

# Advisory Services

For your Waddell & Reed **CHOICE** Account

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**MAP**  
MANAGED ALLOCATION PORTFOLIOS

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## COVER PAGE

Waddell & Reed, Inc.  
SEC File Number: 16720  
Part 2A of Form ADV: Firm Brochure  
Asset Allocation and Wrap Products Only Brochure  
The date of this Brochure is: **June 30, 2017**

This brochure provides information about the qualifications and business practices of Waddell & Reed, Inc. If you have any questions about the contents of this brochure, please contact us at (1-866-937-0010 and/or [advisoryproducts@waddell.com](mailto:advisoryproducts@waddell.com)). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Waddell & Reed, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Waddell & Reed, Inc. is a federally registered investment advisor and a broker-dealer and member of FINRA.  
Note: Registration with the SEC as an Investment Advisor does not imply a certain level of skill or training.

This brochure and the services and fees described in this brochure are all subject to change without prior notice to you.

Waddell & Reed, Inc.  
6300 Lamar Avenue  
Shawnee Mission, KS 66202

Contact Phone: 1-866-937-0010  
Contact Email: [advisoryproducts@waddell.com](mailto:advisoryproducts@waddell.com)

For more information about Waddell & Reed, Inc. please visit our website at [www.waddell.com](http://www.waddell.com)

### Disclosure Required by SEC Rule 206(4)-2:

If you invest in an advisory account through Waddell & Reed, Inc., your mutual funds and securities will be held in a separate mutual fund account owned and controlled by you and/or in a separate brokerage account at Pershing LLC, a qualified custodian. Below are the addresses for Waddell & Reed Services Company, the transfer agent for the Waddell & Reed Advisors Funds and the Ivy Funds ("Transfer Agent"), and Pershing LLC:

Waddell & Reed Services Company  
6301 Glenwood  
Overland Park, KS 66202

Pershing LLC  
One Pershing Place  
Jersey City, NJ 07399

From time to time investors in our advisory accounts may receive consolidated reports directly from their financial advisors. These reports may include lists or summaries of your account holding, including funds and securities. We urge you to compare these reports to the official account statements of your account holdings provided at least quarterly by the Transfer Agent and/or Pershing LLC to ensure that the mutual fund and securities holdings listed on these reports provided by your financial advisor match the mutual fund and securities holdings reflected on the official account statements.

## **SUMMARY OF CHANGES**

Since our last Part 2A filing, Waddell & Reed has updated this brochure to include information related to its managed account programs. Items that have been updated include:

1. Removed sections describing Financial Planning Services available to MAP, MAPPlus and MAPChoice program accounts.

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## ADVISORY BUSINESS

The following discussion presents an overview of Waddell & Reed, Inc. and discusses generally the mutual fund asset allocation, wrap fee and related products and services we offer and our corporate structure. This section contains certain defined terms that will be used throughout the Brochure.

### *Overview and Ownership*

Waddell & Reed, Inc. (Waddell & Reed) is a securities broker-dealer and a federally registered investment advisor serving clients nationwide. Waddell & Reed was founded in 1937 and emphasizes comprehensive financial planning and provides a variety of personal financial services and investment opportunities, many of which are constructed around the Waddell & Reed Mutual Funds. Through the financial planning process, financial advisors can help clients identify their unique financial goals and develop a plan to meet those goals. Financial advisors have access to a broad array of investment and insurance products and services that can help satisfy their clients' planning needs.

Waddell & Reed is a wholly owned subsidiary of Waddell & Reed Financial, Inc., a publicly held company (NYSE: WDR). Waddell & Reed provides highly competitive mutual fund offerings, including:

- Waddell & Reed Advisors Funds,
- Ivy Funds,
- Ivy Funds VIP offered within variable insurance products provided by our strategic insurance partners (currently Minnesota Life Insurance Company and Nationwide Life Insurance Companies {collectively the "Strategic Partners"}), and
- Waddell & Reed InvestEd Portfolios offered within Waddell & Reed's 529 Plan.

The aforementioned offerings are collectively referred to as the "Waddell & Reed Mutual Funds".

As part of an organization that manages and offers the Waddell & Reed Mutual Funds, financial advisors have direct access to portfolio managers and other professionals who are involved in analyzing and managing the Waddell & Reed Mutual Funds on an ongoing basis. Therefore, financial advisors have the opportunity to know the Waddell & Reed Mutual Funds well. Waddell & Reed believes this close alignment between our financial advisors and mutual fund managers may be beneficial to the firm's financial advisors and, more importantly, to our clients.

Of course, as needed or desired, financial advisors can offer Mutual Funds and other products that are not affiliated with Waddell & Reed. They may do so when the Waddell & Reed Mutual Funds may not satisfy your goals fully or it may be in your best interests to consider other investment options consistent with your personal and financial goals. For nearly 80 years, Waddell & Reed and its affiliates have consistently been recognized for their commitment to investment excellence. Waddell & Reed investment philosophy has always been and continues to be today:

**Focus on growing and protecting investors' assets:** a sound approach that seeks to capture asset appreciation when market conditions are favorable, and strives to manage risk consistent with the objectives of the Waddell & Reed Mutual Funds.

**Rigorous fundamental research:** an enduring investment culture that dedicates itself to analyzing companies on its own rather than relying solely on outside research and trends.

### **Working with your Waddell & Reed Financial Advisor**

Your Waddell & Reed financial advisor can offer both investment advisory services and brokerage services. There are important considerations to take into account when deciding which type of services best fit your investment needs and goals.

#### *What does it mean to work with a Waddell & Reed financial advisor in an Advisory Relationship?*

As an investment advisor, Waddell & Reed and its financial advisors are fiduciaries to their advisory clients as defined by the federal Investment Advisers Act of 1940 and rules promulgated thereunder and therefore must act solely in the best interest of its clients. As part of this relationship Waddell & Reed must fully and fairly disclose all material conflicts of interest that can arise within the context of our relationship with you. Waddell & Reed and its financial advisors offer a number of investment advisory programs and services. Under these programs, Waddell & Reed and its financial advisors provide ongoing investment advice and monitoring of client portfolios. In addition we provide fee-based financial planning services. For these services, you as the client, pay a flat fee for each engagement. Fees for investment management are a percentage fee based upon the value of the assets in your account. These ongoing services and fees are fully disclosed in this Advisory Services Brochure (Form ADV) and also discussed in each program's Services Agreement. These types of agreements can be terminated at any time by you the client. When considering whether to engage a Waddell & Reed financial advisor, it is important that you carefully read the applicable Advisory Services Brochure and the Services Agreement to understand our investment advisory program offerings and appropriately consider all applicable charges and disclosures.

### ***What does it mean to work with a Waddell & Reed financial advisor in a Brokerage Relationship?***

As a broker-dealer registered with the SEC and a member firm of FINRA, Waddell & Reed is also registered as a broker-dealer in all 50 states. Unlike an investment advisory relationship, where Waddell & Reed and its financial advisors act as fiduciaries under the federal securities laws and charge one-time or annual fees for financial planning or advisory services, you will pay a commission to Waddell & Reed for each brokerage transaction affected in your account. The amount of the commission will vary depending upon the security or investment product selected by you. For mutual funds the commission or sales load is typically an upfront charge against the investment and is based upon the size of your investment. Many mutual funds also offer multiple share classes which charge different fees and compensate your advisor in different ways. The applicable sales charge is set forth and described in the mutual fund's prospectus or offering document which must be provided to you in connection with your choosing that investment. As a broker-dealer Waddell & Reed and its financial advisors will receive other types of compensation such as trail compensation (known as 12b-1 fees) commissions and revenue sharing payments on the sale of individual investment products.

On April 16, 2016, the U.S. Department of Labor ("DOL") released its final regulation (the "Rule") defining who is a fiduciary of an employee benefit plan under the Employee Retirement Income Security Act of 1974 ("ERISA") and § 4975 of the Internal Revenue Code of 1986 as amended (the "Code") addressing the fiduciary nature of financial institutions' and financial advisors' interaction with clients when making investment recommendations to owners of retirement accounts. On April 10, 2017, or such later date established by law as the initial applicability date for the Rule (the "Applicability Date"), the Rule and certain portions of the new Best Interest Contract Exemption (the "BIC Exemption") will become applicable. Following the Applicability Date, Waddell & Reed and its financial advisors may act as "fiduciaries as defined by the Rule with respect to recommendations we provide in connection with certain of your retirement accounts.

When Waddell & Reed is acting as a broker-dealer for any account not covered under the Rule, neither the firm nor your financial advisor is acting as a fiduciary under the law, but has a responsibility to deal fairly with all clients. When a recommendation is made to purchase an investment product in an account not covered by the Rule your financial advisor and Waddell & Reed have an obligation to determine that the recommendation is suitable based upon your stated investment objectives, risk tolerance, tax status and other financial information we have gathered from you. When Waddell & Reed is acting as a broker-dealer it does not provide ongoing investment advice with respect to your commission-based accounts. Typically, Waddell & Reed does not take discretion in your brokerage account which means that we will only place transactions in your account upon your specific direction and approval. In a limited number of circumstances some advisors have the authority to take discretion in a brokerage account if so authorized by the client.

### **What should I consider when deciding between an advisory or brokerage relationship with Waddell & Reed?**

The Program is a non-discretionary wrap fee investment advisory product designed to provide you with a full array of advice, guidance and flexibility in one bundle with one annual asset-based fee. The ongoing advice provided by your advisor is one of the key components of the Program. Before selecting the Program, clients are encouraged to first (i) together with your financial advisor establish strategic investment goals, which may include participating in a comprehensive financial planning process; (ii) place a high value on the ongoing advice from a professional financial advisor with respect to the selection of investment strategies and investment products, but retain the ultimate authority and responsibility to make investment decisions; (iii) want to participate in a medium-to-long-term investment strategy; and (iv) believe that a fee-based pricing model better aligns the interests of you and your financial advisor.

#### ***Advisory relationship:***

1. Desire fee payment based on asset size and not tied to the number of transactions.
2. Seek ongoing advice regarding your account.
3. Anticipate high / frequent trading activity.
4. Prefer advisor assistance to manage your portfolio.
5. Higher minimum investment.
6. Periodic portfolio rebalancing.

#### ***Brokerage relationship:***

1. Commissions paid per transaction.
2. One-time (individual recommendations) advice.
3. Anticipate low / infrequent trading activity.
4. Prefer only occasional advice or recommendations on specific transactions.
5. Lower minimum investment.
6. Buy and hold strategy.

Your specific desires and financial situation should guide you to the most appropriate type of relationship with your financial advisor. Your Waddell & Reed advisor is more than happy to review your alternatives and assist you in this important decision.

## **Advisory Services Generally**

This brochure provides information about the costs and benefits of our asset management process and certain asset allocation products managed by Waddell & Reed and Wrap advisory programs sponsored and/or managed by Lockwood Advisors, Inc. and offered through Waddell & Reed.

We are dedicated to high-quality service for the duration of our relationship, which may span a lifetime of financial decision-making. Therefore, you should communicate to your financial advisor immediately if and when your personal situation changes. It is important that you inform your financial advisor of these changes, as recommendations made based upon outdated information may no longer be appropriate. Please note that it is not always possible to work with the same financial advisor over an extended period of time. Under certain circumstances, your financial advisor may decide to retire or leave Waddell & Reed. In this event, we will assign a new financial advisor to assist you with future needs.

Waddell & Reed cannot promise or guarantee that your financial objectives will be realized through implementation of our recommendations. The rate of return for most investments cannot be predicted. Your financial advisor does not monitor the day-to-day performance of specific investments recommended through the financial planning process. Your financial advisor will not provide discretionary money management (that is, implement the decision on his or her own). Nevertheless, Waddell & Reed will periodically rebalance, and/or reallocate your account without your prior direction. If you purchase mutual funds or insurance products through Waddell & Reed or its Strategic Partners, you will receive quarterly statements from the issuers of those products.

