One Of The Most Important Topics In Closed-End Funds

Nov. 6, 2020 12:17 AM ET | About: John Hancock Premium Dividend Fund (PDT)

Summary

- Return of capital is often misunderstood and inaccurately reported.
- For tax classifications, one won't know until year-end what the actual breakdown will really be.
- The return of capital discussions goes well with the misunderstanding of Section 19a notices as well!

I recently had a question come up in a John Hancock Premium Dividend Fund (PDT) article. It is a question that comes up so frequently, and that has to do with return of capital and involves section 19a press releases. It also has to do with the drawbacks and downsides of websites that aggregate data automatically.

In this case, it was a discussion about PDT and it was another perfect example of why going to a fund's website is so important for some information.

The question here was "on the Morningstar page PDT has generated massive ROC for quite some time (as in years.) Is that not considered return of capital?"

While this refers to PDT - you may as well replace it with fund 'XYZ' because it fits almost any fund.

This was my response:

> "That data is typically taken from section 19a reports. Though that isn't even always the case. To be honest, I'm not sure where Morningstar gets this data - basically they just make it up to fill in a blank? I guess? PDT shows their section 19a estimate that 0% is estimated as ROC and that 0% is estimated this year as ROC.

www.jhinvestments.com/...

However, Morningstar put the number at $0.0306 for October and it has been the same for the last 4 months? Unlikely!

I would never look at Morningstar data for distribution characteristics.

Also, those section 19a's are estimates only. They can change drastically when the official tax breakdown is known. So, if Morningstar did even accurately report this information it might not be right. Because there is no way of knowing what the actual distribution for a fund will be until the end of the year when it is actually known.

There are also two other locations where you can check for past tax classifications. Sometimes funds will provide access to this on their site. In the case of John Hancock, it is quite convenient though their spreadsheet is cumbersome.

There you can check and see that PDT did not include ROC once in the past two years.

For an easier place of seeing this information, though it isn't broken down as accurately in terms of QDI, short or long-term gains etc... is the annual reports funds provide.

To sum this up; never, never, NEVER pay attention to tax classifications from an aggregator site - go to the source for something so important.

It should also be noted that ROC isn't always bad. PDT doesn't have a strategy that generates ROC though, so if it did start paying out ROC (which we wouldn't know until the end of the year) then that would be something to watch. However, for performance and sustainability of distribution just watch the NAV and assess from there. Of course, there are years like 2020 where many funds and investments are down so that needs to be assessed as well.

Do take note that these Seeking Alpha articles are great ones that tie together. The first one linked is the discussion about how Section 19a press releases can be inaccurate since they are just estimates anyway.

Frustratingly, that Section 19a article is one of my least viewed pieces. Even when it is discussions such as that, that are so important. So please, if you are newer to CEF investing give it a look! I admit it isn't even easy to read since it discusses so many numbers and tables.

The second link is a discussion on how some funds can generate return of capital in their distribution due to investment strategy or underlying investments. Closed-end funds just simply pass through distributions to shareholders as they are received. Thus, return of capital can be generated from distributions from MLPs as these are typically ROC as well.

For more quick reading on this subject, *check out Eaton Vance's two-pager PDF* that does a fantastic job explaining what is going on as well!

No Negatives
★★★★★ congie66 • Oct. 19, 2020 3:37 PM

Just finished reading ALL of the reviews - was looking for a single solid negative but couldn't find any! I've been on for 6 months and it has added to both my knowledge & my monthly income. As one reviewer said - the CHAT ROOM alone is worth $39/mo. Thank you, Nick & Juan.

Investment income
★★★★★ 4bud • Oct. 16, 2020 2:21 AM

This my first year using this service and I can truly say it has helped my investments. Even with the Covid virus my investments have grown. Give them a try, I think you will be richer for it.

Solid efforts, deep knowledge.
★★★★★ Nadeem1986 • Oct. 02, 2020 1:57 AM

I highly recommend these gentlemen to any investor who seeks to buy at a reasonable valuation and not just buy for FOMO or chasing yield. I'm completely satisfied and their advice is valuable. As an immigrant from a third world country I had fear of investing for Income and I was chasing yield thinking it is the safest measure. Stanford Chemist and Nick Ackerman showed me how to evaluate each ETF and CEF and the pros and cons to every fund's structure.I learned a lot just by reading the analysis which is deep and informative. internal chat is open 24/7 and they are generous with their advice and time. 10/10, I highly recommend them to any income investor. I can safely say that I have gotten wiser and my portfolio is getting greener. Still a long way for me to go , however, it's a marathon not a sprint.
Less

Don't head into retirement without Income Laboratory!
★★★★★ OnTheFly56 • Aug. 21, 2020 7:08 AM

Stepping out of my two-week trial. I have voraciously read as many of the articles as I had time for. I have deep-dived the Lab portfolios through other sources. I have cruised the chat discussions. I have even asked Nick Ackerman and Stanford Chemist a question or two with amazingly fast responses. After all of this, I took the plunge and modified our portfolio to include the Income Generator and the Tactical Income. I also took a Muni account I had for emergency retirement funds and adapted the Taxable Income portfolio. Bottom line: using just 5% of our money (yes, just dipping a toe into the CEF waters) we make 11% of our portfolio income at a lower beta. Granted CEFs can have their own risk factors but again, the Lab clearly spells these out. All in all, this is taking a great deal of pressure off as I head into retirement next April. I'm already making plans on adjusting to a 10% portfolio value. So, to summarize: You get early access to Income Lab inciteful reports. You get access to five portfolios and the thought process and analysis behind them. You get access to a chat area to discuss your ideas and learn from others. But the clincher for me was the quick and non-judgmental response to my own questions by Stanford Chemist and Nick Ackerman. Their answers were sincere, down to earth, and easy to process. Income Laboratory deserves 10 stars out of 5!
Less

Income Laboratory is a terrific place to learn
★★★★★ Mountain Lover • Aug. 11, 2020 10:59 PM

Closed-end funds are an investment that I wanted to understand. I uncovered limited options. I'm too new to the Income Laboratory to comment yet on personal results. What I can tell you is that I have found the Stanford Chemist, Nick, Juan and the others to be very knowledgeable, insightful, and willing and able to patiently and graciously communicate what they know. They have taught this investing novice so much. This was exactly what I was hoping for.
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We would love for you to join us. We are sure that you will enjoy our service and benefit from what we have to offer!

Sincerely,

Stanford Chemist, Nick Ackerman, Alpha Male and Juan de la Hoz