

# Disclosure Brochure

March 27, 2012



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This brochure provides information about the qualifications and business practices of Gateway Advisory, LLC (hereinafter "Gateway"). If you have any questions about the contents of this brochure, please contact Glenn A. Blachman at (877) 303-9580. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Gateway is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Gateway is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## Item 2. Material Changes

In this Item, Gateway is required to discuss any material changes which have been made to the brochure since the last annual amendment filed March 29, 2011.

### **Change of Broker-Dealer Association**

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Effective October 2011, Gateway's *Supervised Persons* (as defined below) have ceased conducting business in their respective capacities as registered representatives of LPL Financial LLC. These individuals have since become registered representatives of BCG Securities, Inc. ("BCG"), an SEC registered broker-dealer and member of FINRA, and may provide clients with securities brokerage services and implement securities transactions under separate commission based arrangements. While a number of sections in the brochure – namely, Items 5, 10 and 12 – have been revised to reflect this change in broker-dealer association, the inherent conflicts of interest that exist under the circumstances remain substantially the same.

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## Item 4. Advisory Business

Gateway offers hands-on, integrated financial planning and investment services designed to simplify clients' financial affairs and align them with their family values and aspirations. Gateway has been in business since January 2010 and is owned by Brian J. Power, Jay H. Flamme, Paul A. DeRosa, and Glenn A. Blachman.

As of December 31, 2011, Gateway had approximately \$224,205,000 in assets under management, of which \$189,345,000 was managed on a discretionary basis and \$34,860,000 on a non-discretionary basis. In addition, as of the date of this filing, Gateway had in excess of \$100,000,000 in qualified retirement plan assets under advisement, as discussed further below.

Prior to engaging Gateway to provide any of the foregoing investment advisory services, clients are required to enter into one or more written agreements with Gateway setting forth the terms and conditions under which Gateway renders its services (collectively the "*Agreement*").

This Disclosure Brochure describes the business of Gateway. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of Gateway's officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on Gateway's behalf and is subject to Gateway's supervision or control.

### Financial Planning Services

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Gateway may provide its clients with a broad range of comprehensive financial planning services. These services generally include retirement planning, education planning, survivorship and insurance planning, estate and tax planning. These services may be included as part of Gateway's wealth management services, described below. Gateway also offers advice on cash flow and debt management, tax planning, liability management strategies, and estate and wealth transfer planning.

In performing its services, Gateway is not required to verify any information received from clients or from clients' other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. Gateway may recommend the services of itself, its *Supervised Persons* in their individual capacities as registered representatives of a broker-dealer, and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if Gateway recommends its own services. The client is under no obligation to act upon any of the recommendations made by Gateway under a financial planning engagement or to engage the services of any such recommended professional, including Gateway itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of Gateway's recommendations. Clients are advised that it remains their responsibility to promptly notify Gateway if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising Gateway's previous recommendations and/or services.

## Retirement Consulting Services

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Gateway offers retirement plan solutions for plan sponsors. These services are tailored based on the individual needs of the plan, but may include investment insight and oversight, plan benchmarking, improved participant outcomes, ongoing fiduciary monitoring, fee and expense analysis, participant communication, plan design consulting, and vendor search support.

As referenced above, Gateway currently provides ongoing advisory services to qualified retirement plans with aggregate plan-level assets in excess of \$100,000,000 (collectively, “assets under advisement”). While these assets are not directly managed by Gateway, and therefore not categorized as regulatory assets under management, Gateway is nonetheless responsible for reviewing plan allocations and making ongoing recommendations to the plan sponsors, as described in the *Agreement*.

## Investment and Wealth Management Services

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Gateway provides discretionary and non-discretionary investment management services. Gateway may also provide clients with wealth management services, which may include a broad range of comprehensive financial planning services (as needed), as well as discretionary or non-discretionary management of investment portfolios.

Gateway primarily allocates clients’ investment management assets among *Independent Managers* (as defined below), mutual funds, exchange-traded funds (“ETFs”), and managed futures in accordance with the investment objectives of each client. Gateway also provides advice about any type of legacy position or investment otherwise held in clients’ portfolios.

