Gateway Index/RA Composite Commentary

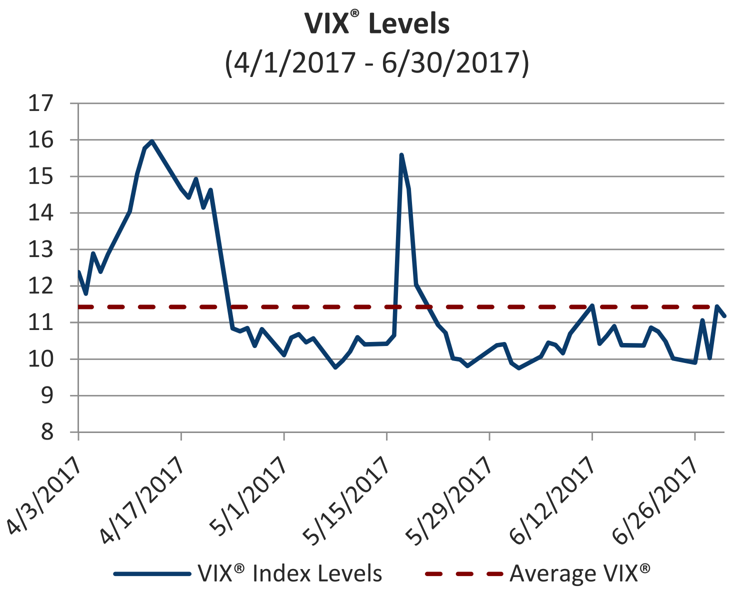
Q2 2017

EQUITY MARKETS

The S&P 500® Index gained 3.09% for the second quarter of 2017, bringing its year-to-date return to 9.34%. The equity market posted positive returns each month of the quarter with the S&P 500® Index returning 1.03%, 1.41% and 0.62% for April, May and June, respectively. The quarter began with a decline of 1.35% through April 13th. The loss was a continuation of the market decline that began in early March. From its close on March 1st through April 13th, the S&P 500® Index lost 2.58%, its largest peak-to-trough-decline of 2017. From April 13th through quarter-end, the S&P 500® Index returned 4.50%. The advance was largely steady with the only significant interruption being a one-day loss of 1.79% on May 17th. Realized volatility and implied volatility were persistently low throughout the quarter.

The market backdrop for the second quarter was generally encouraging for the broader economy and quite positive for corporate profitability. Over 81% of S&P 500® Index companies reported first quarter earnings that met or exceeded analyst estimates, and aggregate operating earnings grew 4.55% from their December 31st, 2016 level. Year-over-year, earnings grew at a rate of 12.67%, the fastest measure since the first quarter of 2011. Despite initial estimates of first quarter GDP growth coming in well short of expectations and below one percent, and inflation measures that dropped below the Federal Reserve's (the Fed) two percent target, there was little market response to the Fed's monetary policy commentary and actions. The Fed determined that economic data was strong enough to support raising the Federal Funds rate for the second time this year during their June meeting. The Fed also began discussing plans for shrinking the size of its balance sheet after nearly a decade of asset purchases. At the end of June, the final estimate of first quarter GDP growth came in at 1.4%, an upward revision that beat consensus estimates. Despite an elevated level of turmoil in Washington, D.C., the market impact of the political environment was limited. Market weakness at the beginning of the quarter was, in part, a continuation of the concern that the Trump administration's policy agenda of deregulation, tax cuts and infrastructure spending was losing momentum due to the failure of Congress to pass a healthcare bill that repealed or modified the Affordable Care Act. Similar concerns also played a part in the sharp one-day equity market decline on May 17th, as controversy around President Trump and investigations into his campaign staff's ties to Russian officials were seen as an additional impediment to his administration's legislative agenda.

