

**Factored In**

In the world of investing, factor investing is a well established tool for diversification. However, many investors often focus on just two dominating categories: growth and value. There is continuous debate as to which is better over the long-term, yet there is one factor that gets less attention than it may deserve - *quality*.

Gateway has found that quality is a hallmark characteristic of durable companies with resilient business models, reflecting historical profitability and strong fundamentals with the potential to outgrow the average company over time. Specifically, quality companies tend to demonstrate stable earnings, have high return on equity and assets, consistently generate high levels of cash flow, and maintain low leverage. These stocks often offer broad market participation with potential for defense.

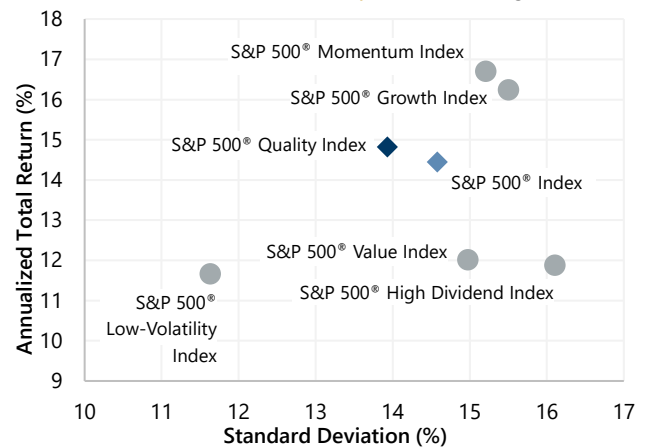
**Standing Out**

Quality is timeless and relevant throughout life. With investing, a focus on quality can help investors weather diverse market environments – providing the potential to benefit from rising markets while offering potential protection during market stress.

Over the long-term, quality, as demonstrated by the S&P 500® Quality Index (the Index), has shown the ability to provide a standout risk and return profile relative to the broad market and other factors. The Index is designed to track high-quality stocks within the S&P 500® Index; the selections are based on quality score. The Index's quality score for individual stocks is calculated using return on equity, accruals ratio, and financial leverage ratio. While the past cannot predict the future, the quality factor has provided robust performance and risk-adjusted returns relative to the broad S&P 500® Index, as well as standing strong amongst other popular factor-based investment approaches over time.

