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**Firm Brochure**  
(Part 2A of Form ADV)

**Ivy Investment Management Company**  
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**Overland Park, KS 66202**  
**913-236-2000**

**March 31, 2011**

This brochure provides information about the qualifications and business practices of Ivy Investment Management Company. If you have any questions about the contents of this brochure, please contact us at: 913-236-2000, or by email at: [LegalCompliance@waddell.com](mailto:LegalCompliance@waddell.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.

Ivy Investment Management Company is a registered investment adviser with the U.S. Securities and Exchange Commission; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.

Additional information about Ivy Investment Management Company is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

## **Material Changes-Item 2**

**Not Applicable**

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## Advisory Business

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### Firm Description

Ivy Investment Management Company, ("IICO") was registered as an investment adviser in 1991.

IICO is a wholly owned, indirect subsidiary of Waddell & Reed Financial, Inc. ("WDR"). WDR is a publicly traded company on the New York Stock Exchange. WDR is a national financial services firm and is one of the oldest mutual fund complexes in the United States, having introduced the Waddell & Reed Advisors Group of Mutual Funds (formerly, the United Group of Mutual Funds) in 1940. Waddell & Reed, Inc., a subsidiary of WDR, was founded in 1937. Waddell & Reed, either directly or through its investment management subsidiaries, has provided continuous business through three distinct distribution channels: the Advisors channel, the Wholesale channel and the Institutional channel. Through the Institutional channel the firm manages assets for defined benefit pension plans, other investment companies (as a sub-advisor), defined contribution plans, endowments and high net worth clients.

Through all market cycles, IICO remains dedicated to the following investment principles:

- Rigorous fundamental research-an enduring investment culture that dedicates itself to analyzing companies on its own rather than relying exclusively on widely available research produced by others
- Collaboration and accountability-a balance of collaboration and individual accountability, which ensures the sharing and analysis of investment ideas among investment professionals while empowering portfolio managers to shape their portfolios individually
- Focus on growing and protecting investors' assets-a sound approach that seeks to capture asset appreciation when market conditions are favorable and, especially, strives to manage risk during difficult periods.

These three principles shape IICO investment philosophy and money management approach. Over seven decades, IICO's investment management organization has delivered consistently competitive investment performance. Through bull and bear markets, IICO's investment professionals have not strayed from what works-a time tested investment process and fundamental research.

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### Types of Advisory Services

IICO and/or its affiliates provide primarily discretionary investment advisory and management services to (1) certain U.S. open-end registered investment

companies (“U.S. Mutual Funds”), each of which is registered with the SEC pursuant to the Investment Company Act of 1940; (2) as sub-adviser to various U.S. Mutual Funds, Canadian mutual funds, UCITS (Undertakings for Collective Investments (“Sub-Advised Funds”); (3) separately managed accounts; (4) certain privately placed pooled investment vehicles (“Private Funds”), which may be organized as domestic limited liability companies. U.S. Mutual Funds, Sub-Advised Funds and Private Funds are collectively referred to in this document as “Pooled Accounts.”

Separately managed (i.e., private client or institutional) accounts are managed in accordance with relevant Client’s investment objectives, strategies, restrictions and guidelines, as communicated to IICO by the Client. The Pooled Accounts are managed in accordance with the relevant fund’s investment objectives, strategies and restrictions and are not tailored to the individualized needs of any particular interest-holder in the fund (each, an “Investor”). Therefore, Investors should consider whether the fund meets their investment objectives and risk tolerance prior to investing. Information about funds can be found in their relevant registration and/or offering documents.

IICO’s services include, but are not limited to, active portfolio management, issuance of quarterly reports on client investments, periodic written material on investments, the economy and other issues deemed relevant for the Client Accounts and periodic personal visits as agreed to between IICO and the Client. For all transactions, IICO buys and sells securities through registered broker-dealers that are unaffiliated with IICO.

For Private Funds, IICO may also act as a general partner or managing member.

To the extent there is any conflict between this Brochure and any such offering document or other governing document applicable to an Account, the Account-specific documents shall govern.

IICO does not provide portfolio management services for wrap fee programs.

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### **Assets Under Management**

As of 12/31/2010, the amount of clients assets managed by IICO on a discretionary and non-discretionary basis was as follows:

Type of Account	Assets Under Management (“AUM”)
Discretionary	46,101,736,491
Non-Discretionary	0
<b>Total:</b>	46,101,736,491

## Fees and Compensation

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### Description/Fee Schedule

The fees charged by IICO to Clients are described generally below and detailed in each Client's investment management agreement or other applicable account documents. With respect to Pooled Accounts, advisory and other fees paid by Investors are set forth in the applicable Registration Statement, Private Placement Memorandum or other applicable disclosure and/or governing documents. Fees are negotiable, IICO, in its sole discretion, may waive its minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, composition, negotiation with clients, etc.).

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### Fee Billing

As a general matter, advisory fees for Clients other than U.S. Mutual Funds are billed quarterly, in arrears. Advisory fees for U.S. Mutual Funds are paid daily. Invoices for advisory fees are payable upon receipt. Fees are ordinarily based on the level of total assets under management within the relevant Account(s), including allocations to cash, on the appropriate valuation day.

The quarterly fee shall be calculated by applying the annual fee rate to the average assets and dividing by four. If assets are managed for a partial quarter, the fee for such quarter shall be equitably pro-rated. The value of average assets for each quarter shall be determined by adding the market value of the assets, as determined by IICO in accordance with commercially reasonable practices, at the beginning of the first day of the quarter and the market value of the assets at the end of the last day of each month during the quarter and dividing by four.

Aggregated assets of all Client's accounts managed by IICO may be used to determine any fee breakpoints. Fees will then be applied on a pro-rata basis to the various Client Accounts.

Clients may request that fees owed to IICO be deducted directly from the Client's custodial account. **In instances where a Client has authorized direct billing.** IICO takes steps to assure itself that the Client's qualified custodian sends periodic account statements, no less frequently than quarterly, showing all transactions in the Account, including fees paid to IICO, directly to such Clients in accordance with the Custody Rule.

Fees may change over time and, as discussed below, different fee schedules may apply to different types of Clients or advisory arrangements. However, WIRMCO reserves the right, in its sole discretion, to negotiate alternative fee arrangements, which may or may not be based on the general fee schedules, when circumstances warrant. In appropriate circumstances, IICO may

waive or reduce all or a portion of the fees charged to a particular client in its sole and absolute discretion. Specifically, fees may be waived or reduced for Accounts held by or on behalf of IICO and its employees, principals, shareholders or affiliates. There may also be differences in fees paid by certain Clients based on account inception dates. Thus, some Clients may pay more or less than others for the same or similar services depending, for example, on account inception dates, fee negotiations or waivers, number of accounts or value of related accounts, the nature of the mandate, total assets under management by IICO or the manner in which IICO's services are provided.

