

# MAP

## Latitude

---

### Appendix 1

---

## COVER PAGE

Waddell & Reed, Inc.  
SEC File Number: 16720  
Appendix 1 of Part 2A of Form ADV  
MAPLatitude  
The date of this Appendix is: December 26, 2016

This appendix provides information about the qualifications and business practices of Waddell & Reed, Inc. If you have any questions about the contents of this appendix, please contact us at (1-866-937-0010 and/or [advisoryproducts@waddell.com](mailto:advisoryproducts@waddell.com)). The information in this appendix 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 appendix and the services and fees described in this appendix 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 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 fund and securities holdings listed on these reports provided by your financial advisor match the 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. The addition of information which reflects that the firm recently entered into a consent order with the New Hampshire Bureau of Securities related to the actions of a New Hampshire investment advisory representative.

TABLE OF CONTENTS

Cover Page ..... 1

Summary of Changes ..... 2

Table of Contents ..... 3

Services, Fees and Compensation ..... 4

Account Requirements and Types of Clients ..... 11

Portfolio Manager Selection and Evaluation ..... 11

Client Information Provided to Portfolio Managers ..... 12

Client Contact with Portfolio Managers..... 12

Disciplinary Information ..... 12

Other Financial Industry Activities and Affiliations ..... 14

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading ..... 14

Review of Accounts ..... 15

Conflicts of Interest..... 15

Client Referrals and Other Compensation ..... 16

Investment Discretion ..... 17

Financial Information ..... 17

# SERVICES, FEES AND COMPENSATION

## Introduction

Waddell & Reed, Inc. (“Waddell & Reed”) is a securities broker-dealer and investment advisor serving clients nationwide. Waddell & Reed emphasizes comprehensive financial planning and provides a variety of personal financial services and investment opportunities. Through the financial planning process, Waddell & Reed financial advisors can help clients identify their unique financial goals and develop a plan to meet those goals. And, Waddell & Reed 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 sponsors a non-discretionary wrap fee investment advisory program known as MAPLatitude (the “Program”). Waddell & Reed offers other investment advisory programs and services. However, only the Program is described in this appendix.

## 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 Advisor in an Advisory Relationship?*

As an investment advisor, Waddell & Reed is a fiduciary to its advisory clients 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. Let’s explore this further. Waddell & Reed and its financial advisors offer a number of investment advisory programs and services. Under these programs, Waddell & Reed and its investment advisor representatives 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 the relevant Advisory Services Brochure (Form ADV) and also discussed in each product’s Service 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 Advisory Services Brochure and the applicable Service Agreement to understand our investment advisory product offerings and appropriately consider all applicable charges and disclosures.

### *What does it mean to work with a Waddell & Reed 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 one-time or annual fees are charged, you will pay a commission to Waddell & Reed for each 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 will receive other types of compensation such as trail compensation (known as 12b-1 fees) and markups on individual investment products.

When Waddell & Reed is acting as a broker-dealer 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 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. Waddell & Reed has no duty to provide ongoing investment advice with respect to your brokerage account. 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 except as discussed later in the “Investment Discretion” section.

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

### *An advisory relationship may be best for you if:*

1. You want or need a financial advisor to manage your investment portfolio.
2. You desire a fiduciary relationship with your financial advisor in order to provide you ongoing investment advice regarding your account.

3. You have a substantial amount of assets and expect to be performing frequent transactions and rebalancing your portfolio regularly.
4. You desire a relationship with your financial advisor where the fee is based on a percentage of assets in your account and not related to the number or frequency of the transactions in your account.

***A brokerage relationship may be best for you if:***

1. You prefer to make investment decisions yourself and are mainly in need of an advisor to execute your transactions.
2. You need only occasional advice or recommendations on specific investment products.
3. You plan on purchasing a relatively small number of products and will follow a buy and hold type of strategy for a long period of time without ongoing advice from your financial advisor.
4. You prefer to pay your financial advisor for each transaction that is placed in your account.

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.

## **Description of the Program**

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.

Product mix is important to consider when evaluating the Program. For example, while mutual funds are purchased at NAV with no sales charge, purchasing the same mutual funds in a commissionable account could be more cost efficient if you qualify for breakpoint discounts that reduce the sales charge below the asset-based fee the client will incur in the Program. The Program may also not be appropriate for you if you consistently maintain high levels of cash or money market fund reserves, as Program fees will be charged on cash balances. The Program will not be made available to you if you engage in day trading or other types of aggressive, frequent trading activity. You should also remember that securities transactions in Program accounts may have substantial tax consequences. Therefore, Waddell & Reed strongly recommends that you consult with their tax advisor before establishing a Program account.