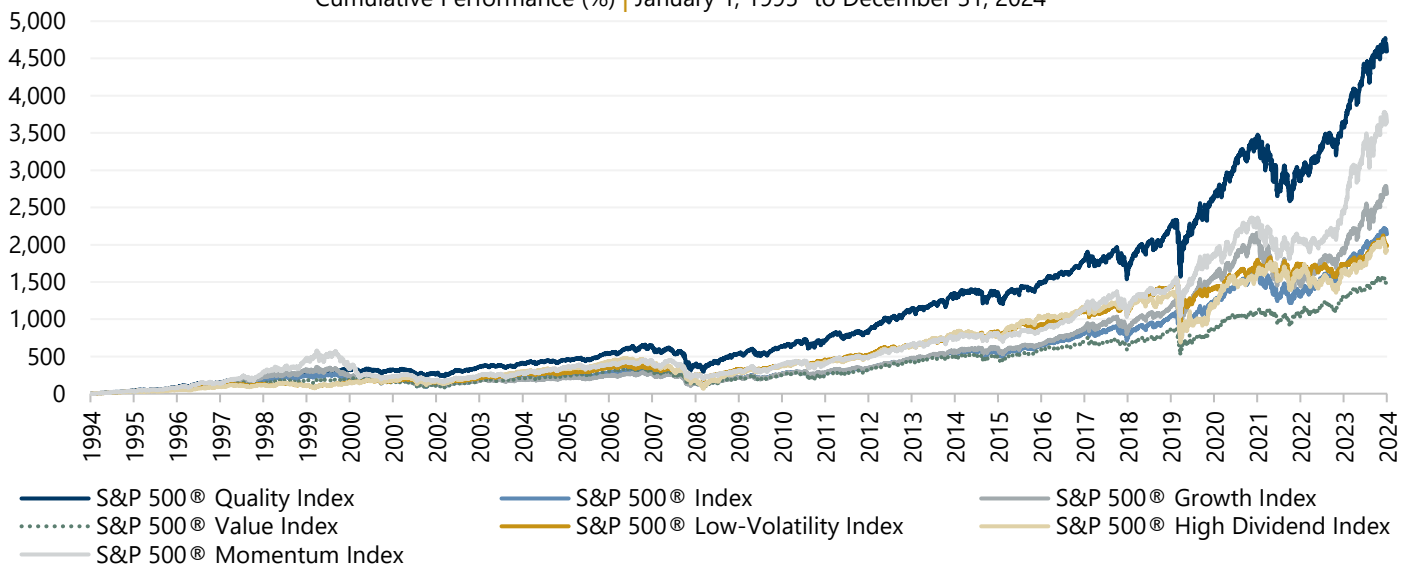
**Robust Risk Adjusted Returns**

15-Years Ended December 31, 2024 | Source: Morningstar Direct<sup>SM</sup>



**Better Results Over Time**

Cumulative Performance (%) | January 1, 1995<sup>1</sup> to December 31, 2024



Performance (%)	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	25 Years	Since January 1, 1995 <sup>1</sup>
S&P 500® Quality Index	25.07	14.08	15.33	12.99	14.82	11.66	10.66	13.69
S&P 500® Index	23.96	13.32	14.36	13.32	14.44	10.35	7.70	10.92
S&P 500® Growth Index	31.66	14.21	16.39	15.51	16.25	11.87	7.79	11.72
S&P 500® Value Index	14.71	11.26	10.93	10.22	12.02	8.36	7.16	9.64
S&P 500® Low-Volatility Index	17.66	7.06	5.59	9.17	11.67	9.04	9.59	10.65
S&P 500® High Dividend Index	21.50	5.95	7.22	8.21	11.88	8.37	9.37	10.54
S&P 500® Momentum Index	39.14	21.70	19.60	16.40	16.70	12.07	7.76	12.83

Past performance does not guarantee future results. Periods greater than one year are annualized. Data as of December 31, 2024. Source: Morningstar Direct<sup>SM</sup>. 1: The inception date of the S&P 500® Quality Index is December 14, 1994. The S&P 500® Quality Index is representative of one approach to quality investing, though differs from the methodology employed in Gateway's Quality Income strategy and does not employ options.

Performance Analysis (%) <sup>2</sup> Since January 1, 1995 <sup>1</sup>	Alpha vs S&P 500 <sup>®</sup> Index	Sharpe Ratio	Sortino Ratio	Standard Deviation	S&P 500 <sup>®</sup> Index Upside Capture	S&P 500 <sup>®</sup> Index Downside Capture
S&P 500 <sup>®</sup> Quality Index	3.39	0.81	1.27	14.18%	97.31%	80.63%
<b>S&amp;P 500<sup>®</sup> Index</b>	<b>n/a</b>	<b>0.60</b>	<b>0.89</b>	<b>15.20%</b>	<b>100.00%</b>	<b>100.00%</b>
S&P 500 <sup>®</sup> Growth Index	0.71	0.62	0.93	16.06%	102.64%	99.81%
S&P 500 <sup>®</sup> Value Index	-0.94	0.51	0.74	15.75%	96.16%	101.02%
S&P 500 <sup>®</sup> Low-Volatility Index	2.99	0.71	1.07	11.83%	69.42%	52.29%
S&P 500 <sup>®</sup> High Dividend Index	1.19	0.53	0.77	17.20%	87.51%	82.18%
S&P 500 <sup>®</sup> Momentum Index	2.41	0.66	0.99	16.93%	103.21%	94.67%

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## Quality Matters

Global markets have experienced significant changes, leading to persistent uncertainty on many fronts. In such an environment, it is increasingly important to take a holistic view of business health. Focusing on durable businesses with fortress-like balance sheets that can withstand full economic cycles, rather than focusing exclusively on valuation or yield, can add a meaningful layer of protection through times of uncertainty or market stress. For example, consider the period after the Tech Bubble in early 2000 to 2002 or during the Great Financial Crisis from 2007 to 2009. During these periods, as shown below, high-quality companies often performed better, providing a source of defense relative to the broad S&P 500<sup>®</sup> Index and ranking well among other factors.

