

Return of Capital (ROC) Explained for Covered Call ETF Investors

GlobalX.ca



It's important to understand the concept of Return of Capital (ROC) and how it impacts taxes payable in taxable accounts. In tax sheltered accounts such as RRSPs and TFSAs, this discussion is not applicable.

ROC adjusts an ETF's original purchase price down, potentially affecting future capital gains taxes when the ETF is sold.

Tax Efficiency Through the Return of Capital

Adjusted Cost Base (ACB): ROC requires investors to reduce the cost basis (or price) that the ETF was purchased for by the cumulative amounts of ROC received since purchase.

Investors do not typically pay tax on ROC distributions. Tax is payable on capital gains, eligible Canadian dividends and foreign and other income.



POSITIVES

ROC can help to maintain stable distribution, which allows for easy planning of cash flow needs

ROC distributions are not typically* taxed, making them the most tax-efficient form of distribution



NEGATIVES

Administrative efforts to record ACB decreases

Reduces the net asset value (NAV) of the ETF, which reduces assets available to generate returns

*Should the ACB be reduced to 0 over time, any future ROC distributions would be taxed as capital gains.

Covered Call investors are seeking monthly income above what can be generated by non-Covered Call market beta solutions. Income investors understand they are potentially giving up some positive market performance in return for higher monthly income. They also understand that these strategies can lead to some of the monthly distributions including their money back in the form of ROC.

Covered Call investors could benefit from the tax deferral effect of ROC distributions. Investors who are seeking full exposure to markets and themes can benefit from core beta products, which may have some distributions.

Why Does Global X Sometimes Distribute ROC on Covered Call Solutions?

- Consistent with the income needs of Covered Call investors
- Consistent with offering innovative solutions in a tax-efficient way
- Consistent with our ETF Distribution Policy



No Crystallization
+ no Capital Gains to Pay Out
= ROC

Underlying Holdings Are Up: If the ETF Manager does not sell the positions (crystallization), there are no capital gains to pay out. This leads to distributions that are ROC.

Options Exercised: If gains from premiums are limited by being exercised, the ETF Manager will have to buy them back with no capital gains attributable to the ETF. When call options are exercised and there is no crystallization (as explained above), the ETF Manager will buy the options back with no corresponding capital gains attributable to the ETF, this leads to distributions that are ROC. Tax-efficient capital gains are received if written call options expire worthless.

DISCLAIMER

Please speak with your Global X representative to learn more about ROC with your investments.

Commissions, management fees, and expenses all may be associated with an investment in products (the “Global X Funds”) managed by Global X Investments Canada Inc. The Global X Funds are not guaranteed, their values change frequently and past performance may not be repeated. Certain Global X Funds may have exposure to leveraged investment techniques that magnify gains and losses which may result in greater volatility in value and could be subject to aggressive investment risk and price volatility risk. Such risks are described in the prospectus. The Global X Money Market Funds are not covered by the Canada Deposit Insurance Corporation, the Federal Deposit Insurance Corporation, or any other government deposit insurer. There can be no assurances that the money market fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the Funds will be returned to you. Past performance may not be repeated. The prospectus contains important detailed information about the Global X Funds. **Please read the relevant prospectus before investing.**

Certain statements may constitute a forward-looking statement, including those identified by the expression “expect” and similar expressions (including grammatical variations thereof). The forward-looking statements are not historical facts but reflect the author’s current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking statements. These forward-looking statements are made as of the date hereof and the authors do not undertake to update any forward-looking statement that is contained herein, whether as a result of new information, future events or otherwise, unless required by applicable law.

This communication is intended for informational purposes only and does not constitute an offer to sell or the solicitation of an offer to purchase investment products (the “Global X Funds”) managed by Global X Investments Canada Inc. and is not, and should not be construed as, investment, tax, legal or accounting advice, and should not be relied upon in that regard. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Investors should consult their professional advisors prior to implementing any changes to their investment strategies. These investments may not be suitable to the circumstances of an investor.

All comments, opinions and views expressed are generally based on information available as of the date of publication and should not be considered as advice to purchase or to sell mentioned securities. Before making any investment decision, please consult your investment advisor or advisors.

Global X Investments Canada Inc. (“Global X”) is a wholly owned subsidiary of Mirae Asset Global Investments Co., Ltd. (“Mirae Asset”), the Korea-based asset management entity of Mirae Asset Financial Group. Global X is a corporation existing under the laws of Canada and is the manager, investment manager and trustee of the Global X Funds.

© 2025 Global X Investments Canada Inc. All Rights Reserved.

Published October 7, 2025.