

# Advisory Services

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**SPA**

STRATEGIC PORTFOLIO ALLOCATION

**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 (1-888-Waddell 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.  
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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 at Waddell & Reed Services Company, the transfer agent for the Waddell & Reed Advisors Funds and the Ivy Funds ("Transfer Agent") and/or in a separate brokerage account at Pershing LLC, a qualified custodian. Below are the addresses for Waddell & Reed Services Company 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 mutual 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 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 ADV 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 program accounts.
2. Reopened the SPA program to new investors.

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## ADVISORY BUSINESS

The following information presents an overview of Waddell & Reed, Inc. and discusses generally the mutual fund asset allocation programs, wrap fee programs, and related products and services we offer, as well as a discussion of 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, Waddell & Reed 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 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 "Affiliated Mutual Funds".

As part of an organization that manages and offers the Affiliated Mutual Funds, financial advisors have direct access to portfolio managers and other professionals who are involved in analyzing and managing the Affiliated Mutual Funds on an ongoing basis. Therefore, financial advisors have the opportunity to know the Affiliated 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 whenever the Affiliated 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. More often than not, though, financial advisors will recommend Affiliated Mutual Funds. 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 Affiliated 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 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. These include investment advisory programs and fee-based financial planning 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 financial planning 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 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 applicable Advisory Services Brochure and Services Agreement in order to

understand Waddell & Reed's investment advisory program and service 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 a one-time fee for financial planning or on-going annual asset-based fees for 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.

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 on-going investment advice with respect to your commission-based accounts. 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. Neither your financial advisor nor Waddell & Reed are providing investment advice for a fee that is intended as the primary basis for your investment decisions in Tax Sheltered Accounts, TSA or 403(b) plans or 457 plans. Also, to the extent an asset allocation service identifies any specific investment alternative, please note that other investment alternatives having similar risk and return characteristics may be available to you. In applying an asset allocation model to your situation, you should also consider your other assets, income and other investments not held at Waddell & Reed (e.g., equity in a home, savings accounts, brokerage accounts and interests in other qualified and non-qualified plans) as neither Waddell & Reed nor your financial advisor provides investment advice or investment advisory services with respect to these assets and may not have knowledge of these assets.

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

***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 financial advisor is more than happy to review your alternatives and assist you with this important decision.

**Advisory Services Generally**

This brochure provides information about the costs and benefits of our mutual fund asset allocation programs known as MAP (Managed Allocation Portfolios), SPA, and MAPNavigator.

Waddell & Reed and our financial advisors 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 MAP Program Service Agreement, an agreement you must sign to participate in the programs discussed in this brochure.

**Certain conflicts of interest 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 Advisors and Ivy mutual funds than when you purchase other similar products.
- Your financial advisor may receive concentrated training and information on the products sponsored by affiliates of Waddell & Reed that may cause them to recommend Affiliated Mutual Funds rather than other similar products. (See Conflicts of Interest below for a more comprehensive discussion of conflicts of interest and their disclosure and 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. 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 or the sponsor of the investment or insurance product you are purchasing.

## **MUTUAL FUND ASSET ALLOCATION PROGRAMS**

Waddell & Reed offers mutual fund asset allocation programs to our clients.

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 (Advisory and Institutional share classes). The investment advisory programs discussed in this brochure use these specific advisory and institutional share classes when purchasing mutual funds. Clients should note that they have limited ability to impose investment restrictions on Waddell & Reed's mutual fund asset allocation programs. Clients may only select from the Affiliated Mutual Funds available in the model portfolios in these programs with the exception of the MAPNavigator Program. As described more fully herein, the MAPNavigator Program includes a selection of Affiliated Mutual Funds and a selection of mutual funds issued by unaffiliated mutual fund families.

Waddell & Reed utilizes either the WRA Cash Management Fund or the Ivy Government Money Market 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.

## **Strategic Portfolio Allocation (SPA)**

**Allocation Models.** The SPA Program is a mutual fund asset allocation program that offers you a selection of strategic asset allocation models to choose from based on your risk tolerance and objectives. The mutual funds available in the Program include Affiliated Mutual Funds only. The Program consists of five asset allocation models: Conservative Income, Income, Conservative Growth, Growth and Aggressive Growth.

