

Item 1 – Cover Page

Waddell & Associates, Inc.

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March 16, 2012

This Brochure provides information about the qualifications and business practices of Waddell & Associates, Inc. [“W&A”]. If you have any questions about the contents of this Brochure, please contact us at (901) 767-9187. 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.

W&A is a registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provides you with information about which you determine to hire or retain an Adviser.

Additional information about W&A also is available on the SEC’s website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. The CRD number for W&A is 105746.

Item 2 – Material Changes

This Item of the Brochure discusses only specific material changes that are made to the Brochure and provides clients with a summary of such changes. The most recent update of our brochure was March 14, 2012 and includes the following material changes:

- 1) Item 5 “Fees & Compensation” was updated to reflect a revised flat rate set-up fee of \$1,000.
- 2) Item 14 “Client Referrals and Other Compensation” was updated to reflect the new solicitation arrangement between Waddell & Associates, Inc. and IronHorse Capital, LLC.

Currently, our Brochure may be requested by contacting Tee Meeks, Chief Compliance Officer at (800)527-7263 or request@waddellandassociates.com. Our Brochure is also available on our web site www.waddellandassociates.com, also free of charge.

Additional information about W&A is also available via the SEC’s web site www.adviserinfo.sec.gov. The SEC’s web site also provides information about any persons affiliated with W&A who are registered, or are required to be registered, as investment adviser representatives of W&A.

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Item 4 – Advisory Business

Founded in 1986, Waddell & Associates, Inc. ("W&A") is a U.S. Securities and Exchange Commission ("SEC") registered Investment Adviser. The firm is principally owned by the DSW Trust and Waddell Trust, whose sole trustee is David Waddell. As of December 31, 2011, the firm managed \$ 559,302,617 in discretionary assets under management.

The firm provides investment management services to individuals as well as corporate and professional pension and profit sharing plans. W&A will typically create a portfolio of no-load (no-commission) mutual funds, using model portfolios which match the client's investment policy. W&A meets with its clients to determine individual investment objectives, risk tolerances, and appropriate asset mixes. W&A generally selects mutual funds for portfolio construction and monitors the performance of these funds, adjusting portfolio positions in response to changing economic and market conditions. While W&A typically invests in no-load mutual funds, other type of securities or cash instruments may be utilized if market conditions or client needs dictate.

Client portfolios may also include some individual equity securities in situations where disposition of these securities would present an overriding tax implication or the client specifically requests they be retained for a personal reason. W&A may also recommend fixed income portfolios to advisory clients, which consist of managed accounts of individual bonds.

Employee Benefit Plan Services:

W&A also provides mutual fund selection for self-directed corporate pension and profit sharing plans. W&A reviews the available menu of investment choices offered by the custodian and makes recommendations to the plan trustees as to appropriate choices that could be offered to the plan participants. At the plan's request, W&A will provide recommendations for pooled assets that reflect various investment objectives as additional options for the plan participants. W&A will also meet annually with the plan trustees and provides education to plan participants as needed.

Financial Planning Services (Including Stand Alone Plans):

As a compliment to its investment advisory services, W&A provides advice in the form of financial planning. In general, the financial plan may address any or all of the following areas of concern:

- PERSONAL: Family records, budgeting, personal liability, estate information and financial goals.
- EDUCATION: Education IRAs, 529 plans and general assistance in preparing to meet dependent's continuing educational needs.
- TAX & CASH FLOW: Income tax, spending analysis and planning for past, current and future years.
- DEATH & DISABILITY: Cash needs at death, income needs of surviving dependents, estate planning and disability income analysis.
- RETIREMENT: Analysis of current strategies and investment plans to help the client achieve his or her retirement goals.
- INVESTMENTS: Analysis of investment alternatives and their effect on a client's portfolio.
- DIVORCE PLANNING- Address financial issues and decisions that face couples in process of divorce.

Information gathered includes a client's current financial status, future goals and attitudes towards risk. Should a client choose to implement the recommendations contained in the plan, W&A suggests the client work closely with his/her attorney, accountant and/or insurance agent. Implementation of financial plan recommendations is entirely at the client's discretion.