Gateway also may render non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client’s primary custodian. In so doing, Gateway either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

Gateway tailors its advisory services to the individual needs of clients. Gateway consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the clients’ investment needs. Gateway ensures that clients’ investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify Gateway if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon Gateway’s management services. Clients may impose reasonable restrictions or mandates on the management of their account (e.g., require that a portion of their assets be invested in socially responsible funds) if, in Gateway’s sole

discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

### Use of Independent Managers

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As mentioned above, Gateway recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain independent investment managers ("*Independent Managers*"), based upon the stated investment objectives of the client. The terms and conditions under which the client engages the *Independent Managers* are set forth in a separate written agreement between Gateway or the client and the designated *Independent Managers*. Gateway renders services to the client relative to the discretionary selection of *Independent Managers*. Gateway also monitors and reviews the account performance and the client's investment objectives. Gateway receives an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated *Independent Managers*.

When selecting an *Independent Manager* for a client, Gateway reviews information about the *Independent Manager* such as its disclosure brochure and/or material supplied by the *Independent Manager* or independent third parties for a description of the *Independent Manager's* investment strategies, past performance and risk results to the extent available. Factors that Gateway considers in recommending an *Independent Manager* include the client's stated investment objectives, management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated *Independent Managers*, together with the fees charged by the corresponding designated broker-dealer/custodian of the client's assets, may be exclusive of, and in addition to, Gateway's investment advisory fee set forth above. As discussed above, the client may incur additional fees than those charged by Gateway, the designated *Independent Managers*, and corresponding broker-dealer and custodian.

In addition to Gateway's written disclosure brochure, the client also receives the written disclosure brochure of the designated *Independent Managers*. Certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than Gateway. In such instances, Gateway may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

## Item 5. Fees and Compensation

Gateway offers its services on a fee basis, which may include hourly and/or fixed fees, as well as fees based upon assets under management. Additionally, certain of Gateway's *Supervised Persons*, in their individual capacities, may offer securities brokerage services and insurance products under a commission arrangement.

### Financial Planning and Consulting Fees

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Gateway may charge a fixed fee and/or hourly fee for financial planning services. These fees are negotiable, but generally range from \$1,000 to \$15,000 on a fixed fee basis and/or from \$100 to \$350 on an hourly rate basis, depending upon the level and scope of the services and the professional rendering the financial planning services. If the client engages Gateway for additional investment advisory services, Gateway may offset all or a portion of its fees for those services based upon the amount paid for the financial planning services.

Prior to engaging Gateway to provide financial planning services, clients are required to enter into a written agreement with Gateway setting forth the terms and conditions of the engagement. Generally, Gateway requires one-half of the financial planning fee (estimated hourly or fixed) payable upon entering the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services.

### Retirement Consulting Fees

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For its retirement consulting services, Gateway may charge a fixed fee or a fee based upon a percentage of the retirement plan assets. The basis for the fee, as well as the timing for billing, is determined on a case by case basis between Gateway and the client depending upon the scope of services to be rendered.

### Wealth Management Fees

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Gateway provides wealth management services for an annual fee based upon a percentage of the market value of the assets being managed by Gateway.

Gateway's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Gateway does not, however, receive any portion of these commissions, fees, and costs. Gateway's annual fee is prorated and charged quarterly, in advance, based upon the average daily market value of the assets being managed by Gateway over the past three months.

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The annual fee varies depending upon the market value of the assets under management, as follows:

<b><u>PORTFOLIO VALUE</u></b>	<b><u>BASE FEE</u></b>
Less than \$500,001	1.50%
\$500,0001 - \$1,000,000	1.25%
\$1,000,001 - \$2,000,000	1.00%
\$2,000,001 - \$3,000,000	0.90%
\$3,000,001 - \$5,000,000	0.80%
\$5,000,001 - \$7,500,000	0.70%
\$7,500,001 - \$10,000,000	0.60%
More than \$10,000,000	0.50%

### **Fees for Investment Management Only**

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Gateway provides investment management services (exclusive of financial planning) for an annual fee based upon a percentage of the market value of the assets being managed by Gateway.

