Gateway Index/RA Composite Commentary

Q4 2017

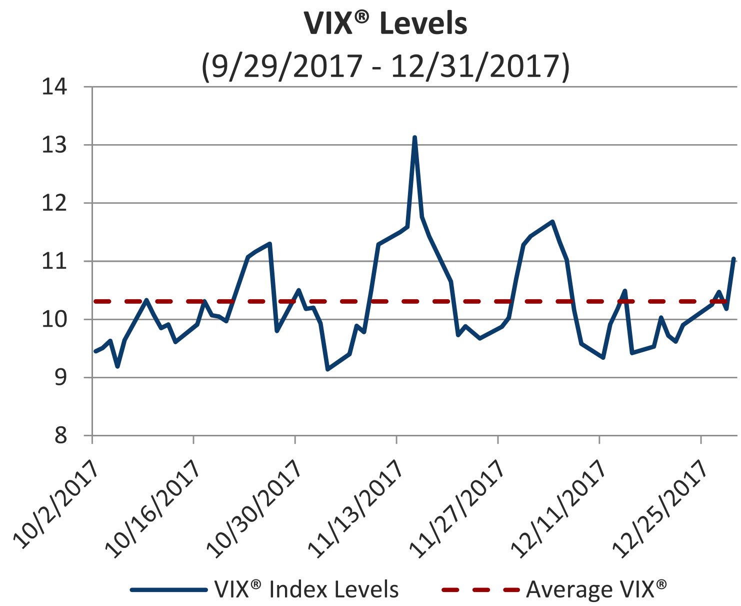
EQUITY MARKETS

The S&P 500® Index gained 6.64% for the fourth quarter of 2017, resulting in a return of 21.83% for the year. The equity market posted positive returns each month of the quarter with the S&P 500® Index returning 2.33%, 3.07% and 1.11% for October, November and December, respectively.

The equity market's fourth quarter advance had two distinct phases, with a significant development in the legislative effort to reform U.S. tax policy serving as a dividing line at the quarter's midpoint. The initial rounds of Q3 corporate earnings reports helped drive the S&P 500® Index to a return of 2.05% through November 15th. The equity market's rate of return accelerated over the second half of the quarter, propelled in part by the tax reform package passed by the House of Representatives on November 16th. The tax package included steep cuts in corporate tax rates and an increase in the standard deduction for individuals, features that survived the legislative process as the House worked with the Senate to draft a compromise bill that was signed into law by President Trump on December 22nd. From its closing value on November 15th through year-end, the S&P 500® Index returned 4.50%.

The market backdrop remained positive throughout the fourth quarter. Data releases showed strong economic growth, robust corporate profitability and continued improvement in employment statistics. The unemployment rate dropped to a 17-year low of 4.1% in early November, a level that was maintained in December's report. Even with tightening employment conditions, the November year-over-year change for the Consumer Price Index was just 1.7%, indicating that inflation remains below the Federal Reserve's (the Fed's) 2% target. Despite three late-summer hurricanes causing significant disruption in the South, the economy expanded and corporate earnings grew in Q3. On December 21st, the final revision of Q3 GDP growth came in at 3.2%. The revision was a downgrade from the 3.3% second estimate, but a slight increase over Q2 GDP growth of 3.1%. Aggregate operating earnings for S&P 500® Index companies grew 2.3% in Q3, with more than 80% of companies meeting or exceeding analyst estimates.

The Cboe® Volatility Index® (the VIX®) averaged 10.31 for the fourth quarter, the lowest quarterly average over its 112-quarter history. The VIX® also set new all-time records for intra-day low, 8.56 on November 24th, and closing low, 9.14 on November 3rd. The closing high for the VIX® during the quarter was 13.13 on November 15th. Implied volatility exceeded realized volatility (as measured by the annualized standard deviation of daily returns for the S&P 500® Index) of 5.73% for the quarter by a 4.58-point spread, an above-average reading for the statistic.



Datasource: Bloomberg, L.P.

COMPOSITE PERFORMANCE

The Gateway Index/RA Composite (the Composite) returned 2.07%, net of fees, for the fourth quarter, underperforming the S&P 500® Index by 457 bps and bringing its 2017 return to 10.07%. With returns of 0.70%, 0.91% and 0.45% for October, November and December, respectively, most of the Composite's underperformance came over the second half of the quarter.