Waddell & Reed has retained Wilshire Associates Incorporated (“Wilshire”) to develop and maintain asset allocation model portfolios (“Model Portfolios”) as an “independent financial expert” in accordance with the terms of the United States Department of Labor Advisory Opinion 2001-09A issued to Sun America Retirement Markets, Inc. on December 14, 2001. In this role, Wilshire will periodically rebalance and make changes to asset allocation and fund selection of the Model Portfolios. The Model Portfolios will consist of allocations to the Affiliated Mutual Funds selected by Wilshire. Wilshire will periodically, as it deems appropriate, update the Model Portfolios for use by Waddell & Reed with respect to Waddell & Reed’s mutual fund asset allocation program for Waddell & Reed’s advisory clients. Wilshire may also revise the corresponding allocations to the Affiliated Mutual Funds or otherwise change the individual funds underlying one or more of the existing Model Portfolios. Wilshire does not create customized portfolios for individual SPA Program accounts.

Waddell & Reed will administer initial client purchases into, as well as Wilshire’s updates to, the Model Portfolios. Clients authorize Waddell & Reed to place orders without prior consultation to act in accordance with the asset allocation, fund selection and rebalancing of the Model Portfolios. Neither Waddell & Reed nor its financial advisors will manage the Model Portfolios.

**Account Opening.** The SPA Program is closed to new investors. 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.

**Funding a SPA Program account.** SPA clients’ investments are allocated in accordance with the model selected by the client. Prior to the initial allocation into the model selected by a SPA client, the client’s initial and subsequent investments will be invested temporarily in the Primary Fund. Investments in the Primary Fund are then exchanged in accordance with a schedule established by Waddell & Reed into the preselected advisory/institutional investments in each model. Due to a variety of factors, there may be delays between the receipt of transaction requests from clients and the processing of such requests. Initial and subsequent purchases from the Primary Fund are made in accordance with the percentage allocations of the model selected by the client in effect at the time of purchase. Partial redemptions from a SPA account are made from the mutual funds in the SPA account, as determined by Waddell & Reed, in its sole discretion, in a manner designed to make the post-redemption allocation of the SPA account more consistent with the allocations of the model selected by the client in effect at the time of the redemption, but there can be no assurance that the SPA account will be allocated in accordance with the applicable model’s percentage allocations. All redemptions from SPA accounts will be made by exchanging sufficient shares of the mutual funds in the SPA account for shares of the Primary Fund, from which the redemption request will be fulfilled. If the SPA 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.

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

**Account Minimums.** Clients must maintain at all times a minimum investment of \$10,000 in a SPA account. In the event that an account falls below its respective minimum, Waddell & Reed may terminate its agreement with the client. Waddell & Reed, at its sole discretion, may waive account minimum balance requirements.

Exchanges between the mutual funds within a SPA account, and redemptions to pay advisory fees for SPA services, may constitute taxable events if done outside a tax-advantaged account or product and may result in tax liability and/or tax withholding. Prospective clients are encouraged to consult a tax advisor to determine the tax consequences of participation in SPA. Redemptions of mutual fund shares from SPA accounts may cause a client’s allocations to deviate from the allocation of the model selected by the client. Dividend and capital gains distributions paid by the mutual funds in a SPA account are automatically reinvested to purchase additional shares of the distributing mutual fund and may not be paid to the client.

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



## Managed Allocation Portfolios (MAP)

Waddell & Reed sponsors a mutual fund asset allocation program (“MAP 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.

**Allocation Models and Asset Classes.** The MAP Program consists of five primary asset allocation models: Aggressive Growth, Growth, Conservative Growth, Income and Conservative Income. Each 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, some legacy MAP Program accounts are invested in a Conservative model that is no longer available and have been incorporated into the Conservative Income model.

**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 the Affiliated Mutual Funds selected for each asset class in the model and the client will select at least one mutual fund for each selected asset class in the chosen model.

