

Ivy Investment Management Company

ITEM 1 – COVER PAGE

Ivy Investment Management Company
6300 Lamar Avenue
Overland Park, KS 66202
Phone: 913-236-1415

www.ivyfund.com

August 6, 2015

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: 913-236-1415, or by email at: IMCompliance@waddell.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the, SEC), or by any state securities authority or non-U.S. regulatory authority.

Ivy Investment Management Company is a registered investment adviser with SEC; 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

ITEM 2: MATERIAL CHANGES

This Brochure replaces the one previously provided to you. We revised and expanded some information in this Brochure in an effort to help you better understand our firm and the investment management services we offer, the business issues we face, the risks associated with investing and with our investment process, and our efforts to ensure clients are treated fairly.

The changes made include:

- Item 4 – Firm Description, Ivy Investment Management Company and Ivy Funds Distributor, Inc. (together, “Ivy”) completed a fund adoption transaction by which Ivy took over responsibility as investment adviser and global distributor of the Selector Management Fund SICAV, an umbrella UCITs fund range domiciled in Luxembourg. Prior to the Fund Adoption, Waddell & Reed Investment Management Company, an Ivy affiliate, previously served as the sub-advisor to the sub-funds under the Selector Management Fund SICAV.

Further, we updated any out-of-date information and have made other changes throughout the document in the spirit of providing information clearly and concisely.

ITEM 3: TABLE OF CONTENTS

<u>Item Number</u>	<u>Item</u>	<u>Page</u>
Item 1	Cover Page	
Item 2	Material Changes	TOC 1
Item 3	Table of Contents	TOC 2
Item 4	Advisory Business	1
	Firm Description	1
	Types of Advisory Services	1
	Assets Under Management	2
Item 5	Fees and Compensation	2
	Fee Billing	3
	Other Fees	3
Item 6	Performance-Based Fees and Side-By-Side Management	4
Item 7	Types of Clients	4
	Description	4
	Account Minimums	5
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss	5
	Investment Strategies	5
	Risk of Loss	11
Item 9	Disciplinary Information	13
	Legal and Disciplinary	13
Item 10	Other Financial Industry Activities and Affiliations	13
Item 11	Code of Ethics, Participation or Interest in	
	Client Transactions and Personal Trading	14
	Code of Ethics	14
	Participation or Interest in Client Transactions	14
Item 12	Brokerage Practices	15
	Selecting Brokerage Firms	15
	Best Execution	16
	Soft Dollars	18
	Order Aggregation	19
Item 13	Review of Accounts	21
	Periodic Reviews	21
	Regular Reports	21
Item 14	Client Referrals and Other Compensation	21
Item 15	Custody	22
	Account Statements	22

Item 16	Investment Discretion	22
	Discretionary Authority for Trading.....	22
Item 17	Voting Client Securities	23
	Proxy Votes.....	23
Item 18	Financial Information.....	24
	Financial Condition.....	24
	Business Continuity Plan.....	24
	General	24
	Disasters	24
	Alternate Offices	24
	Privacy Policy.....	24
	Privacy Notice	24
	Additional Information	24
	Foreign Securities	24
	Securities Pricing & Potential Conflicts of Interest	24
	Class Action/Bankruptcies	2
	CyberSecurity Risks.....	27

ITEM 4: ADVISORY BUSINESS

Firm Description

Ivy Investment Management Company, ("IICO") was registered as an investment adviser in 2002.

IICO is a wholly owned, direct subsidiary of Waddell & Reed Financial, Inc. (WDR). WDR is a publicly traded company (NYSE:WDR). WDR acquired the investment adviser (now known as IICO) to the Ivy Funds in December 2002. WDR, either directly or through its investment management subsidiaries, has provided continuous investment management services for over 75 years,

WDR, 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.

Our Investment Management Division oversees advisory and management services for each fund within the Ivy Funds (Advisors and Wholesale channels). In addition to performing investment management services for the U.S. Funds and the UCITs, IICO acts as investment adviser for institutional and other private investors and provides sub-advisory services to other U.S. mutual funds and non-U.S. pooled investment vehicles.

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's investment philosophy and money management approach. Over seven decades, IICO or its affiliates' 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.

Types of Advisory Services

IICO and/or its affiliates provides primarily discretionary investment advisory and management services to

- 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;
- A U.S. closed-end registered investment company (U.S. Closed-end Fund), which is registered with the SEC pursuant to the Investment Company Act of 1940;
- Non-proprietary U.S. Mutual Funds (Sub-Advised);
- UCITS (Undertakings for Collective Investments in Transferable Securities), domiciled in Luxembourg and Ireland;
- Canadian mutual funds;
- Sovereign wealth funds;
- Subsidiary Corporations;
- Collective Investment Trusts;
- Privately placed commingled or pooled investment vehicles (Private Funds), which may be organized as domestic limited liability companies;

- Separately managed accounts
- Model Portfolios (on a non-discretionary basis)

U.S. Mutual Funds, U.S. Closed-end Funds and Sub-Advised 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.

Investors in most Pooled Accounts are not considered IICO's advisory clients and do not enter into investment management agreements. With respect to any Pooled Account, this Brochure is qualified in its entirety by the pooled account's offering memorandum, prospectus, statement of additional information and/or similar disclosure and governing documents (collectively, the 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.

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

Assets Under Management

As of 12/31/2014, 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	72,381,905,250
Non-Discretionary	0
Total:	72,381,905,250

ITEM 5: FEES AND COMPENSATION

IICO's standard fee schedules vary from product to product based on a variety of factors, including but not limited to the portfolio manager, strategy, investment vehicle, degree of servicing required, market-place conditions and other factors IICO deems relevant. IICO's current institutional fee schedule ranges from 40-85 bps on an annual basis for domestic equity investment strategies, 65-85 bps for global and international equity alternative strategies and 20-55 bps for fixed income and balanced strategies. IICO may also receive a performance allocation or fee based on the performance achieved by an account. See *Item 6-Performance-Based Fees and Side-by-Side Management* for more information about performance based fees.