Implied volatility, as measured by the Chicago Board Options Exchange Volatility Index® (the VIX®), averaged 11.43 for the quarter, the second lowest quarterly average over its 110-quarter history which began in 1990. Implied volatility exceeded S&P 500® Index realized volatility (as measured by its annualized standard deviation of daily returns) of 7.45% for the quarter. On June 2nd, the VIX® closed at 9.75, its closing low for the quarter and its lowest close since December 1993. The VIX® has closed below 10 just 16 times since 1990, but seven of those instances occurred in the most recent quarter. The closing high for the VIX® during the quarter was 15.96 on April 13th.



Datasource: Bloomberg, L.P.

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

FIXED INCOME MARKET

The Bloomberg Barclays U.S. Aggregate Bond Index returned 1.45% for the second quarter, bringing its year-to-date return to 2.27%. The yield on the 10-year U.S. Treasury Note ended the first quarter at 2.39% and climbed to a second quarter high of 2.41% on May 10th before declining to a second quarter low of 2.13% on June 14th and then rising again to end the quarter at 2.30%.

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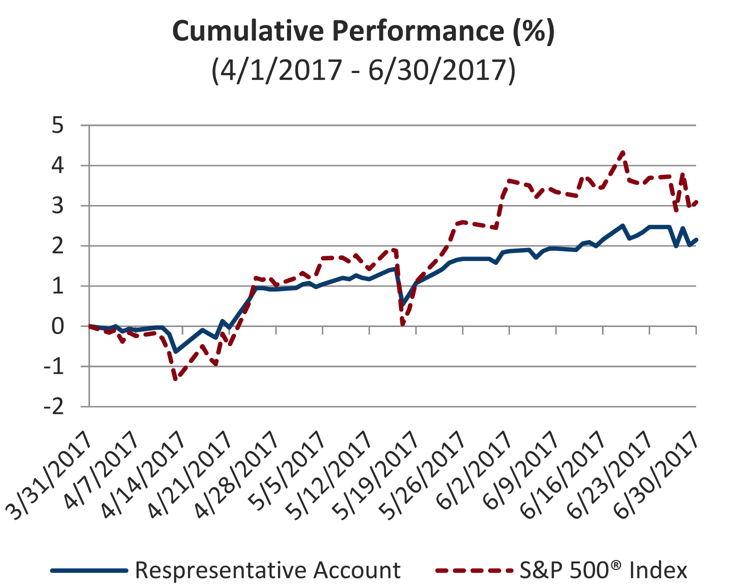
COMPOSITE PERFORMANCE

The Gateway Index/RA Composite (net of fees) (the Composite) returned 2.22% for the second quarter, underperforming the S&P 500® Index by 87 basis points (bps) and bringing its year-to-date return to 5.14%. With monthly returns of 0.95%, 0.67% and 0.58% for April, May and June, respectively, most of the Composite's underperformance relative to the S&P 500® Index came in May when the Index advanced 1.41%, its highest monthly return of the quarter. Both the relative and absolute performance of the Composite throughout the quarter were consistent with expectations in a period of equity market advance with low volatility.

The 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 delivered 72 bps of downside protection when the market declined from the beginning of the quarter through April 13th. During the 2.58% decline of the S&P 500® Index from March 1st through April 13th, the Composite lost 0.49%, delivering 209 bps of downside protection.



Datasource: Bloomberg, L.P.

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

For the second quarter, the Composite's underlying equity portfolio contributed a total return of 3.37%, resulting in a positive performance differential of 28 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 May primarily due to call premiums earned that month being insufficient to keep pace with the equity market's advance. The impact of the index call option portfolio to the Composite's returns in April and June was negligible as call option premiums earned in those months were nearly equal to the market's advance. Index put options detracted modestly from the Composite's return in each month of the quarter, an expected result during a consistently advancing market. The Composite's annualized standard deviation of daily returns for the quarter was 3.77% as compared to 7.45% for the S&P 500® Index. The Composite exhibited a beta to the S&P 500® Index of 0.46 for the quarter.

Gateway's index call option activity throughout the quarter focused on increasing the weighted-average strike price of the portfolio as the market advanced, at times preferring longer-dated contracts with higher-dollar premiums offering more attractive protection in the event of a market reversal than shorter-term contracts with higher annualized premiums and less protection. The investment team took advantage of brief periods of relatively high volatility in mid-April and mid-May by writing index call options with higher levels of implied volatility priced into them.