Clients may, after consultation with their financial advisor, change the weighting of the asset classes in each model within certain pre-determined parameters. This includes the ability to not use a specific asset class. Waddell & Reed has partnered with Envestnet to provide portfolio construction and model management tools. These tools enable 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 to vary the asset class weighting within an asset allocation model is made by, and is the ultimate responsibility of, the client.

**Rebalancing.** MAP accounts have the option to select either annual, semi-annual, or quarterly rebalancing. The rebalancing frequency of MAP Program accounts is selected by the client at the time they establish their MAP Program account. Account rebalancing will be accomplished by buying and selling shares of mutual funds as necessary to reach the target allocations indicated in the MAP Service Agreement. Rebalancing may cause a taxable event in taxable account types. Therefore, clients should consult with their tax advisor before deciding to participate in a MAP Program taxable account type.

**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 is a money market mutual fund that can only be purchased through Waddell & Reed 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 advisory/institutional class shares of the Affiliated Mutual Funds selected by the client. 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. However, in order to avoid a potential wash sale event we will transfer non-retirement funds in-kind from the non-MAP account to the new MAP account, which are non-reportable events. This process will initially cause funds to show up in the MAP account that are not part of the model; however, once the shares have transferred into the MAP account, the Funds will automatically rebalance on the following business day to the selected model. 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 a MAP Program account will be made through the MAP Primary Fund in accordance with the then-current account allocation. Withdrawals from a MAP Program account will be made by sale of the underlying funds, then through the MAP Primary Fund 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 affiliates of Waddell & Reed even though 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. The Conservative model has a large cash allocation so 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 they own 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. In the event that an account falls below its respective minimum, Waddell & Reed may terminate its agreement with the client. Waddell & Reed, at its sole discretion, may waive account minimum balance requirements.

## MAPNavigator

Waddell & Reed sponsors a mutual fund asset allocation program that offers clients a selection of asset allocation models and screened mutual funds, as well as features such as systematic rebalancing and client participation in determining (within pre-determined parameters) asset allocation across multiple asset classes.

**Allocation Models and Asset Classes.** The MAPNavigator Program provides clients access to a list of screened mutual fund families ("MAPNavigator Recommended List") and five asset allocation models: Aggressive Growth, Growth, Conservative Growth, Income, and Conservative Income. Each MAPNavigator model may consist of up to eight asset classes.

Waddell & Reed has retained Wilshire to assist Waddell & Reed in determining the mutual funds to be included on the MAPNavigator Recommended List. Wilshire will utilize their proprietary evaluation methodology to screen mutual funds from a list of mutual fund families that have been selected by Waddell & Reed. This list of mutual fund families includes Waddell & Reed's Affiliated Mutual Fund families and a selection of unaffiliated mutual fund families. Wilshire will provide Waddell & Reed with specific mutual fund recommendations to be included on the MAPNavigator Recommended List which will consist of both Affiliated Mutual Funds and mutual funds issued by unaffiliated mutual fund families ("Unaffiliated Mutual Funds"). Wilshire's selection of Unaffiliated Mutual Funds is intended to complement the Affiliated Mutual Funds selected by Wilshire for the MAPNavigator Recommended List by providing additional mutual fund investment options available for each asset class within the MAPNavigator Program. Wilshire conducts ongoing monitoring of the MAPNavigator Recommended List and will, on a quarterly basis, recommend any changes, additions or replacements to the MAPNavigator Recommended List, as needed.

**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 consulting with their financial advisor, will determine their appropriate investment profile and will select an asset allocation model, based on the client's responses to the questionnaire. After an asset allocation model is selected, the client and their financial advisor will review the mutual funds selected for each asset class in the model and the client will select at least one mutual fund for each selected asset class in the chosen model.

Clients may, after consulting with their financial advisor, change the weighting of the asset classes in each model within certain pre-determined parameters. This includes the ability to not use a specific asset class. Waddell & Reed has partnered with Envestnet to provide portfolio construction and model management tools. These tools enable 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 MAPNavigator 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 ultimate responsibility of, the client.