IICO's investment management fees are typically calculated as a percentage of the market value of a client's assets under management in accordance with its contractual agreements. Fee breakpoints may be available for certain strategies and product types. Existing clients may have different fee arrangements from those described above. To the extent IICO engages a sub-adviser, IICO will pay the sub-adviser a portion of the management fee that clients pay to IICO.

IICO may, in its sole discretion, charge lower management fees or waive account minimums based on certain criteria including product type, investment strategy, client type, client domicile, services provided, the client's historical relationship with the firm, number of related investment accounts, account composition or size, anticipated future earning capacity, current and anticipated future assets under management, marketplace considerations, early adoption of an investment strategy or investment in a particular vehicle, client's operational or investment limitations or restrictions and other factors IICO deems relevant. In appropriate circumstances, IICO may waive or reduce all or a portion of its fees charged to particular clients 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. Assets from related accounts in similar investment vehicles may be aggregated for fee calculation purposes.

IICO is limited in its ability to negotiate fees, in part, to existing client contracts, which require equivalent pricing. Under the terms of these agreements, IICO is generally required to charge the same fee schedule to similarly-situated clients. IICO generally considers clients to be similarly-situated if they are domiciled in the same country, are in the same investment vehicle managed as a component of the same investment strategy, are of the same client type and have a similar account size among other factors.

Fee Billing

As a general matter, advisory fees for Clients other than U.S. Mutual Funds are billed quarterly, in arrears. Advisory fees for proprietary U.S. Mutual Funds are calculated and paid daily. Subadvisory fees for non-proprietary U.S. Mutual Funds are calculated daily, but generally paid monthly. 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.

Fee calculation methods are dictated by the client's investment management agreement. Most commonly, the quarterly fee is calculated by applying the annual fee rate to the average assets and dividing by four. The average value of assets for each quarter generally is 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. Calculations are based on market value, which includes realized and unrealized gains and losses. Upon agreement, Aggregated assets of all Client's 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. If assets are managed for a partial quarter, the fee is pro-rated.

If a client requests that IICO automatically deduct management fees from its account(s), IICO will bill the client's custodian directly in accordance with Rule 206(4)-2 (the Custody Rule) under the Investment Advisers Act of 1940 (the Advisers Act).

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-Brokerage Practices* in this Brochure for additional important information about the brokerage and transaction practices of IICO.

Except as otherwise agreed, each Account bears (and the fees described above 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.

Cash balances in accounts within the Institutional Channel may be invested in unaffiliated short-term investment funds (STIFs) designated by the client or its custodian. Since current information about the STIF holdings is generally not available, IICO does not attempt to assess the quality of the underlying assets of a STIF selected by a client or its custodian. IICO does not provide any advisory fee credit for client assets invested in a STIF, which means that such assets will typically bear not only their proportionate share of the expenses of the STIF, but also management fees charged by IICO.

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.

IICO may enter into agreements to compensate another firm for referring institutional investment management services. Such "Referral Agreements" are governed by the "Solicitor Rule." Rule 206(4)-3 under the Investment Advisers Act of 1940. The fees paid by a client to IICO will not be affected by any such arrangement. See Item 14 for further information regarding Referral Agreements.

ITEM 6: Performance-Based Fees and Side-By-Side Management

IICO may offer a fee alternative in the form of specifically negotiated performance fee arrangements. Performance-based fees are negotiated in compliance with Rule 205-3 under the Advisers Act and are charged only to 'qualified clients' as defined in that rule. Performance-based fees typically consist of a base management fee plus an adjustment based on investment performance compared to an established benchmark index or compared to rankings of similar funds over a specified period of time.

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 based fees), that may also have similar investment styles or otherwise compete for investment opportunities, that have differing abilities to engage in 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 such 'side-by-side' management.

ITEM 7: TYPES OF CLIENTS

Description

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

- Open-end mutual funds which are distributed by affiliates of IICO
- Closed-end mutual funds
- Public and private institutional clients, including government entities, pension plans, corporations, charitable organizations (foundations, endowments, etc.), insurance companies
- As sub-advisor to other U.S. open-end mutual funds
- As sub-advisor to non-U.S. pooled investment vehicles (Canadian funds)
- UCITs (Undertakings for Collective Investments in Transferable Securities), domiciled in Luxembourg
- Commodity subsidiaries

To help the U.S. Government fight the funding of terrorism, and money laundering activities, IICO may seek to obtain, verify, and record information that identifies each client who retains IICO to manage its

account or who invests in a fund managed by IICO. In this regard, when a client or investor seeks to open an account, IICO may ask for the name, address, Tax ID/Employer ID number (or any other registration number issued in the jurisdiction of location or incorporation) and other reasonably required information that will allow IICO to identify the client. IICO may ask for information and documentation regarding source of funds to be invested. IICO also reserves the right to ask for more information regarding the individuals who are beneficial owners of the client and/or exercise control over the client. IICO may ask for the names of such beneficial owners and may also ask for address, date of birth, and other information that will allow IICO to identify such beneficial owners. IICO may also request such other information as may be necessary to comply with applicable law. Furthermore, IICO may verify any of the aforementioned information using third-party sources and may share that information as required by applicable law or in connection with the execution of trades on behalf of that client or investor. For certain clients or investors, IICO may rely on the client's investor's broker-dealer, administrator, transfer agent, custodian or placement agent to obtain, verify and record the required information.

Account Minimums

For new accounts, IICO generally requires:

MINIMUM ASSETS ACCEPTED¹

EQUITY ACCOUNTS:

Core	\$15 Million
Small Cap Growth	\$20 Million
Mid Cap Growth	\$20 Million
Large Cap Growth	\$20 Million
Large Cap Value	\$10 Million
International Core	\$20 Million

BALANCED ACCOUNTS	\$15 Million
-------------------	--------------

FIXED INCOME ACCOUNTS:

Core	\$3 Million
Core Intermediate	\$3 Million
High Yield	\$20 Million

GLOBAL TACTICAL ASSET ALLOCATION

Asset Strategy	\$25 Million
----------------	--------------

¹ IICO has offered to consider and will consider accounts below the minimum assets shown under certain circumstances.

ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

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 respective offering documents.