## **Establishing a Program Account**

Once you and your financial advisor agree that a Program account is consistent with your overall investment objectives, you will be asked to complete, among other things, a Waddell & Reed New Account Form and Program Advisory Services Agreement (“Service Agreement”). You will be asked to complete a Risk Tolerance Questionnaire (RTQ) and select a model portfolio consistent with your RTQ score. As the Program is non-discretionary, your advisor will rely solely on the accuracy of the information you provide to recommend specific securities and trading strategies. It is your responsibility to inform your advisor of any material changes in your investment objective, financial situation, or risk tolerance. If you inform your advisor of material changes, your advisor may recommend changes in your investment strategy, which will require the completion of a revised RTQ and Service Agreement. If you concentrate your Program account in a limited number of securities or securities of the same or affiliated issuers, you may not be pursuing a fully diversified strategy. As such, concentrating investments in a Program account should not be considered as a diversified asset allocation plan to investing, but rather should be viewed only as the equity or fixed income portion, as applicable, of your overall portfolio, which may include investments not held with Waddell & Reed.

The Services Agreement provides that you and we have the right to terminate your Program account upon certain terms and conditions. You should note that termination of your Program account will end our investment advisory fiduciary relationship with you and will cause your account to be converted to, and designated as a brokerage account. Your Services Agreement will no longer apply to your new brokerage account and it will be governed solely by the terms and conditions of the Customer Agreement that is attached to, and incorporated into, the new account form you will complete.

## **Investment Profile Descriptions**

The Service Agreement provides five general model portfolios for Program accounts. Currently Waddell & Reed requires clients to select one of these five model Portfolios listed below:

**Conservative.** Clients that elect Conservative have as their primary investment goal a relatively predictable stream of current income. Their tolerance for risk is low and they seek investments that will, to the extent possible, protect their principal investment from market fluctuations. Due to the flexibility of the MAPLatitude program, clients in the Conservative risk category may have allocations

that may vary as far as those permitted in the Moderate Conservative risk category. Clients should ensure they are familiar with the risks of a Moderate Conservative portfolio as that may be their experience due to shifting allocations that could be in the Moderate Conservative range.

**Moderate Conservative.** Clients that elect Moderate Conservative have as their primary investment goal a higher stream of current income with some growth potential. Their tolerance for risk is low to moderate and they are willing to accept low to moderate loss of principal during market fluctuations, unexpected business failure and losses due to fluctuating interest rates. Due to the flexibility of the MAPLatitude program, clients in the Moderate Conservative risk category may have allocations that may vary as far as those permitted in the Conservative or Moderate risk categories. Clients should ensure they are familiar with the risks of a Conservative and a Moderate portfolio as that may be their experience due to shifting allocations that could range from Conservative to Moderate.

**Moderate.** Clients that elect Moderate have as their primary investment goal both appreciation of their principal investment and current income. Their tolerance for risk is moderate and they are willing to accept moderate loss of principal during market fluctuations, or loss of principal and illiquidity in return for higher yield and potential capital appreciation. Due to the flexibility of the MAPLatitude program, clients in the Moderate risk category may have allocations that may vary as far as those permitted in the Moderate Conservative or Moderate Aggressive risk categories. Clients should ensure they are familiar with the risks of a Moderate Conservative and a Moderate Aggressive portfolio as that may be their experience due to shifting allocations that could range from Moderate Conservative to Moderate Aggressive.

**Moderate Aggressive.** Clients that elect Moderate Aggressive have as their primary investment goal appreciation of their principal investment. They are willing to accept moderate to high risks, potential loss of principal during market fluctuations and illiquidity in return for the higher potential for capital appreciation. Due to the flexibility of the MAPLatitude program, clients in the Moderate Aggressive risk category may have allocations that may vary as far as those permitted in the Moderate or Aggressive risk categories. Clients should ensure they are familiar with the risks of a Moderate and an Aggressive portfolio as that may be their experience due to shifting allocations that could range from Moderate to Aggressive.

**Aggressive.** Clients that elect Aggressive have as their primary investment goal rapid appreciation of their principal and short-term trading profits. They are willing to accept very high risk and loss of their entire principal during market fluctuations. Due to the flexibility of the MAPLatitude program, clients in the Aggressive risk category may have allocations that may vary as far as those permitted in the Moderate Aggressive risk category. Clients should ensure they are familiar with the risks of a Moderate Aggressive portfolio as that may be their experience due to shifting allocations that could be in the Moderate Aggressive range.