Gateway's investment team took advantage of persistently low volatility throughout the quarter by trading select index put options in advance of their expiration dates and keeping weighted-average time to expiration extended in an effort to maintain downside protection at attractive prices.

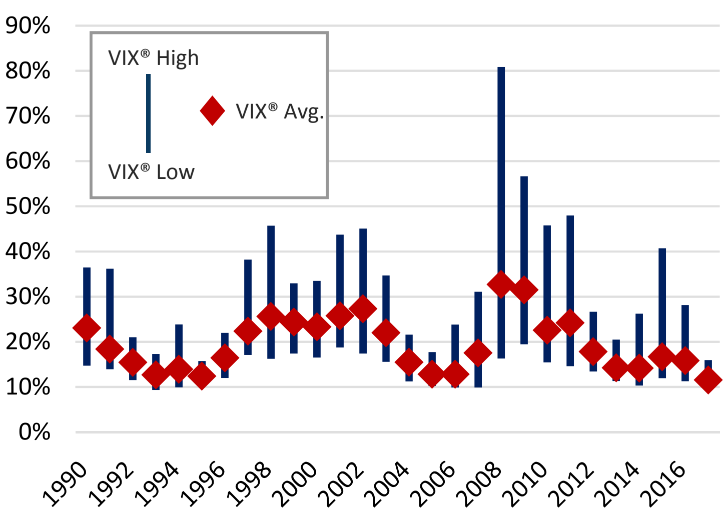
As of June 30th, the Composite's diversified equity portfolio was over 95% hedged with index call options with average strike prices between 1.5% in-the-money and 1.5% out-of-the-money, average time to expiration of 37 days and annualized premium to earn of 7.5% to 10%. The Composite ended the quarter hedged with index put options on over 95% of the notional value of its portfolio with average strike prices between 7.5% and 10% out-of-the-money, average time to expiration of 62 days and annualized cost of less than 2.5%. Relative to the beginning of the quarter, this positioning represented similar market exposure and increased net cashflow potential.

MARKET PERSPECTIVE

2017 may end up being one of the lowest volatility years in history. By many measures it already is. The 9.75 closing value for the VIX® on June 2nd was the fourth-lowest closing value in the twenty-seven-and-a-half-year history of the volatility index. All three of the lower marks came in December of 1993. The VIX® has also been persistently low, accumulating a year-to-date average through June 30, 2017 of just 11.56 while closing below 10 on 7 different days this year, which is nearly half of all sub-10 closing values in history.

As we have written in previous Market Perspectives, the primary driver of low VIX® is low realized volatility. The year-to-date standard deviation of daily returns for the S&P 500® Index is 7.14%. If that level persists throughout the year, it will be the lowest recorded in the last 28 years. Key elements of the market backdrop supporting a low volatility environment include global economic growth, accelerating corporate profitability and confidence in central bank policies.

Annual VIX® High-Low Range and Average
1990 to June 2017



Datasource: Bloomberg, L.P.

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In addition to volatility-lowering fundamentals, volatility is further dampened by the market behaving like a 'market of stocks', rather than a 'stock market.' In other words, the equity market is not behaving like a single entity with constituent parts responding the same way to economic and financial variables. Instead, the price action of individual companies has been more random lately than in recent years. The equity market has been 'grinding higher' with low correlation across individual companies. The statistical correlation among the 50 largest companies in the S&P 500® Index was above its 10-year average for most of Q3 2016 and steadily declined to a 10-year low in February of this year. Correlation levels have been well below their 10-year average throughout 2017. That low correlation is evidence of a diversification effect that lowers realized volatility.

One above-average characteristic of this low volatility environment has been the spread between implied volatility levels and realized volatility. Higher implied volatility relative to realized volatility is a persistent characteristic of the markets for index options and equities. So far this year, the spread has been wider than in most years. This wider-than-usual spread may be an indication that the low volatility environment has caused increased speculation on future changes in volatility. Some speculators are betting that the current environment is likely to continue and are selling volatility at its current level in hopes that it drops further.