Asset Strategy Style

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 investment themes and then focuses its strategy on allocating assets among stocks, bonds, cash, precious metals, currency and derivatives instruments, including derivatives traded over-the-counter or on exchanges. After determining these allocations, IICO seeks attractive opportunities within each market by focusing on issuers in countries, sectors and companies with strong cash flow, the ability to return capital to shareholders and low balance sheet leverage. IICO may, however, also invest in issuers with higher balance sheet leverage if IICO believes there will be appropriate compensation for the increased risk. Within each investment type, IICO may invest in U.S. and foreign securities; IICO may invest up to 100% of total assets in foreign securities, including 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 diversification requirements and applicable Client guidelines, IICO also may invest up to 25% of its total assets in precious metals.

Generally, in determining whether to sell a security, IICO considers many factors, which may include a deterioration in a company's fundamentals caused by global-specific factors such as geo-political landscape changes, regulatory or currency changes, or increased competition, as well as company-specific factors, such as reduced pricing power, diminished market opportunity, or increased competition.

IICO may seek to manage exposure to certain securities, companies, sectors, markets, foreign currencies and/or precious metals and seek to hedge certain event risks on positions held. In an effort to hedge market risk in equity securities, manage exposure to companies, sectors or equity markets, IICO may utilize various instruments including, but not limited to, the following: futures contracts, both long and short positions on foreign and U.S. equity indices; total return swaps; credit default swaps; and options contracts, both written and purchased, on foreign and U.S. equity indices and/or on individual equity securities. In seeking to manage foreign currency exposure, IICO may utilize forward contracts and option contracts, both written and purchased, either to increase or decrease exposure to a given currency. In seeking to manage exposure to precious metals, IICO may utilize futures contracts, both long and short positions, as well as options contracts, both written and purchased, on precious metals.

IICO may reduce the net equity exposure by selling, among other instruments, combined futures and option positions, and may effect short sales of individual securities and/or exchange-traded funds (ETFs) or take long positions in inverse ETFs.

While some accounts can directly hold gold bullion and other commodities, in other cases, IICO may gain exposure to commodities, including precious metals, derivatives and commodity-linked instruments by investing in a subsidiary corporation of a client, typically organized in the Cayman Islands. Should an account invest in a subsidiary corporation, the investment would be expected to provide exposure to investment returns from commodities, derivatives and commodity-linked instruments within the limits of applicable federal tax requirements. The subsidiary corporation is subject to the same general investment policies and restrictions as an account and IICO will be subject to the same investment restrictions and operational guidelines that apply to the management of the client account.

Additional Risks

Commodities Risk. Commodity trading, including trading in precious metals, 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, an Account may

pay more to store and accurately value its commodity holdings than it does with its other portfolio investments.

Derivatives Risk. The use of derivatives presents several risks, including the risk that these instruments may be regulated in a manner which adversely affects the value of the investments and the risk that fluctuations in the value of the derivatives may not correlate with securities markets or with the underlying asset from which the derivative's value is derived. Moreover, some derivatives are more sensitive to interest rate changes and market price fluctuations than others. To the extent the judgment 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 may also be subject to counterparty risk, which includes the risk that a loss may be sustained as a result of the insolvency or bankruptcy of, or other non-compliance by another party to the transaction.

Subsidiary Corporation Risk

By investing in a subsidiary corporation, an account in the Asset Strategy style may be exposed to the risks associated with the subsidiary corporation's investments. The subsidiary corporation is not registered under the 1940 Act and is not subject to all of the investor protections of the 1940 Act. Thus, as investors in the subsidiary corporation, IICO's clients would not have all of the protections offered to investors in registered investment companies. However, because a subsidiary corporation will be managed by IICO, it is unlikely that the subsidiary corporation would take action contrary to the interests of IICO's clients. In addition, changes in the laws of the United States and/or the foreign country in which the subsidiary corporation is organized, respectively, could result in the inability of the subsidiary corporation and/or the style to operate as intended and could negatively affect investors.

Private Placements and Other Restricted Securities Risk

Restricted securities, which include private placements, are securities that are subject to legal or contractual restrictions on resale, and there can be no assurance of a ready market for resale. An Account could find it difficult to sell privately placed securities and other restricted securities when IICO believes it is desirable to do so, especially under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, and the prices realized could be less than those originally paid or less than the fair market value. At times, it also may be difficult to determine the fair value of such securities.

Core Equity Style

The Core Equity style's process is driven by the core belief that changes in expectations for long-term earnings power drive stock prices. Therefore, the goal is a relatively concentrated portfolio of companies expected to produce long-term earnings power above expectations. This style invests primarily in large cap companies.

IICO focuses on companies that it feels are likely to produce long-term earnings in excess of expectations or resist market decline. 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.

Many U.S. companies have diverse operations, with products or services in foreign markets. Therefore, this strategy will have an indirect exposure to foreign markets through investments in these companies.

Additional 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 large number of securities.

Large Cap Growth Style

IICO primarily utilizes a bottom-up strategy in selecting securities for the style and seeks growth oriented companies that it believes have dominant market positions and above average levels of profitability. IICO believes that these characteristics can help to mitigate competition and lead to more sustainable revenue and earnings growth. IICO attempts to focus on companies operating in large, growing, addressable markets

(generally, the total potential markets for their goods and services) whose competitive market position IICO believes will allow them to grow faster than the general economy. The key factors IICO typically analyzes consist of: a company's brand equity, proprietary technology, economies of scale, and level of competitive intensity; return of capital in the form of higher dividends or share repurchases; the threat of substitute products; and the interaction and bargaining power between a company, its customers, suppliers and competitors.

Additional Risk

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.

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.

Large Cap Value Style

IICO seeks to provide capital appreciation by investing in the common stocks of primarily large-capitalization, under-valued companies. IICO seeks to invest in stocks that are, in its opinion, are trading at a significant discount 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 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.

Additional 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.

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.

Catalyst Risk. Investing in companies in anticipation of a catalyst carries the risk that certain of such catalysts may not happen or the market may react differently than expected to such catalysts, in which case the Account may experience losses.