### **Fee Schedule**

<u>Name of Fund</u>	<u>Net Asset Level (All Dollars in Millions)</u>	<u>Annual Fee Rate For Each Level</u>
Ivy Limited-Term Bond Fund	From \$ 0 to \$ 500	0.50% of net assets
Ivy Mortgage Securities Fund	Over \$ 500 to \$1,000	0.45% of net assets
	Over \$1,000 to \$1,500	0.40% of net assets
	Over \$1,500	0.35% of net assets

<u>Name of Fund</u>	<u>Net Asset Level (All Dollars in Millions)</u>	<u>Annual Fee Rate For Each Level</u>
Ivy Bond Fund	From \$ 0 to \$ 500	0.525% of net assets
Ivy Municipal Bond Fund	Over \$ 500 to \$1,000	0.50% of net assets
Ivy Municipal High Income Fund	Over \$1,000 to \$1,500	0.45% of net assets
	Over \$1,500	0.40% of net assets

<u>Name of Fund</u>	<u>Net Asset Level (All Dollars in Millions)</u>	<u>Annual Fee Rate For Each Level</u>
Ivy Global Bond Fund	From \$ 0 to \$ 500	0.625% of net assets
Ivy High Income Fund	Over \$ 500 to \$1,000	0.60% of net assets
	Over \$1,000 to \$1,500	0.55% of net assets
	Over \$1,500	

<u>Name of Fund</u>	<u>Net Asset Level (All Dollars in Millions)</u>	<u>Annual Fee Rate For Each Level</u>
Ivy Capital Appreciation Fund	From \$ 0 to \$1,000	0.65% of net assets
Ivy Tax-Managed Equity Fund	Over \$1,000 to \$2,000	0.60% of net assets
	Over \$2,000 to \$3,000	0.55 % of net assets
	Over \$3,000	



<u>Name of Fund</u>	<u>Net Asset Level (All Dollars in Millions)</u>	<u>Annual Fee Rate For Each Level</u>
Ivy Asset Strategy Fund	From \$ 0 to \$1,000	0.70% of net assets
Ivy Balanced Fund	Over \$1,000 to \$2,000	0.65% of net assets
Ivy Dividend Opportunities Fund	Over \$2,000 to \$3,000	0.60% of net assets
Ivy International Balanced Fund	Over \$3,000	
Ivy Large Cap Growth Fund		
Ivy Value Fund		

<u>Name of Fund</u>	<u>Net Asset Level (All Dollars in Millions)</u>	<u>Annual Fee Rate For Each Level</u>
Ivy Core Equity Fund	From \$ 0 to \$1,000	0.70% of net assets
	Over \$1,000 to \$2,000	0.65% of net assets
	Over \$2,000 to \$3,000	0.60% of net assets
	Over \$3,000 to \$5,000	0.55% of net assets
	Over \$5,000 to \$6,000	0.525% of net assets
	Over \$6,000	0.50% of net assets
<u>Name of Fund</u>	<u>Net Asset Level (All Dollars in Millions)</u>	<u>Annual Fee Rate For Each Level</u>
Ivy Energy Fund	From \$ 0 to \$1,000	0.85% of net assets
Ivy Mid Cap Growth Fund	Over \$1,000 to \$2,000	0.83% of net assets
Ivy Science & Technology Fund	Over \$2,000 to \$3,000	0.80% of net assets
Small Cap Growth Fund	Over \$3,000	0.76% of net assets
Ivy Small Cap Value Fund		

<u>Name of Fund</u>	<u>Net Asset Level (All Dollars in Millions)</u>	<u>Annual Fee Rate For Each Level</u>
Ivy International Core	From \$ 0 to \$1,000	0.85% of net assets
Equity Fund	Over \$1,000 to \$2,000	0.83% of net assets
Ivy International Growth Fund	Over \$2,000 to \$3,000	0.80% of net assets
	Over \$3,000	

<u>Name of Fund</u>	<u>Net Asset Level (All Dollars in Millions)</u>	<u>Annual Fee Rate For Each Level</u>
Ivy Real Estate Securities Fund	From \$ 0 to \$1,000	0.90% of net assets
	Over \$1,000 to \$2,000	0.87% of net assets

Over \$2,000 to \$3,000	0.84% of net assets
Over \$3,000	0.80% of net assets

<u>Name of Fund</u>	<u>Net Asset Level (All Dollars in Millions)</u>	<u>Annual Fee Rate For Each Level</u>
Ivy European Opportunities Fund	From \$ 0 to \$ 250	0.90% of net assets
	Over \$ 250 to \$ 500	0.85% of net assets
	Over \$ 500	0.75% of net assets

<u>Name of Fund</u>	<u>Net Asset Level (All Dollars in Millions)</u>	<u>Annual Fee Rate For Each Level</u>
Ivy Micro Cap Growth Fund	From \$ 0 to \$1,000	0.95% of net assets
	Over \$1,000 to \$2,000	0.93% of net assets
	Over \$2,000 to \$3,000	0.90% of net assets
	Over \$3,000	0.96% of net assets

<u>Name of Fund</u>	<u>Net Asset Level (All Dollars in Millions)</u>	<u>Annual Fee Rate For Each Level</u>
Ivy Asset Strategy New	From \$ 0 to \$ 500	1.00% of net assets
Opportunities Fund	Over \$ 500 to \$1,000	0.85% of net assets
Ivy Cundill Global Value Fund	Over \$1,000 to \$2,000	0.83% of net assets
Ivy Global Natural	Over \$2,000 to \$3,000	0.80% of net assets
Resources Fund	Over \$3,000	0.76% of net assets
Ivy Pacific Opportunities Fund		

Name of Fund

Ivy Managed European/ Pacific Fund	A cash fee is computed each day on the net assets of the Fund at the annual rate of 0.05% of net assets.
Ivy Managed International Opportunities Fund	

Name of Fund

Ivy Money Market Fund	A cash fee is computed each date on net asset value for the Fund at the annual rate of 0.40% of net
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# Institutional Advisory Accounts<sup>1</sup>

	ON ASSETS OF		
	Up to <u>\$25 Mil</u>	Over \$25 Mil to \$50 Mil	Over <u>\$50 Mil</u>
EQUITY ACCOUNTS:			
Core	.60%	.50%	.40%
Small Cap Growth	.85%	.75%	.75%
Large Cap Growth	.60%	.50%	.40%
Large Cap Value	.60%	.50%	.40%
BALANCED ACCOUNTS	.50%	.40%	.35%
GLOBAL TACTICAL ASSET ALLOCATION	.80%	.80%	.80%

	ON ASSETS OF	
	Up to <u>\$25 Mil</u>	Over <u>\$25 Mil</u>
FIXED INCOME ACCOUNTS:		
Total Return	.30%	.25%
Core	.30%	.25%
Core Intermediate	.25%	.20%

## MINIMUM ASSETS ACCEPTED<sup>2</sup>

EQUITY ACCOUNTS:	
Core	\$15 Million
Small Cap Growth	\$20 Million
Large Cap Growth	\$20 Million
Large Cap Value	\$10 Million

BALANCED ACCOUNTS	\$15 Million
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FIXED INCOME ACCOUNTS:	
Total Return	\$3 Million
Core	\$3 Million

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<sup>1</sup> The schedule assumes normal SEC/ERISA investment management responsibility. Client directives that alter the management responsibilities will generate negotiated fee adjustments.

<sup>2</sup> IICO has offered to consider and will consider accounts below the minimum assets shown under certain circumstances.

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### Other Fees

The advisory fees described above do not include brokerage commissions, transaction fees and other related costs and expenses which shall be incurred by the Client. Clients may incur certain charges imposed by third parties such as custodial fees and mutual fund fee expenses. Clients may incur brokerage commissions and other execution costs charged by the custodian or executing broker-dealer in connection with transactions for a Client's Account. Please see Item 12 in this Brochure for additional important information about the brokerage and transaction practice of IICO.

Except as otherwise agreed, each Account bears (and the fees described above under **Fee Schedule** do not include) custodial charges, brokerage fees or commissions and related costs and expenses, taxes, duties and other governmental charges, transfer fees, registration fees and other expenses associated with the purchase, holding or sale of assets, costs and charges associated with making deposits in connection with foreign exchange transactions, withholding taxes payable and required to be withheld by issuers, their agents and others and audit, administrative and other expenses associated with regulator or tax compliance or investment operations as well as such other expenses as may be set forth in the Account's relevant governing documents. Such fees, expenses, costs and charges will reduce the assets held in (and the gross returns experienced by) an Account.

The charges, fees and commissions incurred with transactions for a Client's Account are exclusive of and in addition to the fees charged by IICO and are generally paid out of the assets in the account.

A client should review the fees charged by any third party together with the fees charged by IICO to fully understand the total amount of fees to be paid by the Client and to thereby evaluate the advisory services being provided.