The model portfolio you select should guide the investments you select for your program account. You should periodically monitor the investment allocation of your portfolio to ensure it remains consistent with your risk tolerance and investment objective.

Deviations from the originally selected investment allocations will occur due to, among other things, fluctuations in the market value of securities in the portfolios and restrictions you may impose on your program account. It is your responsibility, with guidance from your advisor, to ensure that the program account investment portfolio consistently reflects your RTQ score.

Waddell & Reed will effect transactions for your Program account only as directed by you and neither Waddell & Reed nor your financial advisor will have any discretionary authority to effect transactions in a Program account except as discussed later in the “Investment Discretion” section.

Class A shares on which a load was originally paid may be invested in the Program only if the transaction(s) in which the shares were acquired occurred at least three years prior to the execution of your Service Agreement.

## **Fees and Other Charges**

You will pay an ongoing asset-based fee on assets in the Program account. The asset-based fee is negotiable on an advisor-by-advisor and account-by-account basis. The maximum annual fee that may be charged Program accounts is 2.25% of assets under management and the minimum is .75% of assets under management. Fees are billed and collected quarterly in advance. Fees are computed on the market value of the account on the last day of the previous quarter. Fees will be automatically deducted from the client’s Program account(s). Nevertheless, quarterly fees will not be generated by liquidating securities if such liquidation would cause a contingent deferred sales charge. The wrap fee you pay for the Program covers the services of your advisor, trading and execution, custody, performance reporting and related Program account services. If you terminate your Program account prior to a quarter’s end, any unearned fee will be refunded to you on a pro-rata basis. Mutual funds in the Program may pay an ongoing distribution and service (12b-1) fee to Waddell & Reed. This 12b-1 fee will be paid from the date the mutual fund shares are purchased. Fees assessed in connection with the Program are in addition to portfolio management and other fees and expenses charged by mutual funds and ETFs in a Program account. A portion of the asset-based fees you pay for advisory services in connection with the Program will be paid to your financial advisor and a portion will be paid to Waddell & Reed.

## **FundVest Program**

Waddell & Reed Inc. (W&R) 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, 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.

W&R 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 financial 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 appropriately disclosed.

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 families that are part of and outside of the FUNDVEST® program. FUNDVEST® short-term redemption fees are not charged to the client. Nevertheless, FUNDVEST® is not appropriate for short term traders. W&R may terminate investment advisory agreements with clients that engage in short term trading of mutual funds within FUNDVEST®.

## **Flow Billing**

As clients add and withdraw money from the MAPLatitude program described in this appendix, 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 (starting in January 2011), 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.

## **Important Disclosures Regarding Wrap Fee Programs**

Certain services provided in connection with the Program are available to clients outside the Program at no charge. Also, depending on your investment objective, you may find that the individual components of the Program are available to you outside the Program for more (or less) than you pay in the Program. You should discuss all of your investment options with your advisor before choosing to invest in the Program. Several factors may affect whether the Program costs are more or less than the costs of a traditional brokerage account, including trading strategy, types of securities purchased, whether the investments carry additional administrative or management fees, volume of trading, total expenses associated with trading the investments selected and the actual costs of the services utilized if purchased separately. Cash positions, including money market funds and sweep accounts, are subject to the Program fee. You should take this into account when selecting an appropriate investment objective.

## **Minimum Account Value**

Except as provided below, the minimum account size to establish a Program account is \$50,000 for each Program account. Waddell & Reed has the right, in its sole discretion, to terminate the Service Agreement for Program accounts that fall below the minimum account value, require that additional assets be deposited in the Program account to bring the account up to the minimum, or change the minimum at any time. If the aggregate value of the Waddell & Reed advisory accounts maintained by a household, defined as two or more investors sharing the same address of record, exceeds \$250,000, the minimum account value to establish a Program account is \$40,000 for each Program account. Waddell & Reed, at its sole discretion, may waive account minimum balances requirements.

