

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.

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 to the portfolio of owning shares of an ETF may exceed the cost of investing directly in the underlying securities. **Master Limited Partnerships:** Investments in MLPs may be adversely impacted by interest rates, tax law changes, regulation, or factors affecting underlying assets. **Energy Industry Concentration:** The portfolio's investments are concentrated in the energy industry and presents greater risks than if the portfolio was broadly diversified over numerous sectors of the economy. **Leverage:** When the Fund leverages its portfolio, the Fund may be less liquid and/or may liquidate positions at an unfavorable time, and the value of the Fund's shares will be more volatile and sensitive to market movements. **Options:** Selling call options may limit the opportunity to profit from the increase in price of the underlying asset. Selling put options risks loss if the option is exercised while the price of the underlying asset is rising. Buying options risks loss of the premium paid for those options. **Market Price/NAV:** At the time of purchase and/or sale, an investor's shares may have a market price that is above or below the fund's NAV, which may increase the investor's risk of loss. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended. **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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