Neither IICO nor any of its advisory personnel receive compensation for the sale of securities or other investment products purchased for a Client's Account.

## Performance-Based Fees and Side-By-Side Management

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IICO may offer a fee alternative in the form of specifically negotiated performance fee arrangements (i.e., fees calculated based on a share of capital gains or capital appreciation of the funds or any portion of the funds of an advisory client). Performance-based fees typically provide for a fixed base fee below the level of the standard fixed fee, plus a negotiated performance factor (percentage of profits) that may exceed the fixed fee rate described above.

The ability to earn incentive compensation may create the potential for conflicts of interest including that IICO may have an incentive to make riskier or more speculative investments for Accounts paying such fees. Moreover, because IICO manages various accounts having different fee arrangements (including circumstances where some Accounts pay only management fees while other Accounts are subject to both management fees and performance allocations), that have similar investment styles or otherwise compete for investment opportunities, that have differing abilities to engage in short sales or similar investment strategies and/or where IICO or its personnel or affiliates have differing personal or proprietary interests, IICO may have an incentive to favor certain Accounts over others that may be less lucrative. IICO has adopted policies and procedures with respect to, among other things, the allocation of investment and trading opportunities, which IICO believes are reasonably designed to mitigate these and other conflicts associated with 'side-by-side' management.

## Types of Clients

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### Description

IICO provides investment management services for a variety of clients, including:

- Open-end mutual funds which are distributed by affiliates of IICO
- Public and private institutional clients, including government entities, pension plans, corporations, charitable organizations (foundations, endowments, etc.), trusts, estates
- High net worth individuals
- Sub-advisor to other U.S. open-end mutual funds
- Sub-advisor to non-U.S. pooled investment vehicles (Canadian funds, funds organized under UCITS)

- Private funds-privately placed pooled investment vehicles organized as U.S. limited liability companies

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**Account Minimums**

Please see information in Item 5.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

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**Investment Strategies**

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time. Each client executes Investment Guidelines that documents their objectives and their desired investment strategy.

For U.S. Mutual Funds and Pooled Accounts, please refer to their offering documents.

**General Risks**

**Company Risk.** A company may perform worse than the overall market due to specific factors, such as adverse changes to its financial position or investor perceptions about the company.

**Management Risk.** Account performance is primarily dependent on IICO's skill in evaluating and managing an Account's portfolio and an Account may not perform as well as other similarly managed accounts.

**Market Risk.** Adverse market conditions, sometimes in response to general economic or industry news, may cause the prices of an Account's holdings to fall as part of a broad market decline. Recent events in the financial sector and in the economy have resulted, and may continue to result, in an unusually high degree of volatility in the financial markets, both U.S. and foreign. These events have also decreased liquidity in some markets and may continue to do so.

**1) Asset Strategy**

IICO seeks to achieve an objective of total return by allocating assets primarily among stocks, bonds and short-term instruments of issuers in markets around the globe, as well as investments in precious metals and investments seeking exposure to various foreign currencies. IICO may invest assets in any market that it believes can offer a high probability of return or, alternatively, can provide a high degree of safety in uncertain times. Dependent on its outlook for the U.S. and global economies, IICO identifies growth themes and then focuses its strategy on allocating assets among stocks, bonds, cash, precious metals, currency and derivatives instruments. After determining these allocations, IICO seeks attractive opportunities within

each market by focusing on issuers in countries, sectors and companies with strong cash flow and low balance sheet leverage.

- “Stocks” include equity securities of all types, although IICO typically emphasizes growth potential in selecting stocks by focusing on what it believes are steady-growth companies that fit IICO’s criteria for sustainable competitive advantage and that IICO believes are positioned to benefit from continued global rebalancing and the emerging middle class. Growth stocks are those whose earnings IICO believes are likely to grow faster than the economy. The Fund may invest in the securities of any size company, but primarily focuses on large cap issues.
- “Bonds” include all varieties of fixed-income instruments, such as corporate debt securities or securities issued or guaranteed by the U.S. government or its agencies or instrumentalities (U.S. government securities), with remaining maturities of more than one year. This investment type may include a significant amount, up to 35% of the Fund’s total assets, of high-yield/high-risk bonds, or junk bonds, which include bonds rated BB or below by Standard & Poor’s, a division of the McGraw-Hill Companies, Inc. (S&P), or comparably rated by another nationally recognized statistical rating organization (NRSRO) or, if unrated, determined by IICO to be of comparable quality.
- “Short-term instruments” include all types of short-term securities with remaining maturities of one year or less, including higher-quality money market instruments.
- Within each of these investment types, IICO may invest in U.S. and foreign securities; IICO may invest in issuers located in and/or generating revenue from emerging markets.

IICO may allocate its investments among these different types of securities in different proportions at different times, including up to 100% in stocks, bonds, or short-term instruments, respectively. IICO may exercise a flexible strategy in the selection of securities, and is not required to allocate its investments among stocks and bonds in any fixed proportion, nor is it limited by investment style or by the issuer’s location, size, market capitalization or industry sector. IICO may have none, some or all of its assets invested in each asset class in relative proportions that change over time based upon market and economic conditions. Subject to liquidity requirements and applicable client guidelines, IICO also may invest up to 25% of its total assets in precious metals.

IICO may seek to hedge market risk on various securities, increase exposure to various markets, manage exposure to various foreign currencies, precious metals and various markets, and seek to hedge certain event risks on positions held. In an effort to achieve the objective of hedging market risk and increasing exposure to equity markets, IICO may utilize various instruments including, but not limited to, the following: futures contracts, both

long and short positions, total return swaps, credit default swaps and options contracts, both written and purchased, on foreign and U.S. equity indices. In seeking to manage foreign currency exposure, IICO may utilize forward contracts and option contracts either to increase or decrease exposure to a given currency. In seeking to manage exposure to precious metals, IICO may utilize options, both written and purchased, on precious metals. In seeking to manage event risks, IICO may utilize futures contracts, both long and short positions, or individual securities.

## **Risks**

**Commodities Risk.** Commodity trading is generally considered speculative because of the significant potential for investment loss. Among the factors that could affect the value of investments in commodities are cyclical economic conditions, sudden political events and adverse international monetary policies. Markets for commodities are likely to be volatile on Accounts and there may be sharp price fluctuations even during periods when prices overall are rising. Also, the Fund may pay more to store and accurately value its commodity holdings than it does with its other portfolio investments.

**Derivatives Risk.** A principal risk of investments in derivatives is that the fluctuations in their values may not correlate perfectly with the overall securities markets or with the underlying asset from which the derivative's value is derived. Some derivatives are more sensitive to interest rate changes and market price fluctuations than others. To the extent the judgement of IICO as to certain movements is incorrect, the risk of loss is greater than if the derivative technique(s) had not been used. Derivatives also may be subject to counterparty risk, which includes the risk that a loss may be sustained by an Account as a result of the insolvency or bankruptcy of, or other non-compliance by, the other party of the transaction.

**Emerging Market Risk.** Investments in countries with emerging economies or securities markets may carry greater risk than investments in more developed countries. Political and economic structures in many such countries may be undergoing significant evolution and rapid development, and such countries may lack the social, political and economic stability characteristic of more developed countries.

**Foreign Currency Risk.** The value of an Account's investments, as measured in U.S. dollars, may be unfavorably affected by changes in foreign currency exchange rates and exchange control regulations. Currency conversion also can be costly.

**Foreign Securities Risk.** Investing in foreign securities involves a number of economic, financial and political considerations that may not be associated with the U.S. markets and that could affect an Account's performance unfavorably, depending upon the prevailing condition at any given time. Among these potential risks are: greater price volatility; comparatively weak supervision and regulation of securities exchanges, brokers and issuers;



higher brokerage costs; fluctuations in foreign currency exchange rates and related conversion costs; adverse tax consequences; and settlement delays.