## **Program Restrictions**

You will not be permitted to accumulate a position in any Program account that exceeds 25% of the overall Program account value. To the extent that any Program account accumulates a concentrated position that exceeds 25% of the overall portfolio value, Waddell & Reed may require you to sell a sufficient amount of the concentrated position to bring the position value below the concentration limit. On a case-by-case basis, a greater than 25% position may be permitted in an inherently diversified security (e.g., mutual funds, ETFs, etc.). Waddell & Reed may, in its sole discretion, terminate Program accounts that exhibit excessive trading, or terminate Program accounts that fail to trade at least periodically. Generally we will look for accounts with less than four (4) trades over the most recent eight (8) quarters (as calculated at each quarter end). These accounts may be terminated and the account converted to a traditional brokerage account.



## Redemption Fees for Active Trading

Mutual funds purchased in Program accounts may charge redemption fees if shares are redeemed within a certain period of time after they are purchased (also known as active trading or market timing). These fees may also apply to the redemption side of a mutual fund exchange transaction where shares are exchanged among funds (whether through direct exchanges or sales and new purchases) in the same fund family more frequently than permitted by prospectus. Redemption fees and their application vary from fund to fund. Questions about redemption fee policies should be directed to your advisor.

## Funding Program Accounts

You may fund Program accounts with cash, eligible securities, ineligible securities or a combination. Eligible securities that do not fit within your investment objective may be liquidated by Waddell & Reed without notifying you. Ineligible securities that are permitted to be initially deposited into a Program account must be liquidated or moved to a non-advisory account that permits the holding of such securities within fifteen (15) days. Failure to do so may result in the termination of the Program Service Agreement. Although these transactions will be free of commissions, they may result in redemption/CDSC charges and taxable gains or losses. Waddell & Reed may not accept eligible securities into a Program account if the securities have not been owned by the client for a specified period. You must discuss these limitations with your financial advisor before selecting eligible securities for deposit into your Program account.

## Eligible Securities

Mutual funds with selling agreement, UITs\*, US exchange-traded equities, US exchange-traded ADRs/Rights/Warrants, ETFs, exchange-traded grantor trusts, ETNs\*, closed-end funds, BDCs, MLPs, exchange-traded REITs, OTC securities\*, US treasuries, government agency notes/bonds, investment grade municipal securities, when issued bonds, investment grade corporate debt, high-yield corporate debt (non-investment grade, BB- or higher), brokered CDs, US government agency mortgage backed securities, covered call writing, purchase calls / puts, options collars and spreads\*, non-traded REITs (Jones Lang LaSalle Income Property Trust only).

\*Restrictions apply

## Non-Traded REITs

Non-Traded REITs (NTRs) are considered illiquid investments; they are not listed on an exchange and shares may not be sold on the open market. If you need to raise money quickly, you may not be able to do so by selling shares of an NTR. Some NTRs offer daily liquidity and daily pricing but there is no guarantee that daily liquidity will be available when you are ready to redeem. Although NTRs usually offer share redemption programs, these are typically subject to significant limitations, including an initial holding period requirement, and may be discontinued at the discretion of the NTR. Redemption policies can change, making it extremely difficult to redeem money from an NTR when and if you need it.

NTRs may have various share classes available for purchase. These share classes may include an upfront load share class and a no-load share class. Upfront load share classes charge an upfront commission in the range of 3% to 10% of the amount invested depending on the NTR structure. No-load share classes will not have an upfront commission and are typically held inside of advisory accounts where the account is billed an advisory fee during the life of the account. Both types of share classes involve management and other organizational expenses involved that have an impact on the return of the investment.

NTRs are not suitable for all investors. NTRs are subject to investor suitability requirements that include minimum limits on an investor's net worth, liquid net worth and annual income. They may also include limits on the amount of direct participation programs or other NTRs that an investor may own in the aggregate. These suitability requirements are disclosed in the prospectus.

## Options

Options contracts provide the ability to buy or sell a security, such as stocks, at a specified price within a specific period of time. Options on securities may be subject to greater fluctuations in value than an investment in the underlying securities. Options trading may not be appropriate for all individuals and certain activity and strategies may subject an investor to significant losses. Buying and selling put and call options are highly specialized activities and entail greater than ordinary investment risks that should be appropriately considered and understood before entering into this type of activity. In addition to discussion with your advisor we encourage you to read and understand the "Characteristics & Risks of Standardized Options" from The Options Clearing Corporation provided to you when you open an options account.

