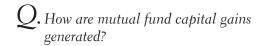


FREQUENTLY ASKED QUESTIONS

Capital Gain Distributions



A. Gains from a shareholder sale: If a shareholder sells or exchanges shares in a mutual fund for more than the original purchase price, the shareholder will incur a capital gain. For example, shares purchased for \$100 and later sold for \$120 generate a capital gain of \$20.

Gains from a fund distribution: If a mutual fund sells an underlying investment for more than it originally paid, it will realize a capital gain. These net gains (gains in excess of capital losses) are distributed to shareholders annually.

- Q. Why do mutual funds pay capital gain distributions?
- A. Tax law requires that mutual funds distribute substantially all net capital gains realized from the sale of a fund's investments. Mutual funds do not generally pay taxes on net realized capital gains, but instead distribute these gains to shareholders who then include them on their individual income tax returns.
- Q. Why does the fund's share price drop when a capital gain distribution is paid?

A. A fund's share price, also known as its net asset value ("NAV"), will increase when profits, whether realized or unrealized, are earned. When a fund pays out realized gains in a distribution, the fund's NAV will decrease by the same amount of the distribution on the ex-dividend date. Please note that market activity may also impact the fund's NAV, so the total change in NAV may be more or less than the distribution.

The decrease in NAV does not mean that the shareholder is losing money. The distribution does not impact the total return of the fund. Shareholders have the same value before and after a distribution, as calculated by the sum of the account value plus the distribution.

- Q. Do I have to pay taxes on distributions that are reinvested in my account?
- A. Yes. Shareholders must disclose capital gains on their Federal income tax returns, whether received in cash or reinvested in the fund. This is true even if the fund's NAV has declined. Shareholders in tax-sheltered accounts, such as IRAs, do not pay taxes at the time of distribution. The gain is received by the account, but the taxes are deferred.



Q. Is there any benefit to reinvesting distributions?

A. Shareholders who reinvest their dividends purchase additional shares at a lower price in their account, leaving the total value of the account unaffected by the distribution. The shareholder's cost basis is increased by the amount of the reinvested distribution. This does not impact the total return of a fund.

If the reinvested shares are sold at the same value as the reinvestment price, the shareholder would have no gain/loss since those shares would have already been taxed.

To ascertain their account value at any point in time, a shareholder needs to combine both their original purchase price plus distributions. Cost basis information is generally provided by your broker or transfer agent.

Q. Are there different capital gain tax rates?

A. Yes. The applicable rate depends on how long the fund held the securities prior to sale.

Securities held in the fund's portfolio for one year or more are considered long-term capital gains and are taxable at a rate between 0% and 20%, depending on an individual's tax bracket.

Securities held in the fund's portfolio for one year or less are considered short-term capital gains and are taxable at the shareholder's ordinary income tax rate.

Q. Why is there a capital gain distribution if the net asset value of my fund has decreased during the year?

A. Capital gain distributions reflect the gains realized by the trading activity of the fund manager during the year, which in turn are based on when and at what price the fund manager originally purchased the security.

Therefore, even though the value of the securities within a fund's portfolio may be down at a point in time, impacting its NAV, the sale of those securities by the fund's manager could still result in a capital gain, particularly if they had been held in the fund for a long time.

Q. Does Virtus have a tax advisor or anyone who can help me fill out my return?

A. Our telephone representatives will be happy to help you with any questions and information about your accounts; however, we cannot provide tax advice. For assistance in filling out your return, you should contact your tax advisor. You may also wish to refer to IRS Publication 550, *Investment Income*, for more information.

This information is not exhaustive and should not be considered tax advice.