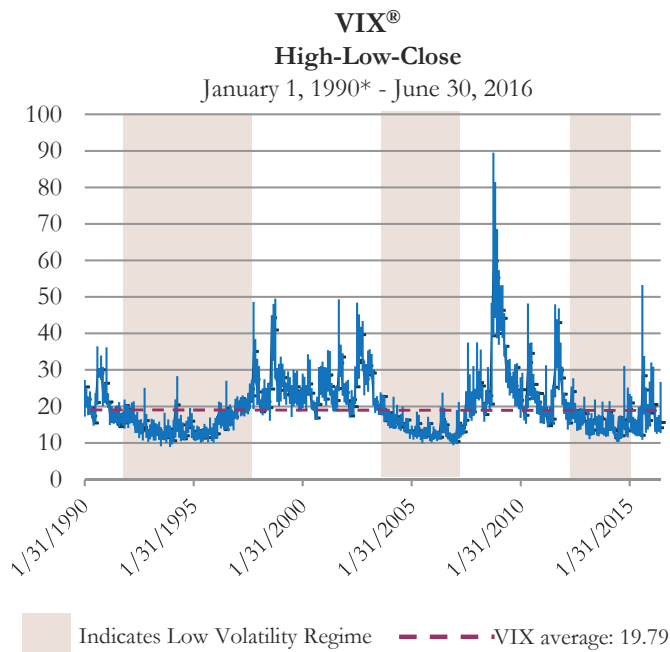
Gateway's index call option decisions in April and May focused on maintaining equity market exposure by trading select contracts well in advance of their expiration dates and raising the Composite's average strike price of its option portfolio as the market continued its advance from the market bottom in February. As the UK referendum approached in June, Gateway's index call option activity focused on taking advantage of moderately elevated implied volatility while extending time to expiration. Post-Brexit trades focused on lowering the portfolio's weighted-average strike price and taking advantage of highly elevated shorter-term implied volatility while guarding against the potential adverse impact of a sharp, short-term recovery.

In April, May and early June, the investment management team took advantage of declining implied volatility by executing several put option trades well in advance of their expiration dates in an effort to manage the cost of the Composite's put option portfolio while maintaining protection against a significant market decline in a short period of time. The selloff after the UK referendum, though sharp, did not necessitate closing out index put option positions.

As of June 30<sup>th</sup>, the Composite's diversified equity portfolio was over 95% hedged with index call options with average strike prices between 1.5% and 2.5% in-the-money, average time to expiration of 21 days and annualized premium to earn of 7.5% to 10%. The Composite ended the quarter hedged with index put options on over 95% of the notional value of its portfolio with average strike prices between 10% and 12.5% out-of-the-money, average time to expiration of 50 days and annualized cost of less than 2.5%. Relative to the beginning of the quarter, this positioning represented similar market exposure and similar net cashflow potential.

**MARKET PERSPECTIVE**

For nearly a year, Gateway Investment Advisers, LLC has held the view that the market may have transitioned to what could be a multi-year period of elevated market volatility. Gateway's view has been influenced by two key factors, the first being the historical pattern of the equity market volatility cycle. In the past, the high and low phases of the volatility cycle have lasted three to six years, with high volatility phases typically lasting longer than low volatility phases. The extreme spike in market volatility last August was another defining event in the volatility cycle.



\*January 1, 1990 is first date of available VIX data.  
Datasource: Bloomberg, L.P.

The second factor is that recent drivers of equity market volatility, such as the Federal Reserve’s monetary policy evolution, supply and demand dynamics in global energy markets and uncertainty over Chinese economic growth, are phenomena that are unlikely to be resolved in the near future and are more likely to be resolved over a timeframe measured in years.

U.K’s historic referendum on June 23<sup>rd</sup> that immediately roiled global markets with the country’s surprise decision to exit the European Union introduces another potential multi-year driver of elevated market volatility. Last month’s vote was the first decision point in what could ultimately be a lengthy series of negotiations which may generate additional decision points with uncertain outcomes. This may keep market participants anxious and markets potentially volatile.

Gateway’s investment philosophy places little value on trying to anticipate whether the UK’s decision will ultimately be good or bad for the UK or the rest of the world. Consistent with the firm’s investment approach, Gateway will not attempt to anticipate in what direction the market may move as the Brexit process unfolds.

Gateway does believe, however, that in whichever direction the market heads over the next few years, there is a distinct likelihood that it will include elevated levels of volatility and the possibility of additional volatility spikes similar to the one that occurred the day following the UK vote. Gateway’s experienced team of investment professionals have implemented the firm’s investment strategy through extended phases of volatility in the past. Gateway remains confident that sticking with the firm’s consistent approach will allow Gateway’s investors to participate should the equity market advance, while mitigating severe and sudden declines should equity market conditions deteriorate.

# Standard Performance

Average Annual Performance							Risk** Since Inception*
As of June 30, 2016							
	1 Year	3 Years	5 Years	10 Years	20 Years	Return Since Inception*	
Index/RA (Net)	1.70%	4.08%	4.24%	3.38%	5.08%	7.19%	6.37%
S&P 500® Index	3.99%	11.66%	12.10%	7.42%	7.87%	10.23%	14.35%
Barclays U.S. Aggregate Bond Index	6.00%	4.06%	3.76%	5.13%	5.67%	6.68%	3.76%

\*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	Barclays 3-Year Std. Dev	Number of Composite Accounts	Composite Dispersion	Composite Assets (millions)	Firm Assets (millions)
	Composite Gross	Composite Net	S&P 500®	Barclays Aggregate							
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 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 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 March 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 Index/RA Composite has been examined for the periods January 1, 1993 through March 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.