Mid Cap Growth Style

IICO seeks to achieve growth by investing primarily in common stocks of mid-cap companies that IICO believes are high quality and/or offers above-average growth potential. Mid-cap companies typically are companies with market capitalizations within the range of companies in the Russell Mid Cap Growth Index.

In selecting securities for an Account, IICO focuses primarily on 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.

Additional 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.

Small Cap Growth Style

Seeks to provide growth of capital by purchasing 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

Securities acquired in the style's portfolios generally have 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 with little or no debt, and proper incentive alignment.

Additional 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.

Core Intermediate Fixed Income Style

Seeks 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 Style

Similar to Core Intermediate Fixed Income with additional value added through sector emphasis and individual issue selection based on IICO's outlook for the economic environment, financial 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. This style has no limitations regarding maturity, duration or dollar-weighted average of its holdings.

This style may vary from time to time, utilize derivative instruments, including Treasury futures contracts, Treasury swaps and options for hedging purposes to take a directional position on interest rates, to mitigate the impact of rising interest or to manage or adjust the duration of the Account.

Additional Risks

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.

U.S. Government Securities Risk. Certain U.S. government securities, such as U.S. government securities, such as U.S. Treasury (Treasury) securities and securities issued by the Government National Mortgage Association (Ginnie Mae), are backed by the full faith and credit of the U.S. government. Other U.S. government securities, such as securities issued by Federal National Mortgage Association (Fannie Mae), The Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal Home Loan Banks (FHLB), are not backed by the full faith and credit of the U.S. government and, instead, may be supported only by the credit of the issuer or by the right of the issuer to borrow from the Treasury.

Derivatives Risk. The use of derivatives presents several risks, including the risk that these instruments may be regulated in a manner which adversely affects the value of the investments and the risk that fluctuations in the value of the derivatives may not correlate with securities markets or with the underlying asset from which the derivative's value is derived. Moreover, some derivatives are more sensitive to interest rate changes and market price fluctuations than others. To the extent the judgment 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 may also be subject to counterparty risk, which includes the risk that a loss may be sustained as a result of the insolvency or bankruptcy of, or other non-compliance by another party to the transaction.

Global Bond Style

Seeks to provide a high level of current income with capital appreciation as a secondary goal by investing in a diversified portfolio of bonds of foreign and U.S. issuers. This style may invest in securities issued by foreign or U.S. governments and in securities, and issued by foreign or U.S. companies of any size, including those in emerging markets. This style may invest up to 100% of its total assets in securities denominated in currencies other than the U.S. dollar. This style may invest in securities of any maturity.

Low-Rated Securities Risk. This style may also invest up to 100% of its assets in non-investment grade bonds. Low-rated debt securities (commonly referred to as high-yield or junk bonds) offer higher yields due to the increased risk that the issuer will be unable to meet its obligations on interest or principal payments at the time called for by the debt instrument.

High Income Style

Seeks total return through a combination of high current income and capital appreciation by investing in high-yield, high-risk, fixed income securities including loan participations and other loan instruments of U.S. and foreign issuers. IICO may invest an unlimited amount of an account's total assets in non-investment grade debt securities, commonly called junk bonds, which include debt securities rated BB+ or lower by S&P or comparably rated by another NRSRO or, if unrated, determined by IICO to be of comparable quality. An account may invest in fixed-income securities of any maturity and in companies of any size.

Although IICO considers credit ratings in selecting investments for an Account, IICO bases its investment decision for a particular instrument primarily on its own credit analysis and not on a NRSRO's credit rating. IICO will consider, among other things, the issuer's financial resources and operating history, its sensitivity to economic conditions and trends, the ability of its management, its debt maturity schedules and borrowing requirements, and relative values based on anticipated cash flow, interest and asset coverage, and earnings prospects. An Account may invest an unlimited amount of its assets in foreign securities that are denominated in U.S dollars or foreign currencies

IICO may look at a number of factors in selecting securities for the portfolio, beginning with a primarily bottom-up analysis of a company's fundamentals, including financial strength, growth of operating cash flows, strength of management, borrowing requirements, improving credit metrics, potential to improve credit standing, responsiveness to changes in interest rates and business conditions, strength of business model, and capital structure and future capital needs, and progressing to consideration of the current economic environment and industry fundamentals. After IICO is comfortable with the business model of a company, it attempts to optimize the portfolio's risk/reward by investing in the debt portion of the capital structure that IICO believes to be most attractive, which may include secured and/or unsecured loans or floating rate notes, secured and/or unsecured high-yield bonds, and/or convertible securities trading well below their conversion values.

Additional Risks

Loan Risk. In addition to the risks typically associated with fixed-income securities, loans carry other risks, including the risk of insolvency of the lending bank or other intermediary. Loans may be unsecured or not fully collateralized, may be subject to restrictions on resale and sometimes trade infrequently on the secondary market.

Low-Rated Securities Risk. In general, low-rated debt securities (commonly referred to as high-yield or junk bonds) offer higher yields due to the increased risk that the issuer will be unable to meet its obligations on interest or principal payments at the time called for by the debt instrument. . For this reason, these securities are considered speculative and could significantly weaken the Account's returns. In adverse economic or other circumstances, issuers of these low-rated securities and obligations are more likely to have difficulty making principal and interest payments than issuers of higher-rated securities and obligations.

Note that the Ivy High Income Opportunities Fund, as a closed-end fund, will invest primarily in a portfolio of securities rated below investment grade.

Risks Specific to Closed-End Funds

Market Price Discount from NAV Risk. Shares of closed-end Funds frequently trade at a discount from their NAV. The common shares may trade at a price that is less than the initial offering price. This risk may be greater for investors who sell their shares relatively shortly after completion of the initial offering. If common shares are sold, the price received may be more or less than the original investment.

Leverage Risk. Certain of the derivative investments in which the Fund may invest will give rise to forms of effective leverage, which may magnify the risk of owning such instruments.