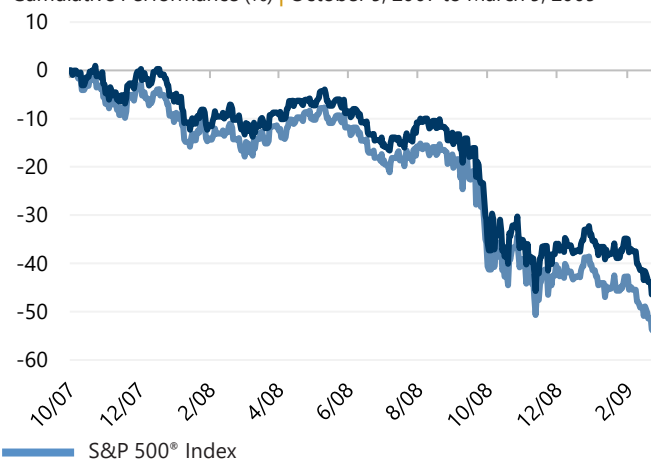
### Post Tech Bubble

Cumulative Performance (%) | March 23, 2000 to October 9, 2002



### Protection During the Great Financial Crisis

Cumulative Performance (%) | October 9, 2007 to March 9, 2009



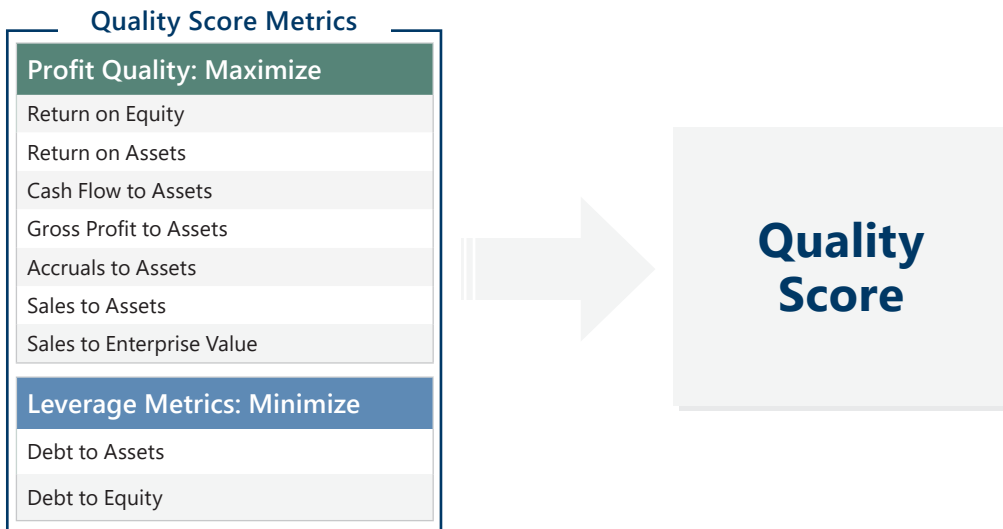
Cumulative Performance (%)	March 24, 2000 to October 9, 2002	October 9, 2002 to March 9, 2009
S&P 500 <sup>®</sup> Quality Index	-14.52	-47.30
<b>S&amp;P 500<sup>®</sup> Index</b>	<b>-47.38</b>	<b>-55.25</b>
S&P 500 <sup>®</sup> Growth Index	-55.72	-49.04
S&P 500 <sup>®</sup> Value Index	-38.06	-61.26
S&P 500 <sup>®</sup> Low-Volatility Index	20.75	-39.61
S&P 500 <sup>®</sup> High Dividend Index	11.60	-70.13
S&P 500 <sup>®</sup> Momentum Index	-58.48	-46.70

Past performance does not guarantee future results. Source: Morningstar Direct<sup>SM</sup>.

