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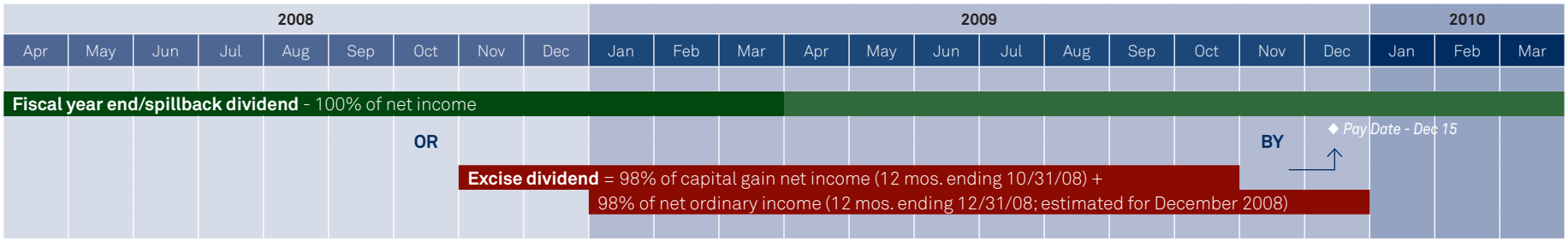
A Brief Overview of Mutual Fund Distributions

Why do mutual funds make distributions to shareholders?

- Mutual funds are corporations that are subject to corporate income tax.
- A mutual fund can avoid paying this tax if it distributes all of its yearly income and capital gains to shareholders.
- If a mutual fund fails to make the distributions, the fund would pay a penalty which would have a negative impact on shareholders.

How are distributions calculated?

Example - RidgeWorth Funds Fiscal Tax Year (4/1/08 to 3/31/09) and Distribution Date



- Generally, mutual funds declare and distribute ordinary income throughout the year, and pay capital gain income annually.
- There are two methods of calculating the amount that needs to be paid to shareholders.
  - The **fiscal year end/spillback dividend** is determined by calculating the total net income for a mutual fund, which includes ordinary income and capital gain income.
    - ~ The dividend must be paid during the tax year, or within one year following the end of the taxable year.
    - ~ Generally, the majority of the amount left to pay after the fiscal year end is the capital gain income.
  - The **excise dividend** was put in place to curb deferral opportunities and require all mutual funds to adopt a calendar tax year.
    - ~ This dividend is calculated by adding 98% of the capital gain income from the 12 months ending October 31 and 98% of the net ordinary income through December 31.
- A fund must pay the greater of the **spillback dividend** or the **excise dividend** no later than the extended due date of the income tax for the applicable tax year ("Pay Date").

How could a mutual fund have a capital gain when it has a large negative return during the calendar year?

- There are several reasons why a fund might have a capital gain at the end of a negative calendar year, which include:
  - The capital gains occurred during the fiscal year/spillback period and the negative returns came between the end of the fiscal year and calendar year.
  - The fund managers sold securities that appreciated to the price targets the managers set for them, or had appreciated but were no longer the best fit for the portfolio.
  - Redemptions caused the fund managers to raise cash by selling securities that had appreciated.
- Fund managers are aware of the capital gains tax impact and generally trade accordingly or believe that the value added by their investment approach will offset the impact of these gains.

For more information about distributions for your fund, please speak with your financial advisor.

Past performance is no guarantee of future results. ***An investor should consider the fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information about the RidgeWorth Funds can be found in the fund's prospectus. To obtain a prospectus, please call 1-888-784-3863 or visit www.ridgeworthfunds.com. Please read the prospectus carefully before investing.***

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