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. While risk is inherent in any investment, certain of the investments made and strategies used by IICO may entail enhanced risks which cannot be easily mitigated, including, in addition to others noted, counterparty risk (i.e., the risk that the relevant counterparty will be unable to meet its obligations) liquidity risk, volatility risk and selection risks. These risks may be particularly increased for strategies which utilize derivatives, are concentrated in a particular sector or type of instrument, or issuer in which involve emerging markets. 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 styles have certain risks that are borne by the client. Our investment approach constantly keeps the risk of loss in mind. In addition to the style-specific risks identified above, Clients may face the following investment risks:

General Risks-All Styles

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.

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.

Liquidity Risk. Generally, a security is liquid if the account is able to sell the security at a fair price within a reasonable time. Liquidity is generally related to the market trading volume for a particular security. Illiquid securities may trade at a discount from comparable, more liquid investments, and may be subject to wider fluctuations in market value. Less liquid securities are more difficult to dispose of at their recorded values and are subject to increased spreads and volatility. Also, an account may not be able to dispose of illiquid securities when that would be beneficial at a favorable time or price.

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 the Account's holdings to fall as part of a broad market decline. The financial crisis in the U.S. and foreign economies over the past several years, including the European sovereign debt crisis, has resulted, and may continue to result, in an unusually high degree of volatility in the financial markets, both U.S. and foreign. Global economies and financial markets are becoming increasingly interconnected, which increases the possibilities that conditions in one country or region may adversely affect issuers in another country or region, which may adversely affect securities held by an Account. These circumstances have also decreased liquidity in some markets and may continue to do so. In addition, certain unanticipated events, such as natural disasters, terrorist attacks, war, and other geopolitical events, can have a dramatic adverse effect on securities held by the Account.

For styles that may invest in foreign securities, the following risks may apply:

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 characteristics 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 can also be costly.

Foreign Exposure Risk. The securities of many companies may have significant exposure to foreign markets as a result of the company's products or services in those foreign markets. As a result, a company's domicile and/or the markets in which the company's securities trade may not be fully reflective of its sources of revenue. Such securities would be subject to some of the same risks as an investment in foreign securities, including the risk that political and economic events unique to a country or region will adversely affect those markets in which the company's products or services are sold.

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; adverse tax consequences and settlement delays.

For styles that may invest in fixed-income securities, the following risks may apply:

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.

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.

Income Risk. A decline in income due to falling interest rates, earnings declines or income decline within a security.

ITEM 9: DISCIPLINARY INFORMATION

Legal and Disciplinary

On July 24, 2006, affiliates of IICO, Waddell & Reed Investment Management Company, Waddell & Reed, Inc. and Waddell & Reed Services Company (collectively, W&R) reached a settlement with the SEC to resolve proceedings brought in connection with its investigation of frequent trading and market timing in certain funds within Waddell & Reed Advisors Funds.

Under the terms of the SEC's cease-and desist order (SEC Order), pursuant to which W&R neither admitted nor denied any of the findings contained therein, among other provisions W&R agreed to pay \$40 million in disgorgement and \$10 million in civil money penalties.

The SEC Order further requires that the \$50 million in settlement amounts will be distributed in accordance with a distribution plan developed by an independent distribution consultant, in consultation with W&R, and that is agreed to by the SEC staff and for which the distribution methodology is acceptable to the Funds' Disinterested Trustees. The SEC Order requires that the independent distribution consultant develop a methodology and distribution plan pursuant to which shareholders of certain Funds shall receive their proportionate share of losses, if any, suffered by those Funds due to market timing. . On July 15, 2014, the SEC ordered that the Fair Fund be distributed to investors as provided for in the distribution plan.

The foregoing is only a summary of the SEC Order. A copy of the SEC Order is available on the SEC's website at <http://www.sec.gov>.

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

IICO is an direct, 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.

Effective August 2014, IICO completed a transaction in which it adopted Selector Management Fund SICAV, an umbrella UCITs fund range domiciled in Luxembourg. Prior to the Fund Adoption, Waddell & Reed Investment Management Company, an Ivy affiliate, previously served as the sub-advisor to the sub-funds under the Selector Management Fund SICAV,

U.S. Mutual Funds for which IICO serves as investment adviser are distributed through its affiliate, Ivy Funds Distributor Inc. ("IFDI"). IFDI is a registered broker-dealer with the SEC and files Forms BD describing its ownership, business and staff.

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

ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Code of Ethics

IICO's Code of Ethics is designed to comply with Rule 204A-1 of the Adviser's Act and 17j-1 of the Investment Company Act. It is IICO's policy to monitor, and forbid in certain circumstances, any individual associated with IICO or with certain affiliates from purchasing or selling securities if there are current open orders for client accounts. All officers and employees of IICO must comply with the standards of business conduct set forth in the Code of Ethics ("Code") and with applicable federal securities laws. Those officers and employees who have access to information concerning security transactions on behalf of client accounts, collectively referred to as Supervised Persons, must also comply with additional provisions.

A basic tenet of the Code is that officers and employees must adhere to the highest principles of conduct in the discharge of their duties with respect to Client 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 Supervised 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. All 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 Investment Management Compliance Department ("IMC"). All employees are also expected to report to IMC any violations of the Code which come to their attention.

The Code sets forth Supervised Persons' obligations with dealing in covered securities for their own accounts. Subject to certain exceptions, Supervised 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 is a pending open order on for the security on the trading desk. With respect to portfolio managers, this blackout period is extended to seven days before and after trading in an Account managed by that portfolio manager. The Code also restricts short-term trading in covered securities and participation in initial public offerings.

The Code includes various requirements designed to ensure that personal trading activity is properly disclosed. Upon becoming a Supervised Person and on an annual basis thereafter, all Supervised Persons are required to certify that they have disclosed all personal brokerage accounts and covered securities in which they have a beneficial interest. IMC reviews various reports on a periodic basis to monitor personal trading by Supervised Persons and may request additional information from Supervised Persons in order to assure proper administration of the Code's personal trading rules.

Except as required by law, Supervised Persons and IMC are required to keep confidential any reports or requests made to or lodged with IMC 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 who fails to observe the Code and other relevant compliance policies may experience 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 913-236-1415 or via email at IMCompliance@waddell.com.

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 that 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 prohibitions against 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.