Financial planning recommendations are of a generic nature and are not limited to any specific product or service offered by a broker dealer or insurance company.

W&A has a licensing agreement with various unaffiliated registered investment advisors by which it provides a model portfolio, currently utilizing the name Aperture Investment Strategies, which is utilized by the unaffiliated advisor. W&A's responsibilities involve periodically rebalancing the model and communicating the changes to the unaffiliated advisor for implementation. W&A makes this model portfolio(s) available only to Sponsors who have completed a licensing agreement with W&A. W&A supplies the model through Foliofn, an online brokerage firm. W&A does not have knowledge of the end client or the individual timing of purchases and sales for the end client. W&A makes changes to the model portfolio at its discretion, but Sponsor retains the rights and sole decision making responsibility at the end client level.

Item 5 – Fees and Compensation

General Information on Fees

The specific manner in which fees are charged by W&A is established in a client's written agreement with W&A. W&A Clients may authorize W&A to directly debit fees from client accounts or elect to be billed directly for fees on a quarterly basis, in arrears, based on the ending asset values. Management fees shall be prorated for each capital contribution and withdrawal made during the applicable calendar quarter. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

As a general rule, W&A does not negotiate its annual management fees. Under certain circumstances, the fee schedule may be negotiable, but any such customized schedule must be approved by W&A's President.

New accounts may be subject to a flat-rate one-time set-up fee of \$1,000. This initial fee may be reduced or waived by W&A if it is deemed that the charge would be a duplication resulting from fees already paid on related accounts or if the exception is approved by W&A's President.

Additionally, under certain circumstances, W&A may provide initial services to prospective clients that go beyond the standard presentation services routinely provided to prospects. In such a situation, W&A will charge the initial fee described in the above paragraph at the onset of the relationship, prior to the asset management contract. If the prospect becomes a client, this fee will not be reassessed and the client will be deemed to have paid the initial fee.

W&A's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management

fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to W&A's fee, and W&A shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that W&A considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

Advisory Fees

Investment Management/Financial Planning Services:

The annual fee for investment management/financial planning services will be charged as a percentage of total assets under management, according to the schedule below:

<u>All Equity, Balanced and Hybrid Portfolios</u>	
<i>First \$1,000,000</i>	<i>1.333%</i>
<i>Second million (\$1,000,001- \$2,000,000)</i>	<i>0.75%</i>
<i>Next three million (\$2,000,001 - \$5,000,000)</i>	<i>0.50%</i>
<i>All assets above \$5,000,000</i>	<i>0.25%</i>

<u>Fixed Income Portfolios</u>	
<i>First \$1,000,000</i>	<i>0.50%</i>
<i>Second million (\$1,000,001- \$2,000,000)</i>	<i>0.35%</i>
<i>All assets above \$2,000,001</i>	<i>0.25%</i>

Financial Planning (Stand Alone Plans):

On a case by case basis, under certain circumstances, W&A may do a stand-alone financial plan for a potential client for a fee. For these individual financial planning services, client can either be billed in advance or upon W&A completing the financial planning service. Fees are determined on a case by case basis depending on the potential account size and level of planning performed. All fees are established and agreed to prior to the start of the planning process.

Employee Benefit Retirement Plan Services:

Under certain circumstances, W&A provides consulting services to pension plans that utilize an employee choice program for its investments. These accounts are not individually managed; rather, W&A reviews the available menu of investment choices offered by the custodian and makes recommendations to the plan trustees as to appropriate choices that could be offered to the participants. At the plan's request, W&A provides

recommendations for pooled assets that reflect various investment objectives as additional options for the plan participants. W&A provides annual meetings with trustees along with employee education sessions as part of its consulting services.

W&A charges a variable fee (.10% to 1% of plan assets annually, depending upon plan size) for these services. These fees are billed by the plan administrator or by W&A and payable quarterly, in arrears, based on ending asset values. However, since fees are generally assessed and paid through the plan to the plan administrator and then sent to W&A, valuation and payment dates vary depending upon the plan administrator's accounting procedures. If the administrator utilizes a "pay in advance" method and forwards such prepaid fees to W&A, the pension plan is eligible to receive a refund (upon written request) of any such prepaid fees on a pro rata basis should client terminate W&A's services during the prepaid period. W&A at no time will receive more than one quarter's fees prepaid in advance.

