Eaton Vance

Reinvesting Closed-End Fund Distributions

Similar to some open-end mutual funds, many closed-end funds seek to pay distributions to shareholders on a quarterly, monthly or other regular schedule. For many investors, cash payouts may provide a valuable source of current income.

For investors who do not need supplementary income, however, there is another alternative—to automatically reinvest their distributions[1] by purchasing additional shares of the closed-end fund on an ongoing basis. Along with simple convenience, this approach has other potential advantages, as well as trade-offs. Closed-end fund investors should weigh all relevant factors and consult with their financial advisors before choosing to reinvest distributions.

How It Works

Both equity closed-end funds and those that invest in other types of income-producing asset classes, such as municipal bonds, may offer distribution reinvestment plans. While the exact mechanics may vary, there are three basic types of plans that may be employed by closed-end funds:

- Open-market purchased shares: Using this approach, an agent of the fund purchases existing shares in the open market to satisfy reinvestment orders. Because no new shares of the fund are issued, the reinvestment program does not result in dilution of share value.
- Newly issued shares[2]: A fund may issue additional shares to satisfy reinvestment orders rather than purchase existing shares. This approach may dilute the value of existing shares if a fund is trading at a discount to net asset value (NAV), as the number of shares outstanding will increase. However, investors would acquire new shares at the discounted price, helping to offset the dilution. (Please see Eaton Vance's primer on closed-end fund investing, Understanding Premiums and Discounts.)
- Hybrid plan: Some closed-end funds have distribution reinvestment plans that use a combination of both repurchased and new shares.

Details regarding a specific fund can be obtained from the closed-end fund manager.

A Potentially Low-Cost Strategy

Akin to dollar-cost averaging, reinvesting closed-end fund distributions may benefit investors over the long term by delivering a relatively low average cost per share purchased[3]:

[1] Closed-end fund distributions may be characterized variously as: 1) dividends, which may include non-qualified ordinary dividends (taxed at ordinary income tax rates), qualified dividends (taxed at rates applicable to long-term capital gains) and exempt-interest dividends (not subject to federal income tax); 2) capital gains distributions; or 3) non-dividend distributions, also known as return of capital distributions. Dividends and capital gains are typically considered earned income. A return of capital distribution does not necessarily reflect a Fund's investment performance and should not be confused with "yield" or "income." A return of capital distribution may include, for example, a return of some or all of the money that an investor invested in Fund shares. Distributions in excess of Fund returns will cause its net asset value (NAV) to erode. Investors should not draw any conclusions about a Fund's investment performance from the amount of its distributions or from the terms of its managed distribution plan. For additional information on return of capital distributions, please see Eaton Vance's piece Return of Capital Distributions Demystified.

[2] This is one of the few limited circumstances under which a closed-end fund may issue new shares, as most such funds generally seek to maintain a substantially fixed number of shares.

[3] Dollar-cost averaging and other similar strategies cannot assure a profit or protect against loss. There is no assurance that such a strategy will work as intended.

- When a closed-end fund is trading at a market share price that is equal to its NAV, distributions are typically reinvested at that price.
- When a closed-end fund trades at a discount to NAV, the price at which distributions are reinvested is the prevailing market price rather than the fund's NAV. This may be beneficial because, by reinvesting at the discounted price, investors receive more shares than they would have had the distributions been reinvested at NAV.
- When a closed-end fund trades at a premium to NAV, distributions may be reinvested at below-market prices (e.g., either at NAV or at 95% of the market price, whichever is greater) if the Fund issues new shares, potentially allowing the investor to pay less per share than someone purchasing shares on the open market.

The Potential Power Of Compounding

Another key reason to consider a reinvestment program is to potentially benefit from compounding—the phenomenon of investment earnings being continually reinvested to generate their own earnings. By reinvesting distributions, investors accumulate more shares of the fund and, therefore, future distributions may be larger since the payout will be based on a larger share balance.