Investment Personnel

Certain portfolio managers may have additional roles, including roles such as Director of Global Research, Head of Fixed Income, Chief Investment Officer, President of WDR. Certain analysts may have additional roles as assistant portfolio managers. Investment personnel with multiple roles may receive compensation for these additional roles which could create potential conflicts of interest as these individuals may have an incentive to favor certain accounts over others.

A Portfolio Manager may also serve on the Board of Directors (or similar governing body) of a privately held company, the securities of which an Account may hold. While IICO believes such service will be beneficial to its Clients, the Portfolio Manager's service as a Board Member could also create a conflict of interest (or appearance of a conflict of interest) that may impact the Account.

Material Non-Public Information

IICO's investment personnel, in the course of research and other related activities, may from time to time acquire confidential or material, non-public information that may prevent IICO from purchasing or selling particular securities for certain clients. As a result, certain clients could realize a positive or negative impact to overall performance. IICO maintains policies and procedures for handling material, non-public information.

Political Activities

Corporate and employees' political contributions to U.S. or non-U.S. government officials, if not prohibited by law or regulation, may raise potential conflicts of interest. As a result, IICO maintains policies and procedures which generally limit the amount of contributions to political candidates or elected officials. Employees, and in certain cases spouses, must obtain approval from IMC before making personal political contributions above de minimis thresholds and before engaging in political activities. Contributions which may impact IICO or any of its affiliates' ability to obtain or maintain business may not be approved.

ITEM 12: BROKERAGE PRACTICES

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. Specialized services vary by trade, but often include assistance in the execution of a trade.

IICO utilizes broker-dealers 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 consideration 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 permissible 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.

Among fixed income broker-dealers that meet our requirements for research and execution capabilities, IICO will use minimum cost broker-dealers to the fullest extent possible for fixed income transactions. Due to the nature of fixed income trades, IICO may not seek bids from at least two broker-dealers if it believes doing so is not beneficial to the trade. Over the counter derivative arrangements are entered into with a bank or broker-dealer acting as principal counterparty. These arrangements are entered into on behalf of IICO's clients with only a small number of approved counterparties. IICO cannot guarantee that these counterparties will be able to meet their financial obligations. However, IICO will periodically, and no less often than annually, IICO will review the financial well being of these approved counterparties.

Best Execution

IICO regularly evaluates the placement of trades with brokerage firms and the reasonableness of commissions paid. 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 overall responsibilities to its Clients. However, the extent to which commission rates or 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 trades with brokerage firms for Accounts with respect to which IICO has been granted trading discretion, IICO seeks to (1) determine each 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-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 or regulatory problems of any broker-dealer;
- the broker-dealer's execution services rendered on a continuing basis and in other transactions;
- IICO's perception of the financial condition of the broker-dealer;
- 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 trades on an agency basis rather than directly through a market maker in which the broker used by IICO then acquires or disposes of a security through a market maker or another client. 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 trades when, in IICO's judgment, the use of an ECN or ATS may result in equally or more favorable overall execution quality as well as anonymity for a transaction. IICO may trade in this manner when it believes that any commissions paid to the ECN or ATS still results in equal or better qualitative execution than might have otherwise been obtained trading "net" with a market maker.

Unless inconsistent with the IICO's duty to seek best execution, IICO may direct a broker to execute a trade and "step out" a portion of the commission in favor of another broker that provides brokerage or research related services to IICO as described above. The second broker-dealer may clear and settle and receive commissions for the portion of the transaction sent to it. IICO may also use step out transactions in fulfilling a client-directed brokerage arrangement, to allow for an order to be aggregated, or for regulatory or other purposes.

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 Client 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.

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 service") 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 services. Research services 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 paid for by the broker-dealer). The brokerage commissions used to acquire soft dollar services 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 service. Nonetheless, certain broker-dealers may state in advance the amount of brokerage commissions they require for certain soft dollar services and the applicable cash equivalent. IICO may use soft dollars to acquire soft dollar services 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 services 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 services, the adviser is said to be "paying up." Under recent SEC interpretations, soft dollars may be used for, among other things, eligible soft dollar services which assist IICO in meeting its Clients' investment objectives and IICO's relevant responsibilities to its Client Accounts. The receipt of soft dollar services in exchange for "soft dollars" 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 services on its own.

In determining whether to pay up for a relevant execution, IICO evaluates whether the soft dollar service(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 service(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 services 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 services 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, that such amounts are reasonable in relation to the value of the soft dollar services, 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 services, 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 services among Accounts because it believes that, in the aggregate, the soft dollar services it receives benefit Clients by assisting IICO in fulfilling its overall duty to its Clients. For example, fixed income funds and accounts normally do not generate soft dollars to pay for products. Therefore, where services used to manage fixed income accounts are paid for using soft dollars, the soft dollars have been generated entirely by equity accounts. In other words, the fixed income accounts receive the benefit of the services even though they have been paid for by equity accounts. In this connection, it should be noted that the value of many soft dollar services including, particularly, research cannot be measured precisely and commissions paid for such services cannot always be allocated to Clients in direct proportion to the value of the item to each Client.

IICO may also use soft dollars to pay for a portion of certain "mixed use" services (i.e., services 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 services appropriately by paying cash for that portion of the cost of the soft dollar service 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.

IICO does not generate or earn credit toward commitments incurred by it for third party research and services from commissions generated on transactions for its institutional accounts, including sub-advised funds. However, in an effort to achieve best execution, trades for such accounts may be combined or aggregated with fund trades that do generate third party research commission credits for third party research and, therefore, the institutional accounts may pay the commission rates applicable to such trades.

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 Account 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 might 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 an 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.

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 fair and equitable to each Account, either with respect to a given transaction or considering all transactions over time.

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. In appropriate circumstances, any Account managed by IICO may purchase or sell a security prior to other Accounts or at times when other accounts are not trading in the security. This could occur, for example, as a result of 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 IICO may seek to acquire or dispose of the same security for multiple Accounts at the same time.

Under the Policy, and to the extent consistent with each participating Client's investment management agreement, IICO may aggregate 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 will receive the average share price for the aggregated order, and transaction costs will be shared pro rata based on each Client's participation in the order. When an aggregated order is partially filled, IICO will allocate the trades in accordance with the Policy, as described below.