## **2) Core Equity**

Seeks companies that produce long-term earnings power above expectations. The Core Equity style's process is driven by the core belief that changes in expectations for long-term earnings power drive stock prices.

IICO focuses on companies that it feels are likely to produce long-term earnings in excess of expectations. IICO seeks companies which participate in specific and underappreciated, investable themes. IICO also seeks companies that benefit from company-specific drivers that it believes are likely to cause a company to exceed earnings forecasts on a multi-year basis. Company specific drivers include, but are not limited to, new products, cost restructuring, etc.

### **Risks**

**Holdings Risk.** An Account tends to be invested in a relatively small number of stocks. As a result, the appreciation or depreciation of any one security held by an Account will have a greater impact on an Account's value than it would if an Account invested in a larger number of securities.

## **3) Core Intermediate Fixed Income**

Seek to maximize total return while maintaining a low risk profile through diversification and shorter duration. A disciplined approach in the following key areas of active portfolio management:

- Sector Selection
- Security Selection
- Yield curve analysis
- Duration
- Diversification

### **Core Fixed Income**

Similar to Core Intermediate Fixed Income with additional value added through sector emphasis and individual issue selection based on our outlook for the economic environment, interest rate trends and industry fundamentals. Use of spread products (i.e., corporate, mortgages and agencies), the avoidance of long-term securities and their increased downside risk, relatively low turnover and a belief in diversification as a risk reducing tool.

### **Risks**

**Credit Risk.** An issuer of a fixed-income obligation may not make payments on the obligation when due or may default on its obligation.

**Extension Risk.** A rise in interest rates could cause property owners to pay their mortgages more slowly than expected, resulting in slower payments of mortgage-backed securities and lengthening the average life of such security. This could cause their value to decline more than other fixed-income securities.

**Interest Rate Risk.** A rise in interest rates may cause a decline in the value of an Account's securities, especially bonds with longer maturities. A decline in interest rates may cause an Account to experience a decline in its income.

**Mortgage-Backed and Asset-Backed Securities Risk.** Mortgage-backed and asset-backed securities are subject to prepayment risk. When interest rates decline, unscheduled payments can be expected to accelerate, and an Account may be required to reinvest the proceeds of the prepayments at the lower interest rates then available. Unscheduled payments would also limit the potential for capital appreciation on mortgage-backed and asset-backed securities.

**Reinvestment Risk.** A decline in interest rates may cause issuers to prepay higher-yielding bonds held by an Account, resulting in an Account reinvesting in securities with lower yields, which may cause a decline in its income.

#### **4) Large Cap Growth**

Seeks significant long-term return by:

- Focusing on a smaller subset of unique business franchises
- Methodically avoiding common mistakes by emphasizing franchise power and earnings sustainability over earnings growth rates

Quantitative analysis during the screening process (concentrate on profitability, capital intensity, etc.), then move to fundamental research effort by identifying companies we believe possess a sustainable competitive advantage, allowing companies to generate superior levels of profitability and growth for an extended period of time.

#### **Risks**

**Holdings Risk.** An Account tends to be invested in a relatively small number of stocks. As a result, the appreciation or depreciation of any one security held by an Account will have a greater impact on an Account's net asset value than it would if an Account invested in a larger number of securities.

#### **5) Large Cap Value**

Seek to invest in the common stocks of primarily large-cap, under-valued companies. IICO seeks to invest in stocks that are, in its opinion, undervalued relative to the true value of the company, and/or are out of favor in the financial markets but have a favorable outlook for capital appreciation. IICO

seeks to be diversified across economic sectors in an effort to manage risk, and to prevent excess volatility.

IICO primarily utilizes fundamental, bottom-up research while considering a top-down (assess the market environment) and quantitative analysis to identify securities. IICO typically chooses what it considers to be undervalued stocks, or those stocks trading at a significant discount to the intrinsic value of the company. IICO primarily values companies based on cash flow generation, but other valuation factors are also considered such as price to earnings and price to book value. IICO also considers a company's asset growth, changes in share count, and changes in working capital. IICO emphasizes companies which have a clearly identifiable catalyst that it believes will help the company achieve its intrinsic value.

## **Risks**

**Value Stock Risk.** Value stocks are stocks of companies that may have experienced adverse business or industry developments or may be subject to special risks that have caused the stocks to be out of favor and, in the opinion of IICO, undervalued. The value of a security believed by IICO to be undervalued may never reach what is believed to be its full value, or such security's value may decrease.

## **6) Mid Cap Growth**

Seek to achieve growth by investing primarily in common stocks of mid-cap companies that IICO believes offers above-average growth potential. Mid-cap companies typically are companies with market capitalizations that may range between \$1 billion and \$10 billion.

In selecting securities for an Account, IICO emphasizes a bottom-up approach and may look at a number of factors in its consideration of a company, such as: new or innovative products or services, adaptive or creative management, strong financial and operational capabilities to sustain growth, stable and consistent revenue, earnings, and cash flow, market potential, and profit potential.

## **Risks**

**Mid Size Company Risk.** Securities of mid capitalization companies may be more vulnerable to adverse developments than those of large companies due to such companies' limited product lines, limited markets and financial resources and dependence upon a relatively small management group.

**Growth Stock Risk.** Prices of growth stocks may be more sensitive to changes in current or expected earnings than the prices of other stocks. Growth stocks may not perform as well as value stocks or the stock market in general.

## 7) Small Cap Growth

Seek to purchase what IICO believes are successful small cap growth companies with strong business models, that IICO feels have the potential for large market opportunities. IICO believes common characteristics of successful small cap growth companies are:

- Focused, purpose-driven management
- Organic growth (i.e. not from acquisitions)
- Positive cash flow with little to no debt
- Proper incentive alignment

The initial security selection process tracks a universe that consists of approximately 1,350+ securities with a market cap range of roughly \$200 million to \$3 billion at time of purchase. From there, IICO seeks to identify companies that exhibit characteristics such as purpose-driven management, organically derived growth, positive cash flow and proper incentive alignment.

### Risks

**Growth Stock Risk.** Prices of growth stocks may be more sensitive to changes in current or expected earnings than the prices of other stocks. Growth stocks may not perform as well as value stocks or the stock market in general.

**Small Company Risk.** Equity securities of small capitalization companies are subject to greater price volatility, lower trading volume and less liquidity due to, among other things, such companies' small size, limited product lines, limited access to financing sources and limited management depth. In addition, the frequency and volume of trading of such securities may be less than is typical of larger companies, making them subject to wider price fluctuations. In some cases, there could be difficulties in selling securities of small capitalization companies at the desired time.

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### Risk of Loss

#### Generally

Investing in securities involves a significant risk of loss. IICO's investment recommendations are subject to various market, currency, economic, political and business risks, and such investment decisions may not always be profitable. Clients should be aware that there may be a loss or depreciation to the value of the client's account, which clients should be prepared to bear. There can be no assurance that the client's investment objectives will be obtained and no inference to the contrary should be made. Clients are advised that they should only commit assets for management that can be invested for the long term, that volatility from investing can occur, and that all

investing is subject to risk and consequently, the value of the client's account may at anytime be worth more or less than the amount invested.

All investment programs have certain risks that are borne by the client. Our investment approach constantly keeps the risk of loss in mind. Clients face the following investment risks:

- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.

## Disciplinary Information

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### Legal and Disciplinary

On July 24, 2006, IICO entered into settlements with the Kansas Securities Commissioner ("KSC") resolving their investigations into alleged market time activities of shareholders of certain mutual funds for which IICO serves as investment manager (the "Funds"). On the same date, IICO's parent company, Waddell & Reed, Inc. ("WRI") entered into a settlement with the Attorney General of the State of New York ("NYAG") resolving its investigation of the same activities. Based upon its investigation, **the SEC alleged...???**

## Other Financial Industry Activities and Affiliations

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IICO is an indirect, wholly-owned subsidiary of Waddell & Reed Financial, Inc., which is a publicly held company listed on the New York Stock Exchange under "WDR". WDR is engaged, through its subsidiaries, primarily in the business of providing investment advisory, distribution, transfer agency and related services to registered investment companies and investment advisory services to private and institutional investors.

