

Distributions and Return of Capital: How Does It Work?

An attractive feature of investing in master limited partnerships (MLPs) is the tax deferral benefit that arises from the limited partnership structure. Benefiting from accelerated depreciation expense, the partnerships often generate substantial cash profits but little taxable income. Investors generally receive cash distributions that are not taxed currently. The IRS refers to these cash distributions as return of capital (ROC).

How much of the AMZA distribution is ROC?

The tax deferral benefit flows through AMZA's C-corporation structure, so a significant portion of the investment income received by the Fund is ROC. The Fund also earns some taxable income. The three primary contributors to the distribution are:

- 1) dividend income from non-MLP investments,
- 2) option premium income, and
- 3) net realized capital gains or losses.

The portion of the Fund's distribution that is treated as ROC will be determined by the combination of all of these items.

The calculation is: total distributions to shareholders, less the amount of taxable income, which leaves a balance that is all ROC. We then calculate the portion of the distribution that is ROC by dividing the amount of ROC by the total distribution paid.

The amount of taxable income generated by the Fund will vary from year to year and determines the portion of the distribution that is ROC. Taxable dividends received by the Fund are usually a small factor, while option premium income is a large contributor. The IRS treats this income as capital gains. In some years, the option premium income may be netted against net realized losses on securities positions, reducing the amount of taxable income in the Fund. If option premium income can be offset by net realized capital losses, the portion of the distribution attributed to ROC will be greater.

RELATED READING: For more information on the composition of AMZA's distribution, please see "[Leveraging Opportunities in Energy Infrastructure](#)," posted on the Fund's web page at Virtus.com.

What is the reporting process for AMZA's distributions?

The Fund announces its monthly dividend with a press release that notes the amount and timing of the payment, as well as an estimate of the tax character of the distribution. Shortly after the declaration, a Section 19(a) Notice of the source of the distribution is posted to the [Fund's website page](#), as required by the SEC. The distribution schedule for the current fiscal year is also located on the [Fund's website page](#). The estimate typically identifies the portion of the dividend that is attributable to ROC and the portion that is attributable to dividend income.

Investors should note that estimates of the distribution sources are made on a year-to-date basis and are not specific to the dividend being paid in the current period. Moreover, the portions attributed to each category may change as the fiscal year progresses. A final determination of the tax character of the distribution payments made during the year cannot be known until the end of the Fund's fiscal year on October 31. Investors should not use the estimates made in the interim periods for tax planning or reporting purposes.

In the weeks after the close of the year, an audit of the Fund's financial reports is done and a report is made to the IRS indicating the final attribution of the distribution payments. This is done on Form 8937, copies of which can be found on the [Fund's website page](#).

All payments made during the year are treated the same. This will be the case even if the estimates of the distribution sources swing widely during the year. It is possible that a higher or lower portion of the distributions made throughout the year are attributed to ROC, based on the Fund's close-of-year audit.

The Fund reports the final attribution of the dividend to investors on Form 1099, similar to the reports investors get on other dividend-paying securities in their portfolios. These reports are distributed by January 31 following the end of the calendar tax year.

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

IRS Circular 230 Disclosure: Any information contained in this communication (including any attachments) is not intended to be used, and cannot be used, to avoid penalties imposed under the U.S. Internal Revenue Code. Shareholders should seek independent tax advice based on their own circumstances.

IMPORTANT RISK CONSIDERATIONS

Exchange-Traded Funds (ETF): The value of an ETF may be more volatile than the underlying portfolio of securities it is designed to track. The costs of owning the ETF may exceed the cost of investing directly in the underlying securities. **MLP Interest Rates:** As yield-based investments, MLPs carry interest rate risk and may underperform in rising interest rate environments. Additionally, when investors have heightened fears about the economy, the risk spread between MLPs and competing investment options can widen, which may have an adverse effect on the stock price of MLPs. Rising interest rates may increase the potential cost of MLPs financing projects or cost of operations, and may affect the demand for MLP investments, either of which may result in lower performance by or distributions from the Fund's MLP investments. **Industry/Sector Concentration:** A fund that focuses its investments in a particular industry or sector will be more sensitive to conditions that affect that industry or sector than a non-concentrated fund. **Short Sales:** The fund may engage in short sales, and may experience a loss if the price of a borrowed security increases before the date on which the fund replaces the security. **Leverage:** When a fund leverages its portfolio, the value of its shares may be more volatile and all other risks may be compounded. **Derivatives:** Investments in derivatives such as futures, options, forwards, and swaps may increase volatility or cause a loss greater than the principal investment. **MLPs:** Investments in Master Limited Partnerships may be adversely impacted by tax law changes, regulation, or factors affecting underlying assets. **No Guarantee:** There is no guarantee that the portfolio will meet its objective. **Prospectus:** For additional information on risks, please see the fund's prospectus.

Please consider the Fund's objectives, risks, charges, and expenses before investing. Contact us at 1.800.243.4361 or visit www.virtus.com for a prospectus, which contains this and other information about the Fund. Read the prospectus carefully before investing.

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