## Margin

Clients may, if Waddell & Reed determines the client is creditworthy and suitable, use margin to purchase marginable securities in a Program account. Using margin in a fee-based investment advisory account is a more aggressive, higher risk approach to pursuing investment objectives. Before clients decide to use margin in a Program account, they must carefully consider whether or not they can

afford, and want, to assume the additional risk in recognition that losses may be significantly greater than if borrowed funds were not used. The use of leverage will increase the cost, as well as the risks, associated with a Program account and may make it much more difficult to achieve investment objectives. If margin is approved for a Program account, clients will pay interest to Pershing on outstanding loan balances but will not pay asset-based fees on such balances. Waddell & Reed may also receive a portion of the interest paid to Pershing. The decision to use margin rests solely with the client and should only be pursued to the extent that the client fully understands and appreciates the risks of margin borrowing, the impact of the use of borrowed funds on a Program account and how the use of margin may affect the Program account's performance; specifically, clients may lose more than their original investment. Likewise, positive or negative performance of a margined Program account, net of interest charges and asset-based fees, will be magnified by virtue of using margin. Clients will not benefit from using margin in a Program account unless the performance of the account exceeds the interest expense and asset-based fees.

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

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

## **Execution of Transactions**

Transactions in Program accounts will be executed exclusively through Waddell & Reed's clearing broker-dealer, Pershing, LLC. Waddell & Reed regularly monitors Pershing's execution quality. We believe Pershing provides highly competitive execution quality based on (i) speed and certainty of execution; (ii) price and size improvement; and (iii) overall execution quality.

## **Custody of Program Accounts**

Assets managed in Program accounts will be custodied in brokerage accounts held by Pershing LLC. Waddell & Reed has entered into a fully-disclosed clearing agreement with Pershing, LLC pursuant to which Pershing LLC has agreed to custody the brokerage account assets of Waddell & Reed's clients and to execute certain securities transactions on behalf of those clients. Pershing LLC will act as the sole custodian for all assets in Program accounts. Pershing LLC will perform all custodial functions customarily performed for brokerage accounts, including but not limited to crediting of interest and dividends. You will retain ownership of all cash and securities in the Program accounts, which will be reflected on the books and records of Waddell & Reed. If you have other brokerage accounts at Pershing, any fees charged for maintenance of those accounts will be separate from and in addition to fees charged for Program accounts. You must consider before electing to participate in the Program that, by using Pershing LLC as the custodian of their Program assets, you may pay higher account-related fees and execution charges, and may not always receive as favorable executions as investors who participate in fee-based asset management products similar to the Program but who have the ability to select the broker-dealer or other platform to custody their assets and execute their transactions.

## **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 your portfolio strategy includes mutual funds, shares of Waddell & Reed 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 makeup 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 assigned index.

## 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.

## Termination

The 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 you terminate the agreement, you will receive a pro-rated refund of the asset-based fee. Upon termination, Waddell & Reed will, unless otherwise instructed by you, move the securities holdings in your Program account into a traditional brokerage account until you provide instructions to either liquidate the securities, hold the securities in a brokerage account at Pershing LLC or transfer the securities to another broker-dealer or custodian. This process may have adverse tax consequences for taxable accounts.

## Important Disclosures Regarding Wrap Fee Programs

Certain services provided in connection with the Program are available to you outside the Program at no charge. Also, depending on your investment objective, you may find that the individual components of the Program are available to you outside the Program for more (or less) than you pay in the Program. You should discuss all of your investment options with your advisor before choosing to invest in the Program. Several factors may affect whether the Program costs are more or less than the costs of a traditional brokerage account, including trading strategy, types of securities purchased, whether the investments carry additional administrative or management fees, volume of trading, total expenses associated with trading the investments selected and the actual costs of the services utilized if purchased separately. Cash positions, including money market funds and sweep accounts, are subject to the Program fee. You should take this into account when selecting an appropriate investment objective.

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

## ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS

### Account Requirements

Please read carefully “Services, Fees and Compensation” above for a detailed discussion of account minimums.

### Client Types

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

## PORTFOLIO MANAGER SELECTION AND EVALUATION

### Advisory Services Generally

Waddell & Reed offers various types of investment advisory services, including:

- Financial Planning
- Asset Allocation Programs
- Wrap Fee Programs

We attempt to tailor each of our investment advisory services to your individual personal, financial and investment needs. We do this by requiring you to complete a new account form that captures your personal financial information, risk tolerance and investment objectives, among other things.

You can impose reasonable restrictions on the securities they select in your Program account and on the investment style you pursue because you make all investment decisions and the Program provides multiple investment options.

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

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

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

Waddell & Reed typically recommends a broad asset allocation strategy across a number of diverse asset classes.