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 fourth quarter, the Composite's underlying equity portfolio contributed a total return of 6.43%, resulting in a negative performance differential of 21 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 all three months primarily due to call premiums earned during those periods being

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

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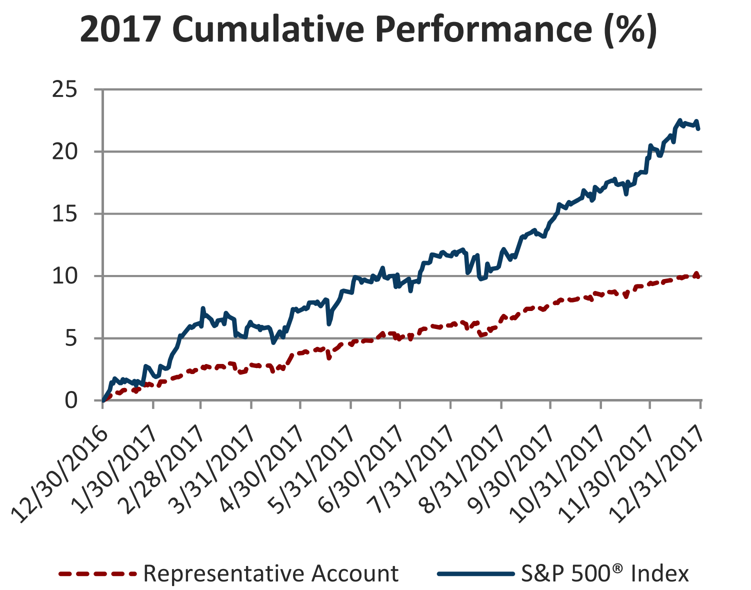
insufficient to keep pace with the equity market's advance. Due to the lack of significant declines in the equity market, index put options also detracted from the Composite's return in each month of the quarter, though only slightly in December when the market's advance was more modest. The Composite's annualized standard deviation of daily returns for the quarter was 2.29% as compared to 5.66% for the S&P 500® Index. The Composite exhibited a beta to the Index of 0.33 for the quarter.

Gateway's index call option activity throughout the fourth quarter was focused on exchanging soon-to-expire contracts for ones with later expiration dates and higher strike prices in order to maintain a typical amount of market exposure as the market advanced. Slightly elevated volatility levels in mid-November, relative to the rest of the quarter, created opportunities to increase cash flow to the strategy. Toward the end of November and into December, select contracts were traded well in advance of their expiration dates and weighted-average time to expiration was extended.

Index put option activity throughout the fourth quarter was focused on managing the cost of downside protection by trading select contracts well in advance of their expiration and keeping weighted-average time to expiration relatively extended. The Composite underperformed the S&P 500® Index for the year, as expected during a period when the equity market advanced at an above-average rate with well below-average volatility. Throughout 2017, the Composite's two-part option strategy delivered participation during market advances and protection during market declines. Like the S&P 500® Index, the total return of the Composite was positive in each month of the year. In addition, the Composite had two months of outperformance over the course of the year, but underperformed the S&P 500® Index in each of the four quarters.

Equity market declines in 2017 were brief, shallow and infrequent, but the Composite delivered downside protection during the market's largest peak-to-trough decline for the year. Specifically, from March 1st through April 13th, the Composite declined 0.49%, delivering 209 bps of downside protection relative to the loss of 2.58% for the S&P 500® Index.



Datasource: Bloomberg, L.P.

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

As of December 31st, 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 39 days and annualized premium to earn of 5% to 7.5%. The Composite ended the quarter hedged with index put options on over 95% of the notional value of its portfolio with the weighted-average strike price between 10% and 12.5% out-of-the-money, average time to expiration of 48 days and annualized cost of less than 2.5%. Relative to the beginning of the quarter, this positioning represented slightly higher market exposure and slightly higher net cash flow potential.

MARKET PERSPECTIVE

If 2017 were a cinematic thriller, it would have featured sharks circling and ominous music playing in the background, but not a drop of blood in the water. Audience members with exposure to the stock market were not disappointed by the lack of thrills in 2017, as equity market volatility was at historic lows and the market advance was well above average. As we switch movie reels to 2018, with the bull market on the verge of extending to nine years and equity market valuations at the high-end of their historical range, the sharks are still circling, and the ominous soundtrack can still be heard. Will there be blood in the water in 2018, or will the suspense continue to build?