**Rebalancing.** MAPNavigator accounts have the option to select annual, semi-annual, or quarterly rebalancing. The rebalancing frequency is selected by the client at the time they establish their MAPNavigator Program account. Account rebalancing will be accomplished by buying and selling shares of mutual funds as necessary to reach the target allocations indicated in the MAPNavigator Service Agreement. Rebalancing may cause a taxable event in taxable account types. Therefore, clients should consult with their tax advisor before deciding to participate in a MAPNavigator Program taxable account type.

**Funding a MAPNavigator Program Account.** All initial and subsequent investments into a MAPNavigator Program account will be made from the Primary Fund. The 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 Primary Fund investment vehicles at any time. Assets invested in the 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 MAPNavigator 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 MAPNavigator 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 MAPNavigator Program. Additions to a MAPNavigator account may result in the account rebalancing. Withdrawals from a MAPNavigator account will be made through the Primary Fund and may also result in a rebalancing taking place so the account returns to its target allocations. If the MAPNavigator 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 model portfolios are strategic in nature and 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 target asset class percentages. However, Waddell & Reed periodically reviews the composition of the 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. 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.

As described above, Wilshire conducts ongoing monitoring of the MAPNavigator Recommended List and will, on a quarterly basis, recommend any changes, additions or replacements to the MAPNavigator Recommended List, as needed. In the event that a fund is removed from the MAPNavigator Recommended List, you will be informed of said removal. You will have the option of continuing to hold, liquidate, or move the fund to a non-advisory brokerage account. You may continue to make additional purchases in the fund within the account that holds the fund, but you will not be permitted to purchase the fund in a new account or existing account that does not already hold the fund.

**Meetings and Reports.** Please review the Meetings and Reports section for the MAP Program clients above.

**Account Minimums.** Clients must maintain at all times a minimum investment of \$15,000 in a MAPNavigator account. In the event that an account falls below its respective minimum, Waddell & Reed may terminate its agreement with the client. Waddell & Reed, at its sole discretion, may waive account minimum balance requirements.

## Partial Redemptions

Partial redemptions from the MAP, SPA, and MAPNavigator Program accounts are made from the mutual funds in the account, in a manner designed to make the post-redemption account more consistent with the allocations of the model selected by the client in effect at the time of the redemption.

## Termination

The SPA, MAP, and MAPNavigator Service Agreements ("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 Service Agreement. Waddell & Reed may terminate a Service Agreement at any time upon thirty days prior written notice to the client. This may include a situation in which the client's account falls below the then SPA, MAP, or MAPNavigator Program account minimum. If the client or Waddell & Reed terminate the Service Agreement, a prorated amount of the asset-based fee will be refunded to the client.

**Bankruptcy** - Should Waddell & Reed need to file for protection under bankruptcy laws and or a protective decree would need to be issued under the Securities Investor Protection Act (SIPA), any fees owed by the client, as of such date, shall be collected by Waddell & Reed from the SPA, MAP, or MAPNavigator account.

Terminated SPA, MAP, or MAPNavigator Program accounts will be closed in accordance with one of the scenarios described below:

**Terminations initiated by Waddell & Reed.** The mutual fund shares in the SPA, MAP, or MAPNavigator 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 or to an intermediary of the client's choice or b) transferred to a non-advisory Waddell and Reed account and reassigned to the Client Account Service Team. Advisory or institutional share classes may not be available in such non-advisory accounts.

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

1. Clients may instruct Waddell & Reed to redeem the mutual funds held in their SPA, MAP, or MAPNavigator 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 or Unaffiliated 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 or the Unaffiliated Mutual Fund at that time. It is the client's responsibility to ensure that the intermediary they select has an effective selling agreement. Waddell & Reed Advisors Funds may not be eligible to be transferred to an intermediary. Therefore, if holding Waddell & Reed Advisors Funds shares, clients should check with the intermediary before requesting a transfer.
3. Clients may transfer their Affiliated Mutual Funds held in a SPA, MAP, or MAPNavigator Program account to a Waddell & Reed non-advisory mutual fund account held direct at the Transfer Agent at no additional cost. The I or Y 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. MAPNavigator Program accounts may transfer their Unaffiliated Mutual Funds to a Waddell & Reed non-advisory brokerage account held at Pershing. The Institutional / Advisory share class holdings may be transferred in-kind, but no additional purchases will be allowed, unless the client qualifies as described in the relevant Unaffiliated Mutual Fund's prospectus.