Sub-Advisory Services:

W&A also provides sub-advisor model investing for certain registered investment advisor wrap fee program sponsors. Under this license agreement, W&A charges a maximum of .50% annually on the assets under management in the model plan, and these fees are paid to W&A quarterly, in arrears, by the sponsor or coordinating custodial broker-dealer.

General Information regarding Fees

Clients whose accounts predate this document are subject to fee arrangements which may differ from the above schedule. The specific manner in which fees are charged by W&A is established in a client's written agreement with W&A.

Item 6 – Performance-Based Fees and Side-By-Side Management

W&A does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

Item 7 – Types of Clients

W&A provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, charitable institutions, foundations, endowments, and other U.S. corporations.

W&A imposes a \$500,000 minimum for all relationships under management. This minimum may be reduced by W&A if an account is deemed to be part of a larger group of accounts under W&A management and these accounts have satisfied the \$500,000 minimum, if the client was introduced to W&A when our account minimum was lower, or other approved circumstances. Any exception to these minimums must be approved by W&A's President.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

In the implementation of investment plans, W&A primarily uses mutual funds and, as appropriate, portfolios of conservative fixed income securities. Clients may hold or retain other types of assets as well, and W&A may offer advice regarding those various assets as part of its services.

W&A's investment philosophy is not constrained by capitalization size or domicile. Based on a variety of research methods, W&A develops a global, macro-economic view of the investing landscape. W&A then conducts extensive searches for relevant fund managers to coincide with our macroeconomic views. The managers use a combination of fundamental, technical, bottom-up and top-down analysis to make their buy and sell decisions.

When analyzing managers, W&A focuses on a variety of factors, including but not limited to the following: manager tenure, performance track record, peer group representation, investing philosophy, portfolio composition, beta, r-squared, upside/downside capture, current conditions and future outlook.

Risk of Loss

Investing in securities involves risk of loss that clients should be prepared to bear.

All investments present the risk of loss of principal – the risk that the value of securities (mutual funds, ETFs and individual bonds), when sold or otherwise disposed of, may be less than the price paid for the securities. Even when the value of the securities when sold is greater than the price paid, there is the risk that the appreciation will be less than inflation. In other words, the purchasing power of the proceeds may be less than the purchasing power of the original investment.

W&A's strategies do not utilize securities that W&A believes would be classified as having any unusual risks, and does not recommend frequent trading, which can increase brokerage and other costs as well as taxes. Although all investments involve risk, W&A's investment advice seeks to limit risk through broad diversification among asset classes and, as appropriate for particular clients, investments directly in conservative fixed income securities to represent the fixed income class. W&A's investment philosophy is designed for investors who desire a buy and hold strategy.

Certain funds utilized by W&A may contain international securities. Investing outside the United States involves additional risks, such as currency fluctuations, periods of illiquidity and price volatility. These risks may be greater with investments in developing countries.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of W&A or the integrity of W&A's management. W&A has no information applicable to this Item.

Item 10 – Other Financial Industry Activities and Affiliations

Affiliated Companies

David Waddell, CEO of Waddell & Associates, Inc. ("W&A") also acts as Chairman of the Board, Chief Macro Strategist and Shareholder of IronHorse Capital, LLC ("IHC"), a Tennessee state-registered investment advisor. IHC's business model seeks to provide high net worth individuals and institutions with a global strategy of individual securities. This business model is materially different from that of W&A, in that W&A utilizes a core strategy of investing in global mutual funds in concert with financial planning and asset allocation for individuals, corporations and pension and profit sharing plans.

Under certain circumstances, IHC may be recommended to W&A clients when IHC's global equity strategy is deemed a suitable investment strategy. W&A clients utilizing an investment in the IHC strategy may be billed by both IHC and W&A for the advisory services provided by each firm. This creates a material conflict of interest in that W&A has an incentive to recommend IHC due to David Waddell's ownership interest in both firms.

