



Understanding Return of Capital in the Autocall m+ ETFs

What Is Return of Capital (ROC)?

Return of capital (ROC) is a distribution that's classified as a return of your original investment, rather than income earned or profit realized. It generally occurs when a fund's distribution is larger than the taxable income it generated over the period from dividends, interest, and realized gains, net of expenses. Unlike a dividend or interest payment, ROC isn't immediately taxable; instead, it reduces your cost basis in the fund, the number used to calculate gain or loss when you eventually sell your shares. If you've held your shares for more than a year by the time you sell, any resulting gain is generally eligible for more favorable long-term capital gains

tax rates, and this same cost-basis adjustment applies to each reinvested payment for investors who reinvest their distributions.

While ROC is generally not immediately taxable, it will reduce your cost basis in the fund and may result in a larger capital gain, or a smaller loss when you sell your shares, even if you sell at a loss relative to your original investment. Once cumulative ROC exceeds your cost basis, any additional ROC is generally taxable as a capital gain in the year it's received, rather than deferred until you sell.

What Are the Possible Components of a Distribution?

A single distribution isn't necessarily one thing. Depending on the period, it may be made up of:

- **ROC:** capital being returned, rather than income earned during the period
- **Income:** earnings generated by the fund's holdings, such as interest or discount accretion on U.S. Treasury bills
- **Capital Gain:** a distribution of a gain the fund has realized

The relative mix of these can vary from month to month and fund to fund.

Why Are These Distributions Anticipated to Be Primarily ROC?

The Autocall fund gains exposure to its reference Autocall Index through a swap, and holds short-duration U.S. Treasuries, cash, and similar instruments as collateral.

Each period, the Autocall Index generates a coupon. That coupon isn't paid out in cash from the Autocall Index; it's reflected back

into the Autocall Index itself. To fund the cash distribution to shareholders, the fund draws on its collateral, which is expected to generate only a minimal amount of income in a given period, a key reason most of what's distributed is expected to carry a ROC classification instead.

Does This Mean the Fund Is Losing Value?

Not exactly. The amount paid out in a distribution is intended to match the coupon the Autocall Index generated over that period. So while NAV will typically decline by roughly the distribution amount when it's paid, as with any cash distribution, that decline reflects value the fund had already earned, not a depletion of your original investment beyond what the strategy generated. ROC, in this context, is a description of how the distribution is characterized for tax purposes, not a signal that the fund is depleting your principal to make a payment.

That said, fund value still moves with the mark-to-market performance of the underlying Autocall Index exposure. That's the more meaningful measure of how the strategy is performing, separate from how any given distribution happens to be classified for tax purposes.

How Will I Know the Actual Composition of Each Distribution?

Following each distribution, the fund will post a 19(a) notice on its website with the estimated composition: how much reflects income versus ROC. That notice is an estimate at the time of the distribution, not a final tax determination. The fund also files a Form 8937 reporting the basis adjustment from ROC distributions, generally posted once after the fund's fiscal year-

end and again in January. Your Broker-dealer uses this filing to keep your cost basis accurate for tax reporting when you eventually sell.

Final tax characterization is confirmed after year-end and reported on your Form 1099-DIV.

Risks to Consider

- There's no assurance a fund will make a distribution at any given time, and distribution amounts may vary significantly from one period to the next.
- Because a portion of a fund's distributions may consist of return of capital, these funds may not be an appropriate investment for investors who do not want their principal investment in the fund to decrease over time, or who do not wish to receive return of capital in a given period.

A Few Things to Keep in Mind

- The tax treatment described here reflects what's anticipated based on the general Autocall fund structure, not confirmed results; actual composition may differ once distributions occur.
- This is general information, not tax or investment advice. Please consult a tax advisor about your own situation.

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DEFINITIONS

Autocall Index. A rules-based index that combines exposure to an underlying market benchmark with an autocall feature. Each period, the index generates a coupon if certain conditions are met; that coupon is reflected back into the index level rather than paid out in cash. **Broker-Dealer.** A financial firm licensed to buy and sell securities on behalf of clients or for its own account, and through which investors typically hold fund shares. **Capital Gain.** A gain realized when the fund sells or terminates a position at a price above its cost basis. Capital gains may be short-term (assets held one year or less) or long-term (assets held more than one year) and are taxed at different rates. **Cost Basis.** The original purchase price of an investment, used to calculate capital gain or loss when shares are sold. Return of capital distributions reduce cost basis over time. **Coupon.** The income generated by the Autocall Index during a given period, contingent on index performance relative to predetermined levels. The coupon accretes into the index level and is not paid out as cash. **Form 1099-DIV.** A tax form issued annually by the fund reporting the final characterization of distributions for federal income tax purposes. It includes ordinary income, capital gains, and return of capital — which appears as "Nondividend Distributions" in Box 3. **Form 8937.** An IRS form filed by the fund to report actions that affect shareholders' cost basis, including return of capital distributions. Brokers use this filing to adjust cost basis records accordingly. **Mark-to-Market.** The valuation of the fund's swap exposure based on the current market level of the Autocall Index, updated daily using prevailing market prices. **Net Asset Value (NAV).** The per-share value of the fund's underlying assets, minus liabilities, calculated at the end of each trading day by dividing total net assets by shares outstanding. **19(a) Notice.** A notice posted by the fund after each distribution, providing shareholders with an estimated breakdown of distribution sources — such as income or return of capital. These are estimates, not final tax determinations; final characterization is reported on Form 1099-DIV. **Short-Duration U.S. Treasuries.** U.S. government debt securities with near-term maturities, typically one year or less, held by the fund as collateral alongside its swap exposure. **Total Return Swap.** A derivative contract through which the fund receives the total return of the Autocall Index in exchange for a periodic financing payment, providing the fund's primary index exposure without directly holding the underlying securities.

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