IICO may use pro rata allocation when an aggregated 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 order. Such allocations are subject to rounding to achieve "round lots" and IICO's ability to cancel or modify an order for one or more Accounts if, IICO believes that, as a result of the incomplete fill, the order is no longer appropriate for the such Accounts. IICO may apply a minimum order allocation amount, which may vary based on a 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 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 others: investment objectives and restrictions, cash availability and changes in cash flows, including current or anticipated redemptions, exchanges and capital contributions/withdrawals. 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 an aggregated order. In such transactions, the executing broker-dealer must agree to transfer that portion of the 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 executed through the specified broker-dealer and the cost of the transaction may be greater.

Securities offered in initial public offerings (IPOs) are usually available in limited supply and in amounts too small to permit across-the-board pro rata allocations. In addition, IICO often does not know the number of shares it will be allocated as a whole until after the order is placed. IICO has adopted procedures designed to ensure fair and equitable allocation of IPOs among IICO's clients, over time.

IPOs are generally allocated pro rata based on the total relative assets of each participating Account, subject to adjustments for de minimis allocations and round lots. In accordance with the procedures, Accounts for which an IPO is more suitable may receive greater allocations than Accounts with less suitable investment strategies. An IPO may be allocated on a basis other than total assets for good cause if all clients receive fair and equitable treatment. For example, shares otherwise allocable to a participating

Account based on a pro rata allocation may be reduced or eliminated to accommodate cash availability, position limitations and investment restrictions.

ITEM 13: REVIEW OF ACCOUNTS

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. Compliance with applicable laws, trading restrictions and investment objectives and policies is overseen by IMC on a regular basis.

IICO maintains a number of monitoring devices, including review by members of IMC, to assure that investments do not violate the policies and restrictions of Client Accounts. IICO also maintains a trade order management 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 support staff.

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 generally provides quarterly (or more frequently, upon request) review statements to its clients, which statements 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 described in *Additional Information-Securities Pricing and Potential Conflicts of Interest*, their actual or empirical accuracy cannot be guaranteed.

Some Clients who receive daily transactions and/or holdings data have elected not to also receive the regular quarterly review statements.

ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

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 in awarding business (such as service provider selection) 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 in awarding investment advisory business or making a client feel beholden to the firm or the employee.

IICO, or its affiliates, may enter into Referral Agreements with unaffiliated parties for referrals of institutional investment advisory business. Such agreements to compensate another firm ("Solicitor") for referring institutional investment management services are subject to the Solicitor Rule, Rule 206(4)-3 under the Investment Advisers Act of 1940. IICO, or an affiliate, will pay a Solicitor a percentage of the investment management fee it collects from referred Clients.

IICO, or its affiliates, may pay to attend or sponsor conferences organized by an investment consultant. To avoid potential conflicts of interest, individuals or entities that have been referred to IICO by an investment consultant should request that the consultant disclose any pre-existing or former relationships with IICO, or any of its affiliates, and any potential conflicts of interest in connection with the referral. Additionally, IICO should be notified of any conflicts of interest disclosed by the consultant.

ITEM 15: CUSTODY

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.

IICO may be deemed to have custody over certain clients' accounts because of its ability to deduct management fees from such accounts. Clients should receive account statements, at least quarterly, from their qualified custodian.

Whether or not IICO is deemed to have custody over client assets, IICO encourages all clients to carefully review statements received from custodians or other third parties and compare their official custodial records to the account statements provided by IICO. Statements from IICO may vary from the custodial statements based on accounting procedures, reporting dates or valuation methodologies for certain securities.

ITEM 16: INVESTMENT DISCRETION

Discretionary Authority for Trading

IICO accepts discretionary authority to manage securities accounts on behalf of clients. 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 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.

Certain investments may require the execution of specialized documentation associated with a particular trade and the opening of accounts with brokerage, execution and/or clearing firms. For example, swap contracts are typically governed by ISDA Master Agreements, Schedules, Confirmations and, where applicable, Credit Support Annexes that IICO may negotiate and/or enter into on behalf of an Account. Other agreements that may be necessary in connection with these and similar transactions include futures agreements, option agreements and repurchase agreements. 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. IICO seeks to negotiate the most favorable terms practicably available under the circumstances, but cannot guarantee that the most favorable terms will be achieved in each instance.

With respect to client guidelines that contain restrictions on investing in specific industries or that are based on socially responsible criteria, IICO generally relies on a third party screening service or industry identifications to identify companies that fall within a particular restriction. To the extent a company is not covered by the screening service and/or industry identification, IICO may be unable to apply such guidelines.

ITEM 17: VOTING CLIENT SECURITIES

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 advisers with authority to vote client proxies. In response to these proxy voting rules, it is the policy of IICO to review each issue of each proxy solicited by their respective issuer whose securities are held in any Client Account 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 guidance from an internal proxy voting committee.

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 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 IMCompliance@waddell.com

ITEM 18: FINANCIAL INFORMATION

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

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.

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.

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 and its affiliates. 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 metro area network.

PRIVACY POLICY

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 IICO may collect from its Clients may include information about personal finances, information about transactions between the Client and third parties.

IICO maintains a secure office to ensure that Client information is not placed at unreasonable risk.

IICO does not provide personal Client information to mailing list vendors or solicitors. IICO attempts to require strict confidentiality in its agreements with unaffiliated third parties that require access to personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review IICO's company records and Client personal records as permitted by law.

Personally identifiable information about Clients will be maintained while 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.

IICO will notify Clients in advance if the Privacy Policy is expected to change.

ADDITIONAL INFORMATION

Foreign Securities

In accordance with applicable laws, rules and regulations, IICO has established procedures for classifying securities as foreign and assigning an associated country of risk code. Specifically, securities will be coded based on the issuer's country of domicile or organization as indicated by a reputable commercial trading data provider (such as, Bloomberg). Notwithstanding the foregoing, exceptions to IICO's policy may be made at any time when circumstances warrant a different country designation. Such circumstances shall be determined by IICO in its sole discretion, based generally upon the following criteria: 1) the security is "principally traded" in a country other than the country in which the issuer is organized, determined based on a percentage of the total volume traded; 2) the country from which the issuer, during its most recent fiscal year, derived at least 50% of its revenues or profits from goods produced or sold, investments made, or services performed; 3) the country where the issuer has at least 50% of its assets; or 4) if the security is guaranteed by another entity, the country of risk can be based on the guarantor's country of domicile.