Information included in this brochure is incorporated into your Waddell & Reed Service Agreement, an agreement you must sign to participate in the programs discussed in this brochure.

**Certain conflicts of interest may exist between you and Waddell & Reed and its affiliates if you purchase certain products or services recommended by your financial advisor, including the following:**

- Generally, Waddell & Reed and its affiliates will receive more overall compensation when you purchase Affiliated Mutual Funds than when you purchase other similar products.
- Your financial advisor may receive concentrated training and information on products sponsored by affiliates of Waddell & Reed that may cause them to recommend Affiliated Mutual Funds rather than other mutual funds.

(See Conflict of Interest below for a more comprehensive discussion of conflicts of interest and their mitigation)

Except as otherwise provided, your financial advisor does not have any discretionary authority over the decision to purchase or sell investment and insurance products. Your financial advisor must always give you the final authority to determine how your assets are invested and what investment and insurance products to purchase or sell within the parameters and as allowed in the asset allocation or wrap programs you participate in. Your financial advisor is not permitted to provide advice to purchase or sell investment or insurance products that cannot be purchased by you through your financial advisor at Waddell & Reed. For example, your financial advisor cannot actively manage assets maintained in a 401(k) plan sponsored by your employer or in an account at another brokerage firm.

Your financial advisor cannot retain custody of any of your assets, including stock or bond certificates or cash. You should never make checks payable to your financial advisor or to any entity other than Waddell & Reed, Pershing, or the sponsor of the investment or insurance product you are purchasing.

## **MUTUAL FUND ASSET ALLOCATION PROGRAMS**

Waddell & Reed offers a number of basic mutual fund asset allocation programs to clients that want the flexibility to hold their securities in a brokerage account at Pershing LLC.

Mutual Fund companies typically offer different ways to buy mutual fund shares. Some mutual funds offer only one share class of a particular mutual fund while others may offer multiple share classes of each mutual fund. In addition to the more broadly known retail share classes (A, B and C) many fund companies have developed additional specialized share classes designed specifically for investment advisory programs (Advisor and Institutional share classes). When available, the mutual fund asset allocation programs discussed in this brochure generally use these specific advisory and institutional share classes. Clients should note that they have limited ability to impose investment restrictions on Waddell & Reed's mutual fund asset allocation programs.

Waddell & Reed utilizes the WRA Cash Management Fund to serve as the cash allocation fund in retail investment advisory program accounts. Account registrations that are classified as institutional accounts require that Waddell & Reed utilize a government money market fund to serve as the cash allocation fund. Waddell & Reed utilizes the Ivy Government Money Market fund as the cash allocation fund for institutional accounts. Waddell & Reed may, at its sole discretion, replace the WRA Cash Management Fund or the Ivy Government Money Market fund (collectively the “Primary Fund”) with other appropriate money market funds.

## **Managed Allocation Portfolios (MAP)**

Waddell & Reed sponsors other mutual fund asset allocation programs that offer clients a selection of strategic asset allocation models, as well as features such as systematic rebalancing and client participation in determining (to a limited extent) asset allocation across asset classes, but which are generally closed to new investors as of January 1, 2011. These asset allocation programs are MAP and MAPPlus (sometimes referred to collectively as the MAP Program or Programs). After December 31, 2010, Choice clients may establish these programs only if they already have a MAP Program account and their Waddell & Reed financial advisor is in the process of converting to the Waddell & Reed Choice brokerage platform. Each MAP Program is discussed in more detail below, along with information common to both MAP Programs.

## **MAP and MAPPlus**

Waddell & Reed sponsors two mutual fund asset allocation programs that offer clients a selection of strategic asset allocation models, as well as features such as systematic rebalancing and client participation in determining (to a limited extent) asset allocation across asset classes. MAP and MAPPlus are discussed separately in more detail below, along with information common to both MAP Programs.

**Allocation Models and Asset Classes.** MAP and MAPPlus consist of five primary asset allocation models: Aggressive Growth, Growth, Conservative Growth, Income and Conservative Income. Each MAP Program model is constructed of up to eight asset classes, which are selected and assigned weightings within each model by Waddell & Reed. Waddell & Reed also assigns Affiliated Mutual Funds to each asset class within the model. In addition to the five models listed above, MAP has an additional Conservative Model not available in MAPPlus.

**Account Opening.** Clients must complete a questionnaire that serves to identify each client’s investment objectives, risk tolerance, and investment time horizon. The client, after consultation with their financial advisor, will determine their appropriate investment profile and will select an asset allocation model, all based on the client’s responses to the questionnaire. After an asset allocation model is selected, the client and their financial advisor will review Affiliated Mutual Funds selected for each asset class in the model and the client will select at least one mutual fund for each asset class in the chosen model. Clients that elect to participate in MAPPlus may, after consultation with their financial advisor, change the weighting of the asset classes in each model within certain pre-determined parameters using a proprietary tool designed by Waddell & Reed. This tool enables MAPPlus clients to increase each model’s risk and potential for return by changing the balance of one or more of the selected asset class weightings in the selected model. The ultimate decision to participate in a MAP Program, selection of the asset allocation model, selection of Affiliated Mutual Funds to be used in an asset allocation model and the decision by MAPPlus clients to vary the asset class weighting within an asset allocation model is made by, and is the ultimate responsibility of, the client.

**Rebalancing.** For new MAP accounts, a cash balance of 2% of account assets will be targeted. Automatic rebalancing will be performed when selected asset classes (as reflected in the values of mutual fund holdings in that class within the model) deviate or drift from the target allocation by more than 25% of the asset class value for qualified accounts and 30% of the asset class value for non-qualified accounts. Calendar based rebalancing is also an available option instead of the drift based rebalancing option. Rebalancing may cause a taxable event.

**Funding a MAP Program account.** All initial and subsequent investments into a MAP Program account will be made from the MAP Primary Fund. The MAP Primary Fund investment vehicle is chosen by the client from the then available money market mutual funds, which are not FDIC insured, or an interest bearing bank deposit account which is FDIC insured. Waddell & Reed in its sole discretion may change the available MAP Primary Fund investment vehicles at any time. Assets invested in the MAP Primary Fund are subsequently used to purchase advisory/institutional class shares of the funds selected by the client to populate their asset allocation model. Delays may occur between the receipt of the client’s MAP Program mutual fund selection and the processing of the share purchases, which may result in variances between the number of shares requested and the number of shares actually purchased. Clients may invest any amount in their MAP Program account after their initial investment. Clients may also withdraw assets from their account, so long as their account value does not drop below the then current minimum required to remain in the MAP Program they select. Additions to and withdrawals from a MAP Program account will be made through the MAP Primary Fund and in accordance with then-current account allocation in a manner that is intended to minimize variances from targeted allocations. If the MAP Program account is funded by a transfer from another financial institution, there may be a portion of the time during the transfer process where your assets are not invested in the market.



**Changes to Mutual Funds and Asset Allocation Models.** MAP Program model portfolios are strategic in nature and are based on long-term historical asset class assumptions and long-term forward looking projections. Therefore, it is not likely that there will be changes to the model portfolio's asset class percentages. However, Waddell & Reed periodically reviews the composition of the MAP program models to determine whether the models should be modified to better reflect the economy and forecasted long-term market conditions. These reviews may result in changes to the models, asset classes, or mutual funds within the asset classes. To the extent Waddell & Reed moves one or more mutual funds from one asset category to another the client may need to select a new mutual fund to complete a model and may find that the new mutual fund they select has higher internal expenses than the mutual fund that was moved.

It is important to consider that Waddell & Reed will populate the asset allocation models with only advisory/institutional class shares of Affiliated Mutual Funds. Waddell & Reed will not consider mutual funds created and managed by mutual fund companies other than Waddell & Reed or its affiliates, even though such other mutual funds may have lower internal expenses and better performance than similar Affiliated Mutual Funds. Clients are encouraged to periodically reevaluate their asset allocation models to ensure that the selected model continues to be suitable and consistent with the client's evolving risk tolerance, investment objectives and time horizon. MAP Program clients must review the propriety of their asset allocation models at least annually.

The Conservative Model (only available in MAP) is conservative by nature and has large allocations to Money Market. It is possible that this model may experience losses after fees and expenses. Therefore, this model may not be appropriate for the long-term. Clients will be asked to complete a new risk tolerance questionnaire in order to effect model changes.

**Meetings and Reports.** We believe that it is in the best interest of MAP Program clients to meet with their financial advisor at least annually to evaluate the appropriateness of their ongoing participation in the MAP Programs. Clients are strongly encouraged to meet with their advisors more frequently if they have questions about their participation in the MAP Programs or if their personal or financial circumstances change. There is no additional charge for meetings or other communications to discuss the MAP Programs. Clients will receive periodic reports, statements, confirmations and updated summary prospectuses from the mutual funds in the MAP Programs. Clients should carefully read all such material.

**Account Minimums.** Clients must maintain at all times a minimum investment of \$15,000 in a MAP account and \$25,000 in a MAPPlus account. In the event that an account falls below its respective minimum, Waddell & Reed may terminate its agreement with the client and redeem all of the mutual fund holdings in the account. The redemption proceeds will be transferred to the client's MAP Primary Fund. Waddell & Reed, at its sole discretion, may waive the minimum account balance requirements.

Nevertheless, clients may deposit less than the minimum investment (currently \$15,000 for MAP and \$25,000 for MAPPlus accounts) in the rare situation where the remaining cash to bring the total deposit up to the required minimum to fully fund the MAP Program account is anticipated to be received within 90 days or less. The MAP Program account will not be established until the cash in the MAP Primary Fund reaches the account minimum to establish the respective MAP Program account. If this does not occur within 90 days of the initial cash deposit, the client will receive a communication from Waddell & Reed advising them that they have 30 days from the date of the notification to provide the remaining cash deposit and appropriate MAP Program account Client Service Agreement and other required account documentation. If the client fails to deposit the cash necessary to fund the MAP Program account and provide the necessary MAP Program account documentation within this additional 30 day notice period, the initial cash deposit will be returned to the client and the MAP Program account will not be established.

### **Termination**

The MAP Service Agreement signed by the client may be terminated at any time by the client upon written notice to Waddell & Reed in accordance with the terms of the MAP Service Agreement. Waddell & Reed may terminate the MAP Service Agreement at any time upon thirty days prior written notice to the client. This may include a situation in which the client's MAP Program account falls below the MAP Program account minimum. If the client or Waddell & Reed terminate the MAP Service Agreement, the client will pay any pro-rated unpaid asset-based fee, the applicable portion of the contingent fee and applicable mutual fund internal expenses.

The terminated MAP Program account will be closed in accordance with one of the scenarios described below:

**Terminations initiated by Waddell & Reed.** The mutual fund shares in the MAP Program account may be sold if the account value falls below the then applicable account minimum value. The client will receive a 30 day written notice of termination. If the client fails to provide written instructions for account disposition within the 30 day period, the account will be a) liquidated and the proceeds mailed to the address of record on the MAP Program account or to an intermediary of the client's choice or b) transferred to a non-advisory Waddell and Reed account. Advisory or institutional share classes may not be available in such non-advisory accounts.

