

Cost Basis Reference Guide

What is Cost Basis?

Cost basis (also referred to as Basis) is defined as the cost of the shares in your account and is used to calculate the gain or loss on a redemption or exchange. The original cost basis of your shares depends upon how those shares were acquired. If your account contains purchased shares and/or shares acquired via a reinvestment of dividends and capital gains, the original cost basis is generally equal to the purchase price, including commissions. Cost basis may be adjusted by various tax items including return of capital and wash sale rules.

The original cost basis for shares acquired via inheritance is generally equal to the market value of those shares on the date of death of the original owner. Various factors are taken into consideration when calculating the original cost basis for gifted shares including, but not limited to, the date of the gift, the market value of the gifted shares on the date of the gift, the donor's original acquisition date(s) of the gifted shares, and the adjusted basis of the donor's gifted shares.

What is a Cost Basis Method?

A cost basis method is an accounting method used to determine how shares in your account are depleted upon redemption or exchange and for purposes of calculating the basis and therefore the gain or loss on those shares. The cost basis method you select will determine both the depletion order of the shares which are redeemed or exchanged and how your cost basis information is calculated and subsequently reported to you and to the Internal Revenue Service (IRS).

The cost basis method you elect is generally only applicable to shares acquired after January 1, 2012 and can be changed at any time, prospectively. Failure to elect a cost basis method may limit the options available to you at the time of a redemption or exchange. If a cost basis method has not been elected, your account will default to the «**FUND_DEFAULT_COST_BASIS_METHOD**» method. A cost basis method election will apply to all identically registered accounts unless you inform us otherwise.

What Are Covered and Non-Covered Shares?

Covered shares are shares containing an IRS requirement for «MGTCO_NAME» to report basis to you and the IRS on Form 1099-B upon redemption or exchange. *Covered shares* generally consist of shares acquired after the January 1, 2012 legislation effective date. However, an election of the *Single Account Average Cost* method will designate shares acquired prior to that date as *covered shares*.

Non-covered shares DO NOT contain an IRS requirement for «MGTCO_NAME» to report basis to you or the IRS on Form 1099-B upon redemption or exchange. *Non-covered shares* generally consist of shares acquired prior to the January 1, 2012 legislation effective date. However, if your account presently contains an average cost basis and you elect the Average Cost method, we will, as a courtesy, provide you with basis information on the IRS Form 1099-B upon redemption or exchange of those *non-covered shares*.

What Cost Basis Methods are available?

(1) Single Account Average Cost - A cost basis method in which the purchase prices of all shares in the account, which may include shares acquired both before and after the mandatory cost basis legislation effective date of January 1, 2012, are averaged to determine the basis. Election of this method requires «MGTCO_NAME» to report basis information to you and the IRS for non-covered shares normally exempt from such reporting. The Single Account Average Cost method is generally applicable only to an account which contains shares acquired prior to January 1, 2012. A Single Account Average Cost method election requires you to request usage of the Average Cost method for all shares in your account regardless of acquisition date, to confirm that all shares acquired prior to January 1, 2012 are tracked via the Average Cost method, and to confirm that you are NOT combining the basis of your account with any other holdings.

(2) Average Cost – A cost basis method in which the purchase prices of *covered* shares in an account are averaged to determine the basis. The following table is an example of the Average Cost method calculation. The 75 shares displayed in the following table would result in a total averaged cost basis amount for those shares of \$1,350 (or \$18.00 per share).

Date	Purchase Amount	Shares	Price Per Share
January 23, 2012	\$1000	50.000	\$20.00
March 5, 2012	\$50	5.000	\$10.00
July 18, 2012	\$300	20.000	\$15.00
Total cost basis = \$1,350		Averaged price per share = \$18.00	

Note: A cost basis method change to or from the Average Cost method applies prospectively. *Covered shares* acquired prior to such a cost basis method change are averaged and contain an identical cost per share upon redemption or exchange.

(3) First In First Out (FIFO) - A cost basis method which depletes *covered shares* in order of acquisition date with the oldest shares being redeemed first. In the above example, shares acquired on January 23, 2012 would be redeemed prior to shares acquired on March 5 and July 18, 2012.