Your distribution from a SPA, MAP, or MAPNavigator Program account may be delayed up to three (3) days, depending on account type.

**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, that the mutual fund shares are proprietary and may have limited availability to be transferred in-kind to another intermediary such as a broker-dealer. Clients that redeem mutual fund shares in taxable accounts may incur adverse tax consequences. Clients are urged to consult their tax professional before redeeming mutual fund shares in a taxable account.

**Note: Waddell & Reed may change, modify or terminate the MAP, SPA and/or MAPNavigator programs at any time at its sole discretion.**

**Important Information for MAP, SPA, and MAPNavigator Program Clients:**

- **Affiliated Mutual Funds.** All of the mutual funds approved for use with the MAP and SPA Programs are Affiliated Mutual Funds. The MAPNavigator Program offers both Affiliated Mutual Funds and Unaffiliated Mutual Funds. It is not necessary to participate in the MAP, SPA, and/or MAPNavigator Programs in order to purchase Affiliated Mutual Funds. However, different costs and expenses will apply as set forth in each mutual fund's prospectus and statement of additional information.
- **Fund Performance.** There is no assurance that the mutual funds selected for use in the MAP, SPA, and/or MAPNavigator Programs will perform in any particular manner. Past performance of a mutual fund or asset class is no guarantee of future performance. Clients must carefully read the prospectus of each mutual fund selected for the MAP, SPA, and/or MAPNavigator Programs before investing.
- **Mutual Fund Fees and Expenses.** The asset-based fee described below does not cover or include the underlying fees and expense of the mutual funds selected for the MAP, SPA, and/or MAPNavigator Programs, as specifically described in each mutual fund's prospectus. The mutual fund's fees and expenses will reduce a client's investment return. Each mutual fund's current fees and expenses may vary significantly in future years.
- **Other Asset Allocation Programs May Be Less Expensive.** Clients may be able to invest in similar asset allocation programs through other sponsors that have lower asset-based fees and expenses and which may provide better performance than the MAP, SPA, and/or MAPNavigator Programs.
- **Conflicts.** The MAP, SPA, and/or MAPNavigator programs involve significant conflicts of interest. Clients must read carefully the sections of this brochure and the prospectus for each mutual fund that describe and discuss those conflicts before investing.
- **Dividends and Capital Gains.** Dividend and capital gain distributions paid by the Affiliated Mutual Funds held in a MAP, SPA, and/or MAPNavigator Program accounts will default to being reinvested in additional mutual fund shares and will not

be paid to clients. Clients may elect to have the dividends and capital gains earned in MAP, SPA, and/or MAPNavigator Programs paid in cash should they desire.

- **Inappropriate Client Activity.** Clients are cautioned that redeeming Affiliated Mutual Funds, Unaffiliated Mutual Funds, or selling shares of other mutual funds, particularly Class A shares on which a load was paid or Class B or C shares subject to a CDSC, to use the cash proceeds to purchase Affiliated Mutual Funds at NAV in a MAP or SPA Program account or to purchase Affiliated Mutual Funds or Unaffiliated Mutual Funds at NAV in a MAPNavigator Program account may subject you to adverse tax consequences. Such redemptions may also be unsuitable. Waddell & Reed may terminate the Service Agreement with clients who are determined to have engaged in such activity.

## 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<sup>SM</sup> Architect 2.0 ("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.

### **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 Advisors offering asset management and other investment advisory services. Waddell & Reed is paid a portion of the fee charged and collected by the third party Advisor 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 Advisors that pass the Waddell & Reed due diligence process.

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

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 Advisor. Investment Advisors 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 Advisor(s).