**Terminations initiated by the Client.** Clients may terminate their MAP Program account any time voluntarily by providing written notice to Waddell & Reed. Clients that elect to voluntarily terminate their MAP Program account must elect one of the options discussed below:

1. Clients may instruct Waddell & Reed to redeem the W&R Advisors Funds and/or Ivy Funds held in their MAP Program account and transfer the cash proceeds to the address of record on the account being terminated or to an intermediary of the client's choice.
2. Clients may instruct Waddell & Reed to transfer Ivy Fund mutual fund shares in kind to an intermediary of the client's choice so long as the intermediary has an effective selling agreement with Ivy Funds at that time. It is the client's responsibility to ensure that the intermediary they select has an effective selling agreement. W&R Advisors Funds are not eligible to be transferred to an intermediary. Therefore, W&R Advisors Funds shares will be redeemed and the proceeds forwarded to the intermediary.
3. Clients may transfer their W&R Advisors and/or Ivy Funds held in the MAP Program account to a Waddell & Reed non-Map mutual fund account held direct at the fund at no additional cost. The Y or I shares in the MAP program account will be converted to A shares as a non-taxable event. Please refer to the fund prospectus for additional details.
4. Clients may transfer their W&R Advisors and/or Ivy Funds held in the MAP Program account to a Waddell & Reed non-advisory brokerage account held at Pershing. The Y or I shares in the MAP program account will transfer in-kind as a nontaxable event, but no additional purchases in Y or I shares will be allowed, unless the client qualifies as described in the fund prospectus.

**Note: Prospective clients must read carefully the following additional disclosures related to MAP accounts before investing:**

- Clients must consider before purchasing shares of the Waddell & Reed Advisors Funds mutual fund shares are proprietary and may not be able to be transferred in kind to another intermediary such as a broker-dealer. Clients that redeem mutual fund shares in a taxable MAP account may incur adverse tax consequences. Clients are urged to consult their tax professional before redeeming mutual fund shares in a taxable MAP account.

**Note: Waddell & Reed may change, modify or terminate the MAP Programs, or either of them, at any time in its sole discretion.**

## MAPChoice

Waddell & Reed sponsors a mutual fund asset allocation program that offers clients a selection of strategic asset allocation models, as well as features such as systematic rebalancing and client participation in determining (to a limited extent) asset allocation across asset classes. This asset allocation program is MAPChoice, which is discussed in more detail below.

**Allocation Models and Asset Classes.** MAPChoice consists of five primary asset allocation models: Aggressive Growth, Growth, Conservative Growth, Income, and Conservative Income. Each MAPChoice model is constructed of up to eight asset classes, which are selected and assigned weightings within each model by Waddell & Reed. Waddell & Reed also assigns one or more of the Affiliated Mutual Funds to each asset class within the model.

**Account Opening.** As part of the MAPChoice account opening process, clients will complete a questionnaire that serves to identify each client's investment objectives, risk tolerance, and investment time horizon. The client, after consultation with their financial advisor, will determine their appropriate investment profile and will select an asset allocation model, all based on the client's responses to the questionnaire. After an asset allocation model is selected, the client and their advisor will review Affiliated Mutual Funds available for each asset class in the model and the client will select at least one mutual fund for each asset class in the chosen model. Clients that elect to participate in MAPChoice may, after consultation with their financial advisor, change the weighting of the asset classes in each model within certain pre-determined parameters using a proprietary tool designed by Waddell & Reed. This tool enables MAPChoice clients to increase each model's risk and potential for return by changing the balance of one or more of the selected asset class weightings in the selected model. The ultimate decision to participate in MAPChoice, selection of the asset allocation model, selection of Affiliated Mutual Funds to be used in an asset allocation model and the decision by clients to vary the asset class weighting within an asset allocation model is made by, and is the ultimate responsibility of, the client.

**Rebalancing.** A minimum cash balance of 2% of account assets will be targeted but may be up to 5%. Automatic rebalancing will be performed when selected asset classes (as reflected in the values of mutual fund holdings in that class within the model) deviate or drift from the target allocation by more than 25% of the asset class value for qualified accounts and 30% of the asset class value for non-qualified accounts. Calendar based re-balancing is also an available option instead of the drift based re-balancing option. Rebalancing may cause a taxable event.

**Funding a MAPChoice Account.** All initial and subsequent investments into a MAPChoice Program account will be made from the MAP Primary Fund. The MAP Primary Fund investment vehicle is chosen by the client from the then available money market mutual funds, which are not FDIC insured, or an interest bearing bank deposit account which is FDIC insured. Waddell & Reed in its sole discretion may change the available MAP Primary Fund investment vehicles at any time. Assets invested in the MAP Primary Fund are subsequently used to purchase shares of the Affiliated Mutual Funds selected by the client to populate their asset allocation model.

A delay of at least one day will occur between the receipt of the client's MAPChoice mutual fund selection and the processing of the share purchases, which may result in variances between the number of shares requested and the number of shares actually purchased. Clients may invest any amount in their MAPChoice account after their initial investment. Clients may also withdraw assets from their account, so long as their account value does not drop below the then current minimum required to remain in MAPChoice. Additions to a MAPChoice account will result in the account rebalancing. Withdrawals from a MAPChoice account will be made through the MAP Primary fund and may also result in a rebalancing taking place so the account returns to its target allocations. If the MAPChoice Program account is funded by a transfer from another financial institution, there may be a portion of the time during the transfer process where your assets are not invested in the market.

**Changes to Mutual Funds and Asset Allocation Models.** The MAPChoice model portfolios are strategic in nature and are based on long-term historical asset class assumptions and long-term forward looking projections. Therefore, it is not likely that there will be changes to the model portfolio's asset class percentages. However, Waddell & Reed periodically reviews the composition of the MAPChoice models to determine whether the models should be modified to better reflect the economy and forecasted long-term market conditions. These reviews may result in changes to the models, asset classes, or mutual funds within the asset classes. To the extent Waddell & Reed moves one or more mutual funds from one asset category to another the client may need to select a new mutual fund to complete a model and may find that the new mutual fund they select has higher internal expenses than the mutual fund that was moved.

It is important to consider that Waddell & Reed will populate the asset allocation models with only Affiliated Mutual Funds. Waddell & Reed will not consider mutual funds created and managed by mutual fund companies other than Waddell & Reed or its affiliates, even though such other mutual funds may have lower internal expenses and better performance than similar Affiliated Mutual Funds. Clients are encouraged to periodically reevaluate their asset allocation models to ensure that the selected model continues to be suitable and consistent with the client's evolving risk tolerance, investment objectives and time horizon. MAPChoice clients must review the propriety of their asset allocation models at least annually. Clients will be asked to complete a new risk tolerance questionnaire in order to effect model changes.

**Meetings and Reports.** Meetings for MAPChoice clients and information provided are the same as for MAP and MAPPlus clients. Please review the meetings and reports section for MAP and MAPPlus clients above.

**Account Minimums.** Clients must maintain at all times a minimum investment of \$15,000 in a MAPChoice account. In the event that an account falls below its minimum, Waddell & Reed may terminate its agreement with the client and redeem all of the mutual fund holdings in the account. The redemption proceeds will be transferred to the client's MAP Primary Fund. Nevertheless, clients may deposit less than the minimum investment (currently \$15,000 for MAPChoice accounts) in the rare situation where the remaining cash to bring the total deposit up to the required minimum to fully fund the MAPChoice account is anticipated to be received within 90 days or less. In this situation the initial cash deposit will be invested in the Primary Fund awaiting the remaining cash.

The MAPChoice account will not be established until the cash in the Primary Fund reaches the account minimum to establish the account. If this does not occur within 90 days of the initial cash deposit, the client will receive a communication from Waddell & Reed advising them that they have 30 days from the date of the notification to provide the remaining cash deposit and appropriate MAPChoice account Client Service Agreement and other required account documentation. If the client fails to deposit the cash necessary to fund the account and provide the necessary documentation within this additional 30 day notice period, the initial cash deposit will be returned to the client and the MAPChoice account will not be established. Waddell & Reed, at its sole discretion, may waive the minimum account balance requirements.

**Nature of Available Shares.** Mutual fund shares purchased through MAPChoice are not subject to a sales load. Class A shares on which a load was originally paid may be invested in MAPChoice only if the transaction in which the shares were acquired occurred at least three years prior to the execution of the client's MAPChoice Client Service Agreement.

**Termination.** Please review the termination provisions for MAP and MAPPlus above. These same provisions apply to the termination of MAPChoice accounts.

**Note: Waddell & Reed may change, modify or terminate MAPChoice at any time in its sole discretion.**

## MAPFlex

Waddell & Reed sponsors a mutual fund asset allocation program that offers clients a selection of strategic asset allocation models, broad choice of mutual funds, including Affiliated Mutual Funds, as well as features such as systematic rebalancing and client participation in determining (within pre-determined parameters) asset allocation across asset classes. This asset allocation program is Managed Allocation Portfolios Flex (referred to in this section as MAPFlex Program). The MAPFlex Program is discussed in more detail below.

**Allocation Models and Asset Classes.** The MAPFlex Program consists of five asset allocation models: Aggressive Growth, Growth, Conservative Growth, Income, and Conservative Income. Each MAPFlex Program model consists of eight asset classes, which are selected and assigned weightings within each model by Waddell & Reed.

**Account Opening.** As part of the MAPFlex Program account opening process, clients will complete a questionnaire that serves to identify each client's investment objectives, risk tolerance, and investment time horizon. The client, after consultation with their financial advisor, will determine their appropriate investment profile and will select an asset allocation model, all based on the client's responses to the questionnaire. After an asset allocation model is selected, the client and their advisor will review the mutual funds, including Affiliated Mutual Funds, available for each asset class in the model and the client will select at least one mutual fund for each asset class in the chosen model. Clients that elect to participate in the MAPFlex Program may, after consultation with their financial advisor, change the weighting of the asset classes in each model within certain pre-determined parameters. This enables MAPFlex Program clients to increase each model's risk and potential for return, thereby changing the balance of one or more of the selected asset class weightings in the selected model. The ultimate decision to participate in the MAPFlex Program, selection of the asset allocation model, selection of mutual funds to be used in an asset allocation model and the decision to vary the asset class weighting within an asset allocation model is made by, and is the absolute responsibility of, the client.

**Rebalancing.** Automatic rebalancing will be performed when selected asset classes (as reflected in the values of mutual fund holdings in that class within the model) deviate or drift from the target allocation by more than 25% of the asset class value for qualified accounts and 30% of the asset class value for non-qualified accounts. Calendar based rebalancing is also an available option instead of the drift based rebalancing option. Rebalancing may cause a taxable event.

**Funding a MAPFlex Program Account.** All initial and subsequent investments into a MAPFlex Program account will be made from the MAP Primary Fund. The MAP Primary Fund investment vehicle is chosen by the client from the then available money market mutual funds, which are not FDIC insured, or an interest bearing bank deposit account which is FDIC insured. Waddell & Reed in its sole discretion may change the available MAP Primary Fund investment vehicles at any time. Assets invested in the MAP Primary Fund are subsequently used to purchase shares of mutual funds, which may include Affiliated Mutual Funds, selected by the client to populate their asset allocation model. A delay of at least one day will occur between the receipt of the client's MAP Program mutual fund selection and the processing of the share purchases, which may result in variances between the number of shares requested and the number of shares actually purchased. Clients may invest any amount in their MAPFlex Program account after their initial investment. Clients may also withdraw assets from their account, so long as their account value does not drop below the then current minimum required to remain in the MAPFlex Program. Additions to a MAPFlex account will result in the account rebalancing. Withdrawals from a MAPFlex account will be made through the MAP Primary fund and may also result in a rebalancing taking place so the account returns to its target allocations. If the MAPFlex Program account is funded by a transfer from another financial institution, there may be a portion of the time during the transfer process where your assets are not invested in the market.