In this way, returns may be "compounded" over time, potentially leading to greater long-term growth of the investment. If an investor should decide later to switch to cash distributions, payouts are likely to be bigger—perhaps significantly—than if the distributions had not previously been reinvested.

Potential Trade-Offs

One possible pitfall is that reinvesting distributions can sometimes leave a portfolio heavily concentrated in one fund or in a particular asset class. If this is a concern, an investor may wish to receive distributions in cash and then strategically invest those monies elsewhere to help diversify the portfolio's market risk exposure[5]. Similarly, there may be opportunity costs associated with reinvestment in that the monies could otherwise be used to cover expenses or be invested in potentially higher returning assets.

Tax Considerations

Whether paid out in cash or reinvested, distributions from most closed-end funds, as well as from most open end funds and individual stocks, are generally taxable (unless reinvested in a tax-deferred account). Taxable dividends that meet certain conditions—known as qualified dividend income—currently are taxed the same as long-term capital gains (i.e., at a maximum rate of between 15% and 23.8%, depending on a taxpayer's adjusted gross income). In some cases, however, closed-end fund dividends may be taxed differently. For example, depending on a fund's turnover

Compounding At Work

Here is a simple hypothetical example to illustrate the potential benefits of compounding[4]:

John Doe buys 1,000 shares of a closed-end fund at the current market price of $10 per share, which is equal to the fund's NAV. The fund intends to pay a quarterly distribution of $0.50 per share, and John opts to reinvest his distributions rather than take them in cash.

Assuming the distribution is paid, John receives $500 for the first quarterly payment and reinvests it at the then-current market price of $9 per share (i.e., at a discount to the fund's NAV of $10 per share). After doing so, John owns an additional 55.56 shares, bringing his total share balance from 1,000 to 1,055.56. As a result, John receives $527.78 for his second quarterly distribution ($27.78 more than he received for his first). Reinvesting this second distribution—again, at a market price of $9 per share—buys John an additional 58.64 shares, so he now has a total of 1,114.20 shares. His third quarterly distribution will be $557.10 ($29.32 more than his second).

In this fashion, John's share balance—and hence, any distributions—may keep growing over time. This example shows how compounding is further accelerated when distributions are reinvested at a discount to NAV. Of course, a fund's market price will fluctuate over time such that the fund may not always trade at a discount to NAV. Furthermore, a Fund's market price may never move near or above its NAV. In addition, there is no assurance that a distribution will be paid, or that distributions will remain at current levels or increase over time.

[4] This example is hypothetical and for illustrative purposes only. It does not consider transaction costs (such as brokerage commissions) associated with reinvesting distributions via open market purchase. It is not representative of any actual closed-end fund product, nor does it represent actual results. Actual results will vary, perhaps to a significant degree.

[5] Diversification and compounding cannot assure a profit or protect against loss.

rate and holdings, a portion of its dividend income may be subject to higher ordinary income tax rates.

Please consult with a tax advisor for more information on these and other tax considerations.

To Reinvest Or Not To Reinvest

The decision of whether or not to reinvest closed-end fund distributions ultimately hinges on several variables, including an investor's time horizon and current income requirements.

In general, reinvestment may make sense if an investor intends to hold a fund for many years, which may yield long-term cost savings and more fully harness the power of compounding[5]. Income-oriented investors might find it more advantageous to take cash payouts, as might investors with shorter time horizons and those who use closed-end funds as trading vehicles—buying and selling based on changing discounts and premiums—instead of as buy-and-hold investments.

More Information

Information regarding Dividend Reinvestment Plans offered by Eaton Vance Closed-End Funds is available in each Fund's Annual Report posted on the closed-end fund section of the Eaton Vance website (eatonvance.com). In addition, the Plan's agent (Equiniti Trust Company) can be contacted directly at 1-866-439-6787.

RO 4425906 Exp. 05/31/2026 SKU 49261 25Q20198 5/19/25 LTR