Asset allocation is one investment 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.

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.

The Program enables you to assume much greater risk by selecting from a broad array of investments and by selecting and pursuing higher risk investment strategies. You have substantial freedom to choose the securities in which you invest and the investment strategy you pursue within the limits associated with the Program.

The Program, depending on the securities you select and the investment style(s) you pursue, may present a significant risk of loss. The securities you select may present significant or unusual risks of loss.

### **Voting Client Securities**

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

## **CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS**

You may only participate in the Program through your Waddell & Reed financial advisor. Your financial advisor is not the Program portfolio manager, because the Program is not managed on a discretionary basis except as discussed later in the “Investment Discretion” section. You and your financial advisor jointly make all investment decisions and product selections from the list of eligible securities. Please refer to “Services, Fees and Compensation”, “Description of the Program” and “Eligible and Ineligible Securities” above. You are encouraged to contact your financial advisor anytime you have a material change in your financial situation, investment objectives and/or risk tolerance.

## **CLIENT CONTACT WITH PORTFOLIO MANAGERS**

Waddell & Reed places no restrictions on your ability to contact and consult with your financial advisor. You are encouraged to contact your financial advisor regularly and anytime you experience material changes in your financial situation, investment objectives and/or risk tolerance.

## **DISCIPLINARY INFORMATION**

On April 13, 2000, a letter of Acceptance, Waiver and Consent (No. C11000007) was approved by NASD Regulation, Inc. (“NASD”) relating to conduct of three (3) of Waddell & Reed’s financial advisors with respect to their misuse of account transaction request forms. The NASD found Waddell & Reed failed to establish, maintain and enforce written supervisory procedures reasonably designed to achieve compliance with the applicable securities laws and regulations and with applicable NASD rules relating, among other things, to forgery, unauthorized transactions and misappropriation. The NASD also found Waddell & Reed failed to respond adequately, and take appropriate action, to supervise its registered representatives, when confronted with evidence of problems in the above-referenced areas, that was reasonably designed to prevent the violations by the registered representatives.

On April 29, 2005, Waddell & Reed entered into a Decision & Order of Offer of Settlement with the NASD Department of Enforcement (“DOE”) settling a regulatory action brought by the DOE on January 14, 2004 (Case No. CAF040002) alleging that Waddell & Reed violated NASD Conduct Rules 2110, 2310, 3010 and 3110, and § 17(a)(1) of the Securities Exchange Act of 1934 and Rule 17a-3(A)(6) hereunder, relating to exchanges made by certain of its clients of their variable annuity policies. The DOE alleged that Waddell & Reed failed to take adequate steps to determine whether there were reasonable grounds for the clients to enter into the exchanges, such as determining whether the clients were likely to benefit or lose money from the exchanges, failed to establish sufficient guidance for the sales force to use in determining the suitability of the exchanges, failed to establish and maintain supervisory procedures or a system to supervise the activities of its advisors that was reasonably designed to achieve compliance with the requirements of the NASD’s suitability rule, and failed to maintain books and records regarding orders for unexecuted variable annuity exchanges. Without admitting or denying the allegations, Waddell & Reed agreed to be censured, pay a fine of \$5 million and pay client restitution of \$11 million. Waddell & Reed also entered into a global settlement with state regulators in connection with the NASD settlement. Without admitting or denying the state’s allegations, Waddell & Reed agreed to pay \$2 million fine and additional