**Changes to Mutual Funds and Asset Allocation Models.** The MAP model portfolios are strategic in nature and are based on long-term historical asset class assumptions and long-term forward looking projections. Therefore, it is not likely that there will be changes to the model portfolio's asset class percentages. However, Waddell & Reed periodically reviews the composition of the MAP program models to determine whether the models should be modified to better reflect Waddell & Reed's analysis of the economy and forecasted long-term market conditions. These reviews may result in changes to the models, asset classes, or mutual funds within the asset classes. To the extent Waddell & Reed moves one or more mutual funds from one asset category to another the client may need to select a new mutual fund to complete a model and may find that the new mutual fund they select has higher internal expenses than the mutual fund that was moved. Clients are encouraged to periodically reevaluate their asset allocation models and mutual fund selections to ensure they continue to be suitable and consistent with their evolving risk tolerance, investment objectives and time horizon. MAPFlex Program clients should review the propriety of their asset allocation models with their advisor at least annually. There is no additional charge for this service. Clients will be asked to complete a new risk tolerance questionnaire in order to effect model changes.

**Meetings and Reports.** Meetings for MAPFlex clients and information provided are the same as for MAP and MAPPlus clients. Please review the Meetings and Reports sections for MAP and MAPPlus clients above.

**Account Minimums.** MAPFlex Program accounts must be established with and maintain at all times assets valued at \$15,000. Waddell & Reed may terminate the MAPFlex Program agreement with any client and convert the MAPFlex Program account to a standard brokerage account held at Pershing LLC in the event that an account falls below its respective minimum balance.

Clients may deposit less than the minimum investment in the rare situation where the remaining cash to bring the total deposit up to the required minimum to fully fund the MAP Program account is anticipated to be received within 90 days or less. In this situation the initial cash deposit will be invested in the Primary Fund awaiting the remaining cash. The MAP Program account will not be established until the cash in the Primary Fund reaches the account minimum to establish the respective MAP Program account. If this

does not occur within 90 days of the initial cash deposit, the client will receive a communication from Waddell & Reed advising them that they have 30 days from the date of the notification to provide the remaining cash deposit and appropriate MAP Program account Client Service Agreement and other required account documentation. If the client fails to deposit the cash necessary to fund the respective MAP Program account and provide the necessary MAP Program account documentation within this additional 30 day notice period, the initial cash deposit will be returned to the client and respective MAP Program account will not be established. Waddell & Reed, at its sole discretion, may waive the minimum account balance requirements.

**Nature of Available Shares.** Mutual fund shares purchased through the MAPFlex Program are not subject to a sales load. Class A shares on which a load was originally paid may be invested in the MAPFlex Program only if the transaction in which the shares were acquired occurred at least three years prior to the execution of the client's MAPFlex Program Service Agreement.

**Terminations initiated by Waddell & Reed.** The client will receive a 30 day written notice of termination. If the client fails to provide written instructions for account disposition within the 30 day period, the account will be a) liquidated and the proceeds mailed to the address of record on the MAPFlex Program account or to an intermediary of the client's choice or b) transferred in kind to a non-advisory Waddell and Reed account. Advisory or institutional share classes may not be available in such non-advisory accounts.

**Terminations initiated by the Client.** The MAPFlex Program Service Agreement may be terminated at any time by the client upon written notice to Waddell & Reed as provided in the Service Agreement and upon thirty days prior written notice by Waddell & Reed. If the client terminates the Service Agreement within five business days from the date they execute the Service Agreement, the client will pay no fees or penalties. Thereafter, if the client terminates the agreement, the client will receive a pro-rated refund of their asset-based fee. Upon termination Waddell & Reed will, unless otherwise instructed by client, sell the mutual funds in the client's account and invest the cash proceeds in the MAP Primary Fund until the client provides instructions to forward the proceeds. This process may have adverse tax consequences for taxable accounts. If the client and their advisor decide to reinvest the proceeds in mutual funds through Waddell & Reed, the client will pay the then- applicable front-end load to purchase Class A shares.

## MAPSelect

The MAPSelect program is a mutual fund asset allocation program that offers you a selection of strategic asset allocation models to choose from as well as features such as systematic rebalancing. The Program consists of twelve asset allocation models (six each for qualified and non-qualified accounts): Aggressive Growth, Growth, Conservative Growth, Income, Conservative Income and Conservative. Each model consists of various asset classes. The six models for non-qualified accounts will include tax-sensitive investments.

Waddell & Reed has retained SEI Investments Management Corporation (SEI) to provide certain consulting services in connection with the creation of the twelve asset allocation models described above. SEI will, among other things, provide Waddell & Reed with twelve model goals-based portfolios designed to meet specific investment goals through investment allocations to distinct asset classes (SEI Model Portfolios). SEI Model Portfolios will consist of allocations to SEI mutual funds (SEI Funds) selected by SEI. SEI will periodically as it deems appropriate update the SEI Model Portfolios to achieve each model's stated investment objective or goal, based on SEI's capital market assumptions and other criteria SEI determines relevant. SEI may also revise the corresponding allocations to the SEI Funds or otherwise change the individual SEI Funds underlying one or more of the existing SEI model Portfolios. SEI will take this action to ensure that each SEI Fund selected by SEI for one or more of the SEI Model Portfolios has an investment objective that remains consistent with the assigned asset allocation within the SEI Model Portfolio to which it is allocated. SEI may, through its ongoing analysis of the SEI Funds and annual analysis, elect to reallocate or replace one or more of the SEI Funds in one or more of the SEI Model Portfolios.

Waddell & Reed will not pay SEI a direct fee for its consulting services. Rather, SEI's sole compensation will be the internal expenses clients pay to invest in and hold the SEI Funds. The internal expenses associated with the SEI Funds are in addition to the asset based fees clients will pay to invest in the program. These asset based fees are described in greater detail below. Clients should consider the possibility that other similar mutual fund asset allocation products offered by other sponsors may use mutual funds with lower internal expenses than the SEI Funds.

As part of the Program account opening process, you will complete a new account form and questionnaire both of which serve to identify each client's investment objectives, risk tolerance, and investment time horizon. You, after consultation with your financial advisor, will determine your appropriate investment profile and will select an asset allocation model, all based on your responses to the questionnaire. The asset allocation models available to select from will depend on whether your account is non-qualified or qualified. The ultimate decision to participate in the Program and selection of the asset allocation model, is made by you, and is your absolute responsibility.

Automatic rebalancing will be performed when selected asset classes ( as reflected in the values of holdings in that class within the model) deviate or drift from the target allocation by more than 25% of the asset class value for qualified accounts and 30% of the asset

class value for non-qualified accounts. Calendar based rebalancing is also an available option instead of the drift based rebalancing option. Rebalancing may cause a taxable event.

All initial and subsequent investments into a Program account will be made from the Waddell & Reed Advisors Cash Management Fund (the "MAP Primary Fund"). The MAP Primary Fund is a money market mutual fund and may be replaced by Waddell & Reed in its sole discretion at any time. Assets invested in the MAP Primary Fund are subsequently used to purchase shares of mutual funds within the asset allocation model selected by the client. Delays may occur between the receipt of the client's Program investment selections and the processing of the investment purchases, which may result in variances between the number of shares requested and the number of shares actually purchased. You may invest any amount in your Program account after your initial investment. You may also withdraw assets from your account, so long as your account value does not drop below the then current minimum required to remain in the Program. Additions to and withdrawals from a Program account will be made through the MAP Primary Fund and may cause a rebalancing to occur. If the MAPSelect Program account is funded by a transfer from another financial institution, there may be a portion of the time during the transfer process where your assets are not invested in the market.

SEI reviews the composition of the Program models periodically to determine whether models should be modified to better reflect their analysis of the economy and market conditions. These reviews may result in changes to the models and mutual funds within the asset classes.

The Program is available only to clients of advisors who utilize Waddell & Reed's Choice platform. The Program may be offered by your advisor if your advisor believes that it is consistent with your stated risk tolerance and investment goals and objectives evidenced in Waddell & Reed's risk tolerance questionnaire. In the event the information provided by you in Waddell & Reed's new account form or risk tolerance questionnaire becomes outdated or inaccurate, you should immediately notify your advisor and provide all information necessary to correct and/or update the new account form and/or risk tolerance questionnaire. Waddell & Reed reserves the right to determine which of its financial advisors are eligible to offer the Program. You will be required to sign an Advisory Services Agreement ("Service Agreement") if you elect to participate in the Program.

You must maintain at all times a minimum investment of \$15,000 in a Program account. In the event that an account falls below its minimum, Waddell & Reed may terminate the Services Agreement and convert the account to a standard brokerage account held at Pershing LLC. Mutual fund shares purchased through the Program are not subject to a sales load. Class A shares on which a load was originally paid may be invested in the Program only if the transaction in which the shares were acquired occurred at least three years prior to the execution of your Service Agreement.

**Note: Waddell & Reed may change, modify or terminate the MAPSelect Program at any time in its sole discretion.**

## Variable Annuity Investment Option

Clients that deem it suitable may purchase a variable annuity structured for investment advisory accounts and link the annuity to an approved advisory account. Waddell & Reed currently offers only the Nationwide Destination Architect (NDA) variable annuity for investment advisory accounts. The primary features of and material costs associated with the NDA are highlighted below. Variable annuities are sold only by prospectus. Waddell & Reed financial advisors will provide current copies of the NDA prospectus to interested clients. Clients must read the prospectus carefully and ask any question of their financial advisor before making a decision to invest money in the NDA. The purchase of the NDA will not alter the terms and conditions of the primary advisory account to which the NDA annuity is linked, other than as set forth herein and in an addendum to the Advisory Services Agreement, as applicable, that clients must sign when purchasing the NDA.

**Purchase of NDA.** Clients that invest in one of the approved advisory accounts and wish to include a variable annuity in their program will be required to purchase the NDA from Nationwide Life Insurance Company. The NDA carries no front-end sales charge and has no contingent deferred sales charge (CDSC). Clients can surrender the NDA at any time without paying a CDSC. Variable annuities are not suitable investments for all clients. Your financial advisor will ask you to complete various documents in connection with your NDA investment. The information you provide will enable you, your financial advisor and Waddell & Reed to decide whether the NDA is suitable for you and is an appropriate investment for your advisory program. Clients must carefully consider the objectives, risks, charges and features of the NDA and its investment sub-accounts before investing. This and other relevant information can be found in the current prospectus for the NDA and the underlying mutual funds into which the sub-accounts are invested. You may obtain a copy of the current prospectus from your financial advisor. Please read the prospectus carefully before investing in the NDA.

**Minimum Investment.** The minimum investment required to purchase the NDA is \$25,000. Nevertheless, the percent of the client's total investment in the advisory program relative to the amount allocated to the NDA is determined by the client after consultation with their financial advisor.

**Impact of Terminating an Advisory Program with a NDA.** Clients may terminate their Advisory account at any time as more fully discussed elsewhere in this Disclosure Brochure. Termination of an advisory program with a linked NDA has no impact on the client's NDA contract. The client will continue to own the NDA outside of an advisory relationship and the NDA benefits and riders, if any are purchased, remain intact. Upon termination of the linked advisory account, the asset based fee will no longer be charged on the assets in the NDA and the Addendum to the Waddell & Reed, Inc. Customer Agreement for NDA will be considered terminated upon the termination of a linked advisory program.

**Primary NDA Contract Basic Benefits and Riders.** The NDA annuity contains features and benefits including, but not limited to a basic death benefit, spousal protection, an available lifetime income rider and a joint option rider. These features and more specifically, the two riders discussed above are subject to and conditioned upon various definitions, terms and restrictions discussed more fully in the NDA prospectus. Clients are urged to read the NDA prospectus carefully and discuss any questions about these two riders with your financial advisor before investing.