Gateway's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Gateway does not, however, receive any portion of these commissions, fees, and costs. Gateway's annual fee is prorated and charged quarterly, in advance, based upon the average daily market value of the assets being managed by Gateway over the past three months.

The annual fee varies depending upon the market value of the assets under management, as follows:

<b><u>PORTFOLIO VALUE</u></b>	<b><u>BASE FEE</u></b>
Less than \$500,001	1.25%
\$500,0001 - \$1,000,000	1.05%
\$1,000,001 - \$2,000,000	0.85%
\$2,000,001 - \$3,000,000	0.80%
\$3,000,001 - \$5,000,000	0.70%
\$5,000,001 - \$10,000,000	0.60%
More than \$10,000,000	0.50%

### **Fee Discretion**

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Gateway, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of



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assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

### Fees Charged by Financial Institutions

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As further discussed in response to Item 12 (below), Gateway generally recommends that clients utilize the brokerage and clearing services of Charles Schwab & Co., Inc. ("*Schwab*") for investment management accounts.

Gateway may only implement its wealth management recommendations after the client has arranged for and furnished Gateway with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *Schwab*, any other broker-dealer recommended by Gateway, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as fees charged by *Independent Managers* (as defined below), custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, for assets outside of any wrap fee programs, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to Gateway's fee.

### Fee Debit

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Gateway's *Agreement* and the separate agreement with any *Financial Institutions* may authorize Gateway or *Independent Managers* to debit the client's account for the amount of Gateway's fee and to directly remit that management fee to Gateway or the *Independent Managers*. Any *Financial Institutions* recommended by Gateway have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Gateway. Alternatively, clients may elect to have Gateway send an invoice for payment.

### Fees for Management During Partial Quarters of Service

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For the initial period of wealth management services, the fees are calculated on a *pro rata* basis.

The *Agreement* between Gateway and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. Gateway's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to Gateway's right to terminate an account. Additions may be in cash or securities provided that Gateway reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account.

Clients may withdraw account assets on notice to Gateway, subject to the usual and customary securities settlement procedures. However, Gateway designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Gateway may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a quarter, the fee payable with respect to such assets will not be adjusted or prorated based on the number of days remaining in the quarter.

### **Commissions or Sales Charges for Recommendations of Securities**

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Certain of the firm's *Supervised Persons* are also registered representatives of BCG Securities ("BCG"), an SEC registered broker-dealer and member of FINRA. In this capacity, they may provide securities brokerage services under a separate commission based arrangement. These services are not provided to Gateway's investment advisory clients who receive services pursuant to the fee based arrangements described above.

### **Item 6. Performance-Based Fees and Side-by-Side Management**

Gateway does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

### Item 7. Types of Clients

Gateway provides its services to individuals, endowments, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

#### Minimum Fee

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As a condition for starting and maintaining a relationship for clients other than pension and profit sharing plans, Gateway generally imposes a minimum annual fee of \$2,500. This minimum fee may have the effect of making Gateway's service impractical for clients, particularly those with portfolios less than \$83,334 under Gateway's management. Gateway, in its sole discretion, may waive its minimum annual fee based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities.

Additionally, certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than Gateway. In such instances, Gateway may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

### Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

#### Methods of Analysis and Investment Strategies

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Gateway's family of Balanced Global Allocation Portfolios consists of thirteen separate portfolios targeting the full range of investor risk profiles, including a taxable fixed income portfolio, a tax-exempt fixed income portfolio, a growth portfolio, five balanced portfolios that invest in a combination of growth assets and tax-exempt fixed income assets and five balanced portfolios that invest in a combination of growth assets and taxable fixed income assets.

Each of these portfolios may invest in individual securities, ETFs, or exchange-traded notes ("ETNs"), mutual funds, or may be invested in whole or in part with *Independent Managers*. Generally, Gateway allocates balanced portfolios across four broad market segments: U.S. equities, international equities, fixed income and alternative investments. For tax-free fixed income portfolios, Gateway generally invests in fixed income and cash equivalent assets. Taxable fixed income portfolios are generally invested in fixed income, currencies and cash equivalent assets, while growth portfolios are primarily invested in equities and commodities. Gateway's objective with each strategy is to manage volatility while seeking to maximize total return.