IICO's direct parent company, Waddell & Reed, Inc., is a registered broker-dealer and registered investment advisor with the SEC and files Forms BD

and ADV describing its ownership, business and staff. As part of its activities as a broker-dealer, Waddell & Reed, Inc. conducts financial planning for individual clients that typically invest in registered investment companies. Waddell & Reed, Inc. is engaged primarily as the principal distributor and/or underwriter of shares of the registered investment companies for which IICO acts as investment adviser. These registered investment companies include the Waddell & Reed Advisors Funds, Waddell & Reed InvestEd Portfolios and Ivy Funds Variable Insurance Portfolios, whose investment portfolios underlie variable annuity contracts and variable life insurance policies issued by third-party insurance companies. Another subsidiary, Waddell & Reed Services Company, provides transfer agency and accounting services to the foregoing companies.

Waddell & Reed, Inc. may have agreements with unaffiliated distributors of the proprietary funds, which provide for Waddell & Reed, Inc. to pay fees to such distributors based on a percentage of assets and/or a fixed amount per shareholder account. Waddell & Reed, Inc. makes payments to such distributors from its own resources and from amounts reimbursed by IICO out of IICO's net income.

Legend Equities Corporation and Legend Advisory Corporation, each a dually registered investment adviser and broker-dealer, that are under common control with IICO, may recommend that its clients purchase shares of the proprietary funds.

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

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### **Code of Ethics**

It is IICO's policy to monitor, and forbid in certain circumstances, any individual associated with IICO or with certain affiliates from purchasing securities being considered or purchase by client accounts they manage and from selling securities being considered for sale by the client accounts they manage. All officers and employees of IICO must comply with the standards of business conduct set forth in the Code of Ethics and with applicable federal securities laws. Those officers and employees who have access to information concerning security transactions on behalf of client accounts must also comply with additional provisions.

A basic tenet of the Code is that ("Access Persons") must adhere to the highest principles of conduct in the discharge of their duties with respect to Accounts. IICO values its adherence to the highest standards of integrity and ethical business conduct in ensuring the fair treatment of Clients. As such, the Code requires Access Persons to comply with stated standards of business conduct, including compliance with IICO's policies and procedures, relevant fiduciary duties owed by an investment adviser to its Clients and applicable legal standards. Employees are expected to avoid situations in



which their personal interests may conflict with their professional duties and to disclose any such conflicts to IICO's Legal Department. Access Persons are also expected to report to the compliance department any violations of the code which come to their attention.

The Code sets forth Access Persons' obligations with dealing in covered securities for their own accounts. Subject to certain exceptions, Access Persons must seek pre-approval for personal securities transactions, including private placements and limited offerings. As a general matter, no such clearance will be granted if there has been trading in the securities of the relevant issuer in Accounts on the current trading day. With respect to portfolio managers, this blackout period is extended to seven days for trading in an Account managed by that portfolio Manager. IICO also has policies which prohibit short-term trading in the U.S. Mutual Funds, other than money market funds. The Code prohibits Access Persons from acquiring shares in initial public offerings.

The Code includes various requirements designed to ensure that personal trading activity is reported to relevant personnel within IICO. Access Persons are required to submit initial and, except in certain circumstances where such information duplicates information provided directly to IICO by an Access Person's brokers, annual holdings reports with respect to covered securities held in any personal brokerage accounts. Moreover, statements and trade confirmation with respect to covered securities and accounts must also be provided. IICO's Compliance Department reviews these reports on a periodic basis and may request additional information from Access Persons in order to assure proper administration of the Code's personal trading rules.

Except as required by law, Access Persons and the compliance department are required to keep confidential any reports or requests made to or lodged with the compliance department pursuant to the Code.

IICO's policies and the Code also include ethical restraints relating to Clients and their Accounts, including restrictions on gifts and provisions intended to prevent violations of laws prohibiting insider trading.

Any person covered by the Code (each a "Covered person") who fails to observe the Code and other relevant compliance policies risks serious sanctions, including dismissal and personal liability.

You may request a copy of IICO's Code of Ethics and Insider Trading Policy by contacting the Chief Compliance Officer at 913-236-1923 or via email at [LegalCompliance@waddell.com](mailto:LegalCompliance@waddell.com).

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### **Participation or Interest in Client Transactions**

IICO advises numerous Client Accounts. IICO may give advice and take action with respect to any Accounts it manages, or for its own account or the account of a supervised or access person (as those terms are defined by the Advisers Act and rules thereunder), that may differ from actions taken by IICO

on behalf of other Accounts. IICO is not obligated to recommend, buy or sell, or to refrain from recommending, buying or selling any security that IICO, its affiliates or their respective supervised and access persons may buy or sell for its or their own account or for any other Account IICO manages. IICO is also not obligated to refrain from investing in securities held in the Accounts that it manages, except to the extent that such investments violate policies and procedures applicable to or adopted by IICO. Additionally, IICO personnel may invest in U.S. Mutual Funds, Sub-Advised Funds or Private Funds which, in turn, may invest in securities held in other discretionary Accounts managed by IICO.

The buy or sell programs of IICO and its personnel may extend over a period of months and securities may be held for long-term investment. From time to time, officers and employees of IICO may have interests in securities held by or recommended to Clients. As these situations may involve potential conflicts of interest, IICO has implemented policies and procedures relating to personal securities transactions and insider trading that are designed to identify and prevent or mitigate actual conflicts of interest. These policies and procedures, including IICO's Code, are intended to avoid conflicts of interest with clients and to resolve such conflicts appropriately, if they do occur.

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### **Personal Trading**

The Chief Compliance Officer of IICO is [REDACTED]. He/she reviews all employee trades each quarter. His/her trades are reviewed by [REDACTED]. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment. Since most employee trades are small mutual fund trades or exchange-traded fund trades, the trades do not affect the securities markets.

## **Brokerage Practices**

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### **Selecting Brokerage Firms**

IICO may set ranges for commission rates and negotiate with broker-dealers, when appropriate. However, IICO will not select broker-dealers solely on the basis of "posted" commission schedules nor always seek in advance competitive bidding for the most favorable rate applicable to a particular transaction. Although IICO generally seeks competitive commission rates, it will not necessarily pay the lowest commission or commission equivalent. IICO believes that paying fair and reasonable commissions to broker-dealers in return for quality execution services and useful research benefits Clients. Moreover, transactions that involve specialized services on the part of the broker-dealer will usually result in higher commissions or other compensation to the broker-dealer than would be the case absent such services for more routine transactions.



IICO utilizes severage different broker deals and favors those whose research services, execution abilities or other legitimate and appropriate services are particularly helpful to IICO in seeking favorable investment results for Clients. As part of this determination, IICO recognizes that some brokerage firms are better at executing some types of orders than others. Thus, it may be in the best interest of Clients to utilize a broker whose commission rates are not the lowest but whose abilities may result in lower overall transactions costs or more favorable results. The overriding considering in routing orders for execution is to seek to maximize Client profits (or minimize losses) through a combination of controlling transaction and securities costs and seeking the most effective uses of brokers' research execution capabilities.

Thus, in IICO's view, the reasonableness of commissions is based on market conditions and IICO's opinion of the broker's ability to provide professional services, competitive commission rates, useful research and other permissable services which will help IICO in providing investment advisory services to its Clients. Recognizing the value of these factors, IICO may pay to a broker who provides such services a commission in excess of that which another broker, which offers no research services and minimal transaction assistance (i.e., "execution-only" service) might have charged for effecting the same transaction.