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

The actual charge to a client will vary depending on the Advisor selected. All fees are calculated and collected by the selected Advisor who shall be responsible for delivering Waddell & Reed's portion of the client fee to Waddell & Reed. Clients may incur additional charges including but not limited to mutual fund sales loads, 12b-1 fees, surrender charges and IRA and qualified retirement plan fees. Waddell & Reed will not receive any portion of such commissions or fees. Waddell & Reed is only compensated by the solicitor fee described above. Waddell & Reed receives no other compensation in connection with the client's account. Therefore the client will not pay more to use a solicitor than they would to engage the Advisor directly.

### **Value of Total Assets Under Management**

Waddell & Reed has as of December 30, 2016 total assets under management in the amount of \$19,056,892,005.22. Of this amount, \$961,540,098.23 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 of the advisory programs discussed in this section.

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.

## Advisory Fee Billing Methodology and Frequency

The method used to calculate the advisory fee is monthly in advance. Advisory fees are computed based on the prior period's ending balance.

Upon termination of a Service Agreement, the prorated advisory fee will be refunded to the client. Waddell & Reed may change these advisory fees at any time in its sole discretion.

Clients who participate in SPA, MAP, or MAPNavigator Program accounts will pay an ongoing asset-based fee (described below) to cover the cost of such services as consulting and administrative services, creation and continual maintenance of the proprietary tool used to select asset category percentages in each account, 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. If, during any billing period, there is insufficient cash in an account to pay the SPA, MAP, or MAPNavigator Program advisory 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 advisory fee. Program advisory fees will be deducted automatically from the cash allocation fund.

Assuming a client invests more than \$300,000 in one of the Programs, the net effective fee will be a weighted average of the negotiated schedule fee rates, and will change with the account's asset level.

Assets transferred from existing SPA, MAP, or MAPNavigator Program accounts into another Program account will be charged current Program fees beginning on the date the new Program account is established.

Class A shares originally purchased with a sales load may not be transferred into a SPA, MAP, or MAPNavigator Program account unless the transaction in which the shares were acquired occurred at least three (3) years prior to the execution of the client's Service Agreement.

Waddell & Reed may offer SPA and MAP Programs with no advisory fee to current and certain retired employees of Waddell & Reed and the spouse, children, parents, children's spouses and spouse's parents of each. Certain current and retired financial advisors of Waddell & Reed and its affiliates and the spouse, children, parents, children's spouses and spouse's parents of each, and the employees of financial advisors of Waddell & Reed, may currently own accounts with no fee, but may not be permitted to establish new accounts with no fee.

## SPA Fee Schedule

The current fee schedule for SPA is listed below. The actual fee each client pays is negotiable within these ranges and is to be agreed to between the advisor and client taking into account the specific needs of the client.

Value of Assets	Maximum Advisor Fee (1)	Fixed Program Fee (2)	Maximum Client Fee (1) + (2)
On the first \$300,000	1.50%	0.08%	1.58%
On the next \$700,000	1.25%	0.07%	1.32%
On assets in excess of \$1 million	1.00%	0.06%	1.06%

## MAP Fee Schedule

The current fee schedule for MAP is listed below. The actual fee each client pays is negotiable within these ranges and is to be agreed to between the advisor and client taking into account the specific needs of the client.

Value of Assets	Maximum Advisor Fee (1)	Fixed Program Fee (2)	Maximum Client Fee (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%

## MAPNavigator Fee Schedule

The current fee schedule for MAPNavigator is listed below. The actual fee each client pays is negotiable within these ranges and is to be agreed to between the advisor and client taking into account the specific needs of the client.

Value of Assets	Maximum Advisor Fee (1)	Fixed Program Fee (2)	Maximum Client Fee (1) + (2)
On the first \$300,000	1.50%	0.12%	1.62%
On the next \$700,000	1.25%	0.11%	1.36%
On assets in excess of \$1 million	1.00%	0.10%	1.10%

## Household Account Grouping

Account balances in multiple advisory program accounts will be aggregated for purposes of determining the applicable advisory fee rate. Balances in all advisory program accounts described in this brochure will be aggregated for purposes of determining the applicable negotiated fee rate.