In addition, W&A has entered into a solicitation agreement whereby W&A is compensated for referring eligible non-W&A clients to IHC. Clients should carefully review the Form ADV Part 2 of IHC for a full description of IHC's services and fees.

Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading

W&A has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at W&A must acknowledge the terms of the Code of Ethics annually, or as amended.

W&A invests its clients' assets almost exclusively in no-load or load-waived mutual funds consistent with clients' investment objectives. W&A's employee pension and profit sharing plans are invested in the same mutual funds that are purchased for its advisory clients. W&A strongly feels that this participation is validation of its commitment to its clients' best interests as investment decisions made by W&A affects both client and employee. While there is always the possibility of a conflict of interest in these circumstances, W&A feels that the use of diversified mutual funds mitigates the conflict greatly. Additionally, W&A employees may also have personal accounts where they effect trades for their own benefit. W&A's employees and persons associated with W&A are required to follow W&A's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of W&A and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for W&A's clients.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of W&A will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of W&A's clients. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest

between W&A and its clients. In the event of a material conflict of interest, employees and principals must refrain from purchasing or selling securities that are being actively traded for clients.

W&A's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting W&A at request@waddellandassociates.com.

It is W&A's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. W&A will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

Item 12 – Brokerage Practices

Subject to the parameters of the investment strategy employed by W&A and agreed to by its clients, there are no limitations on W&A's authority to choose the securities (and amount) bought and sold.

W&A recommends that its clients establish brokerage accounts at Charles Schwab & Co., Inc. ("Schwab"). Schwab is one of the largest clearing houses in the nation for no-load mutual funds, the primary type of securities W&A buys and sells on behalf of its advisory clients.

W&A has more than 24 years experience in investing client funds in no-load mutual funds pursuant to the investment strategy it presently employs on behalf of its clients. During that time, W&A has found that Schwab's expertise and reputation in this area are excellent and that its brokerage fees are reasonable in light of its execution capabilities and other services rendered. Schwab executes securities transactions at W&A's instructions and provides each client with trade confirmations as well as a detailed summary of the month's transactions, dividends, interest, and the net value of the account assets. W&A receives no hard dollar compensation from Schwab.

Schwab offers certain products and services to W&A for which it reduces or eliminates fees. These include reduced UPS charges to Schwab's service center, discounts on the portfolio management software that W&A utilizes, and the waiver of Schwab level short-term redemption fees for certain mutual funds. Schwab may discount or waive fees it would otherwise charge for certain services, including attendance at conferences and travel arrangements, due to W&A's participation in these institutional programs. W&A believes that these discounts benefit all of its clients directly by providing reduced transaction costs and indirectly by offering discounts on products and services that enable W&A to more efficiently manage client accounts.

In certain circumstances, fixed income transactions may be effected for clients through Duncan- Williams, Inc., ("Duncan-Williams") an unaffiliated dual registered broker-dealer. The decision to step-out fixed income trades to Duncan Williams, taking into consideration best execution, is based on the availability of inventory for municipal and government agency fixed income positions provided by Duncan-Williams. Because W&A has been retained as

investment manager for certain proprietary portfolios of Duncan-Williams, potential conflicts of interests exist. W&A attempts to receive multiple bids or offers from other broker-dealers prior to executing step-out trades in ensure that the client is receiving the best possible execution.

Item 13 – Review of Accounts

Investment Management/Financial Planning Services:

An investment advisor representative is assigned to each account and that investment advisor representative will review each account periodically. The review process contains each of the following elements:

- A. assessing client goals and objectives;
- B. evaluating the employed strategy(ies);
- C. monitoring the portfolio(s); and
- D. addressing the need to rebalance.

Additional account reviews may be triggered by any of the following events:

- A. a specific client request;
- B. a change in client goals and objectives;
- C. an imbalance in a portfolio asset allocation; and
- D. market/economic conditions.

Employee Benefit Retirement Plan Services:

Employee benefit retirement plan investment selections are monitored on a periodic basis and according to the standards and situations described above for investment management accounts.

Financial Planning Services (Stand Alone Plans):

Stand alone financial plans are reviewed at the inception of the advisory relationship and receive no further on-going reviews.