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### **Best Execution**

IICO reglarly evaluates the placement of brokerage and the reasonableness of commissions paid. In this connection, IICO makes a good faith determination that the amount of commission paid is reasonable in relation to the value of the research and brokerage services rendered, and relative to market norms when viewed in terms of either a specific transaction or IICO's net prices charged by brokers reflects the value of these services often cannot be readily determined.

### **Investment and Brokerage Decisions and Review**

Investment and brokerage decisions for Accounts, to the extent such discretion has been granted to IICO, are made by IICO's portfolio managers and traders. In placing brokerage for Accounts with respect to which IICO has been tranted trading discretion, IICO seeks to (1) determine which client's trading requirements, (2) select circumstances, (3) evaluate market liquidity of each security and take appropriate steps to mitigate excessive market impact, (4) maintain confidentiality of client and proprietary information related to trading decisions, and (5) review the results of executions on periodic basis.

On a periodic basis, IICO reviews its trading practices and results including the quality of executions received, and commissions paid, by discretionary accounts. Among the items considered in this review are: a broker's dealer's trading history, administrative quality and responsiveness; examinations of failed trades and the broker-dealer's response thereto; conflicts of interest; commission rates and execution costs. IICO's goal when evaluating its

efforts to seek best execution is to exercise reasonable, good faith judgment to select broker-dealers that will consistently provide quality execution.

### **Selection Criteria for Trade Execution**

- IICO's knowledge of negotiated commission rates and spreads currently available and the competitiveness and reasonableness of rates offered;
- the nature of the security being traded;
- the size and type of transaction;
- the nature and character of the markets for security to be purchased or sold;
- the desired timing of the trade and the broker-dealer's ability to meet IICO's required or requested speed of execution;
- the activity existing and expected in the market for the particular security;
- the broker-dealer's access to primary markets and quotation sources;
- the broker-dealer's ability to execute orders with minimal market impact;
- the ability of the broker-dealer to locate sources of liquidity and to effect transactions when a large block of securities is involved or where liquidity is limited;
- confidentiality;
- the execution, clearance and settlement capabilities and history as well as the reputation and perceived soundness of considered broker-dealers;
- IICO's knowledge of actual or apparent operational problems of any broker-dealer;
- the broker-dealer's execution services rendered on a continuing basis and in other transactions;
- the broker-dealer's ability to accommodate IICO's needs with respect to one or more trades – including its ability and willingness to maintain quality execution in unusual or volatile market conditions;
- the broker-dealer's access to other markets.

When buying or selling securities in dealer markets, IICO may, subject to its duty to seek best execution, deal directly with market makers either on a commission basis or on a "net" basis, without paying the market maker any commission, commission-equivalent or mark-up/mark-down, other than the spread. Net trades mean that the market maker profits from the spread (i.e., the difference between the price paid or received by IICO and the price received or paid by the market maker in trades with other broker-dealers or customers).

IICO may execute over-the-counter trades on an agency basis rather than directly through a market maker. In these situations, the broker used by IICO then acquires or disposes of a security through a market maker. The transaction may thus be subject to a mark-up or mark-down in addition to any commission or commission-equivalent paid to the broker. IICO uses a broker in these instances only when consistent with its duty to seek best execution for Client transactions. The use of a broker in this manner may benefit Clients by providing anonymity in connection with a transaction or because the broker may, in certain cases, have greater expertise or capability in connection with both accessing the market and executing a transaction.

In appropriate circumstances, IICO may also use an Electronic Communications Network (“ECN”) or Alternative Trading System (“ATS”) to effect over-the-counter trades when, in IICO’s judgment, the use of an ECN or ATS may result in equally or more favorable overall execution quality for the transaction. IICO may trade in this manner when it believes that any commissions paid to the ECN or ATS, when added to the price and considering all relevant circumstances, still results in equal or better qualitative execution than might have otherwise been obtained trading “net” with a market maker.

In some cases, IICO may engage in a transaction not involving a public market or for which only a single avenue for execution is available (e.g., where securities may be purchased or redeemed only through the issuer or the issuer’s specified agent). Similarly, certain of the markets in which IICO trades on behalf of Accounts are “emerging markets” where there is limited or no choice of brokers where commission rates (or commission equivalents) may be fixed or heavily regulated or where there may not be the same level of transparency as to execution costs and quality as is the case in more developed markets such as the U.S., Canada or European Union countries. In those cases, IICO may be limited in its ability to negotiate costs or terms but will seek, as practicable and consistent with relevant market regulations and conventions, to obtain the most favorable terms reasonably available under the circumstances and to minimize costs, consistent with achieving the desired investment objective and seeking an acceptable quality of execution. Where there is a lack of choice or transparency as to execution related costs and expenses, IICO may focus primarily on securities prices and certainty of execution in determining how to execute a trade and in examining its efforts to seek best execution in the relevant market. In such cases, IICO may, in its discretion, limit additional purchases, dispose of existing holdings or refrain from exercising certain rights, as it deems appropriate.

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### **Soft Dollars**

In allocating brokerage, and consistent with IICO’s policies and procedures, IICO takes into account the value of eligible brokerage and research products and services (each a “soft dollar item”) provided by broker-dealers, as long as such consideration does not jeopardize the objective of seeking best

execution. Broker-dealers typically provide a bundle of services, including research and execution of transactions. When appropriate under its discretionary authority and consistent with its duty to seek best execution, IICO may direct brokerage transactions for Client Accounts to broker-dealers who provide IICO with useful soft dollar items. Research items may be proprietary (created and provided by the broker-dealer, including tangible research products as well as access to analyst and traders) or third-party (created by a third party but provided by the broker-dealer). The brokerage commissions used to acquire soft dollar items in these arrangements are commonly referred to as “soft dollars”. IICO may use soft dollars to acquire either type of research however, IICO will not enter into any agreement or understanding with a broker-dealer that would obligate IICO to direct a specific amount of brokerage business to that broker-dealer in return for a soft dollar item. Nonetheless, certain broker-dealers may state in advance the amount of brokerage commissions they require for certain soft dollar items and the applicable cash equivalent. IICO may use soft dollars to acquire soft dollar items that are also available for cash where appropriate by law.

Under relevant U.S. law, section 28(e) of the U.S. Securities Exchange Act of 1934, as amended, provides a “safe harbor” which allows an investment adviser to pay for eligible soft dollar items with commission dollars generated by client securities transactions. When an adviser pays more than the lowest available commission in recognition of the receipt of soft dollar items, the adviser is said to be “paying up.” Under recent SEC interpretations, soft dollars may be used for, among other things, eligible soft dollar items which assist IICO in meeting its Clients’ investment objectives and IICO’s relevant responsibilities to its Client Accounts. The receipt of soft dollar items in exchange for soft dollar benefits IICO by among other things, allowing IICO, at no cost to it, to supplement its own research, analysis and execution facilities, to receive the views and information of individuals and research staffs at other securities firms and those of issuer personnel and to gain access to persons having special expertise on certain companies, industries, economic areas and market factors. This may relieve IICO of expenses that it might otherwise bear in obtaining the same or comparable items on its own.

In determining whether to pay up for a relevant execution, IICO evaluates whether the soft dollar item(s) provided by the broker-dealer:

- consist of advice, analyses or reports containing substantive content with respect to appropriate subject matters, as set forth in section 28(e) and related SEC interpretations thereof, or (ii) are sufficiently related to the effectuation, clearance or settlement of a transaction and are provided and/or used during the time period commencing when IICO communicates with the relevant broker-dealer for the purpose of transmitting an order for execution and concluding when the funds or securities are delivered or credited to the Client Account or the accountholder’s agent;

- provide lawful and appropriate assistance to IICO in carrying out its relevant responsibilities to Client Accounts; and
- are acquired for an amount of soft dollars that is reasonable in relation to the value of the soft dollar item(s) provided.