**NDA Contract Fees and Expenses.** Nationwide Fees associated with the NDA annuity include a Mortality and Expense Risk Fee, Administration Fee, Lifetime Income Track Fees (if elected) and a Joint Option Fee (if elected). In addition, there are fees and expenses associated with the underlying sub-account investment options. These fees are described in detail in the NDA prospectus. In addition to the fees listed above, there is Investment Advisory asset based fee.

**Asset Based Fee.** The applicable asset based fee applied to assets invested in the client's linked advisory account will also be applied to the assets in the NDA per the Addendum to the Waddell & Reed, Inc. Customer Agreement for NDA. All asset based fees associated with the NDA annuity will be deducted from the linked advisory account. For more information regarding fees, please see the fee schedule for the applicable advisory program described elsewhere in this Disclosure Brochure.

**NDA Investment Options.** The NDA provides numerous investment options through Sub-Accounts. Clients receive underlying mutual fund prospectuses when they select their initial Sub-Account allocations. Underlying mutual funds in the Sub-Accounts are not publicly traded open-end mutual funds. They are only available as investment options in the NDA and other variable products sponsored by certain insurance companies. One of the mutual fund options is the Ivy Funds VIP Pathfinder Portfolios (Portfolios). The Portfolios are created and managed by and distributed by affiliates of Waddell & Reed. Therefore, your financial advisor will likely recommend that you invest some or all of your NDA assets in the Portfolios because they receive more training and education on the Portfolios. Waddell & Reed will also receive more overall compensation if clients invest in the Portfolios. This presents a conflict of interest between you and Waddell & Reed and your financial advisor that you should consider carefully before investing in the Portfolios. Please see Conflicts of Interest elsewhere in this Disclosure Brochure for more information about conflicts of interest. Clients should consider that the investment options available to clients that purchase the Lifetime Income Track rider are more limited and more conservative than investment options available to clients that do not purchase this rider.

## **SMA and UMA Programs Offered Through Lockwood Advisors, Inc.**

Managed Account Advisor and Lockwood Sponsored Program Lockwood Advisors, Inc. (Lockwood) sponsors, manages and provides access to individual account managers and investment advisory and discretionary services to financial advisors such as investment advisors, which in turn provide investment advice to their clients. Waddell & Reed has engaged Lockwood to provide Waddell & Reed access to two of its account manager services offered through Lockwood's Managed Account Advisor® (MAA); Lockwood Sponsored Program (LSP), (collectively the "SMA Programs") and the Lockwood Investment Strategies program (LIS, a unified managed account). Each of these programs is sponsored by Lockwood and discussed in more detail below.

## **SMA Programs**

The SMA programs enable Waddell & Reed to make available to clients certain investment managers contractually engaged by Lockwood to manage a client's assets in a discretionary manner and based on the client's individual investment needs and goals. After due diligence on managers has been completed by Lockwood, Waddell & Reed performs a basic screen to eliminate any managers that may be underperforming over longer time periods. Not all Lockwood contracted managers may be available for new accounts in the SMA programs. Transferred SMA accounts with previous manager relationships are not subject to these limits.

**Managed Account Process.** The client's financial advisor will utilize software and documentation provided by Lockwood to select an investment style allocation and/or diversified portfolio of investment, including investment vehicles and/or separate account managers (Managers). The financial advisor will assist the client with account opening paperwork to establish an account with Lockwood. All of this information is submitted to Lockwood for review and approval. As part of this process, the client will grant limited investment discretion to the Manager(s) selected. Managers will exercise this authority in the day-to-day portfolio management of the client's assets. The financial advisor will meet with clients participating in the SMA programs at least annually to determine whether the client's financial situation, risk tolerance, investment or personal goals and objectives, or time horizon have changed materially. Changes will be immediately forwarded to Managers by Lockwood to the extent that such changes could impact the Manager's management of the client's assets. Financial advisors may also use the changes provided by clients to recommend changes in

Managers. Clients will have a limited ability to place restrictions on individual investments to be purchased by Managers and to have direct contact with Managers.

**SMA Disclosure.** Clients must read completely and carefully this brochure, the applicable Part 2A, Appendix 1 and Part 2B of Form ADV provided by Lockwood and the Form ADV: Part 2A and B provided by each Manager the client selects. Clients should not invest in the SMA programs without first reading thoroughly all of these important disclosures. Lockwood has not established a minimum investment to participate in the SMA programs. However, many Managers do establish minimum investment amounts to manage client assets. Generally, Managers will not accept accounts under \$100,000. Waddell & Reed believes that clients with less than \$100,000 to invest will not gain the diversification necessary among Managers and investment styles to benefit fully from the SMA program.

## LIS

LIS is a unified managed account program managed by Lockwood.

**Investment Models and Asset Classes.** LIS consists of five core models and variations of the models, all of which span the risk/return spectrum. Client assets are managed on a discretionary basis by an overlay manager. Lockwood, serving as portfolio manager, selects various sub-managers who provide strategy-specific models and/or investment vehicles. The sub-manager selection and investment model guidelines are provided by Lockwood. Lockwood exercises discretionary authority over the investment of the client's assets managed in an LIS account. LIS accounts may invest in mutual funds, exchange-traded funds, and general securities, such as stocks and bonds, and other investment vehicles selected by Lockwood. Mutual funds used in LIS accounts may charge a redemption fee if shares are redeemed within a certain timeframe. The redemption fee and holding period for each mutual fund is found in its prospectus. Clients are urged to obtain and read carefully the prospectus for each mutual fund purchased in their LIS account.

**Account Set-up.** The financial advisor will assist each client with understanding the nature of LIS, formulating the client's investment objectives, establishing the client's risk tolerance, all based on information the client provides to their financial advisor concerning their financial situation, personal and financial goals, risk tolerance, investment time horizon and other similar factors. The financial advisor will continue to monitor the client's LIS account to ensure that the investment style and investment managers selected by Lockwood continue to match the client's investment profile. The financial advisor must meet with the client at least annually to evaluate the client's ongoing participation.

**LIS Disclosure.** Clients must read completely and carefully this brochure and the applicable Form ADV, Part 2A, Appendix 1 and Part 2B provided by Lockwood. Clients should not invest assets in LIS without first reading thoroughly all of these important disclosures.

**Minimum Investment.** The initial minimum investment for LIS is \$250,000. In the event an account falls below the minimum, Lockwood may terminate the LIS account agreement with the client and convert the account to a standard brokerage account custodied at Pershing LLC.

**Note: Waddell & Reed may change, modify or terminate access to Lockwood and/or LIS.**

## MAPLatitude

Waddell & Reed also offers MAPLatitude which is a flexible, non-discretionary wrap fee program to help you achieve your goals through a wide variety of investment products matched to your stated risk tolerance and objectives. Please refer to the separate Appendix 1 Brochure for MAPLatitude for additional information and details.

## Value of Total Assets Under Management

Waddell & Reed had as of December 30, 2016 total assets under management in the amount of \$ 19,056,892,005.22. \$961,540,098.23 of these assets are managed using discretion.

## FEES AND COMPENSATION

### Negotiable Fees

Waddell & Reed is a registered investment advisor and its financial advisors are investment advisory representatives (IARs) of the firm. Both parties must adhere to a fiduciary duty and standard of care which requires that we place the interest of our clients ahead of our own interests. As such, it is a common practice for financial advisors and clients to negotiate their specific advisory and financial



planning fees in context of the services offered, and the specific needs of each client. Negotiable fees are available for all the advisory programs discussed in this section, except for MAP and MAPPlus.

There are many factors that you should consider when negotiating advisory and financial planning fees with your financial advisor. These include such things as the complexity of your financial situation, your specific investment objectives, needs and risk tolerance. Other factors that would be appropriate to consider include, the products or services your financial advisor offers and the amount of time and due diligence necessary to research both investments you currently own as well as recommendations for any future investments. You and your financial advisor should also consider the frequency of meetings and contact necessary to serve your needs as well as any potential involvement between your financial advisor and your other professional service providers, such as accountants and attorneys. This is not meant to be an exhaustive list of the items to be considered but serves as guidelines for you to consider when negotiating advisory and financial planning fees with your financial advisor.

Note: The financial advisor who recommends and assists you in purchasing an advisory product described in this brochure is paid a portion of the fees charged to you for the program(s) you have chosen. Waddell & Reed may advance some of these advisory fees to certain financial advisors based upon a number of factors including the fee schedule of the product purchased.

## SPA Fee Schedule

The SPA program has been discontinued.

## Managed Allocation Portfolio (MAP) Fee Schedule

### MAP and MAPPlus Fees

| Value of Assets                    | Fixed MAP Client Fee | Fixed MAPPlus Client Fee |
|------------------------------------|----------------------|--------------------------|
| On the first \$300,000             | 1.30%                | 1.50%                    |
| On the next \$700,000              | 1.05%                | 1.25%                    |
| On assets in excess of \$1 million | 0.55%                | 0.75%                    |

- MAP Program accounts that qualify for account grouping will be aggregated to determine applicable fee rates.
- Assets transferred from existing MAP accounts into MAP Program accounts will be charged current MAP Program fees beginning on the date the new MAP Program account is established.
- Class A shares originally purchased with a sales load may not be transferred into a MAP Programs unless the transaction in which the shares were acquired occurred at least three years prior to the execution of the client's MAP Service Agreement.

## MAPChoice Fee Schedule

Clients who participate in MAPChoice will pay an ongoing Client Fee, which is a combination of the Advisor Fee (which is negotiable) and the Program Fee (which is fixed). These fee totals are based on the value of their assets, and cover the cost of services such as consulting and administrative services, creation and continual maintenance of the proprietary tool used to select asset category percentages in MAPChoice accounts, ongoing monitoring of and periodic revisions of the model portfolios, and services provided by each client's financial advisor, including annual and other periodic meetings for account reviews, answering client inquiries, assistance with annual reporting on account performance and meeting with clients as required reassessing the propriety of their current asset allocation model selection. Fees are computed on the market value of the account on the last day of the previous quarter. Fees are collected by Waddell & Reed quarterly in advance. Upon termination of an agreement prior to a quarter's end, any unearned fee will be refunded on a pro rata basis. MAPChoice accounts will be allocated in a manner so that the cash asset class will be targeted to be between 2–5% of the overall MAPChoice account value. The cash portion of MAPChoice accounts will be maintained in the Primary Fund. Quarterly MAPChoice fees will be deducted automatically from the Primary Fund. Nevertheless, if during any quarter there is insufficient cash in an account to pay the MAPChoice fee, Waddell & Reed may in its sole discretion sell shares of the mutual funds held in the account in amounts necessary to raise sufficient cash to pay the quarterly fee. MAPChoice fees may not be paid through redemptions of securities that cause a contingent deferred sales charge. Waddell & Reed may change these fees at any time in its sole discretion. Clients may terminate their MAPChoice Service Agreement immediately by delivering written notice of termination to Waddell & Reed, as provided in the MAPChoice Service Agreement. The current fees for MAPChoice are set forth below.

### MAPChoice Fees

| Value of Assets        | Maximum Advisor Fee<br>(1) | Fixed Program Fee<br>(2) | Maximum Client Fee<br>(1) + (2) |
|------------------------|----------------------------|--------------------------|---------------------------------|
| On the first \$300,000 | 1.50%                      | 0.00%                    | 1.50%                           |
| On the next \$700,000  | 1.25%                      | 0.00%                    | 1.25%                           |

|                                    |       |       |       |
|------------------------------------|-------|-------|-------|
| On assets in excess of \$1 million | 1.00% | 0.00% | 1.00% |
|------------------------------------|-------|-------|-------|

- MAPChoice accounts that qualify for account grouping will be aggregated to determine applicable fee rates.
- Assets transferred from existing MAP accounts into MAPChoice accounts will be charged current MAPChoice fees beginning on the date the new MAPChoice account is established and the minimum balance is funded.
- Class A shares originally purchased with a sales load may not be transferred into MAPChoice unless the transaction in which the shares were acquired occurred at least three years prior to the execution of the client's MAPChoice Service Agreement.