(4) Last In First Out (LIFO) - A cost basis method which depletes *covered shares* in order of acquisition date with the newest shares being redeemed first. In the above example, shares acquired on July 18, 2012 would be redeemed prior to shares acquired on January 23 and March 5, 2012.

(5) Low Cost - A cost basis method which depletes *covered shares* in order of lowest cost per share with the least expensive shares being redeemed first. In the above example, shares acquired at a price per share of \$10.00 would be redeemed prior to shares acquired at prices per share of \$15.00 and \$20.00.

(6) High Cost - A cost basis method which depletes *covered shares* in order of highest cost per share with the most expensive shares being redeemed first. In the above example, shares acquired at a price per share of \$20.00 would be redeemed prior to shares acquired at prices per share of \$15.00 and \$10.00.

(7) Loss/Gain Utilization - Current IRS regulations designate shares held for one year or less as Short-Term while shares held for longer than one year are deemed Long-Term. The Loss/Gain Utilization cost basis method generally depletes covered shares with losses prior to *covered shares* with gains and Short-Term shares prior to Long-Term shares.

The following describes the order in which covered shares are depleted via the Loss/Gain Utilization method:

1. Shares with a Short-Term loss (in descending share order with the shares containing the greatest loss per share redeemed first)
2. Shares with a Long-Term loss (in descending share order with the shares containing the greatest loss per share redeemed first)
3. Short-Term shares with no gain or loss
4. Long-Term shares with no gain or loss
5. Shares with a Long-Term gain (in ascending share order with the shares containing the smallest gain per share being redeemed first)
6. Shares with a Short-Term gain (in ascending share order with the shares containing the smallest gain per share being redeemed first)

(8) Specific Lot Identification - A cost basis accounting method in which you are required to identify the specific shares in your account to be redeemed or exchanged, each time shares are sold. Election of the Specific Lot Identification method allows you the option to designate a Secondary Cost Basis method to be used in the event you neglect to inform us which specific lots to redeem or exchange or when the lots designated are unavailable, such as for a systematic exchange or checkwriting redemption. Available Secondary Cost Basis methods are (1) First In, First Out; (2) Last In, First Out; (3) Low Cost; (4) High Cost; and (5) Loss/Gain Utilization.

How Do I Elect or Change A Cost Basis Method For My Account?

For new accounts, complete the Cost Basis Method section within the taxable account application. For existing accounts, complete the Cost Basis Method Election Form.

What Is A Bifurcated Account?

A bifurcated account is an account which contains two buckets of shares; one containing *non-covered shares* (without an IRS basis reporting requirement) and a second containing *covered shares* (IRS basis reporting is required). Cost basis information is only reported to the IRS for *covered shares*.

Note: If your account uses the *Average Cost* method for *covered shares* AND basis information for *non-covered shares* is presently available, as a courtesy, basis information for those *non-covered shares* will be reported to you on Form 1099-B, but not to the IRS.

How Is Basis Information Reported For My Account?

Your existing account(s) which contained a valid average cost figure for *non-covered shares* were historically eligible to receive an Average Cost Statement which provided basis information to you (but not the IRS). Beginning with the 2011 tax year, all basis information will be reported to you on IRS Form 1099-B. That form will additionally report the designation of shares as either covered or non-covered and whether the holding period of those shares is short-term or long-term. Remember, the IRS does not receive basis information for *non-covered shares*.

Where Do I Report Cost Basis Information?

Cost basis information is a critical component of your federal and state tax return filings. The basis information provided to you on Form 1099-B may be required to complete, at a minimum, IRS Form 8949, IRS 1040 Schedule D, and the IRS 1040 tax return. Please visit the IRS website at www.irs.gov, the website for the state in which you pay taxes, and contact your tax advisor for more details on where to report the information contained within IRS Form 1099-B.

Who Do I Contact With Questions?

For more information on how the Cost Basis Method you elect may impact tax reporting on your account, please visit the IRS website at www.irs.gov or contact your tax advisor. Please contact our Shareholder Services Department at «MGTCO_PHONE_NUMBER» for general cost basis and other tax reporting questions.