client restitution. On July 24, 2006, Waddell & Reed entered into settlements with the U.S. Securities and Exchange Commission (“SEC”), the Attorney General of the State of New York (“NYAG”) and the Kansas Securities Commissioner (“KSC”) resolving their investigations into alleged market timing activities of shareholders of certain mutual funds for which Waddell & Reed serves as principal underwriter and distributor (the “Funds”). Based upon its investigation, the SEC alleged that a subsidiary of Waddell & Reed, Waddell & Reed Investment Management Company (“WRIMCO”), violated Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 (the “Advisers Act”) by following certain Fund Shareholders to engage in frequent trading of Fund shares in exchange for fees paid to Waddell & Reed and another Waddell & Reed subsidiary, Waddell & Reed Services Company (“WRSCO”), and that WRIMCO allowed such trading in the Waddell & Reed Advisors International Growth Fund (the “International Fund”) despite having been notified that the shareholders were harming the International Fund through dilution and failed to disclose the conflict of interest to the Funds’ Board of Directors and shareholders. The SEC also alleged that Waddell & Reed and WRSCO aided and abetted WRIMCO’s alleged violations of Sections 206(1) and 206(2) of the Advisers Act by negotiating agreements with the shareholders allowing their trading of the Funds within certain defined limits and receiving financial benefit therefrom, and that WRIMCO, Waddell & Reed and WRSCO violated Section 17(d) of the Investment Company Act of 1940 (the “40 Act”) and Rule 17d-1 thereunder by participating in and effecting transactions in connection with joint arrangements in which the Funds were participants without filing an application with or receiving approval from the SEC. The NYAG alleged that Waddell & Reed’s conduct violated the Martin Act, Article 23-A of the General Business Law, § 349 of the General Business Law and § 63(12) of the Executive Law of the State of New York, and the KSC alleged that the conduct of Waddell & Reed, WRIMCO and/or WRSCO violated K.S.A 17-1253(a), 17-1253(b), 17-1254(m)(7), K.A.R. 81-3-1(i)(1) and/or 81-14-5(a). Without admitting or denying the alleged violations, Waddell & Reed agreed with the SEC, together with WRIMCO and WRSCO, to a censure, to cease and desist from violating Sections 206(1) and 206(2) of the Advisers Act, Section 17(d) of the 40 Act and Rule 17d-1 thereunder, to pay to the SEC \$40 million in disgorgement and a \$10 million civil penalty that will be distributed to Fund shareholders, and to implement certain compliance undertakings. Waddell & Reed also agreed with the NYAG to reduce the investment management fees on certain of the Funds by \$5 million per year for five years and to certain Fund governance undertakings, and Waddell & Reed, WRIMCO and WRSCO agreed with the KSC to pay a fine of \$2 million to be used for the education of consumers in matters concerning securities regulation and investments.

On January 15, 2013, a Letter of Acceptance Waiver and Consent (No. 2011029075101) was approved by FINRA relating to the failure of the firm to deliver purchase confirmations for a period of time. 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. Without admitting or denying FINRA’s allegations, Waddell & Reed agreed to a censure and fine of \$75,000 to settle the regulatory action.

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 Waddell & Reed Mutual Funds, or in brokerage accounts held at Pershing LLC one or more of the individual securities listed below:

- Equities and ETFs
- 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

Waddell & Reed has material relationships and arrangements that are material to the investment advisory programs discussed in this appendix 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.

**Waddell & Reed Mutual Funds: 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 Waddell & Reed Mutual Funds than when you purchase other mutual funds.
- Your financial advisor may receive concentrated training and information on products sponsored by affiliates of Waddell & Reed that may cause them to recommend Waddell & Reed Mutual Funds rather than other mutual funds. Also, the investment managers for the Waddell & Reed Mutual Funds are wholly owned subsidiaries of Waddell & Reed.

**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 also offers its clients SMA and UMA products sponsored and/ or managed by Lockwood Advisors, Inc. Waddell & Reed receives a portion of the fees you pay to participate in these programs.

## **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 financial advisors may purchase or sell the same general securities (i.e. stocks and bonds) they recommend to you. 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

## **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.

Your accounts are reviewed and examined periodically at various supervisory levels of Waddell & Reed. Supervisory Principals in Waddell & Reed's home office determine the suitability of each investment advisory program discussed in this appendix. These home office Supervisory Principals conduct frequent reviews of client accounts for conformity with company policy and procedures.

If you maintain a Program account at Pershing LLC, you will receive quarterly or more frequent account statements and other account reports from Pershing LLC.

## **CONFLICTS OF INTEREST**

Waddell & Reed prefers to offer its affiliated Waddell & Reed Mutual Funds within its investment advisory programs as described in this Disclosure Brochure. This preference creates a conflict of interest in that Waddell & Reed Financial, Inc., Waddell & Reed's corporate parent, receives more overall revenue due to Waddell & Reed offering its affiliated Waddell & Reed Mutual Funds than it would from offering similar unaffiliated mutual fund products within its investment advisory programs. In addition, the operating and management expenses charged by the affiliated Waddell & Reed Mutual Funds may be more expensive than the operating and management expenses of similar unaffiliated mutual fund products. You should carefully consider this conflict of interest and thoroughly review the mutual fund prospectuses associated with our financial advisors' recommendations prior to investing in any of our investment advisory programs.