## Keeping Score

Gateway's investment team spent significant time researching a multitude of factors and found that by emphasizing quality within an equity portfolio, investors have the potential to harness the benefits of healthy firms and balance long-term growth with defense. With an expertise in quantitatively driven equity portfolio management, the investment team identified key metrics that indicate strong, quality companies. The team developed a distinct and disciplined equity investment process aiming to increase a portfolio's overall *Quality Score* which is driven by a focus on key fundamental variables.

The process results in a highly-diversified portfolio emphasizing companies with established track records of profitability and strong fundamentals while eliminating companies that are highly levered with poor balance sheets. With discretion, the team enhances the Quality Score of an equity portfolio by identifying opportunities to maximize profitability metrics and minimize leverage metrics. For Gateway’s [Quality Income](#) strategy, this results in an equity portfolio emphasizing the highest quality names from the S&P 500® Index and relative overweightings to historically high-quality sectors.



**Go for Quality**

In an uncertain and chaotic world, the potential durability offered by the quality factor offers reprieve and is increasingly important for investors. The resilience of high-quality companies has shown the potential to outgrow average or low-quality companies over time, and may offer broad market participation and a source of defense during market turmoil. As the factor debate continues between the cyclicalities of factors, investors may want to consider a time-tested alternative – *quality*.

**IMPORTANT INFORMATION**

**All investing involves risk, including the risk of loss of principal. Diversification does not guarantee a profit or protect against a loss. This material is provided for informational purposes only and should not be construed as investment advice.**

**Standard deviation** is a statistical measure that sheds light on historical volatility.

**Sharpe ratio** is a measure of risk-adjusted return calculated by dividing an investment’s excess return over a riskless asset by its standard deviation of returns. The higher the Sharpe ratio, the better the historical risk-adjusted performance.

**Market Capture Ratio** is a measure of a manager’s performance in up and down markets relative to the market itself.

**Sortino ratio** is a risk-adjusted return measure focused on the downside risk of an investment.

**Alpha** is a measure of the difference between a portfolio’s actual returns and its expected performance, given its level of systematic market risk. A positive alpha indicates outperformance, and negative alpha indicates underperformance.

**The S&P 500® Growth Index** is a benchmark that tracks the performance of large-cap growth stocks in the US. It’s made up of the S&P 500® Index stocks that show the strongest growth potential.

**The S&P 500® Index** is a widely recognized measure of U.S. stock market performance. It is an unmanaged index of 500 common stocks chosen for market size, liquidity, and industry group representation, among other factors. It also measures the performance of the large-cap segment of the US equities market.

**The S&P 500® Value Index** measures the performance of the large-capitalization value sector in the US equity market. It is a subset of the S&P 500® Index and consists of those stocks in the S&P 500® Index exhibiting the strongest value characteristics.

**The S&P 500® High Dividend Index** serves as a benchmark for income seeking equity investors. The index is designed to measure the performance of 80 high yield companies within the S&P 500® and is equally weighted to best represent the performance of this group, regardless of size.

**The S&P 500® Low Volatility Index** measures the performance of the 100 least volatile stocks in the S&P 500® based on their historical volatility.

**The S&P 500® Momentum Index** is designed to measure the performance of securities in the S&P 500® universe that have shown persistence in their relative performance.

Past performance does not guarantee future results. Data source: Morningstar Direct<sup>SM</sup>. For more information and access to additional insights from Gateway Investment Advisers, LLC, please visit [www.gia.com/insights](http://www.gia.com/insights).