IICO deems foreign equity securities listed on the U.S. exchanges to have similar characteristics and risks as American Depositary Receipts (ADRs). Therefore, IICO includes these securities when determining total ADR exposure per a client's investment guidelines.

Securities Pricing and Potential Conflict of Interest

Each Account's investments are reported at fair value. Fair value is defined as the price that each Account would receive upon selling an asset or would pay upon satisfying a liability in an orderly transaction between market participants at the measurement date.

The portfolio securities and other assets are valued on each business day using pricing and valuation methods as adopted by IICO and its affiliates. Where market quotes are readily available, fair value is generally determined on the basis of last reported sales prices, or if no sales are reported, based on quotes obtained from a quotation reporting system, established market makers, or pricing services.

Prices for fixed-income securities are typically based on quotes that are obtained from an independent pricing service. To determine values of fixed-income securities, the independent pricing service utilizes such factors as current quotations by broker/dealers, coupon, maturity, quality, type of issue, trading characteristics, and other yield and risk factors it deems relevant in determining valuations. Securities that cannot be valued by the independent pricing service may be valued using quotes obtained from dealers that make markets in the securities.

Investments in short-term securities with maturities of 60 days or less are valued on the basis of amortized cost (which approximates value), whereby a portfolio security is valued at its cost initially, and thereafter valued to reflect a constant amortization to maturity of any discount or premium.

Because many foreign markets close before the NYSE, events may occur between the close of the foreign market and the close of the NYSE that could have a material impact on the valuation of foreign securities. Waddell & Reed Services Company ("WRSCO"), pursuant to procedures adopted by the Fund Boards and IICO, evaluates the impact of these events and may adjust the valuation of foreign securities to reflect the fair value as of the close of the NYSE. In addition, all securities for which values are not readily available or are deemed unreliable are appraised at fair value as determined in good faith under the supervision of IICO.

Where market quotes are not readily available, portfolio securities or assets are valued at fair value, as determined in good faith by WRSCO pursuant to instructions from IICO.

Market quotes are considered not readily available in circumstances where there is an absence of current or reliable market-based data (e.g., trade information or broker quotes), including where events occur after the close of the relevant market, but prior to the NYSE close, that materially affect the values of an Account's securities or assets. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which the securities trade do not open for trading for the entire day and no other market prices are available.

IICO has delegated to WRSCO the responsibility for monitoring significant events that may materially affect the values of an Account's securities or assets and for determining whether the value of the applicable securities or assets should be re-evaluated in light of such significant events. IICO has established a Valuation Committee to administer and oversee the valuation process, including the use of third party pricing vendors.

IICO has adopted methods for evaluating securities and other assets in circumstances where market quotes are not readily available. For instances in which daily market quotes are not readily available, investments may be valued, pursuant to guidelines, with reference to other securities or indices. In the event that the security or asset cannot be valued pursuant to one of the valuation methods established by IICO, the value of the security or asset will be determined in good faith by the Valuation Committee and appropriate consultation with IICO.

When an Account uses these fair valuation methods applied by WRSCO that use significant unobservable inputs, securities will be priced by a method that IICO or persons acting at their direction believe accurately reflects fair value and are categorized as Level 3 of the fair value hierarchy. These methods may require subjective determinations about the value of a security. The prices used by an Account may differ from the value that will ultimately be realized at the time the securities are sold.

Accounting standards establish a framework for measuring fair value and a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the factors that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

An individual investment's fair value measurement is assigned a level based upon the observability of the inputs which are significant to the overall valuation.

The three-tier hierarchy of inputs is summarized as follows:

- Level 1 – Observable inputs such as quoted prices, available in active markets, for identical assets or liabilities.
- Level 2 – Significant other observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market corroborated inputs.
- Level 3 – Significant unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available, which may include assumptions made by the Board or persons acting at their direction that are used in determining the fair value of investments.

IICO and its affiliates are responsible for monitoring the implementation of the pricing and valuation policies through a series of activities to provide reasonable comfort of the accuracy of prices including: 1) periodic vendor due diligence meetings to review methodologies, new developments, and process at vendors, 2) daily and monthly multi-source pricing comparisons reviewed and submitted to the Valuation Committee, and 3) daily review of unpriced, stale, and variance reports with exceptions reviewed by management and the Valuation Committee.

Class Actions/Bankruptcies

While IICO is willing to cooperate with the client's custodian in certain circumstances, IICO is generally not able to advise or act on behalf of its clients in legal proceedings, including class actions or bankruptcies, involving securities purchased or held in clients' accounts. Occasionally, IICO may receive checks on behalf of clients from administrators distributing funds in settlement of class action lawsuits and regulatory actions. Subject to IICO's obligations under the Custody Rule, IICO promptly forwards checks to clients.

CyberSecurity Risks

IICO or its affiliates, as well as unaffiliated service providers, may be prone to operational and information security risks resulting from breaches in cybersecurity. A breach in cybersecurity may be either an intentional or unintentional event that allows an unauthorized party to gain access to account assets, customer data or proprietary information, or cause IICO or its service providers to suffer data corruption or lose operational functionality. A breach in cybersecurity may include, among other events, stealing or corrupting customer data or funds, denial of service attacks on websites that prohibit access to electronic systems by customers or employees, the unauthorized release of confidential information or various other forms of cyber security breaches. Cyber-security breaches affecting IICO or its vendors may adversely impact its Clients. For instance, breaches in cybersecurity may cause the release of private account information or confidential business information, impede trading, subject IICO, its Clients and/or service providers to regulatory fines or financial losses and/or cause reputational damage. IICO also may incur additional costs for cyber security risk management purposes. Similar types of cyber security risks are also present for issues or securities in which the Accounts may invest, which could result in material adverse consequences for such issuers, and may cause the investments in such companies to lose value.