

FROM THE INVESTMENT
MANAGEMENT GROUP

Understanding Mutual Fund Capital Gain Distributions

Every year, mutual funds are required to distribute realized net capital gains to their shareholders. This event can trigger corresponding tax consequences as well as changes to underlying share values, which investors should understand.

What are mutual fund capital gains distributions?

Mutual funds are investment vehicles, whereby the trading activity during the year is accounted for within a single investment pool. Part of a mutual fund's total return includes dividends, income/yield from bonds and net capital gains.

With regard to capital gains, mutual funds are required, annually, to distribute nearly all of their realized net capital gains (profits) on securities sold within the fund. This usually occurs in December. Unless these capital gains are marked for reinvestment, then a shareholder (i.e., investor) will receive a cash distribution. The distribution will reduce the fund's price or NAV (Net Asset Value) by the corresponding amount.

What to expect when mutual fund capital gains are distributed to you?

Cash proceeds, classified as either a short-term or long-term capital gain, are added to your brokerage account as cash (usually within a money market fund), unless marked for reinvestment. Either way, they are reported on your 1099 tax form.

The price or NAV of the mutual fund will typically decline in an amount proportionate to the capital gain (or income) distributed to shareholders.

A note regarding your individual net gain or loss.

While a mutual fund may distribute a capital gain for the portfolio, you also have your own cost basis in the fund based on your purchase date(s) and price (s). As such, if a capital gain distribution is received in cash (or income for bond funds), then your market value may be less once the distribution is made.

This does not mean that your actual market value declined. It means that your total return should consider all non-reinvested distributions. That is, the total return for any security must consider the current market value (reflected by the NAV multiplied by the number of shares owned) AND capital gain and income distributions received.

As always, should you have any questions feel free to contact any member of your Calamos Wealth Management advisory team.

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