Political dynamics, both domestic and international, were an element of the ominous background music in 2017. Significant geopolitical tensions remain, including unrest in the Middle East, North Korea's nuclear ambitions, Brexit negotiations and China's growing influence. With the Trump Administration emboldened by a key legislative victory, and midterm elections on the calendar in 2018, the domestic political climate is likely to remain divisive.

If downside volatility returns to equity markets in 2018, the trigger may more likely be tied to earnings or the economy rather than politics. With equity market valuations high and the Fed committed to normalizing monetary policy, there may be less valuation support and less policy support to prevent the next pullback from developing into a correction or worse. High equity market valuations have not always been a signal of an imminent market downturn in the past, but history suggests the strong earnings growth of 2017 may need to be maintained to justify current valuations. The early- to mid-1990s is an example of a high valuation period when strong earnings growth helped keep significant downside events out of the market.[1] However, the early- to mid-1960s is a counter example of a high valuation period when above-average earnings growth was unable to prevent bear markets.[2] Moreover, if earnings growth fails to meet expectations and the market softens, the Fed could be somewhat constrained on its policy response unless it is willing to abandon its commitment to normalizing policy through raising rates and shrinking its balance sheet.

Potential storylines for 2018 could include one where volatility increases, but with a surprising plot twist: nothing bad happens with regard to politics, earnings or the economy. The connection between volatility and negative developments is so strong that many may find this potential storyline too implausible. However, a key driver of low volatility in 2017 was very low correlation across individual stocks. Correlation across the 50 largest stocks in the S&P 500® Index was well below its 10-year average for much of the year and even approached zero during the fourth quarter. Average correlation levels are statistically associated with VIX® readings in the high teens, so it is possible that volatility levels could revert toward long-term averages on a change in the correlation dynamic alone. In other words, a significant rise in volatility would not necessarily require a deterioration in corporate earnings or economic conditions. This scenario would potentially be advantageous for option writing strategies that maintain exposure to the equity market as the market's upward trend could continue while cash flow from collecting option premiums increases.

In 2017, Gateway Investment Advisers, LLC celebrated its 40th year of operations and its flagship strategy now has a 30-year track record. Gateway has witnessed decades of market storylines and sustained its approach through a series of market thrills, chills and plot twists. The firm's investment philosophy is informed by the 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 losses over shorter periods of time. Gateway's investment philosophy also holds that consistency is the key to long-term investment success and that generating cash flow, rather than seeking to forecast the rise and fall of the market, can be a lower-risk means to participate in equity markets. By staying true to its philosophy and continuing to manage strategies consistently with the firm's historical approach, Gateway will continue to assist investors in managing risk while pursuing long-term return in this positive, yet uncertain, environment.

[1] 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. The worst peak-to-trough decline in the S&P 500® Index over this period was a drawdown of 8.47% from February 2nd, 1994 to April 4th, 1994.
[2] From December 31st, 1960 to December 31st, 1966 the cumulative growth of S&P 500® Index earnings was 53.72% (7.43% annualized) and the period had two bear markets. From December 12th, 1961 to June 26th, 1962 the S&P 500® Index lost 27.97% and from February 9th, 1966 to October 7th, 1966 the S&P 500® Index lost 22.18%.

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Standard Performance

Average Annual Performance							
As of December 31, 2017							
	1 Year	3 Years	5 Years	10 Years	20 Years	Return Since Inception*	Risk** Since Inception*
Index/RA (Net)	10.07%	6.01%	6.04%	3.41%	4.90%	7.30%	6.22%
S&P 500® Index	21.83%	11.41%	15.79%	8.50%	7.20%	10.70%	14.04%
Bloomberg Barclays U.S. Aggregate Bond Index	3.54%	2.24%	2.10%	4.01%	4.98%	6.36%	3.73%

*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 6.

GATEWAY INVESTMENT ADVISERS, LLC
GATEWAY INDEX/RA COMPOSITE
ANNUAL DISCLOSURE PRESENTATION

Year End	Annual Performance Results: Composite Gross	Annual Performance Results: Composite Net	Annual Performance Results: S&P 500®	Annual Performance Results: Bloomberg Barclays US Aggregate Bond Index	3-Year Standard Deviation: Composite	3-Year Standard Deviation: S&P 500®	3-Year Standard Deviation: 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 September 30, 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 September 30, 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.