## MAPFlex Fee Schedule

Clients who participate in the MAPFlex Program will pay an ongoing Client Fee, which is a combination of the Advisor Fee (which is negotiable) and the Program Fee (which is fixed). These fee totals are based on the value of their assets, to cover the cost of such services as consulting and administrative services, clearing, custody and account-related services, ongoing monitoring of and periodic revisions of the model portfolios, and services provided by each client's financial advisor, including annual and other periodic meetings for account reviews, answering client inquiries, assistance with annual tax reporting on account performance and meeting with clients as required to reassess the propriety of their current asset allocation model selection. Fees are computed on the market value of the account on the last day of the previous quarter.

Fees are collected by Waddell & Reed quarterly in advance. Upon termination of an agreement prior to a quarter's end, any unearned fee will be refunded on a pro rata basis. MAPFlex Program accounts will be allocated in a manner so that the cash asset class will be targeted to be between 2-5% of the overall account value. The cash portion of MAPFlex Program accounts will be maintained in the Primary Fund. Quarterly MAPFlex fees will be deducted automatically from the Primary Fund. MAPFlex fees may not be paid through redemptions of securities that cause contingent deferred sales charge. Waddell & Reed may change these fees at any time in its sole discretion. In the event of a fee increase, clients may either accept the fee increase and continue or terminate their MAPFlex Service Agreement immediately by delivering written notice of termination to Waddell & Reed, as provided in the MAPFlex Program Service Agreement. The fees for the MAPFlex Program are described below.

### MAPFlex Fees

| Value of Assets                    | Maximum Advisor Fee<br>(1) | Fixed Program Fee<br>(2) | Maximum Client Fee<br>(1) + (2) |
|------------------------------------|----------------------------|--------------------------|---------------------------------|
| On the first \$300,000             | 1.50%                      | 0.15%                    | 1.65%                           |
| On the next \$700,000              | 1.25%                      | 0.13%                    | 1.38%                           |
| On assets in excess of \$1 million | 1.00%                      | 0.10%                    | 1.10%                           |

- MAPFlex Program accounts that qualify for account grouping will be aggregated to determine applicable fee rates.

## MAPSelect Fee Schedule

Clients who participate in the MAPSelect Program will pay an ongoing Client Fee, which is a combination of the Advisor Fee (which is negotiable) and the Program Fee (which is fixed). These fee totals are based on the value of their assets, to cover the cost of such services as consulting and administrative services, clearing, custody and account-related services, ongoing monitoring of and periodic revisions of the model portfolios, and services provided by each client's financial advisor, including annual and other periodic meetings for account reviews, answering client inquiries, assistance with annual tax reporting on account performance and meeting with clients as required to reassess the propriety of their current asset allocation model selection. Fees are computed on the market value of the account on the last day of the previous quarter.

Fees are collected by Waddell & Reed quarterly in advance. Upon termination of an agreement prior to a quarter's end, any unearned fee will be refunded on a pro rata basis. The cash portion of MAPSelect Program accounts will be maintained in the Primary Fund. Quarterly MAPSelect fees will be deducted automatically from the Primary Fund. MAPSelect fees may not be paid through redemptions of securities that cause contingent deferred sales charge. Waddell & Reed may change these fees at any time in its sole discretion. In the event of a fee increase, clients may either accept the fee increase and continue or terminate their MAPSelect Service Agreement immediately by delivering written notice of termination to Waddell & Reed, as provided in the MAPSelect Program Service Agreement. The current fees for the MAPFlex Program are described below.

### MAPSelect Fees

| Value of Assets        | Maximum Advisor Fee<br>(1) | Fixed Program Fee<br>(2) | Maximum Client Fee<br>(1) + (2) |
|------------------------|----------------------------|--------------------------|---------------------------------|
| On the first \$300,000 | 1.50%                      | 0.25%                    | 1.75%                           |
| On the next \$700,000  | 1.25%                      | 0.20%                    | 1.45%                           |

|                                    |       |       |       |
|------------------------------------|-------|-------|-------|
| On assets in excess of \$1 million | 1.00% | 0.15% | 1.15% |
|------------------------------------|-------|-------|-------|

- MAPSelect Program accounts that qualify for account grouping will be aggregated to determine applicable fee rates.

## Lockwood MAA, LSP, and LIS Programs Fee Schedule LSP Fees

Clients will pay an asset-based fee to Lockwood quarterly that will cover Lockwood's sponsor and advisory fees and Pershing clearing and custody of account assets. These services may change from time to time. Lockwood's fees vary depending on the amount of assets the client places with Equity/Balanced and Fixed Income Managers. Each Manager charges a separate fee for its ongoing discretionary asset management services. Clients should review the applicable Lockwood Form ADV, Part 2A Appendix 1 to determine the exact fees they will pay to Lockwood and the Managers to participate in the SMA program. In addition to these fees, clients will pay Waddell & Reed an asset-based fee for its consulting and client services as described below.

### SMA Equity Fees

| Value of Assets                    | Maximum Advisor Fee<br>(1) | Fixed Program Fee<br>(2) | Maximum Client Fee<br>(1) + (2) |
|------------------------------------|----------------------------|--------------------------|---------------------------------|
| On the first \$500,000             | 1.50%                      | 0.78%                    | 2.28%                           |
| On the next \$500,000              | 1.50%                      | 0.72%                    | 2.22%                           |
| On the next \$4,000,000            | 1.50%                      | 0.68%                    | 2.18%                           |
| On assets in excess of \$5 million | 1.50%                      | 0.62%                    | 2.12%                           |

### SMA Fixed Income Fees

| Value of Assets                    | Maximum Advisor Fee<br>(1) | Fixed Program Fee<br>(2) | Maximum Client Fee<br>(1) + (2) |
|------------------------------------|----------------------------|--------------------------|---------------------------------|
| On the first \$500,000             | 1.25%                      | 0.44%                    | 1.69%                           |
| On the next \$500,000              | 1.25%                      | 0.42%                    | 1.67%                           |
| On the next \$4,000,000            | 1.25%                      | 0.40%                    | 1.65%                           |
| On assets in excess of \$5 million | 1.25%                      | 0.38%                    | 1.63%                           |

Fees payable to Waddell & Reed are automatically deducted from each SMA program account quarterly in advance and are computed on the market value of the SMA program account on the last day of the previous quarter. The unearned portion of the collected fees will be refunded pro rata if a SMA program account is closed prior to a quarter's end. Waddell & Reed may change the fees it charges at any time in its sole discretion.

## LIS Fees

Clients will pay an asset-based program fee to Lockwood quarterly that will cover the Lockwood advisory fee, Lockwood's sponsor fee, the sub-manager fees, and Pershing clearing and custody fee. Clients should review the applicable Lockwood Form ADV, Part 2A Appendix 1 to determine the extent of this fee. In addition to the fee paid to Lockwood, clients will pay Waddell & Reed an asset-based fee for its consulting and client services. The total fee a client may pay to Waddell & Reed, Lockwood, Pershing, and the Manager is described below

### LIS Fees

| Value of Assets                     | Maximum Advisor Fee<br>(1) | Fixed Program Fee<br>(2) | Maximum Client Fee<br>(1) + (2) |
|-------------------------------------|----------------------------|--------------------------|---------------------------------|
| On the first \$500,000              | 1.50%                      | 0.75%                    | 2.25%                           |
| On the next \$500,000               | 1.50%                      | 0.55%                    | 2.05%                           |
| On the next \$4,000,000             | 1.50%                      | 0.40%                    | 1.90%                           |
| On the next \$5,000,000             | 1.50%                      | 0.35%                    | 1.85%                           |
| On assets in excess of \$10 million | 1.50%                      | 0.30%                    | 1.80%                           |

Fees payable to Waddell & Reed are automatically deducted from the LIS account quarterly in advance and are computed on the market value of the LIS account on the last day of the previous quarter. The unearned portion of collected fees will be refunded pro rata if a LIS account is closed prior to a quarter's end.

## **Flow Billing**

As clients add and withdraw money from programs described in this brochure, their accounts may not be charged immediately. At account inception, the amount billed will be contingent on the fee agreed upon between the client and advisor and the number of days remaining in the quarter. Thereafter, clients will be billed at the beginning of the quarter in advance. Flow billing refers to any deposits or withdrawals from the account of over \$1,000 during the quarter and after account inception. At the beginning of the quarter, an analysis is done to calculate the effect flows into and out of the account should have had on your fee for the previous quarter. These are then billed as adjustments to your quarterly fee. If you have questions about your fees charged in any of our programs, please contact your financial advisor.

## **Third Party Money Managers**

Waddell & Reed, Inc. may act as a solicitor and allow its financial advisors to refer clients to unaffiliated third party investment advisers offering asset management and other investment advisory services. Waddell & Reed is paid a portion of the fee charged and collected by the third party Adviser in the form of solicitor fees. Each solicitation arrangement is performed pursuant to a written solicitation agreement, which will comply with SEC Rule 206(4)-3 and applicable state securities rules and regulations. Waddell & Reed only enters into relationships with a select number of third party Advisers that pass the Waddell & Reed due diligence process.

Through these programs Waddell & Reed will recommend third party Advisers that offer advisory programs consistent with the client's stated investment objectives and risk tolerance. The client may then select a recommended third party Adviser. Clients will then enter into a written agreement directly with the unaffiliated third party Adviser.

Waddell & Reed financial advisors are available to answer questions the client may have regarding their account and act as a communication conduit between the client and the Adviser. Investment Advisers may take discretionary authority to determine the securities to be purchased and sold for the client. Neither Waddell & Reed nor its financial advisors will have any trading authority with respect to a client's managed account with the Adviser(s).

Investment Advisory programs generally have account minimums that will vary from Adviser to Adviser. A complete description of the third party Adviser's services, fees schedules and account minimums will be disclosed in the third party Advisers Form ADV Part 2A or similar Disclosure Brochure which will be provided to the clients at the time of the initial solicitation.

## **CONFLICTS OF INTEREST**

Mutual Fund companies typically offer different ways to buy mutual fund shares. Some mutual funds offer only one share class of a particular mutual fund while others may offer multiple share classes of each mutual fund. In addition to the more broadly known retail share classes (A, B and C) many fund companies have developed additional specialized share classes designed specifically for investment advisory products (Advisor and Institutional share classes).

The fees and other compensation earned by Waddell & Reed and your financial advisor differ depending on the advice and products that you select. Waddell & Reed and its affiliates receive more revenue from the sale of some financial products and services, particularly the Affiliated Mutual Funds, than from the sale of other products and services. It is more profitable for Waddell & Reed and its affiliates if clients purchase the Affiliated Mutual Funds. Employees of Waddell & Reed and its affiliates may indirectly receive higher compensation and other benefits when clients purchase these products. In addition, certain products, such as insurance, may pay more total compensation than other products. Waddell & Reed generally also receives more total revenue when the Affiliated Mutual Funds are used inside the asset allocation and Wrap fee programs we sponsor.

Waddell & Reed has agreements with Waddell & Reed Advisors Funds and Ivy Funds that, in return for certain fees and expenses, Waddell & Reed will promote and distribute these mutual funds. Therefore, this arrangement represents a conflict of interest by which Waddell & Reed and your financial advisor are incentivized to recommend the Waddell & Reed Advisors Fund and Ivy Funds rather than other mutual funds and available share classes that may be less expensive for clients but may pay less compensation to Waddell & Reed and your financial advisor.