Waddell & Reed offers services to you through two separate channels of financial advisors: (1) Classic financial advisors and (2) Choice financial advisors. The availability of certain products and services may differ between our Classic and Choice financial advisor channels. Depending on your advisor's channel, the products and services offered to you may be limited to only those products and services available within your advisor's respective channel. The limitations of products and services offered to you through our financial advisor channels create a conflict of interest. You are encouraged to review the Disclosure Brochures for both Classic and Choice financial advisors. These Disclosure Brochures provide detailed descriptions of the products and services available to you through each respective financial advisor channel. Upon your request, Waddell & Reed will refer a financial advisor from the channel of your choice.

Waddell & Reed offers certain sales incentive programs to its financial advisors. Such sales incentive programs may include reward trips, marketing compensation and services, meals, and other similar cash and non-cash compensation. Sales incentive programs are based on total sales production, or other similar qualifying factors, and not exclusively on one product or service. These sales incentive programs may create a conflict of interest in the products or services offered to you by your Waddell & Reed financial



advisor. In an effort to qualify for sales incentive programs, your financial advisor may be incented to offer you products or services that yield higher sales production. In an effort to resolve this conflict, Waddell & Reed supervises and monitors its financial advisors' investment recommendations to reasonably ensure that such recommendations are in your best interest.

Waddell & Reed only offers its affiliated money market fund through the Waddell & Reed Mutual Funds within its investment advisory programs as described in this Disclosure Brochure. Accordingly, this creates a conflict of interest for you in that cash holdings will be invested in Waddell & Reed's affiliated money market fund. Waddell & Reed Financial, Inc. receives more revenue due to this arrangement than it would by Waddell & Reed using an unaffiliated money market fund for cash holdings within its investment advisory programs.

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.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

Please read carefully the "Conflicts of Interest" section above to learn more about how Waddell & Reed and your financial advisor may benefit when you purchase Waddell & Reed Mutual funds. Neither Waddell & Reed nor your financial advisor may compensate 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 affiliated persons, W&R believes it is important to make you aware of our revenue sharing arrangements. Waddell & Reed 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 Waddell & Reed Mutual Funds than it may receive from offering other comparable mutual funds where revenue sharing are not available to Waddell & Reed.

Pershing LLC ("Pershing"), a wholly owned indirect subsidiary of The Bank of New York Mellon Corporation ("BNYM"), is a registered broker-dealer and is a member organization of the NYSE and FINRA. Cash balances in your account held at Pershing will automatically be transferred into Waddell & Reed Advisors Cash Management, a money market mutual fund ("WRACM"), unless you direct otherwise. An affiliate of W&R serves as investment manager for WRACM and W&R and certain of its affiliates receive fees in connection with WRACM investments. WRACM is not a bank deposit account and is not FDIC-insured.

W&R may receive compensation from Pershing, of up to 0.18% of your cash sweep account balance. This fee will reduce the interest rate paid on your Pershing deposit account including the MAP Primary Fund account. By signing the W&R New Account Form, clients acknowledge that they received current disclosure documents for any sweep account options elected in lieu of WRACM.

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 Waddell & Reed Mutual Funds, than from the sale of other products and services. It is more profitable for Waddell & Reed and its affiliates if you purchase the Waddell & Reed Mutual Funds. Employees of Waddell & Reed and its affiliates may indirectly receive higher compensation and other benefits when you 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 Waddell & Reed Mutual Funds are used inside the asset allocation and Wrap fee programs we sponsor.

Employee compensation (including management and field leader compensation) and operating goals at all levels of Waddell & Reed are tied to varying degrees to Waddell & Reed's overall 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 Waddell & Reed Mutual Funds.

Both Waddell & Reed and your financial advisor are compensated when you invest in the Program. For more information about compensation to Waddell & Reed and your financial advisor, please refer to “Services, Fees and Compensation” and “Fees and Other Charges” above. 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.

## **INVESTMENT DISCRETION**

In specific situations Waddell & Reed will allow limited investment discretionary services to be offered by qualified and approved advisors to specific approved clients. Within MAPLatitude, 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. This limited discretionary trading authority will be granted in writing 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 and buy or sell general securities 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. Your financial advisor may aggregate securities to be sold and purchased for more than one client to obtain favorable execution to the extent permitted by law. W&R Inc. and your advisor will utilize an institutional average price account that will allocate the trade in a manner consistent with W&R Inc.’s fiduciary duty to its clients.

This process ensures equal pricing to each client in that each client receives the average price for the aggregate order.

We encourage you to discuss with your financial advisor the positives and negatives of authorizing limited discretion on your MAPLatitude account.

## **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).