Gateway employs a three step, rules based investment process to construct and manage its portfolios:

- *Asset Allocation Analysis - Resampled Efficiency*: Gateway uses an optimization tool to identify appropriate asset allocation targets for each of its thirteen portfolios. These portfolios include representation in four broad market segments: domestic equity (including large cap, mid cap and small cap), international equity (including both developed and emerging markets), fixed income (including long term, immediate term, short term, cash equivalents, high yield, and international), and alternative investments (including real estate, commodities, and currencies).
- *ETF Due Diligence*: Gateway uses a five-step due diligence process to identify ETFs that best fit its portfolio structure and clients' needs. This due diligence process examines provider experience and expertise, ETF's holdings, regulatory structure and diversification guidelines, liquidity, and cost and expenses.
- *Relative Strength Analysis*: This analysis is designed to compare broad market class exposure to a less risky alternative, such as short term treasury bills. Generally, portfolios remains fully invested in each broad asset class as long as the broad asset class exhibits superior price strength relative to the less risky option. When the relative strength relationship reverses and the risk free asset exhibits superior price strength relative to the broad asset class, Gateway moves its broad asset class dollar commitment to the alternative.

In conducting its analysis, Gateway relies on elements of fundamental, technical and/or cyclical analysis.

Fundamental analysis involves an evaluation of an issuer's fundamental financial condition and competitive position. Gateway generally analyzes an issuer's financial condition, capabilities of

management, growth prospects, earnings capacity, new products and services, as well as the company's position amongst its industry competitors in order to determine the recommendations made to clients. A substantial risk in relying upon fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

Technical analysis involves the examination of past market data rather than specific issuer information in determining the recommendations made to clients. Technical analysis may involve the use of mathematical based indicators and charts, such as moving averages and price correlations, to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. A substantial risk in relying upon technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that Gateway will be able to accurately predict such a reoccurrence.

Cyclical analysis is similar to technical analysis in that it involves the assessment of market conditions at a macro (entire market or economy) or micro (company specific) level, rather than focusing on the overall fundamental analysis of the health of the particular company that Gateway is recommending. The risks with cyclical analysis are similar to those of technical analysis.

### **Risks of Loss**

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#### *Mutual Funds and Exchange Traded Funds (ETFs)*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to

exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### *Exchange-Traded Notes (ETNs)*

Gateway may recommend an investment in, or allocate assets among, various ETNs. ETNs are unsecured debt securities which are listed on securities exchanges and transacted at negotiated prices in the secondary market. ETNs are designed to track the performance of a corresponding benchmark. An ETN is essentially a contract between an issuer and the ETN holder, whereby the issuer, upon maturity, agrees to pay an amount relative to the returns of the underlying benchmark. In addition to the risks associated with the specific benchmark, ETN holders are also subject to various counterparty concerns. In this respect, the value of an ETN may be adversely impacted by a downgrade to the issuer's credit rating and/or an unwillingness or inability of the issuer to perform its contractual obligations.

### *Market Risks*

The profitability of a significant portion of Gateway's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that Gateway will be able to predict those price movements accurately.

### *Use of Independent Managers*

Gateway may recommend the use of *Independent Managers* for certain clients. Gateway will continue to do ongoing due diligence of such managers, but such recommendations relies, to a great extent, on the *Independent Managers* ability to successfully implement their investment strategy. In addition, Gateway does not have the ability to supervise the *Independent Managers* on a day-to-day basis other than as previously described in response to Item 4, above.

### *Management Through Similarly Managed "Model" Accounts*

Gateway manages certain accounts through the use of similarly managed "model" portfolios, whereby the firm allocates all or a portion of its clients' assets among various mutual funds and/or securities on a discretionary basis using one or more of its proprietary investment strategies. In managing assets through the use of models, the firm remains in compliance with the safe harbor provisions of Rule 3a-4 of the Investment Company Act of 1940.

The strategy used to manage a model portfolio may involve an above average portfolio turnover that could negatively impact clients' net after tax gains. While the firm seeks to ensure that clients' assets are managed in a manner consistent with their individual financial situations and investment objectives, securities transactions effected pursuant to a model investment strategy are usually done without regard to a client's individual tax ramifications. Clients should contact Gateway if they experience a change in

their financial situation or if they want to impose reasonable restrictions on the management of their accounts.

### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.



### **Item 9. Disciplinary Information**

Gateway is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Gateway does not have any required disclosures to this Item.

### Item 10. Other Financial Industry Activities and Affiliations

Gateway is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons.

#### **Registered Representatives of Broker Dealer**

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As discussed in Item 5 (above), certain of Gateway's *Supervised Persons* are registered representatives of BCG and, in this capacity, may provide securities brokerage services and implement securities transactions under a separate commission based arrangement.

#### **Receipt of Insurance Commission**

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Certain of Gateway's *Supervised Persons* are licensed insurance agents with various insurance companies and, in such capacity, may recommend, on a fully-disclosed commission basis, the purchase of certain insurance products. While Gateway does not sell such insurance products to its investment advisory clients, Gateway does permit its *Supervised Persons*, in their individual capacities as licensed insurance agents, to sell insurance products to its investment advisory clients. A conflict of interest exists to the extent that Gateway recommends the purchase of insurance products where Gateway's *Supervised Persons* receive insurance commissions or other additional compensation.

### Item 11. Code of Ethics

Gateway and persons associated with Gateway ("Associated Persons") are permitted to buy or sell securities that it also recommends to clients consistent with Gateway's policies and procedures.

Gateway has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("*Code of Ethics*"). In accordance with Section 204A of the Investment Advisers Act of 1940 (the "Advisers Act"), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by Gateway or any of its associated persons. The *Code of Ethics* also requires that certain of Gateway's personnel (called "*Access Persons*") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in Gateway's *Code of Ethics*, none of Gateway's *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Gateway's clients.

When Gateway is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Gateway is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Gateway to request a copy of its *Code of Ethics*.

### Item 12. Brokerage Practices

As discussed above, in Item 5, Gateway generally recommends that clients utilize the brokerage and clearing services of *Schwab*.

Factors which Gateway considers in recommending *Schwab* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. *Schwab* enables Gateway to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by *Schwab* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by Gateway's clients comply with Gateway's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where Gateway determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Gateway seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Gateway periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct Gateway in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and Gateway will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by Gateway (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Gateway may decline a client's request to direct brokerage if, in Gateway's sole discretion, such directed brokerage arrangements would result in additional operational difficulties or violate restrictions imposed by other broker-dealers (as further discussed below).

Transactions for each client generally will be effected independently, unless Gateway decides to purchase or sell the same securities for several clients at approximately the same time. Gateway may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Gateway's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Gateway's clients pro rata to the purchase and sale orders placed for each client on any given

day. To the extent that Gateway determines to aggregate client orders for the purchase or sale of securities, including securities in which Gateway's *Supervised Persons* may invest, Gateway generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Gateway does not receive any additional compensation or remuneration as a result of the aggregation. In the event that Gateway determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Gateway may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist Gateway in its investment decision-making process. Such research generally will be used to service all of Gateway's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Gateway does not have to produce or pay for the products or services.

### **Commissions or Sales Charges for Recommendations of Securities**

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As discussed above, certain *Supervised Persons* in their respective individual capacities, are registered representatives of BCG. These *Supervised Persons* are subject to FINRA Rule 3040 which restricts registered representatives from conducting securities transactions away from their broker-dealer unless BCG provides written consent. Therefore, clients are advised that certain *Supervised Persons* may be restricted to conducting securities transactions through BCG unless they first secure written consent from BCG to execute securities transactions through a different broker-dealer. Absent such written consent or separation from BCG, these *Supervised Persons* are prohibited from executing securities transactions through any broker-dealer other than BCG under BCG's internal supervisory policies. Gateway is

cognizant of its duty to obtain best execution and has implemented policies and procedures reasonably designed in such pursuit.

Additionally, *BCG* may have access to certain confidential information (e.g., financial information, investment objectives, transactions and holdings) about Gateway's clients, even if client does not establish any account through *BCG*. Clients can contact Gateway to obtain a copy of *BCG's* privacy policy.