Reports:

Clients receive either monthly or quarterly reports that summarize the client's account and asset allocation from their account custodian, Charles Schwab Inc. In addition, clients may also receive reports periodically from W&A. W&A does not provide clients with monthly portfolio reports, but will provide reports upon a client's request.

Item 14 – Client Referrals and Other Compensation

Client Referrals

W&A may from time to time compensate, either directly or indirectly, any person (defined as a natural person or a company) for client referrals. W&A is aware of the special considerations promulgated under Section 206(4)-3 of the Investment Advisers Act of 1940 and similar state regulations. As such, appropriate disclosure shall be made, all written instruments will be maintained by W&A and all applicable Federal and/or State laws will be observed. Clients should understand that third party solicitors have an economic incentive to recommend the advisory services of W&A.

W&A has entered into a solicitation agreement with the affiliated investment advisory firm, IronHorse Capital ("IHC"). As such, W&A is paid a fee for referring eligible clients to IHC. Prospective clients will be provided with the disclosure documents of IHC, along with a solicitation disclosure document explaining the terms of the agreement.

W&A entered into an agreement with a personal financial planning firm to provide investment management services to some of that firm's clients. In such cases, the planning firm receives approximately 20% of W&A's investment management fee charged to the client for providing the client with various services, such as tax and estate planning, objective setting, periodic reviews and other services. This relationship was fully disclosed to the client and does not result in the client paying any fees in excess of W&A's fee schedule as indicated in Item 5.

W&A has entered into referral arrangements with various CPA firms pursuant to which it pays a referral fee equal to 20% of the advisory fee paid by the referred client. This referral arrangement is ongoing until such time as referral is no longer a client of either the CPA firm or W&A. This relationship is fully disclosed to the client and does not result in the client paying any fees in excess of W&A's fee schedule indicated in Item 5.

Other Compensation

In the past, W&A entered into an agreement with Charles Schwab & Co., Inc., an independent and unaffiliated broker-dealer, to participate in Schwab Advisor Network ("the Service"), an advisor referral service designed to help investors find an independent advisor. Schwab does not supervise W&A and has no responsibility for W&A's management of client's portfolios or any other advice or service offered by W&A. While not a current member of the Service, W&A pays Schwab fees for previous client referrals through the Service as described below.

Though currently no longer a member of the Service, W&A pays Schwab fees for all previously referred clients' accounts that are maintained in custody at Schwab. This Participation Fee is a percentage of the fees the client owes to W&A, subject to a minimum Participation Fee. W&A pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab and the account is assessed an investment management fee by W&A. The Participation Fee is billed to W&A quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by W&A and not by the client. This relationship is fully disclosed to the client, and W&A has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs W&A charges clients with similar portfolios who were not referred through the Service.

In addition, should W&A recommend that managed assets of referred clients be transferred from and held outside of Schwab, W&A will also pay Schwab a one-time asset-based Non-Schwab Custody Fee. This fee does not apply if the client is solely responsible for the decision not to maintain custody at Schwab.

In their separate capacity, some employees of W&A are licensed to sell insurance products. As such, they will be able to receive separate, yet customary commission compensation resulting from implementing insurance products transactions on behalf of advisory clients.

Item 15 – Custody

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. W&A urges clients to carefully review such statements and compare such official custodial records to the account statements that W&A may provide to you. W&A's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16 – Investment Discretion

W&A usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, W&A observes the investment policies, limitations and restrictions of the clients for which it advises. Investment guidelines and restrictions must be provided to W&A in writing.

Item 17 – Voting Client Securities

W&A has adopted proxy voting policies and procedures designed to vote proxies efficiently and in the best interest of its client. W&A seeks to identify any material conflicts of interest and to ensure that any such conflicts do not interfere with voting in clients' best interests. W&A has retained a third-party service provider to assist with the voting and record-keeping of client's proxy ballots. Clients may obtain a copy of W&A's proxy voting policies and information about how W&A voted a client's proxies by contacting W&A.

For accounts W&A considers unmanaged, W&A will typically not vote proxies on behalf of clients. These clients retain the responsibility to vote all ballots for these unmanaged accounts.

Item 18 – Financial Information

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about W&A's financial condition. W&A has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.