Employee compensation (including management and field leader compensation) and operating goals at all levels of the company are tied to varying degrees to Waddell & Reed's financial success. As such, management, sales leaders and other employees generally spend more of their time and resources promoting Waddell & Reed affiliated products and services, including the Affiliated Mutual Funds.

In addition to the advisory service fees, mutual funds charge annual operating expenses which include fees paid for investment management (research, trading, portfolio manager compensation, administrative services and technology). For additional information, you should review carefully the summary prospectus and, where applicable, statement of additional information for the particular

product you are considering. If you invest in one or more of the fee-based investment advisory products described in this brochure, you will pay an ongoing asset-based fee for advice concerning the investment of your assets in these programs. These fees are separate from, and in addition to, any financial planning fee you incur. It is possible that you will pay a financial planning fee for a financial plan that, among other things, recommends the use of one of our fee-based investment advisory products in which case you will pay an additional fee based on the value of your assets for participating in these products.

Financial advisors may also charge a fee to prepare a written financial plan from which they may make an investment recommendation. The investment recommendation may be implemented through any financial services firm and need not be implemented through Waddell & Reed. Should you choose to implement the recommendations through Waddell & Reed and its affiliates, you will incur costs in addition to the fees you will pay for your financial plan. Depending on the products or investment advisory services you decide to purchase through Waddell & Reed and its affiliates, you may pay more or less than if you purchased similar products and investment advisory services through other financial services firms.

Financial advisors may qualify for a forgivable loan that is offered by Waddell & Reed. This loan does not increase the cost of advisory service fees charged to your account. However, a conflict of interest may exist for our financial advisors due to the structure of the forgivable loan. Certain financial advisors may qualify for a forgivable loan due to their production level, length of service, and loss of 12b-1 fees due to a conversion from load-waived A class share mutual funds to advisory or institutional share class mutual funds within Waddell & Reed's investment advisory service programs. In order for a qualifying financial advisor to have their loan forgiven, they must meet certain production and length of service requirements. As such, financial advisors may be incented to advise you to maintain your assets within advisory service programs or accounts in order to meet their production requirements.

Waddell & Reed attempts to mitigate these conflicts of interest by disclosing them so that clients can make informed investment decisions.

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Waddell & Reed does not charge performance-based fees or engage in side-by-side investment management.

## **TYPES OF CLIENTS**

Waddell & Reed typically provides investment advice to the following clients:

- Individuals
- Certain pension and professional plans
- Trusts, estates and charitable organizations
- Certain corporations and business entities not included in the categories above

*Please read carefully the discussion in Advisory Business above to learn more about the account minimums for investing in and maintaining an investment in the investment advisory programs discussed in Advisory Business.*

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Waddell & Reed typically recommends a broad asset allocation strategy across a number of common asset classes. These asset classes are represented in the model portfolios of the various asset allocation programs discussed in this brochure.

Asset allocation is one style that may assist you in determining if you have an appropriate mix of investments for your personal investment needs. Development of a personalized asset allocation is designed to position your assets in accordance with your financial objectives, time horizon and risk tolerance. The asset allocation programs discussed in this brochure are based primarily on an investment concept known as Modern Portfolio Theory. This theory suggests that through diversification you may be able to minimize the effects of investment risk because investment gains in one asset class may offset losses in another. Of course, there is no certainty that any investment strategy will be profitable or successful in achieving your personal investment objectives. Your investment principal (unless you are invested all in cash or cash-like investments) will fluctuate with the financial markets. Therefore, your investments may be worth more or less than you originally paid for them at the time you decide to sell or redeem. And remember that asset allocation will not ensure a profit or protect against loss in a declining market.

If you have a substantial amount of your net worth concentrated in one or a small number of investment products or asset classes, the asset allocation process we use may prompt your financial advisor to recommend that you sell those investments and asset classes. It is always important to consult your tax and legal advisors before making significant changes to your investments because these changes may cause you to incur adverse tax consequences. Neither Waddell & Reed nor your financial advisor can provide the specialized, detailed legal and tax advice necessary to ensure that you avoid adverse tax consequences in these situations.

We do not believe that the mutual funds and asset allocation programs described in this brochure involve significant or unusual risks to our clients. However, the SMA and LIS Programs managed by and/or offered through Lockwood may, depending on the manager(s) and management style(s) you select, present a significant risk of loss. And the products selected by the managers may also present significant or unusual risks of loss. So we strongly recommend that you read carefully the disclosure materials for the SMA and LIS programs discussed in more detail in Advisory Business above. Clients should consider carefully before investing in one or more of the Advisors products described in this brochure.

Depending on your anticipated trading volume it may be less expensive to pay commissions in a traditional brokerage account than to pay a wrap fee to participate in an advisory product that charges an asset-based charge. This is especially important to clients that intend to buy and hold securities over the long term.

Investment advisory programs advisory programs, including mutual fund asset allocation and wrap fee products sponsored by other investment advisers may be less expensive, invest in mutual funds and other packaged products with lower internal expenses and have better performance than the advisory programs advisory programs discussed in this brochure.

## **DISCIPLINARY INFORMATION**

On January 15, 2013 a Letter of Acceptance, Waiver and Consent (No. 2011029075101) was approved by FINRA relating to the delivery of purchase confirmations for mutual fund asset-allocation products (MAP). FINRA found Waddell & Reed violated SEC rule 10B-10; FINRA rule 2010 and NASD rule 2230:

The firm failed to deliver numerous purchase confirmations for mutual-fund asset-allocation products accounts (MAP), during a period, and those confirmations would have confirmed multiple mutual fund share purchases that occurred in numerous investment-advisory accounts. Although the failure to deliver purchase confirmations resulted from the actions of a third-party service provider, the firm remained responsible at all times for compliance with its obligations under all applicable securities laws and regulations. The firm's investment-advisory offerings include several MAP accounts. The firm contracts with its subsidiary to act as the transfer agent for the mutual funds that can be held in the MAP accounts and the subsidiary was obligated to send purchase confirmations on behalf of the firm to MAP-account customers. The firm's subsidiary, in turn, contracts with a third-party service provider to generate and deliver those confirmations. Until a certain date, all purchase transactions in MAP accounts resulted in the delivery of contemporaneous trade confirmations. On that date, however, the third-party service provider made a coding change to the software system that it provided to the subsidiary and other entities. The third party did not intend for the coding change to affect the MAP accounts in any way, and neither the subsidiary nor the firm requested the change. Nonetheless, one effect of the coding change was to prevent customers from receiving confirmations when cash in a MAP account was allocated to individual mutual funds. Thereafter, a MAP-account customer contacted a representative of the firm to ask why the firm was no longer issuing fund-allocation confirmations. The representative contacted the subsidiary, but did not alert the firm's compliance department of the situation. The subsidiary conducted an internal review and determined that the subsidiary's coding change had created the problem. The subsidiary also did not apprise the firm's compliance department of the situation at that time. Thereafter, the subsidiary began researching the issue and working on a solution. The subsidiary's initial work did not completely solve the problem and it implemented a second fix, which through subsequent testing verified that the problem was fully resolved. Waddell & Reed agreed to a censure and a fine of \$75,000.

On June 19, 2015 the State of New Hampshire, Department of State, Bureau of Securities (the "Bureau") received a complaint from a New Hampshire resident and former client of Waddell, which raised concerns regarding certain financial planning fees charged by an investment advisor representative of Waddell. Based on the content of the complaint, the Bureau initiated an investigation. During the course of its investigation, the Bureau determined that the investment advisor representative in question engaged in several violations of New Hampshire securities law, including verbally misrepresenting to his clients the nature of financial planning fees he charged those clients. The Bureau also noted certain deficiencies in Waddell's supervision of the investment advisor representative in question. The Bureau noted that over the past two years, Waddell has taken steps to enhance its supervision of the financial planning conducted by its investment advisor representatives and these enhancements will be finalized during the second quarter of 2017. All of the Bureau's allegations against Waddell are limited to investment advisory activities.

Pursuant to Waddell's Financial Planning Refund Program, Waddell agreed to refund a portion of certain financial planning fees paid by the clients of the investment advisor representative in question, in the amount of \$2,012,615.80. Waddell also agreed to pay the

Bureau's costs of investigation in the amount of Three Hundred Thousand Dollars (\$300,000), an administrative fine in the amount of Three Hundred Thousand Dollars (\$300,000), and a contribution to the Bureau's investor education fund in the amount of Three Hundred Thousand Dollars (\$300,000).

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Waddell & Reed is dually registered as a broker-dealer and Federally registered investment advisor. Your financial advisor may offer to sell you on a commission basis either direct at the sponsor, including the Affiliated Mutual Funds, or in brokerage accounts held at Pershing LLC one or more of the individual securities listed below:

- Equities and EFTs
- Certain Municipal Securities
- Certain Commercial Paper
- Certain Corporate Debt Securities
- Certain Brokered CDs
- Variable Life Insurance
- Variable Annuities
- Mutual Fund Shares
- U.S. Government and Certain Agency Securities
- Options on Securities

Waddell & Reed has material relationships and arrangements that are material to the investment advisory programs discussed in this brochure with the following:

Pershing LLC - Waddell & Reed clears its brokerage business exclusively through Pershing LLC on a fully disclosed basis. Clients that establish brokerage accounts with Waddell & Reed must establish those accounts at Pershing LLC. Clients will be subject to the various account and transaction related costs and fees assessed by Pershing LLC, which may be higher than those charged by other broker-dealers for similar services. Also, Waddell & Reed receives a share of certain charges imposed by Pershing LLC on the brokerage accounts they carry for us.

Affiliated Mutual Funds: Please read carefully the discussion above under Other Fees and Compensation regarding the conflicts of interest inherent in the relationship between Waddell & Reed and the Affiliated Mutual Funds. Also, the investment managers for the Affiliated Mutual Funds are wholly owned subsidiaries of Waddell & Reed.

W&R Insurance Agency: Waddell & Reed distributes certain fixed and variable insurance products through its affiliate, W&R Insurance Agency. These products include the insurance products created for Waddell & Reed by the Strategic Partners.

Strategic Partners: We discuss our relationship with the Strategic Partners under Advisory Business, Overview and Ownership above. Most of the variable insurance products we sell are created by our Strategic Partners. We earn standard commissions on the sale of these products. We also receive a percent of the value of the assets held in the sub-accounts on an ongoing basis.

Lockwood Advisors, Inc.: Lockwood Advisors, Inc. is an affiliate of Pershing LLC. Waddell & Reed uses Lockwood Advisors, Inc. as a platform for several of the fee-based asset allocation and wrap programs we offer as an investment advisor. Waddell & Reed pays various fees to Lockwood Advisors, Inc. for its services.

Waddell & Reed offers its investment advisory clients SMA and UMA products sponsored and/or managed by Lockwood Advisors, Inc. Waddell & Reed receives a portion of the fees charged to clients by the managers of these products. Please read carefully the discussion about these products, Advisory Business, SMA and UMA Programs offered through Lockwood, Inc. and Pershing LLC above.

Waddell & Reed also recommends other investment advisors to our clients in connection with the Lockwood SMA and LIS programs. We do not receive any compensation from the other investment advisors. But part of the fee you pay to invest in the SMA and/or LIS programs is paid to Waddell & Reed and your financial advisor.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Waddell & Reed has adopted a Code of Ethics. The Code of Ethics is primarily intended to establish specific standards of business conduct and to avoid any actual or potential conflict of interest or any abuse of the positions of trust and responsibility of certain persons considered "Access Persons".

Under the Code of Ethics, Access Persons are, among other things, required to report certain personal securities transactions and holdings, must pre-clear certain securities transactions, are restricted with respect to the timing of certain securities transactions, and are prohibited from making certain investments, all as more specifically provided in the Code of Ethics.