### **Software and Support Provided by Financial Institutions**

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Gateway may receive from *Schwab*, without cost to Gateway, computer software and related systems support, which allow Gateway to better monitor client accounts maintained at *Schwab*. Gateway may receive the software and related support without cost because Gateway renders investment management services to clients that maintain assets at *Schwab*. The software and related systems support may benefit Gateway, but not its clients directly. In fulfilling its duties to its clients, Gateway endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Gateway's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Gateway's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, Gateway may receive the following benefits from *Schwab* through its Schwab Institutional division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services the Schwab Institutional participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

*Schwab* has provided a loan to Gateway to assist its business operations, and the loan is guaranteed by Brian Power, Paul De Rosa, Jay Flamme and Glenn Blachman, the principals of Gateway. The terms of the loan require that management fees to Gateway be paid to an account at Schwab for deduction of interest and principal payments pursuant to the loan before Gateway may have access to that fee payment. The loan agreement contains various representations by Gateway, including that it will maintain \$240 million in assets under management, and various events of default, including that Gateway will comply with all laws, contracts, licenses and permits. In the event of an unheeded default under the terms of the loan agreement, *Schwab* may terminate and/or accelerate the loan, which may have a material adverse effect on the Gateway's ability to perform services to clients.

This loan benefits Gateway but may not benefit its clients. Gateway's recommendation/requirement that a client place assets in *Schwab's* custody may be based in part on benefits *Schwab* provides to Gateway, and not solely on the nature, cost or quality of custody and execution services provided by *Schwab*.

## Gateway Advisory, LLC Disclosure Brochure

Gateway places trades for its clients' accounts subject to its duty to seek best execution and its other fiduciary duties. Gateway may use broker-dealers other than *Schwab* to execute trades for client accounts maintained at *Schwab*, but this practice may result in additional costs to clients so that Gateway is more likely to place trades through *Schwab* rather than other broker-dealers. *Schwab's* execution quality may be different than other broker-dealers.

## Item 13. Review of Accounts

### Account Reviews

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For those clients to whom Gateway provides investment management services, Gateway monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom Gateway provides financial planning, reviews are conducted from one to four times per year (depending on the terms of the *Agreement*). Such reviews are conducted by one of Gateway's investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Gateway and to keep Gateway informed of any changes thereto. Gateway contacts ongoing investment advisory clients one to four times a year (again, depending on the terms of the *Agreement*) to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

### General Reports and Account Statements

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Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom Gateway provides investment advisory services will also receive a report from Gateway that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance from one to six times per year, depending on the terms of the *Agreement*. Clients should compare the account statements they receive from their custodian with those they receive from Gateway.



### Item 14. Client Referrals and Other Compensation

#### **Client Referrals**

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Gateway does not currently provide compensation to third-party solicitors for client referrals.

#### **Other Economic Benefit**

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Gateway may receive an economic benefit from a third party (non-client) for providing investment advice to the firm's advisory clients. This type of relationship poses a conflict of interest, as discussed in Item 12.

### Item 15. Custody

Gateway's *Agreement* and/or the separate agreement with any *Financial Institution* may authorize Gateway through such *Financial Institution* to debit the client's account for the amount of Gateway's fee and to directly remit that management fee to Gateway in accordance with applicable custody rules.

The *Financial Institutions* recommended by Gateway have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Gateway. In addition, as discussed in Item 13, Gateway also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from Gateway.

### Item 16. Investment Discretion

Gateway is given the authority to exercise discretion on behalf of clients. Gateway is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. Gateway is given this authority through a power-of-attorney included in the agreement between Gateway and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Gateway takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Independent Managers* to be hired or fired.

### **Item 17. Voting Client Securities**

Gateway does not accept the authority to vote clients' securities (i.e., proxies) on their behalves. Clients receive proxies directly from the *Financial Institutions* where their assets are custodied and may contact the Firm at the number on the cover of this brochure with questions about proxies and/or other such solicitations.

### Item 18. Financial Information

Gateway is not required to disclose any financial information pursuant to this Item due to the following:

- The firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance;
- The firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The firm has not been the subject of a bankruptcy petition at any time during the past ten years.



Prepared by:

