

# Advisory Services

For your Waddell & Reed **CHOICE** Account



*from* Waddell & Reed

**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: April 1, 2015**

*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 [financialplanning@waddell.com](mailto:financialplanning@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.

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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 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 Compass consolidated reports directly from their Financial Advisors. These reports may include lists or summaries of your account holding, including funds and securities. We urge you to compare these reports to the official account statements of your account holdings provided at least quarterly by the Transfer Agent and/or Pershing LLC to ensure that the mutual fund and securities holdings listed on these reports provided by your Financial Advisor match the mutual fund and securities holdings reflected on the official account statements.

## **Summary of Changes**

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

1. Eliminated restrictions on the number of fund and model changes allowed each year.
2. Added calendar based re-balancing option in addition to drift based re-balancing.
3. Added description of FundVest program now available for mutual fund purchases.
4. Added description of MAPLatitude program.
5. Updated information describing financial planning delivery requirements and timeframes.
6. Updated information regarding conflicts of interest.

# Advisory Services

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## Advisory Business

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

### **Overview and Ownership**

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

Waddell & Reed is a wholly owned subsidiary of Waddell & Reed Financial, Inc., a publicly held company (NYSE: WDR). Waddell & Reed provides highly competitive mutual fund offerings, including the Waddell & Reed Advisors Funds, the Ivy Funds, the 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 the InvestEd Portfolios offered within The Ivy Fund's InvestEd 529 Plan (collectively the "Waddell & Reed Mutual Funds").

As part of an organization that manages and offers the Waddell & Reed Mutual Funds, Financial Advisors have direct access to portfolio managers and other professionals who are involved in analyzing and managing the Waddell & Reed Mutual Funds on an ongoing basis. Therefore, Financial Advisors have the opportunity to know the Waddell & Reed Mutual Funds well. Waddell & Reed believes this close alignment between our Financial Advisors and mutual fund managers is of enormous benefit 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 proprietary to Waddell & Reed. They may do so when the Waddell & Reed Mutual Funds may not satisfy your goals fully or it may be in your best interests to consider other investment options consistent with your personal and financial goals. For nearly 70 years, Waddell & Reed and its affiliates have consistently been recognized for their commitment to investment excellence. Waddell & Reed investment philosophy has always been and continues to be today:

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

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

## Working with your Waddell & Reed Financial Advisor

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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 Financial Advisors provide ongoing investment advice and monitoring of client portfolios. In addition we provide fee-based financial planning services. For these services, you as the client, pay a flat fee for each engagement. Fees for investment management are a percentage fee based upon the value of the assets in your account. These ongoing services and fees are fully disclosed in this Advisory Services Brochures (Form ADV) and also discussed in each product's Services Agreement. These types of agreements can be terminated at any time by you the client. When considering whether to engage a Waddell & Reed Financial Advisor, it is important that you carefully read the Advisory Services Brochure and the applicable services 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 does not provide on-going 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.

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

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

### ***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 on-going investment advice regarding your account.
3. You have a substantial amount of assets and expect to be performing frequent transactions and re-balancing your portfolio regularly.
4. You desire a relationship with your Financial Advisor where the fee is based on a percentage of the 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 on-going 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.

## **Advisory Services Generally**

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

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

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

Neither your Financial Advisor nor Waddell & Reed is acting as a fiduciary within the meaning of the Employee Retirement Income Security Act of 1974 ("ERISA") or the Internal Revenue Code of 1986, including with respect to asset allocation services provided you. 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, (e.g., TSA or 403(b) plans) 457 plans or ERISA covered plans (e.g., 401(k) plan). 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.

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

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

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

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



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

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

## Mutual Fund Asset Allocation Programs

Waddell & Reed offers a number of basic mutual fund asset allocation programs to a certain group of clients that want the flexibility to hold their securities in a brokerage account at Pershing LLC. Clients should note that they have limited ability to impose investment restrictions on our mutual fund asset allocation programs. Clients may only select from the load waived Class A shares of the Waddell & Reed Mutual Funds or other the load waived Class A shares of mutual funds available in the model portfolios in these programs. The asset allocation programs are described in more detail below:

### Strategic Portfolio Allocation

Waddell & Reed currently offers an asset allocation advisory service known as SPA. Waddell & Reed utilizes a variety of tools including fundamental analysis to develop SPA asset allocation models for various market and economic conditions. Clients' assets are allocated between and among shares of Waddell & Reed Mutual Funds including domestic and international equity funds, money market and fixed income funds and total return funds.

SPA employs five (5) separate models, each designed for different investment objectives. The five (5) models are intended to reflect Conservative, Balanced, Growth, Appreciation and Aggressive strategies. The Conservative model will allocate investments more heavily in fixed income mutual funds. The Balanced model seeks a risk-adjusted market-based return. The Growth model is designed for investors with a higher tolerance for risk and will be more heavily allocated in equity funds, both domestic and international. The Appreciation and Aggressive models are designed to suit clients with greater risk tolerances and aggressive investment objectives. The Appreciation model allocates investments predominantly in domestic and international equity funds with a lesser allocation to domestic and international fixed income-type funds. The Aggressive model invests primarily in international and domestic equity securities including emerging markets and will not normally include any material allocation to debt securities.

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 Waddell & Reed

Advisors Cash Management, a money market mutual fund, subject to change at the discretion of Waddell & Reed (collectively referred to as SPA Primary Fund). Investments in the SPA Primary Fund are then exchanged in accordance with a schedule established by Waddell & Reed into Class A shares purchased at net asset value (NAV Shares) that are available 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 SPA 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 shares of the mutual funds in the SPA account sufficient to accommodate the redemption request for shares of the SPA Primary Fund and funding the redemption request from the SPA Primary Fund. Waddell & Reed may establish minimum investment amounts, from time to time, in its discretion as a condition to participation in a SPA account. The minimum investment into a SPA account is currently \$25,000. Waddell & Reed, reserves the right to return SPA account investments to clients in the event the minimum investment amount is not received by Waddell & Reed within the time parameters established by Waddell & Reed in its discretion. Although empirical research supports the benefits of investment diversification through asset allocation, there can be no assurance that SPA will result in enhanced performance. It is possible for SPA accounts to decline in value, including a loss of the principal investment, and the advisory fees associated with SPA may negatively impact clients' investment returns.

The SPA models are reviewed periodically and may, at the discretion of the Investment Policy Committee, be altered based upon its analysis of financial, market and other data. Any alteration may result in higher fees paid to Waddell & Reed, and/or one or more of its affiliates or companies under common control. Waddell & Reed, Inc. will appoint an independent registered investment advisor, ("Independent Advisor") that will have the responsibility to determine whether rebalancing transactions recommended by Waddell & Reed, Inc. that would result in higher fees payable to Waddell & Reed, Inc. and/or its affiliates are in the best interests of SPA participants. The Independent Advisor will be appointed by Waddell & Reed, Inc., but will act solely on behalf of participants.

Investments available in the SPA Asset Allocation models are limited to the Waddell & Reed Mutual Funds, which include Waddell & Reed Advisors Funds, for which Waddell & Reed serves as principal underwriter, and the Ivy Funds for which an affiliate of Waddell & Reed, Ivy Funds Distributor, Inc., serves as principal underwriter. In addition to the advisory fees charged in connection with a SPA account, clients will be subject to fund-level expenses as described in the applicable funds' prospectuses. Class A shares of the Waddell & Reed Mutual Funds on which the applicable front-end load has been assessed are not eligible to be managed in a SPA account unless three years have elapsed from the date such shares were purchased. Waddell & Reed Mutual Funds Class B and C shares and variable annuities may not be managed in a SPA account.

Clients are cautioned that redeeming Waddell & Reed Mutual Funds or selling shares of other mutual funds, particularly Class A shares or Class B and C shares subject to a CDSC, to use the cash proceeds to purchase Waddell & Reed Mutual Funds at NAV in a SPA account may subject you to adverse tax consequences. Such redemptions may also be unsuitable. Waddell & Reed may terminate the SPA Service Agreement with clients who are determined to have engaged in such activity.

Waddell & Reed is paid ongoing 12b-1 fees, as described in the applicable funds' prospectuses, in addition to the SPA advisory fee. Financial Advisors of Waddell & Reed receive a portion of the 12b-1 fees attributable to the sale of mutual fund shares within a SPA account, as well as a portion of the SPA advisory fee. The expenses applicable to the mutual funds available within SPA are described in the applicable funds' prospectuses. Waddell & Reed subsidiary, Waddell & Reed Investment Management Company, is paid management fees by the mutual funds in the Waddell & Reed Advisors Funds, as described in the applicable funds' prospectuses. Waddell & Reed affiliate, Ivy Investment Management Company, is paid management fees by the mutual funds in the Ivy Funds family, as described in the applicable funds' prospectuses. Waddell & Reed subsidiary, Waddell & Reed Services Company, is paid shareholder and accounting services fees by the mutual funds in the Waddell & Reed Advisors Funds, and the Ivy Funds, as described in the applicable funds' prospectuses. Participation in a SPA account is not necessary to purchase shares of mutual funds in the Waddell & Reed Advisors Funds, and the Ivy Funds. Clients will receive confirmations of mutual fund purchases resulting from new investments in, and of mutual fund redemptions from, their SPA accounts. Mutual fund purchases, redemptions and exchanges resulting from reallocation, rebalancing and payment of advisory fees will be confirmed on clients' quarterly statements.

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. SPA Fees may not be paid through redemptions of securities that cause a contingent deferred sales charge.

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

### Managed Allocation Portfolios

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

is discussed in more detail below, along with information common to both MAP Programs.

### MAP and MAP Plus

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

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

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

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

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



may occur between the receipt of the client's MAP Program mutual fund selection and the processing of the share purchases, which may result in variances between the number of shares requested and the number of shares actually purchased. Clients may invest any amount in their MAP Program account after their initial investment. Clients may also withdraw assets from their account, so long as their account value does not drop below the then current minimum required to remain in the MAP Program they select. Additions to and withdrawals from a MAP Program account will be made through the MAP Primary Fund and in accordance with then-current account allocation in a manner that is intended to minimize variances from targeted allocations.

#### **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. Waddell & Reed, Inc. will appoint an independent registered investment advisor, ("Independent Advisor") that will have the responsibility to determine whether rebalancing transactions recommended by Waddell & Reed, Inc. that would result in higher fees payable to Waddell & Reed, Inc. and/or its affiliates are in the best interests of MAP and/or MAPPlus participants. The Independent Advisor will be appointed by Waddell & Reed, Inc., but will act solely of participants. It is important to consider that Waddell & Reed will populate the asset allocation models with only Waddell & Reed Mutual Funds. Waddell & Reed will not consider mutual funds created and managed by mutual fund companies other than Waddell & Reed or its affiliates, even though such other mutual funds may have lower internal expenses and better performance than similar Waddell & Reed Mutual Funds. Clients are encouraged to periodically reevaluate their asset allocation models to ensure that the selected model continues to be suitable and consistent with the client's evolving risk tolerance, investment objectives and time horizon. MAP Program clients must review the propriety of their asset allocation models at least annually.

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

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

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

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

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

**Financial Planning Services Available to MAP Program Clients.** Clients who elect to invest in a MAP Program account will be offered certain financial planning services at no additional charge. These services will be offered based on the value of assets invested and will be offered annually for the entire time the account remains open. Financial planning services will be offered in tiers based on the MAP Program account value, with more sophisticated services available to clients who invest more assets in the account. Initially, the eligibility level for financial planning services will be determined by adding together the initial MAP Program account assets and any additions anticipated within twelve months from the date of the MAP Program Service Agreement. The MAP Program account will be valued annually thereafter on the MAP Program Service Agreement anniversary. The level of financial planning services to which the client will be entitled will be based on the value of the account on the most recent MAP Program Service Agreement anniversary date. Assets from household accounts, if any, will be included in the account valuation. MAP Program accounts will be grouped into households for determining eligibility for financial planning services. Waddell & Reed will review each MAP Program account on the anniversary of the establishment of the oldest account for the household to determine the account value for purposes of determining which financial planning services will be offered during the succeeding year. Waddell & Reed may in its sole discretion add, substitute, and/or delete financial planning services from each MAP Program at anytime in its sole discretion. If a MAP Program account is closed, any open MAP Program Financial Planning Services Agreements will be terminated. If you have a MAP Program Financial Planning Services Agreement in place and your advisor retires, leaves Waddell & Reed or your MAP Program account is reassigned to another advisor

for any reason, the MAP Program Financial Planning Services Agreements will be terminated. If additional planning services are desired, Financial planning services are expected to be delivered within 6 months from the date you sign the MAP Financial Planning Services Agreement; however, if financial planning services cannot be delivered within 6 months from the agreement date, the MAP Program Financial Planning Services Agreement will be terminated. If planning services continue to be desired, you must complete a new agreement with your advisor.

For some FOCUSPlan Premier cases, additional time may be needed to complete the plan due to the complex nature of these plans. In some situations, and only with prior approval of the Financial Advisors Division in the home office, the 6 month delivery requirement may be extended.

A MAP Financial Planning Services Agreement may be terminated at any time by you or Waddell & Reed upon the date a written termination notice is received from you by Waddell & Reed or on the date such notice is sent by Waddell & Reed to you at your address shown on the Financial Planning Services Agreement being terminated. Currently, the financial planning services offered and the asset levels at which they are offered are as follows:

## MAP Program

<b>Household Asset Value</b>	<b>Planning Services</b>
<b>\$50,000 to \$99,999</b>	<b>FOCUSPlan Select Module FOCUSPlan Forecast FOCUSPlan Start-Up Plan FOCUSPlan Investment Planning Strategy (INVESTMENTPlan)</b>
<b>\$100,000 to \$249,999 Any of the Previously Listed Services, Plus:</b>	<b>FOCUSPlan Tax Sensitive Wealth Forecasting Strategy</b>
<b>\$250,000 to \$999,999 Any of the Previously Listed Services, Plus:</b>	<b>FOCUSPlan Tax Sensitive with Detailed Cash Flow Estate Planning Strategy</b>
<b>\$1,000,000 and Above Any of the Previously</b>	<b>FOCUSPlan Premier</b>

**Note: Your Financial Advisor must provide and you must read carefully Waddell & Reed's Financial Planning Services Brochure before you select one or more of the financial planning services listed above.**

Clients may determine that they do not need to use every financial planning service available in any given year. However, unused services do not carry over into subsequent years and services available in one year may not be available in subsequent years if the account value falls below the threshold required for those services at the next MAP Account anniversary date. Conversely, if the account value rises above a threshold, the client will be offered those financial planning services available at the new asset threshold. Clients who paid Waddell & Reed before establishing a MAP Program account for any of the financial planning services offered here will not receive a refund of that fee merely by establishing a MAP Program account at a certain asset level. Therefore, it is likely that a client will pay their Financial Advisor both a fee for financial planning services and asset-based fees for a MAP Program. It is also possible that clients who establish a MAP

Program account will not take advantage of any of the financial planning services available to them at no additional cost, but rather will pay their Financial Advisor additional fees to provide more sophisticated financial planning services than those services to which they may be entitled by virtue of establishing a MAP Program account. This is because the client's personal financial situation and goals may require more sophisticated financial planning services than the services available at no additional cost through the MAP Program account.

### Termination

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

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

**Terminations initiated by Waddell & Reed.** The mutual fund shares in the SPA or MAP Program account may be sold if the account value falls below the then applicable account minimum value. The client will receive a 30 day written notice of termination. If the client fails to provide written instructions for account disposition within the 30 day period, the account will be a) liquidated and the proceeds mailed to the address of record on the SPA or MAP Program account or to an intermediary of the client's choice or b) transferred in kind to a non-advisory Waddell and Reed account and reassigned to the Client Services Service Team.

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

1. Clients may instruct Waddell & Reed to redeem the Waddell & Reed Mutual Funds held in their SPA or MAP Program account and transfer the cash proceeds to the address of record on the account being terminated or to an intermediary of the client's choice.
2. Clients may instruct Waddell & Reed to transfer Ivy Fund mutual fund shares in kind to an intermediary of the client's choice so long as the intermediary has an effective selling agreement with Ivy Funds at that time. It is the client's responsibility to ensure that the intermediary they select has an effective selling agreement.
3. Clients may redeem their Waddell & Reed Mutual Funds held in the SPA or MAP Program account and purchase Class A shares of the Waddell & Reed Mutual Funds in a Waddell & Reed non-Map mutual fund account held direct at the fund at no additional cost. Your distribution from a MAP or SPA Program may be delayed up to three 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 mutual fund shares are proprietary and cannot be transferred in kind to another intermediary such as a broker-dealer. Clients that elect to purchase these mutual fund shares in their MAP account will be limited to option one (1) if they decide to terminate their MAP account and transfer the then market value of the Waddell & Reed advisors mutual fund shares to themselves or to another intermediary.

- Clients that redeem mutual fund shares in a taxable MAP account may incur adverse tax consequences. Clients are urged to consult their tax professional before redeeming mutual fund shares in a taxable MAP account.

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

## MAPChoice

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

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

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

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

**Funding a MAPChoice Account.** All initial and subsequent

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

## Changes to Mutual Funds and Asset Allocation Models.

The MAPChoice model portfolios are strategic in nature and are based on long-term historical asset class assumptions and long-term forward looking projections. Therefore, it is not likely that there will be changes to the model portfolio's asset class percentages. However, Waddell & Reed periodically reviews the composition of the MAPChoice models to determine whether the models should be modified to better reflect the economy and forecasted long-term market conditions. These reviews may result in changes to the models, asset classes, or mutual funds within the asset classes. To the extent Waddell & Reed moves one or more mutual funds from one asset category to another the client may need to select a new mutual fund to complete a model and may find that the new mutual fund they select has higher internal expenses than the mutual fund that was moved. It is important to consider that Waddell & Reed will populate the asset allocation models with only Waddell & Reed Mutual Funds. Waddell & Reed will not consider mutual funds created and managed by mutual fund companies other than Waddell & Reed or its affiliates, even though such other mutual funds may have lower internal expenses and better performance than similar Waddell & Reed Mutual Funds. Clients are encouraged to periodically reevaluate their asset allocation models to ensure that the selected model continues to be suitable and consistent with the client's evolving risk tolerance, investment objectives and time horizon. MAPChoice clients must review the propriety of their asset allocation models at least annually. Clients will be asked to complete a new risk tolerance questionnaire in order to effect model changes.

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

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



MAPChoice account is anticipated to be received within 90 days or less. In this situation the initial cash deposit will be invested in the Primary Fund awaiting the remaining cash. The MAPChoice account will not be established until the cash in the Primary Fund reaches the account minimum to establish the account. If this does not occur within 90 days of the initial cash deposit, the client will receive a communication from Waddell & Reed advising them that they have 30 days from the date of the notification to provide the remaining cash deposit and appropriate MAPChoice account Client Service Agreement and other required account documentation. If the client fails to deposit the cash necessary to fund the account and provide the necessary documentation within this additional 30 day notice period, the initial cash deposit will be returned to the client and the MAPChoice account will not be established.

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

**Financial Planning Services Available to MAPChoice Clients.** Clients who elect to invest in a MAPChoice account will be offered certain financial planning services at no additional charge. These services will be offered based on the value of assets invested and will be offered annually for the entire time the account remains open. Please read carefully the discussion of financial services for MAP Program clients discussed under MAP and MAPPlus above. These are the same services offered on the same terms to MAPChoice clients.

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

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

### **Managed Allocation Portfolios FLEX (MAPFlex)**

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

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

**Account Opening.** As part of the MAPFlex Program account opening process, clients will complete a questionnaire that serves to identify each client's investment objectives, risk tolerance, and investment time horizon. The client, after consultation with their Financial Advisor, will determine their appropriate investment profile and will select an asset allocation model, all based on the client's responses to the questionnaire. After an asset allocation model is selected, the client and their advisor will review the mutual funds, including Waddell & Reed Mutual Funds,

available for each asset class in the model and the client will select at least one mutual fund for each asset class in the chosen model. Clients that elect to participate in the MAPFlex Program may, after consultation with their Financial Advisor, change the weighting of the asset classes in each model within certain pre-determined parameters. This enables MAPFlex Program clients to increase each model's risk and potential for return, thereby changing the balance of one or more of the selected asset class weightings in the selected model. The ultimate decision to participate in the MAPFlex Program, selection of the asset allocation model, selection of mutual funds to be used in an asset allocation model and the decision to vary the asset class weighting within an asset allocation model is made by, and is the absolute responsibility of, the client.

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

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

### **Changes to Mutual Funds and Asset Allocation Models.**

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

evolving risk tolerance, investment objectives and time horizon. MAPFlex Program clients should review the propriety of their asset allocation models with their advisor at least annually. There is no additional charge for this service. Clients will be asked to complete a new risk tolerance questionnaire in order to effect model changes.

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

**Account Minimums.** Except as provided immediately below and in the second full paragraph following this paragraph, MAPFlex Program accounts must be established with and maintain at all times assets valued at \$50,000. However, Waddell & Reed may in its sole discretion establish and maintain a new MAPFlex Program account with assets valued at less than \$50,000 but more than \$25,000 in instances where the MAPFlex account is funded by mutual fund shares transferred into the new MAPFlex Program account from another, non-Waddell & Reed, mutual fund asset allocation investment advisory program. MAPFlex Program accounts must thereafter maintain a minimum balance of \$50,000 or \$25,000 respectively depending on the source of the invested assets. Waddell & Reed may terminate the MAPFlex Program agreement with any client and convert the MAPFlex Program account to a standard brokerage account held at Pershing LLC in the event that an account falls below its respective minimum balance.

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

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

**Termination.** The MAPFlex Program Service Agreement may be terminated at any time by the client upon written notice to Waddell & Reed as provided in the Service Agreement and upon thirty days prior written notice by Waddell & Reed. If the client terminates the Service Agreement within five business days from the date they execute the Service Agreement, the client will pay no fees or penalties. Thereafter, if the client terminates the agreement, the client will receive a pro-rated refund of their asset-based fee. Upon termination Waddell & Reed will, unless otherwise instructed by client, sell the mutual funds in the client's account

and invest the cash proceeds in the MAP Primary Fund until the client provides instructions to forward the proceeds. This process may have adverse tax consequences for taxable accounts. If the client and their advisor decide to reinvest the proceeds in mutual funds through Waddell & Reed, the client will pay the then-applicable front-end load to purchase Class A shares.

### Managed Allocation Portfolios Select (MAPSelect)

The MAPSelect program is a mutual fund asset allocation program that offers you a selection of strategic asset allocation models to choose from as well as features such as systematic rebalancing. The mutual funds available in the Program include proprietary mutual funds sponsored and/or managed by Waddell & Reed or its affiliates ("Waddell & Reed Mutual Funds") and non-proprietary mutual funds sponsored and/or managed by unaffiliated companies. The Program consists of six asset allocation models: Aggressive Growth, Growth, Conservative Growth, Income, Conservative Income and Conservative. Each model consists of various asset classes.

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

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

As part of the Program account opening process, you will complete a new account form and questionnaire both of which serve to identify each client's investment objectives,



risk tolerance, and investment time horizon. You, after consultation with your Financial Advisor, will determine your appropriate investment profile and will select an asset allocation model, all based on your responses to the questionnaire. The ultimate decision to participate in the Program and selection of the asset allocation model, is made by you, and is your absolute responsibility.

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

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

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

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

You must maintain at all times a minimum investment of \$50,000 in a Program account. In the event that an account falls below its minimum, Waddell & Reed may terminate the Services Agreement and convert the account to a standard brokerage account held at Pershing LLC. Mutual fund shares purchased through the Program are not subject to a sales load. They are generally Class A shares purchased at net asset value. Class A shares on which a load was originally paid may be invested in the Program only if the transaction in which the shares were acquired occurred at least three years prior to the execution of your Service Agreement.

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

## Variable Annuity Investment Option

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

- **Purchase of NDA** - Clients that invest in one of the approved advisory accounts and wish to include a variable annuity in their program will be required to purchase the NDA from Nationwide Life Insurance Company. The NDA carries no front-end sales charge and has no contingent deferred sales charge (CDSC). Clients can surrender the NDA at anytime without paying a CDSC. Variable annuities are not suitable investments for all clients. Your Financial Advisor will ask you to complete various documents in connection with your NDA investment. The information you provide will enable you, your Financial Advisor and Waddell & Reed to decide whether the NDA is suitable for you and is an appropriate investment for your advisory program. Clients must carefully consider the objectives, risks, charges and features of the NDA and its investment sub-accounts before investing. This and other relevant information can be found in the current prospectus for the NDA and the underlying mutual funds into which the sub-accounts are invested. You may obtain a copy of the current prospectus from your Financial Advisor. Please read the prospectus carefully before investing in the NDA.
- **Minimum Investment** – The minimum investment required to purchase the NDA is \$25,000. Nevertheless, the percent of the client's total investment in the advisory program relative to the amount allocated to the NDA is determined by the client after consultation with their Financial Advisor.
- **Impact of Terminating an Advisory Program with a NDA** – Clients may terminate their Advisory account at any time as more fully discussed elsewhere in this Disclosure Brochure. Termination of an advisory program with a linked NDA has no impact on the client's NDA contract. The client will continue to own the NDA outside of an advisory relationship and the NDA benefits and riders, if any are purchased, remain intact. Upon termination of the linked advisory account, the asset based fee will no longer be charged on the assets in the NDA and the Addendum to the Waddell & Reed, Inc. Customer Agreement for NDA will be considered terminated upon the termination of a linked advisory program.
- **Primary NDA Contract Basic Benefits and Riders** – The NDA annuity contains features and benefits including, but not limited to a basic death benefit, spousal protection, an available lifetime income rider and a joint option rider. These features and more specifically, the two riders discussed above are subject to and conditioned upon various definitions, terms and restrictions discussed more fully in the NDA prospectus. Clients are urged to read the NDA prospectus carefully and discuss any questions about these two riders with your Financial Advisor before investing.

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

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

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

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

### Managed Account Advisor and Lockwood Sponsored Program

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

### SMA Programs

The SMA programs enable Waddell & Reed to make available to clients certain investment managers contractually engaged by Lockwood to manage a client's assets in a discretionary manner and based on the client's individual investment needs and goals. After due diligence on managers has been completed by

Lockwood, Waddell & Reed performs a basic screen to eliminate any managers that may be underperforming over longer time periods. Not all Lockwood contracted managers may be available for new accounts in the SMA programs. Transferred SMA accounts with previous manager relationships are not subject to these limits.

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

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

### LIS

LIS is a unified managed account program managed by Lockwood.

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

**Account Set-up.** The Financial Advisor will assist each client with understanding the nature of LIS, formulating the client's investment objectives, establishing the client's risk tolerance, all based on information the client provides to their Financial

Advisor concerning their financial situation, personal and financial goals, risk tolerance, investment time horizon and other similar factors. The Financial Advisor will continue to monitor the client's LIS account to ensure that the investment style and investment managers selected by LCM continue to match the client's investment profile. The Financial Advisor must meet with the client at least annually to evaluate the client's ongoing participation.

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

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

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

## MAPLatitude

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

## Fees and Compensation

The fees and other compensation we receive in connection with the asset allocation, SMA and UMA programs discussed in this brochure are described in detail below:

### Spa Fee Schedule

Clients in SPA will pay Waddell & Reed an advisory fee in accordance with the schedule below. A certain percentage of each client's SPA account will be allocated to the SPA Primary Fund from which the advisory fee will be paid. Such allocation may impact the performance of SPA accounts. The fee will be calculated on the market value of the account on the last day of the previous quarter and collected by Waddell & Reed quarterly in advance from the SPA Primary Fund. The fee will be reported on the quarterly statement received by clients during the quarter after it is collected. Upon termination of an agreement prior to a quarter's end, any unearned fee will be refunded on a pro rata basis. Advisory fees are subject to change at any time.

<b>Asset Class</b>	<b>Average Daily Account</b>	<b>SPA</b>
<b>Annual Fee</b>	<b>Value During Quarter</b>	<b>Models</b>
2.25%	First \$150,000.00	Appreciation and Aggressive
2.00%	Next \$350,000.00	Appreciation and Aggressive
1.75%	Next \$500,000.00	Appreciation and Aggressive
1.50%	\$1,000,000.01	Appreciation and Aggressive
2.00%	Any	Conservative, Balanced and Growth

The higher fee rate will apply to account balances up to and including the stated amounts, even if the account balance exceeds the maximum account value range applicable to the stated fee rate. Lower fee rates will apply only to the balance of the account in excess of the stated amounts. Multiple SPA Accounts may be grouped for purposes of determining the applicable fee rates to the extent that the accounts qualify for "Account Grouping" as that term is defined in the then current prospectus for the Waddell & Reed Mutual Funds. Currently, Class A shares purchased with applicable sales charges will not be eligible to be included in a SPA Account unless they were purchased three (3) years or more prior to their transfer to a SPA Account.

## Managed Allocation Portfolio (MAP)

### Program Fee Schedule

**Note:** For MAP accounts opened on or before June 13, 2014, MAP investors must read carefully and understand the discussion of the MAP contingent deferred sales charge described below as your account and any monies invested in this account are governed by these rules and disclosure. Any existing contingent fee liability will continue to be applied on any share withdrawals from your account until such time as the fee liability has been eliminated on or before June 13, 2017. For MAP accounts established on or after June 16, 2014 there will be no contingent deferred sale charge imposed on the account

### MAP Accounts

Waddell & Reed compensates your Financial Advisor for services they provide in connection with the establishment of each MAP account. As described briefly above, Waddell & Reed may advance to your Financial Advisor a portion of the first three (3) years of asset-based fees for investments in a MAP account. This payment is not deducted from the funds you invest in your MAP account. You also do not pay an upfront sales charge to Waddell & Reed upon the purchase of Waddell & Reed Mutual Funds in a MAP account. Instead, you will pay an asset-based fee as set forth in the Advisory Services Brochure for Waddell & Reed Classic Investment Advisory Programs. If you terminate your MAP account for any reason or withdraw assets from your MAP account during the first three (3) years (except through certain types of withdrawals described in the Advisory Services Brochure for Waddell & Reed Classic Investment Advisory Programs), the compensation described above advanced by Waddell & Reed to your Financial Advisor will be recouped by deducting from your MAP account a contingent deferred sales charge calculated according to the following schedule:

- First year: 3% of the amount invested in your MAP account (without giving effect to any appreciation in the account).
- Second year: 2% of the amount invested in your MAP account (without giving effect to any appreciation in the account).
- Third year: 1% of the amount invested in your MAP account (without giving effect to any appreciation in the account).

The three (3) year contingent deferred sales charge schedule described above applies to your initial and all subsequent investments into your MAP account and is in addition to the asset-based fee you pay Waddell & Reed and your Financial Advisor for investment management services. Consequently, the contingent deferred sales charge may act as a disincentive to clients who wish to terminate their MAP account for any reason or withdraw assets from their MAP account (except through certain types of withdrawals described in the Advisory Services Brochure for Waddell & Reed Classic Investment Advisory Programs). "Aged Shares" (Waddell & Reed Advisor and Ivy Funds Class A shares held at least three years, Class B shares held



at least 6 years and Class C shares held at least one year) may be invested in the MAP Program and the contingent fee described above will not apply. However, any subsequent contributions of non-aged shares will be subject to a contingent deferred sales charge. You should know that the assessment of a contingent deferred sales charge on investment advisory transactions is not a customary practice. You should also know that Waddell & Reed offers other similar investment advisory products that do not impose a contingent deferred sales charge on the investments made into it. These include:

- MAPPlus - Available at a higher minimum investment and higher asset-based fee
- MAPChoice - Available only through a Waddell & Reed Choice Advisor

If you want to learn more about these products, please ask your Financial Advisor for additional information. An investment in a mutual fund, whether directly or through an investment advisory program like MAP, involves risk. The investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Participation in a MAP account is not necessary to purchase the mutual fund shares available within MAP. Mutual fund shares (although not necessarily the same share class) available in MAP portfolios may be purchased directly from your Financial Advisor; however be advised, these shares may have a front-end or back-end sales charge, which will not be assessed on shares in your MAP account. Some products and services may not be available with all accounts. Additionally, mutual fund internal expenses apply, as described in each mutual fund's prospectus or, as applicable, summary prospectus. Waddell & Reed offers an extensive array of investment advisory products. Not all of Waddell & Reed's investment advisory products may be offered by all Waddell & Reed advisors. To determine which Waddell & Reed investment advisory product is most appropriate for you depending on your investment needs and for a full description of all of Waddell & Reed's investment advisory products, including fees, expenses and the minimum qualifications for investing in each product, please review both the Advisory Services Brochure for Waddell & Reed Classic Investment Advisory Programs and the Advisory Services Brochure for Waddell & Reed Choice Investment Advisory Programs.

- The Contingent Fee schedule described above will apply to initial investments as well as all subsequent investments in the MAP account made on or before June 13, 2014. The CDSC will not apply to properly aged shares of Waddell & Reed Mutual Funds transferred into a MAP account. These contingent fees are in addition to the asset-based fee charged to the client on a quarterly basis but are only charged at the time of a withdrawal or the closing of the account. The contingent fee, if any, will be determined according to a formula selected by Waddell & Reed in its sole discretion. The formula may be changed at any time and will be applied to all withdrawals on a pro-rata basis if an account contains both CDSC liable and non-liable shares.
- The Contingent Fee may act as a disincentive to clients who wish to terminate their MAP account.
- Clients must consider that, if they terminate their MAP account during the first three years after inception the fees will be charged. This includes termination for reasons such as; a change in their Financial Advisor, a change of personnel at Waddell & Reed or any affiliates, a change in the overall investment strategy of MAP or changes in the performance of the client's selected MAP asset allocation model and/or selected mutual funds.