These determinations are based primarily on the professional opinions of the persons responsible for the placement and review of such transactions. These opinions are formed on the basis of, among other things, the experience of these individuals in the securities industry and information available to them concerning the level of commissions paid by other investors of comparable size and type. IICO may select broker-dealers based on its assessment of their ability to provide quality execution and its belief that the research, information and other soft dollar items provided by such broker-dealers may benefit Clients. It is often not possible to place, with precision, a dollar value on the quality executions or on the soft dollar items IICO receives from broker-dealers effecting transactions in portfolio securities. Accordingly, as discussed above, broker-dealers selected by IICO may be paid commissions for effecting portfolio transactions for Client Accounts in excess of amounts other broker-dealers may have charged for effecting similar transactions when IICO determines, in good faith, or superior qualitative executions, provided by those broker-dealers, viewed either in terms of a particular transaction or IICO's overall duty to its Clients.

Soft dollar items, including research, are not always utilized by IICO, in whole or in part, for the specific Account that generated the soft dollars and IICO does not usually attempt to allocate the relative costs or benefits or research or other soft dollar items among Accounts because it believes that, in the aggregate, the soft dollar items it receives benefit Clients by assisting IICO in fulfilling its overall duty to its Clients. In this connection, it should be noted that the value of many soft dollar items including, particularly, research cannot be measured precisely and commissions paid for such items certainly cannot always be allocated to Clients in direct proportion to the value of the item to each Client. Moreover, because IICO routinely bunches Client transactions, brokerage commissions attributable to one or more Client Accounts may be allocated to brokers who provide soft dollar items (such as statistical data or research)

IICO may also use soft dollars to pay for a portion of certain "mixed use" items (i.e., items which provide both eligible and non-eligible benefits or encompass multiple functionalities some of which are not eligible for the safe harbor). Although the allocation between soft dollars and cash is not always capable of precise calculation, IICO makes a good faith effort to allocate payment for such items appropriately by paying cash for that portion of the cost of the soft dollar item which is attributable to a use or functionality which is not, itself, eligible under the safe harbor. Records of such allocations and payments are maintained.

### **Brokerage for Client Referrals**



IICO does not direct brokerage to compensate brokers for the sale of Fund shares or other client referrals. The Funds have adopted a policy that prohibits IICO from using Fund brokerage commissions to compensate broker-dealers for promotion or sale of Fund shares.

### **Client-Directed Brokerage**

Clients may limit IICO's discretionary authority in any or all of the situations described above. In particular, institutional account clients may direct IICO to use particular broker-dealers to execute portfolio transactions for their accounts. Where a client directs the use of a particular broker-dealer, or broker-dealers, IICO might not be in a position where it can negotiate commission rates or spreads or obtain volume discounts, and best price might not be achieved. For these transactions where, in the opinion of IICO, best execution would not be achieved, the order for a client that directs brokerage might not be combined or "aggregated" for execution purposes with orders for the same securities for other accounts managed by IICO. Trades for a client that has directed IICO to use a particular broker or dealer might be placed at the end of a aggregated trading activity for a particular security.

Accordingly, such directed transactions might be subject to price movements, particularly in volatile markets, that could result in the client receiving a price that is less favorable than the price obtained for clients in the aggregated order. Under these circumstances, the direction by a client of a particular broker or dealer to execute transactions might result in higher commissions, greater spreads, or less favorable net prices than might be the case if IICO was able to negotiate commission rates or spreads freely, or select brokers or dealers based on best execution.

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### **Order Aggregation**

Because the size and mandate of Client Accounts often differ, the securities held in such Accounts may not be identical. IICO's portfolio managers make investment decisions for Accounts based on suitability factors and other circumstances which may differ from Account to Account and may result in a particular security being requested for some Accounts and not others. In accordance with IICO's Allocation Policy (the "Policy"), portfolio managers seek to allocate suitable transactions among eligible accounts in a manner believed to be equitable to each Account, either with respect to a given transaction or considering all transactions over time.

In appropriate circumstances, any Account managed by IICO may purchase or sell a security prior to other Accounts. This could occur, for example, as a result of the specific investment objectives of an Account, different cash resources arising from contributions or withdrawals or specific, client imposed, restrictions. However Accounts that are managed in similar styles by the same portfolio manager often have similar or identical portfolio composition and weightings. In other circumstances multiple Accounts may

seek to acquire or dispose of the same security for other reasons. For this reason, IICO may seek to acquire or dispose of the same securities for multiple Accounts at the same time and may aggregate, into a single trade over for several Clients for a single security through IICO's trading desk and in accordance with the Policy.

The Policy is intended to promote fairness, to mitigate potential conflicts of interest, and to conform to applicable regulatory principles. The Policy strictly forbids any allocation request or allocation decision that favors one account over another based on the self-interest of the Account's portfolio manager or IICO. Under the Policy, and to the extent consistent with each participating Client's investment management advisory agreement, IICO may bunch orders for more than one Account to facilitate best execution, including negotiating more favorable prices, obtaining more timely or equitable execution or reducing overall commission charges. IICO seeks to aggregate trade orders in a manner that is consistent with its duty to (1) seek best execution of Client orders; (2) treat all Clients fairly and equitably over time; and (3) not systematically advantage any single Client or group of Clients over time. When a decision is made to aggregate transactions on behalf of more than one Account, such transactions will be allocated to all participating Client Accounts in a fair and equitable manner. When such an order is filled in its entirety, each participating Client Account generally participates at the average share price for the aggregated order, and transaction costs are shared *pro rata* based on each Client's participation in the aggregated order. When a bunched order is partially filled, IICO will allocate the order in accordance with the Policy, as described below.

IICO may use *pro rata* allocation when a bunched order cannot be fully executed in a single day. In such cases, the portion of the order filled on a particular day is generally allocated among participating Accounts based on the size of each Account's original order, subject to rounding to achieve "round lots" and IICO's ability to cancel an order for particular Account(s) if, due to the Account potentially receiving a *de minimis* amount of securities or otherwise, IICO believes that, as a result of the incomplete file, the order is no longer appropriate for the relevant Account(s). IICO may apply a minimum order allocation amount, which may vary depending upon the market convention associated with the particular security. Where remaining positions are too small to satisfy the minimum allocation amount, IICO may decide to allocate the remaining shares to those Accounts seeking large positions which remain unfilled or to allocate remaining shares to those Accounts whose order would be completed as a result of the allocation.

IICO may allocate on a basis other than *pro rata* if, under the circumstances, such other method is reasonable, equitable, does not result in improper or undisclosed advantage or disadvantage to a particular Account or group of Accounts and results in fair access, over time, to trading opportunities for all eligible managed Accounts. For example, IICO may identify investment

opportunities that are more appropriate for certain Accounts than others and may determine to allocate a partial fill to such Accounts. Factors which IICO may consider in making allocation decisions include, among other: investment objectives and restrictions; and cash flow changes (including available cash, redemptions, exchanges, capital additions and capital withdrawals). Other allocation methods may be used by IICO include random and rotational allocation. Such allocation methods may be particularly appropriate when the transaction size is too limited to be effectively allocation *pro rata* among all eligible Accounts.

IICO generally will not aggregate trades for Clients who have limited IICO's brokerage discretion with trades for other Accounts. Notwithstanding the foregoing, IICO may attempt, when circumstances permit, to include transactions of Clients who have directed the use of a particular broker-dealer in a bunched order. In such transactions, the executing broker-dealer must agree to transfer that portion of the bunched order relating to Clients who have directed the use of a particular broker-dealer to the specified broker-dealer. If the executing broker-dealer does not agree to make this transfer, the order for the same security on behalf of the directing Clients will be effected through the specified broker-dealer and the cost of the transaction may be greater.

## **Review of Accounts**

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### **Periodic Reviews**

For Accounts managed by IICO, each portfolio manager is responsible for ensuring that each Account he or she manages is in compliance with the Account's investment objectives and strategies and for reviewing the Account's trading activity. These reviews may include consideration and analysis of: current market activity and conditions; individual issuers; portfolio composition and performance of each Account as well as comparisons across multiple Accounts on a daily basis. Compliance with applicable laws, trading restrictions and investment objectives and policies is monitored by IICO's Compliance Department on a regular basis.