Other speculators are betting that the historically low volatility environment is unsustainable and are betting that volatility will spike. Growth in exchange-traded products tied to volatility derivatives is more evidence of this increase in speculation. Research suggests that the balance of the speculation is tilted toward volatility buyers who hope to benefit from a spike in volatility.[2]

Annual VIX® Average, S&P 500® Standard Deviation and Implied-Realized Spread: 1990 to YTD 2017

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
VIX® Average	23.1%	18.4%	15.5%	12.7%	13.9%	12.4%	16.4%	22.4%	25.6%	24.4%	23.3%	25.7%	27.3%	22.0%
S&P 500® Realized Volatility	18.0%	14.5%	9.8%	8.7%	10.0%	7.9%	12.0%	18.5%	20.7%	18.3%	22.6%	21.9%	26.4%	17.3%
Spread	5.0%	3.9%	5.6%	3.9%	3.9%	4.5%	4.5%	3.9%	4.9%	6.0%	0.7%	3.8%	0.9%	4.7%

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD 2017
VIX® Average	15.5%	12.8%	12.8%	17.5%	32.7%	31.5%	22.5%	24.2%	17.8%	14.2%	14.2%	16.7%	15.8%	11.6%
S&P 500® Realized Volatility	11.3%	10.4%	10.2%	16.3%	41.7%	27.7%	18.3%	23.7%	13.0%	11.2%	11.6%	15.8%	13.3%	7.1%
Spread	4.2%	2.4%	2.6%	1.3%	-9.0%	3.8%	4.2%	0.5%	4.8%	3.0%	2.6%	0.9%	2.5%	4.4%

Source: Bloomberg, L.P.

Gateway's use of index options to manage equity risk differs from speculating on the future direction of volatility in fundamental ways. While a pure speculator will generate an absolute gain or absolute loss depending on the change in volatility, Gateway's strategies use index options to consistently reduce the risk of equity market exposure. Higher levels of volatility can lead to higher option premiums and increased cash flow from option selling, but the gain or loss of the strategy as a whole is more dependent on the direction of the equity market than whether volatility is rising or falling. Gateway's strategies are designed to be a true hedge to the equity market—with the potential to consistently benefit from equity market advances and consistently mitigate the effect of equity market declines. This market agnostic, risk-first approach has generated a low-volatility equity profile that has served our investors well for nearly 40 years.

[2] "Are Volatility Selling Strategies Crowded?", Goldman Sachs Options Research, June 28, 2017

Standard Performance

Average Annual Performance As of June 30, 2017							
	1 Year	**3 Years**	**5 Years**	**10 Years**	**20 Years**	**Return Since Inception***	**Risk** Since Inception***
Index/RA (Net)	9.43%	4.76%	5.39%	3.17%	5.00%	7.27%	6.27%
S&P 500® Index	17.90%	9.61%	14.63%	7.18%	7.15%	10.48%	14.15%
Bloomberg Barclays U.S. Aggregate Bond Index	-0.31%	2.48%	2.21%	4.48%	5.24%	6.43%	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℠ and Gateway Investment Advisers, LLC
Past performance is no guarantee of future results.

For important disclosures, please refer to page 5.

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Gateway Investment Advisers, LLC
Gateway Index/RA Composite
Annual Disclosure Presentation

Year End	Annual Performance Results: Composite Gross	Composite Net	S&P 500®	Bloomberg Barclays US Aggregate Bond Index	3-Year Standard Deviation: Composite	S&P 500®	Bloomberg Barclays US Aggregate Bond Index	Number of Composite Accounts	Composite Dispersion	Composite Assets (millions)	Firm Assets (millions)
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
2016	6.23	5.57	11.96	2.65	4.30	10.74	3.02	10	0.3	8,159	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.

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, previously 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 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 March 31, 2017.

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, 2017. 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.