## Contingent Fee Waivers

- MAP account clients may withdraw assets from their MAP accounts during the first three years under the following limited circumstances without Waddell & Reed recouping any of the contingent compensation paid to the Financial Advisor from these withdrawals, as follows:
- Clients may withdraw assets from their MAP account through a systematic withdrawal service without being assessed a Contingent Deferred Sales Charge (CDSC), so long as the withdrawals, during a 12 month period, do not exceed 12% of the MAP account value at the time the service is established or modified and so long as the total withdrawals do not cause the MAP account value to fall below the then minimum account value necessary to establish a MAP account. Withdrawals are allowed to be established on a monthly, quarterly or semi-annual schedule, not on an annual withdrawal basis.
- Withdrawals requested within one year from the date of a client's death or disability, so long as Waddell and Reed is notified in writing at its corporate headquarters of the death or disability and, in the case of death, the person requesting the withdrawal provides proof of the death satisfactory to Waddell & Reed in its sole discretion. Proof of death is required with each redemption request. The withdrawal must not also cause the account to fall below the then minimum account value necessary to establish a MAP account.
- Withdrawals necessary to satisfy a required minimum distribution from a retirement account as provided for under the then current provisions of the IRS Code. (RMD amount only applies to this individual account)

## Asset-Based Fee Disclosure for MAP Accounts Established after June 16, 2014 and MAPPlus Accounts

Clients who participate in MAP or MAPPlus will pay an ongoing asset-based fee 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 MAPPlus accounts, ongoing monitoring of and periodic revisions of the model portfolios, and services provided by each client's Financial Advisor, including annual and other periodic meetings for account reviews, answering client inquiries, assistance with annual tax reporting on account performance and meeting with clients as required to reassess the propriety of their current asset allocation model selection. Fees are computed on the market value of the account on the last day of the previous quarter. Fees are collected by Waddell & Reed quarterly in advance. Upon termination of an agreement prior to a quarter's end, any unearned fee will be refunded on a pro rata basis. MAP Program accounts will be allocated in a manner so that the cash asset class will be targeted at approximately 2% of the overall MAP Program account value. The cash portion of MAP Program accounts will be maintained in the MAP Primary Fund. Quarterly MAP Program fees will be deducted automatically from the Primary Fund. Nevertheless, if during any quarter there is insufficient cash in an account to pay the MAP Program fee, Waddell & Reed may in its sole discretion sell shares of the mutual funds held in the account in amounts necessary to raise sufficient cash to pay the quarterly fee. MAP program fees may not be paid through redemptions of securities that cause a contingent deferred sales charge. Waddell & Reed may change these fees at any time in its sole discretion. Clients may terminate their MAP Program Account immediately by delivering written notice of termination to Waddell & Reed, as provided in the MAP Service Agreement. The current fees for the MAP Programs are described as follows:

## MAP Asset-Based Fees

<u>Value of Assets</u>	<u>Program Fee 1, 2, 3, 4, 5</u>
On the first \$300,000.00	1.30%
On the next \$700,000.00	1.05%
On assets in excess of \$1 million	0.55%

## MAPPlus Fees

<u>Value of Assets</u>	<u>Program Fee 1, 2, 3, 4, 5</u>
On the first \$300,000.00	1.50%
On the next \$700,000.00	1.25%
On assets in excess of \$1 million	0.75%

1. MAP Program accounts that qualify for account grouping will be aggregated to determine applicable fee rates.
2. The client's Financial Advisor will not be paid any portion of the applicable asset-based fee charged to MAP accounts during the first three years after the account is established.
3. Assets transferred from existing MAP accounts into MAP Program accounts will be charged current MAP Program fees beginning on the date the new MAP Program account is established.
4. Class A shares originally purchased with a sales load may not be transferred into a MAP Programs unless the transaction in which the shares were acquired occurred at least three years prior to the execution of the client's MAP Service Agreement.
5. Each mutual fund in the MAP Program Account pays an ongoing distribution and service (12b-1) fee to Waddell & Reed. Some or all of this fee may be paid to the client's Financial Advisor in addition to the fees described above.

## MAPChoice Fee Schedule

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

delivering written notice of termination to Waddell & Reed, as provided in the MAPChoice Service Agreement. The current fees for MAPChoice are set forth below.

## MAPChoice Asset-Based Fees

<u>Value of Assets</u>	<u>Program Fee 1, 2, 3, 4, 5</u>
On the first \$300,000.00	from 1.0% to 2.0%
On the next \$700,000.00	from 0.9% to 1.9%
On assets in excess of \$1 million	from 0.8% to 1.8%

1. MAPChoice accounts that qualify for account grouping will be aggregated to determine applicable fee rates.
2. The client's Financial Advisor may elect to be paid the first year of the applicable asset-based fee charged to MAPChoice accounts as an advance when the account is established. The advisor will then not receive a portion of the quarterly fee until the advance has been recouped. Nevertheless, your fee will not change from the Fee Schedule as determined in your MAPChoice specific service agreement.
3. Assets transferred from existing MAP accounts into MAPChoice accounts will be charged current MAPChoice fees beginning on the date the new MAPChoice account is established and the minimum balance is funded.
4. Class A shares originally purchased with a sales load may not be transferred into MAPChoice unless the transaction in which the shares were acquired occurred at least three years prior to the execution of the client's MAPChoice Service Agreement.
5. Each mutual fund in MAPChoice pays an ongoing distribution and service (12b-1) fee to Waddell & Reed. Some or all of this fee may be paid to the client's Financial Advisor in addition to the fees described above. This fee will be paid from the date the mutual fund shares are purchased.

