

Return of Capital (ROC) Basics

ROC occurs when the *distributions exceed taxable* income

Components of Distributions

1. Ordinary income*:

- Actual bond interest or Stock dividends
- Tax documents split out qualified from ordinary.

2. Short Term Capital Gains*:

- Fund's realized ST gains when trading assets

3. Long Term Capital Gains*:

- Fund's realized LT gains when trading assets

4. Return of Capital (ROC)+:

- Fund may own assets returning tax-deferred distributions
- May be your invested cash coming back to you

*= Taxable, +=Tax Deferred

Good and Bad ROC

1. Constructive ROC (Accounting Disconnects):

- Sometimes called *Pass-through ROC*
- Some of the fund's assets *may* return tax-deferred income - MLPs, REITS, Options Strategies, etc.
- Is the fund's NAV is stable or growing? -> It's OK

2. Destructive ROC (aka, Bad ROC):

- Typically in managed distribution funds
- Mutual Funds, CEFs and sometimes ETFs
- When the fund's investment income falls short of its promised, steady, high distribution it may *make up the difference* by returning some of your cash
- **Is the fund's NAV steadily declining? -> Red flag!**

How much ROC might you get?

Always trust the fund's tax documents rather than financial tracking sites

Before buying

Section 19(a) Notices

- Monthly *Estimate* of ROC
- May change over time
- Found on Fund Manager's website
- Required by Investment Company Act of 1940

After you own it

Form 1099-Div (box 3)

- *Actual* amount of ROC *you* received
- Labelled as **Nondividend Distributions**
- Produced at tax time
- Delivered with your broker's other tax documents

Before Buying

IRS Form 8937

- If you *really* want to dig in
- **Prior Year** Corporate tax form
- Says how much per share dividends were reduced by ROC
- Found on Fund Manager's investor relations page

Beware!

The 3rd Party Data Lag

- Morningstar, Yahoo and other 3rd party sites **may not show the ROC**
- They may not get the data in a soon enough
- Or the data gathering technology they use misses the ROC

Examples from Morningstar

Is a high or steady distribution a red flag? You have to dig in and find out

Quote Chart Fund Analysis **Performance** Sustainability R

Performance Returns **Distributions**

Latest Distribution History

Distribution Date	Distrib NAV	Income	S/T Cap Gain	L/T Cap Gain	Return of Cap	Total
May 01, 2026	55.23	0.4833	0.0000	0.0000	0.0000	0.4833
Apr 01, 2026	49.59	0.4319	0.0000	0.0000	0.0000	0.4319
Mar 02, 2026	51.57	0.4527	0.0000	0.0000	0.0000	0.4527
Feb 02, 2026	53.15	0.4655	0.0000	0.0000	0.0000	0.4655
Jan 02, 2026	52.31	0.4633	0.0000	0.0000	0.0000	0.4633
Dec 01, 2025	52.70	0.0203	0.0000	0.0000	0.4449	0.4652
Nov 03, 2025	53.86	0.0207	0.0000	0.0000	0.4531	0.4737
Oct 01, 2025	52.17	0.0200	0.0000	0.0000	0.4379	0.4579
Sep 02, 2025	49.90	0.0193	0.0000	0.0000	0.4237	0.4430
Aug 01, 2025	49.25	0.0193	0.0000	0.0000	0.4229	0.4421

Quote Chart **Performance** Sustainability Risk Price P

Performance Returns **Distributions** Premium/Discount

Latest Distribution History

Ex Date	Income	S/T Cap Gain	L/T Cap Gain	Return of Cap	Total
May 14, 2026	0.0000	0.0515	0.0000	0.0485	0.1000
Apr 14, 2026	0.0000	0.0000	0.0000	0.1000	0.1000
Mar 13, 2026	0.0000	0.0647	0.0000	0.0353	0.1000
Feb 13, 2026	0.0000	0.0000	0.0000	0.1000	0.1000
Dec 30, 2025	0.0000	0.0000	0.0000	0.1000	0.1000
Dec 12, 2025	0.0027	0.0973	0.0000	0.0000	0.1000
Nov 14, 2025	0.0000	0.1000	0.0000	0.0000	0.1000
Oct 15, 2025	0.0000	0.1000	0.0000	0.0000	0.1000
Sep 15, 2025	0.0000	0.1000	0.0000	0.0000	0.1000
Aug 14, 2025	0.0000	0.0649	0.0000	0.0351	0.1000
Jul 14, 2025	0.0000	0.0000	0.0000	0.1000	0.1000