Account Grouping is allowed for:

- Accounts of the owner,
- Accounts of the owner's immediate family (spouse, domestic partner, parents and children under 21) that have the same address.

## CONFLICTS OF INTEREST

Waddell & Reed prefers to offer its Affiliated 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 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 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.

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 Funds 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. Accordingly, Waddell & Reed and its financial advisors generally prefer offering Affiliated Mutual Funds in its advisory programs rather than mutual funds or other products issued by other unaffiliated product issuers.

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 programs 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 programs 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.

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 Affiliated 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.

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 types of 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 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 described are based primarily on an investment concept known as Modern Portfolio Theory, which states that through diversification you may be able to minimize the effects of investment risks and that gains in one investment class may help offset losses in another. There is no certainty that any investment or strategy will be profitable or successful in achieving your specific investment objectives. Principal values of your investments will fluctuate and, when redeemed, may be worth more or less than your original investment. Asset allocation does not ensure a profit or protect against losses 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. 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 and asset-based charge. This is especially important to clients that intend to buy and hold securities over the long term.
- Investment Advisory programs, including mutual fund asset allocation and wrap fee products sponsored by other investment advisors may be less expensive, invest in mutual funds and other packaged products with lower internal expenses and have better performance than the 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 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 program 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 registered as a broker-dealer and investment advisor. Investment advisor representatives are also registered representatives of the broker-dealer. As such, your financial advisor may offer our financial planning services, various asset allocation and wrap programs, some of which are sponsored by Waddell & Reed, and general securities products, including:

- 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 relationships and arrangements that are material to its asset allocation programs with the following:

**Affiliated Mutual Funds:** Please read carefully the discussion above under Fees and Compensation, Other Fees and Compensation regarding the conflicts of interest inherent in the relationship between Waddell & Reed and the Affiliated Mutual Funds. The investment managers for the Affiliated Mutual Funds are Waddell & Reed Investment Management Company and Ivy Investment Management Company, 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.

## 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.

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

## **BROKERAGE PRACTICES**

The Affiliated Mutual Funds within the MAP and SPA programs, and the NDA annuity described above, are purchased on a direct check and application basis from the product sponsor through Waddell & Reed. The Affiliated and Unaffiliated Mutual Funds within the MAPNavigator program are purchased in a separate brokerage account through Pershing LLC. We do not select or direct clients to any other broker-dealer for client transactions in connection with the asset allocation programs discussed in this brochure.

### **Benchmark Selection**

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.

## **REVIEW OF ACCOUNTS**

Waddell & Reed's supervisory structure includes designated supervising principals ("DSP") located in division offices, regional offices (with supervisory responsibility over multiple division offices), complexes (with supervisory responsibility over multiple division offices) and the home office. Field DSPs are responsible for the general day-to-day supervision of all financial advisors assigned to his or her division office, regional office, or complex. The Regional Vice President is responsible for the general supervision of all division offices and complexes assigned to his or her region, including 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 investments, quarterly and other reports with respect to advisory accounts maintained through Waddell & Reed, and quarterly and other reports from the investment company whose mutual fund shares they hold.

Financial advisors must meet with clients who maintain certain advisory accounts 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 clients' financial advisors and retained in the division or home office files.

## 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 Affiliated 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 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 Affiliated Mutual Funds you purchase to fund your advisory program account is maintained on the books and records of the respective Affiliated Mutual Funds or, in the case of the Nationwide Destination<sup>SM</sup> Architect 2.0 variable annuity, on the books and records of Nationwide. You will receive quarterly statements from the Affiliated Mutual Funds and Nationwide along with the Confirmation of Purchase and Sales and Withdrawals. Your financial advisor is permitted to send a COMPASS report account summary and related performance reports. However, the COMPASS reports are merely unofficial account summaries and must not be relied on as an accurate, complete statement of your account holdings, activity, or performance.

## INVESTMENT DISCRETION

We do not accept discretionary authority from clients to manage their securities accounts. We do exercise discretion indirectly within our MAP asset allocation programs only to the extent necessary to rebalance your portfolio periodically to remain consistent with the investment model you select.

## 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).





