

To: Plan sponsor and participant clients of BPAS
From: BPAS
Date: December, 2016
Re: Special notice regarding year-end capital gain distributions

Dear clients:

As happens every year, mutual funds are now posting various types of capital gains for year end 2016. **When a capital gain is declared, participants may notice a fairly dramatic drop in the price of one or more funds, followed by the posting of additional shares several business days later (which makes up for the difference).** Since BPAS receives many questions from participants each year when capital gain distributions are made, we have prepared this memo to explain the process and alleviate concerns.

One source of confusion in the capital gain process is that many participants assume that fund families “wire” the amount of the capital gain distribution to BPAS, who then reinvests these proceeds in their account several business days later. This is not the case. What really happens in a capital gain distribution is that **the fund family keeps the assets invested in the fund the entire time**; a capital gain posting is a tax and accounting convention to recognize gains that have been experienced within the mutual fund (which would be taxable for investors who hold the fund in a taxable account). However, because it takes time for fund families to fully report all capital gain activity to providers (which they do at a plan and fund level), it normally takes between 3 and 7 business days for a fund’s capital gain distributions to be fully reflected in participant accounts. And when capital gains are posted by BPAS, they are posted retroactively to the dividend date. In other words, when a fund family declares a capital gain, the fund sees a drop in price on one day which is commensurate to the number of *additional shares* being allocated to investors, then “the data catches up with the money” several business days later.

What are the different types of capital gains commonly seen?

Three different types of year-end distributions are commonly made by mutual funds: short-term gains, long term gains, and ordinary dividends. Each of these must be processed by BPAS through a defined reconciliation process within each plan and participant account. Per our usual practice, BPAS processes capital gain distributions on a “**first in, first out**” basis as they are received from mutual funds through the NSCC (our automated trading platform). While some funds begin posting cap gain distributions in late November or early December, a sharp rise is commonly seen in the middle and end part of December. The actual number of funds declaring a capital gain distribution varies by year, as does the timing for each fund. Because of the dispersion of this activity, the capital gains process normally spans several weeks, and is completed by mid-January in all accounts. Once a fund’s dividend has been posted by BPAS, it appears the following morning in the participant and plan sponsor websites after the daily (2:00 AM EST) refresh is performed.

If you see a dramatic price change in one of your funds on a given day in December, it could be because a year-end capital gain was declared. A good way to verify this is to check the website of the fund family, where this information is usually posted. You can also look up the fund's ticker symbol in Google Finance or Morningstar.com to see if there was a large drop on one day (which may have been at odds with the market). Please continue to check your account within www.bpas.com for the posting of any remaining distributions. Once they are posted, you will see the number of shares in these funds *increased* by a corresponding amount. Also, please be assured that for any participants who make transactions during the period of capital gain postings (including transfers, loans or distributions), the correct amount due from each prior fund will be credited to the participant's account (based on an average daily balance calculation) when the gain is posted, even if it requires a 'second step' distribution in the case of an account distribution. When December 31st statements are issued, they will **include** the posting of all capital gain or income distributions to your account.

If you have any questions on this process, please contact the BPAS Customer Service team at 866-401-5272 (option 3).

Best regards,

BPAS