

The logo for Pender, featuring the word "PENDER" in a bold, serif font. The letter "P" is stylized with a diagonal line through it.

PenderFund Capital Management Ltd.

FAQ Distributions

Mutual Fund Distributions: What Investors Need to Know

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As an owner of a mutual fund that makes distributions, you are entitled to receive these payments. Not all mutual funds make distributions, but many do. If you own one of these funds, from time-to-time, a cash payment or additional fund units will be deposited into your account. This may occur on a monthly, quarterly, or annual basis. As an informed investor, it is a good idea to understand why and how mutual these fund distributions work.

What are distributions?

Distributions from mutual funds can contain any of the following: interest income, dividends, realized capital gains, return of capital, withholding taxes, foreign income, among others. If a mutual fund only holds dividend-paying stocks, the distributions are likely to be composed primarily of dividends, not interest income.

Why do mutual funds have distributions?

Tax efficiency is a key reason mutual funds distribute cash to clients. Mutual funds are structured as unit trusts which means they benefit from a non-taxable status provided they distribute earned capital gains and income within the calendar year. Investors must pay tax on these distributions however the individual will pay tax at their own marginal tax rate which is usually lower than the fund's marginal tax rate. Distributions received in a registered account, such as a Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Plan (TFSA), are not subject to taxation.

What are the sources of the distributions?

The types of investments held in the fund determine the source of the distributions. For example, a fund invested in fixed-income assets such as bonds or money markets, will receive interest from them and distribute interest income. Funds invested in dividend-paying equities, will receive distributions in the form of dividend income and distribute dividend income. Funds may generate capital gains from selling investments and distribute likewise. Funds may also invest in assets that do not make distributions.

Earned Income

e.g. Dividend income from stocks.
e.g. Interest income from bonds.

+

Capital Gains

Capital gains (net of capital losses) generated from trading securities.

-

Expenses & Other Tax Adjustments

Management fees and expenses to run the mutual fund.

=

Distribution

Any net income and/or net capital gains are paid to investors.

How are distributions calculated?

Unitholders receive distributions based on the number of units they hold on the “record date”.
 Example: If you held 100 mutual fund units on the record date, and the distribution was \$0.50 per unit, you would receive a distribution of \$50.

What effect do distributions have on the value of the fund and on my investments?

A distribution reduces the net asset value (NAV) of the fund by the exact amount that was paid out. This does not affect your portfolio value when you leave the funds in a tax-exempt account.

How are distributions taxed?

In non-registered accounts, the type of underlying asset in the fund determines the kind of tax treatment. For example, fixed income will be taxed as interest income at your marginal tax rate. Dividends from Canadian corporations and capital gains are taxed at a lower rate. In simple terms, when a fund pays a distribution, you get taxed on it. When the distribution is in fund units, the book value increases at the same time by the amount of the distribution to avoid double taxation. This information is reported on your T3 slip (Relevé 16 for Quebec residents).

In registered accounts, reinvested distributions are not immediately taxed. They also do not affect your contribution room in your RRSP and TFSA.

Distribution Option	Impact on Fund Value	Impact on Adjusted Cost Base (ACB)
Option 1: Cash Distribution	Unit price decreases by the amount of the distribution and the total fund value decreases.	No impact on ACB unless the distribution consists of Return of Capital (ROC), which will reduce the ACB by the ROC amount.
Option 2: Reinvested Distribution	Unit price decreases by the amount of the distribution; however, since the distribution is reinvested, the total fund value does not change.	The total ACB increases by the reinvestment distribution amount less any ROC component of such distribution.

Option 1: Distribution received as cash

Value of your investment before distribution	100 units x \$10 = \$1,000
Distribution	100 units x \$0.30 = \$30
Impact of distribution on NAV per unit	\$10 - \$0.30 = \$9.70
Post-distribution value	100 units x \$9.70 = \$970
Total cash received plus value of your investment after distribution	\$30 + \$970 = \$1,000
	Cash distribution paid to you + Post-distribution value of your investment

Option 2: Distribution reinvested on your behalf to buy new units

Value of your investment before distribution	100 units x \$10 = \$1,000
Distribution	100 units x \$0.30 = \$30
Impact of distribution on NAV per unit	\$10 - \$0.30 = \$9.70
The distribution is reinvested to purchase new units	\$30 ÷ \$9.70 = 3.09 units
Total value of your investment after distribution	103.9 units x \$9.70 = \$1,000
	You have more units as a result of reinvested distribution + Total portfolio value

What are the distributions for each of the Pender Funds?

At Pender, our goal is to protect and grow wealth for our investors over time. Our team of security analysts and seasoned investment professionals manage a suite of differentiated fund strategies with the goal of achieving first-quartile, award-winning performance.

To the right is a list of our funds and how we approach distributions in each of them.

To learn more about Pender's funds, please visit <https://www.penderfund.com/>

Name of Fund	Distributions
Equity Funds	
Pender Small Cap Opportunities Fund	Net income and net capital gains annually. Automatically reinvested in additional units; cash upon request.
Pender Small/Mid Cap Dividend Fund	Net income quarterly; net capital gains annually. Automatically reinvested in additional units; cash upon request.
Pender Value Fund	Net income and net capital gains annually. Automatically reinvested in additional units; cash upon request.
Fixed Income Funds	
Pender Bond Universe Fund	Net income monthly; net capital gains annually. Automatically reinvested in additional units; cash upon request.
Pender Corporate Bond Fund	Net income monthly; net capital gains annually. Automatically reinvested in additional units; cash upon request.
Balanced Funds	
Pender Strategic Growth & Income Fund	Net income quarterly; net capital gains annually. Automatically reinvested in additional units; cash upon request.
Liquid Alternative Funds	
Pender Alternative Absolute Return Fund	Net income monthly; net capital gains annually. Automatically reinvested in additional units; cash upon request.
Pender Alternative Arbitrage Fund	Net income and net capital gains annually. Automatically reinvested in additional units; cash upon request.
Pender Alternative Arbitrage Plus Fund	Net income and net capital gains annually. Automatically reinvested in additional units; cash upon request.
Pender Alternative Multi-Strategy Income Fund	Net income quarterly; net capital gains annually. Automatically reinvested in additional units; cash upon request.
Pender Alternative Special Situations Fund	Net income and net capital gains annually. Automatically reinvested in additional units; cash upon request.

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