IICO maintains a number of monitoring devices, including review by members of the compliance department, to assure that investments do not violate the policies and restrictions of Client Accounts. IICO also maintains a computer system that electronically monitors many of the investment guidelines and restrictions. This system is a tool used to assist the portfolio managers, compliance personnel and operations administrative support staff.

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### **Regular Reports**

Written account statements are generated no less than quarterly and are sent directly from the Client's account custodian. These reports/statements list the



account positions, activity in the account over the covered period and other related information.

In addition, IICO provides Quarterly Review Statements to its clients, which include:

- Portfolio holdings/Portfolio characteristics
- Portfolio Commentary
- Performance/Attribution
- Portfolio Activity

IICO encourages each Client to review the account statement sent by their custodian and compare IICO's statements to the custodian's statement.

IICO may rely on information provided by affiliates or third parties in preparing reports and a third party may assist in preparing or distributing reports. To the extent reports include or rely on information from a source other than IICO (e.g., benchmark information when a report includes a comparison of an Account's performance to one or more benchmark indices), IICO attempts to obtain such information from reliable sources however the accuracy of such information cannot be guaranteed. Reports may also include or rely upon fair valuation determinations made by IICO or a third party. While such valuations are made in good faith, as describe above, their actual or empirical accuracy cannot be guaranteed.

## **Client Referrals and Other Compensation**

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IICO may enter into "soft dollar" arrangements whereby brokerage transactions are directed to certain broker-dealers in return for investment research products and or services which assist IICO in its investment decision-making process. The receipt of such services may be deemed to be the receipt of an economic benefit by IICO, and although customary, these arrangements give rise to potential conflicts of interest, including the incentive to allocate securities transactional business to broker-dealers based on the receipt of such benefits rather than on a client's interest in receiving most favorable execution.

A conflict of interest occurs when the personal interests of employees interfere or could potentially interfere with their responsibilities to the firm and its clients. The overriding principle is that employees should not accept inappropriate gifts, favors, entertainment, special accommodations, or other things of material value that could influence their decision-making or make them feel beholden to another person. Similarly, employees should not offer gifts, favors, entertainment or other things of value that could be viewed as overly generous or aimed at influencing decision-making or making a client feel beholden to the firm or the employee. The following provisions on gifts

apply to all IICO employees, investment and marketing/client service personnel ("Associated Persons").

## **Custody**

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### **Account Statements**

All assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record at least quarterly.

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by IICO.

## **Investment Discretion**

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### **Discretionary Authority for Trading**

IICO accepts discretionary authority to manage securities accounts on behalf of clients. IICO has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. This authority is identified and provided for in the written Investment Management Agreement entered into between IICO and each Client. By signing IICO's Investment Management Agreement, clients authorize IICO to exercise full discretionary authority with respect to all investment transactions involving the client's account. The Investment Management Agreement grants IICO full discretion and sole authority to invest and reinvest all assets of the client's account in those securities, cash and/or other financial instruments in accordance with the client's stated investment guidelines and objectives and in accordance with IICO's investment strategy utilized for the account (unless otherwise stated and agreed to by IICO and the Client). IICO is authorized to enter into agreements and execute any documents required to effect transactions in the client's account and is further authorized to give instructions to third parties in furtherance of such authority.

## **Voting Client Securities**

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### **Proxy Votes**

Unless the client designates otherwise, IICO votes proxies for securities over which it maintains discretionary authority consistent with its Proxy Voting Policy. IICO has adopted general proxy voting guidelines that are reviewed periodically and subject to change. These guidelines cannot provide an exhaustive list of all issues that may arise nor can IICO anticipate all future

situations. The guidelines address such shareholder meeting agenda items such as the election of trustees/directors, ratification of auditors, management and trustee/director compensation, anti-takeover mechanisms, changes to capital structure, merger and corporate restructuring, and social and corporate policy issues.

The SEC has mandated certain rules for investment advisors with authority to vote client proxies. In response to these proxy voting rules, it is the policy of IICO to review each issuer of each proxy solicited by their respective issuer whose securities are held in any client portfolio and to vote each proxy issue in the best interest of the client and/or the client's plan participants in accordance with IICO's Proxy Voting Policy. To assist it in analyzing proxies, IICO subscribes to one or more unaffiliated third party corporate governance research services. IICO does not, however, consider recommendations from these services to be determinative of its ultimate decision. It is IICO's policy to focus its consideration of proxy issues on the economic cost or benefit to its clients as investors. It is IICO's policy that the investment business strategies of most corporations, including the businesses in which the corporation is engaged, the manner and means in which the corporation chooses to do business, and the determination of the users of its products and services, should primarily be left to management's decision. It is IICO's policy that a shareholder should become involved with these matters only when management has failed and the corporation's performance has suffered or to protect the rights of shareholders.

IICO will review each relationship identified as having a potential conflict based on the individual facts and circumstances. For purposes of this review, IICO will attempt to detect those relationships deemed material based on the reasonable likelihood that they would be viewed as important by the average shareholder.

IICO will use the following techniques to vote proxies that have been determined to present a material conflict: (i) a proxy voting service for specific proposals; (ii) a predetermined voting policy; or (iii) seek Board Guidance.

IICO is aware of its responsibility to process proxies and maintain proxy records pursuant to SEC rules and regulations and its fiduciary duty to vote proxies based on decisions that may affect the value of shareholdings and certainly intends to vote proxies, but clients should be aware that there might be circumstances under which voting might be impossible or impracticable. In accordance with our client agreements and IICO's Proxy Voting Policy, IICO will attempt to vote every proxy it receives for all domestic and foreign corporations, but shall not be responsible for voting any proxies that have record dates prior to the date of an underlying agreement or on or after the date of any termination of an agreement or for monitoring and voting proxies for securities that are out on loan due to a client's securities lending program. Also, voting proxies with respect to shares of foreign securities may be significantly more difficult than with respect to domestic securities. In

consideration thereof, IICO may be unable or may decide not to vote certain proxies for foreign issuers.

Any client, trustee or any client plan or their authorized representative may receive a copy of IICO's Proxy Voting Policy or proxy voting records voted on their behalf by sending a written request to IICO at the address provided in this Brochure or via email at [LegalCompliance@waddell.com](mailto:LegalCompliance@waddell.com)

## **Financial Information**

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### **Financial Condition**

IICO does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because IICO does not serve as a custodian for client funds or securities, and does not require pre-payment of fees of more than \$1,200 per client, and six months or more in advance.

## **Business Continuity Plan**

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### **General**

IICO has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

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### **Disasters**

The Business Continuity Plan covers natural disasters such as snow storms, hurricanes, tornados, and flooding. The Plan covers man-made disasters such as loss of electrical power, loss of water pressure, fire, bomb threat, nuclear emergency, chemical event, biological event, T-1 communications line outage, Internet outage, railway accident and aircraft accident. Electronic files are backed up daily and archived offsite.

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### **Alternate Offices**

IICO has built its own internal recovery site located in Lee's Summit, MO (20 miles away). This site is dedicated to IICO. The recovery site is powered by a separate power grid and has its own uninterruptable power supply (UPS) and backup generator. This site also houses our backup data center. The data center has been designed to support our computing infrastructure; mainframe, servers and network during a significant business disruption. Data from our mainframe at the production site is mirror to this backup site over a SONET ring.

# Privacy Policy

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## Privacy Notice

IICO is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to it.

The categories of nonpublic information that we may collect from its Clients may include information about personal finances, information about transactions between the Client and third parties.

We maintain a secure office to ensure that your information is not placed at unreasonable risk.

We do not provide your personal information to mailing list vendors or solicitors. We attempt to require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our Privacy Policy is expected to change.