Waddell & Reed, its affiliates and their employees, directors and associated persons are prohibited from misusing, for their personal benefit or for the benefit of other, material nonpublic information.

Persons who violate any portion of the Code of Ethics, including the prohibitions against the misuse of nonpublic information, are subject to sanction, up to and including termination.

Our advisors may purchase or sell the same general securities

(i.e. stocks and bonds) they recommend to our Clients. We review transactions in these securities on an ongoing basis to determine whether our clients receive the best execution. We have guidelines in our Code of Ethics to ensure that you receive the most favorable price in these situations.

Waddell & Reed will provide a copy of its Code of Ethics to any client or prospective client upon written request. Copies of the Code of Ethics may be obtained by writing to:

Waddell & Reed, Inc.  
Legal Department  
Attention: Code of Ethics  
6300 Lamar Avenue  
Shawnee Mission, KS 66202

Please read carefully the section above entitled "Conflicts of Interest" for a thorough discussion of the conflicts that exist when our financial advisors recommend the Affiliated Mutual Funds to clients.

## **BROKERAGE PRACTICES**

Waddell & Reed does not receive research or soft dollar benefits from a broker-dealer in connection with client securities transactions.

Clients that decide to purchase securities available as an investment option (except the Waddell & Reed Advisor Funds, which are proprietary) in the investment advisory programs discussed in Advisory Business above or directed through the purchase of individual securities in brokerage accounts need not purchase securities through Waddell & Reed or its financial advisors. They may purchase these securities through any broker-dealer or through fee-based accounts at any investment advisor. Nevertheless, clients that decide to purchase securities in brokerage accounts through Waddell & Reed must do so only through brokerage accounts carried for Waddell & Reed by Pershing LLC. All transactions effected in these brokerage accounts will be executed by Pershing LLC. By directing brokerage executions through Pershing LLC, we may be unable to achieve most favorable execution for your transactions and it may cost more to execute transactions through Pershing LLC than through other broker-dealers. Nevertheless, Waddell & Reed continually monitors the quality of executions in accounts held at Pershing LLC. We believe Pershing LLC provides highly competitive execution quality based on (i) speed and certainty; (ii) price improvement; and (iii) overall execution quality.

Waddell & Reed offers a wide range of mutual funds and is a participant in Pershing LLC's (our clearing/custodial firm) FUNDVEST® program. Through FUNDVEST®, Waddell & Reed may offer clients, in certain investment advisory programs advisory programs, mutual funds with no transaction fees including no front-end commissions. Pershing, at their sole discretion, may add or remove mutual funds from the FUNDVEST® program or may terminate the FUNDVEST® program without prior notice.

Waddell & Reed is eligible to and receives revenue sharing participation for mutual fund assets that are purchased in the FUNDVEST® program. Participating mutual fund sponsors pay a fee to Pershing to participate in this program, and a portion of this fee is shared with W&R. None of these additional payments is paid to any W&R advisors who sell these funds. Clients should be aware, however, that mutual funds in this program may have higher internal expenses than mutual funds that are not in the program



and may experience commensurately lower performance than similar mutual funds with lower internal expenses. To help mitigate any conflict of interest, we monitor the sales activities of our Advisors to ensure that the products and services they offer to you are appropriate.

Broker-Dealers that participate in Pershing's FUNDVEST® program will be assessed by Pershing a short-term redemption fee if participating mutual funds are sold within one month. Similar short-term redemption fees may be charged by mutual fund short-term redemption fees are not charged to the client. Never-the less, FUNDVEST® is not appropriate for short term traders. W&R may terminate investment advisory service agreements with clients that engage in short term trading of mutual funds within FUNDVEST®.

Waddell & Reed does not select other broker-dealers through which to execute securities transactions based on whether we receive client referrals from the other broker-dealer or a third party.

## **Principal Transactions and Agency Cross Transactions**

Advisors currently may not execute principal or agency cross transactions for Program accounts.

## **Trade Errors**

Waddell & Reed has a trade error procedure to resolve trading errors that may occur in Program accounts. Corrections are reviewed and approved by appropriate operations personnel. Corrections will be processed in a timely manner and will not adversely affect a client in a material way. Waddell & Reed maintains an error account to facilitate handling trade errors. Gains may be offset by losses in the error account.

## **Valuation**

Waddell & Reed relies primarily on third party quotation services, including services provided by Pershing LLC to determine the value of securities in Program accounts. If a price is unavailable or believed to be unreliable, we may determine the value in good faith. If the your portfolio strategy includes mutual funds, shares of Affiliated Mutual Funds will be valued at their respective net asset values on the valuation date calculated in accordance with the respective Mutual Fund's prospectus. Shares of other mutual funds will be valued at their net asset values on the valuation date as provided by pricing sources that Waddell & Reed believes to be reliable. This pricing information may not be accurate, complete or provided in a timely manner. If the net asset value for a particular mutual fund's shares is not available for the valuation date, the most recent available net asset value will be used.

## **Benchmark Selection**

Due to the non-discretionary nature of the Program, performance reviews with your financial advisor may illustrate the performance of your Program account using the historical performance of certain broad equity and fixed income market indexes that are readily recognized but which may not be absolutely correlated with the make-up of the Program account. Depending on the composition of a Program account and your chosen portfolio strategy, these broad indexes may not be an appropriate measure for comparison purposes. Therefore, you must understand that such comparisons are provided for illustration only. As a result, the performance of a particular portfolio strategy may vary significantly from the chosen index.

## **REVIEW OF ACCOUNTS**

Waddell & Reed's supervisory structure includes division offices (sales offices) and regional offices (with supervisory responsibility over multiple division offices). Each division office has a Managing Principal, who is responsible for the day-to-day management of all financial advisors assigned to his or her division office, unless this responsibility is delegated to another principal. Each regional office has a Regional Vice President, who is responsible for the general management and oversight of all division offices assigned to his or her region, and the overall supervision of the activities of financial advisors and associated persons assigned to his or her region.

The home office contains a supervisory department called FAD OSJ that is responsible for the main and primary supervision of all associated persons assigned to the home office. Client accounts are reviewed and examined periodically at various supervisory levels of Waddell & Reed. The appropriate supervisor is instructed to conduct frequent reviews of client accounts for conformity with company policy and procedures.

Clients receive regular quarterly reports with respect to their Affiliated Mutual Funds' investments, quarterly and other reports with respect to the fee-based investment advisory programs purchased through Waddell & Reed and quarterly and other reports from the issuers of certain products they hold. Clients that maintain a Waddell & Reed brokerage account at Pershing LLC will receive quarterly or more frequent account statements and other account reports from Pershing LLC.

Financial advisors must meet with participants in the programs described in this brochure at least annually to determine whether their financial situations or investment objectives have changed or whether they want to impose or modify any reasonable restrictions on the management of their accounts. Such information is recorded and maintained by the participants' financial advisors and retained in the division office files.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

Please read carefully the "Conflicts of Interest" section above to learn more about Waddell & Reed and your financial advisor may benefit when you purchase the Affiliated Mutual Funds. Neither Waddell & Reed nor your financial advisor compensates anyone directly or indirectly for client referrals.

Waddell & Reed offers a wide variety of products and programs including mutual funds, annuities and life insurance and investment advisory programs. Waddell & Reed has entered into several arrangements with certain available product companies referred to as revenue sharing arrangements. Although Waddell & Reed strives at all times to place the interest of its clients ahead of its own or those of its officers, directors or representatives ("affiliated persons"), these arrangements could affect the judgment of Waddell & Reed or its affiliated persons when recommending investment products. Because these situations may present a conflict of interest that can affect the judgment of our advisors, Waddell & Reed believes it is important to make you aware of our revenue sharing arrangements.

Affiliated Mutual Funds pay revenue sharing to Waddell & Reed for its administrative and marketing services. This amount may vary and is described in the respective mutual fund prospectuses. However, these revenue sharing payments create a conflict of interest as Waddell & Reed receives more revenue from offering you its Affiliated Mutual Funds than it may receive from offering other comparable mutual funds where revenue sharing are not available to Waddell & Reed.

Nationwide Life Insurance Company (Nationwide) and Minnesota Life Insurance Company (Minnesota Life) each pay Waddell & Reed compensation, in addition to commissions for providing administrative and marketing services. Nationwide pays compensation to Waddell & Reed on a monthly basis in an amount equal to 0.244% annually of the average daily account value of all variable annuity assets for Nationwide products distributed by Waddell & Reed prior to January 1, 2012, and 0.22% annually of the average daily account value of all variable annuity assets for Nationwide products distributed by Waddell & Reed after January 1, 2012. Minnesota Life pays compensation to Waddell & Reed on a quarterly basis in an amount equal to 0.25% annually of the average daily account value of all variable annuity assets for products distributed by Waddell & Reed.

## **CUSTODY**

The Securities, including mutual funds, you purchase to fund your investment advisory product discussed elsewhere in this brochure are held in your brokerage account at Pershing LLC or direct at the mutual fund and/or insurance product sponsor. The Affiliated Mutual Funds are held at Waddell & Reed Services Company, which is an affiliate of Waddell & Reed. The securities you purchase in the Lockwood SMA and LIS programs discussed in Advisory Business above are also held in your brokerage account at Pershing LLC. You will receive confirmations, quarterly statements and other reports from the mutual funds you hold from Pershing LLC.

Your financial advisor is permitted to send a COMPASS account summary and related performance reports. However, COMPASS reports are merely unofficial account summaries and must not be relied upon as an accurate, complete statement of your account holdings, activity or performance.

## **INVESTMENT DISCRETION**

In specific situations Waddell & Reed will allow limited investment discretionary services to be offered by qualified and approved financial advisors to specific approved clients. Within approved programs you may authorize your Waddell & Reed, financial advisor to exercise limited investment discretion over your account. Your financial advisor must obtain written authorization from you prior to exercising discretionary authority over your account (currently MAPFlex and MAPLatitude). In the event that your financial advisor has discretionary authority in your retirement account, and uses Affiliated Mutual Funds, the underlying management fee for those Affiliated Mutual Funds will be rebated back to you. These fee rebates will appear on your client statement.

This limited discretionary trading authority will be granted in the appropriate client services agreement or via a separate discretionary trading authorization form. If discretionary authority is granted, it is limited to the ability to purchase and exchange mutual funds within your chosen risk profile and investment model. If your risk profile or model choice needs to be modified, this will require you and your advisor to complete a new Risk Tolerance Questionnaire and a client services agreement prior to changes being made to your

existing model. Your financial advisor may not withdraw funds or securities from your account without your express written permission.

All clients have the ability to place reasonable restrictions on the management of their account including restrictions on the type of securities that can be purchased in the account. Clients may also place reasonable limitations on the discretionary power granted to your financial advisor.

We also do exercise discretion indirectly within our MAP Programs to the extent necessary to rebalance your portfolio periodically to remain consistent with the investment model you select.

We encourage you to discuss with your financial advisor the positives and negatives of authorizing limited discretion for your MAPFlex and/or MAPLatitude accounts.

## **VOTING CLIENT SECURITIES**

Waddell & Reed does not accept authority to vote client securities proxies.

## **FINANCIAL INFORMATION**

Waddell & Reed neither requires nor solicits the prepayment of more than \$1,200 in advisory fees six months or more in advance from any client, and therefore has not included a balance sheet of its most recent fiscal year in this Part 2A Brochure.

Waddell & Reed is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients, nor has it been the subject of a bankruptcy petition at any time during the past ten years.

A copy of Waddell & Reed's Annual Report and Form 10-K can be found under Investor Relations at [www.waddell.com](http://www.waddell.com).