## MAPFlex Fee Schedule

**Asset-Based Fees.** Clients who participate in the MAPFlex Program will pay an ongoing asset-based fee to cover the cost of such services as consulting and administrative services, clearing, custody and account-related services, ongoing monitoring of and periodic revisions of the model portfolios, and services provided by each client's Financial Advisor, including annual and other periodic meetings for account reviews, answering client inquiries, assistance with annual tax reporting on account performance and meeting with clients as required to reassess the propriety of their current asset allocation model selection. Fees are computed on the market value of the account on the last day of the previous quarter.

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



negotiable within each asset range. The current minimum and maximum fees for the MAPFlex Program are described below.

## MAPFlex Fees

Value of Assets	Program Fee 1, 2	
	Min	Max
On the first \$300,000.00	0.95%	2.20%
On the next \$700,000.00	0.675%	1.93%
On assets in excess of \$1 million	0.35%	1.35%

1. MAPFlex Program accounts that qualify for account grouping will be aggregated to determine applicable fee rates.
2. Mutual funds in the MAPFlex Program generally pay an ongoing distribution and service (12b-1) fee to Waddell & Reed. Some or the entire fee may be paid to the client's Financial Advisor in addition to a portion of the fees described above. This distribution and service fee will be paid from the date the mutual fund shares are purchased by the client.

## MAPSelect Fee Schedule

You will pay an ongoing asset-based advisory fee for your advisor's investment management services. The advisory fee is negotiable and is subject to discounts on an advisor-by-advisor and account-by-account basis, subject to minimum and maximum annual fee rates. The ranges of allowable annual fee rates are: between 0.73% and 2.23% on the first \$300,000 of Program account assets; between 0.69% and 2.18% on the next \$700,000 of Program account assets; and between 0.60% and 2.10% on Program account assets in excess of \$1,000,000. 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 your Program account(s). If you terminate your Program account prior to a quarter's end, any unearned fee will be refunded on a pro-rata basis. Mutual funds in the Program generally 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 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 advisor and a portion will be paid to Waddell & Reed.

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

### LSP Fees

Clients will pay an asset-based fee to Lockwood quarterly that will cover Lockwood's sponsor and advisory fees and Pershing clearing and custody of account assets. These services may change from time to time. Lockwood's fees vary depending on the amount of assets the client places with Equity/Balanced and Fixed Income Managers. Each Manager charges a separate fee for its ongoing discretionary asset management services. Clients should review the applicable Lockwood Form ADV, Part 2A Appendix 1 to determine the exact fees they will pay to Lockwood and the Managers to participate in the SMA program. In addition to these fees, clients will pay Waddell & Reed an asset-based fee for its consulting and client services. The total fee a client may pay to Waddell & Reed, Lockwood, Pershing, and the Manager is negotiable and will range from 1.03% to 2.40% of assets invested with Equity/Balanced Managers and

from 0.64% to 1.69% of assets invested with Fixed Income Managers. These fees apply across all asset brackets. Fees payable to Waddell & Reed are automatically deducted from each SMA program account quarterly in advance and are computed on the market value of the SMA program account on the last day of the previous quarter. The unearned portion of the collected fees will be refunded pro rata if a SMA program account is closed prior to a quarter's end. Waddell & Reed may change the fees it charges at any time in its sole discretion.

### LIS Fees

Clients will pay an asset-based program fee to Lockwood quarterly that will cover the Lockwood advisory fee, Lockwood's sponsor fee, the sub-manager fees, and Pershing clearing and custody fee. Clients should review the applicable Lockwood Form ADV, Part 2A Appendix 1 to determine the extent of this fee. In addition to the fee paid to Lockwood, clients will pay Waddell & Reed an asset-based fee for its consulting and client services. The total fee a client may pay to Waddell & Reed, Lockwood, Pershing, and the Manager is negotiable and will range from a minimum of 1.00% to a maximum of 2.25% across all asset brackets. Fees payable to Waddell & Reed are automatically deducted from the LIS account quarterly in advance and are computed on the market value of the LIS account on the last day of the previous quarter. The unearned portion of collected fees will be refunded pro rata if a LIS account is closed prior to a quarter's end.

### Flow Billing

As clients add and withdraw money from the SPA, MAP and MAPFlex programs described in this brochure, their accounts may not be charged immediately. At account inception, the amount billed will be contingent on the fee agreed upon between the client and advisor and the number of days remaining in the quarter. Thereafter, clients will be billed at the beginning of the quarter in advance. Flow billing refers to any deposits or withdrawals from the account of over \$1,000 during the quarter and after account inception. At the beginning of the quarter (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.

## Third Party Money Managers

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

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

Waddell & Reed Financial Advisors are available to answer

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

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

The actual charge to a client will vary depending on the Adviser selected. All fees are calculated and collected by the selected Adviser 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 Adviser directly.

## Conflicts of Interest

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Mutual Fund companies typically offer different ways to buy mutual fund shares. Some mutual funds offer only one share class of a particular mutual fund while others may offer multiple share classes of each mutual fund. In addition to the more broadly known retail share classes (A, B and C) many fund companies have developed additional specialized share classes designed specifically for investment advisory products (Advisor and Institutional share classes). The SPA, MAP Program, MAPChoice, MAPFlex, and MAPLatitude (MAPLatitude is a wrap program discussed in a separate brochure. Please obtain and read carefully the MAPLatitude Appendix I wrap disclosure brochure) investment advisory products discussed in this brochure use only load waived Class A shares of the Waddell & Reed Mutual Funds and all other mutual funds available for purchase in these products. Unlike most share classes created specifically for investment advisory products, load waived Class A shares pay distribution and shareholder services (12b-1) fees to Waddell & Reed and your Financial Advisor. Load waived Class A shares also assess a portion of the Fund's internal operating expenses to clients who invest in the shares. The internal operating expenses of the load waived Class A shares are typically higher than the internal operating expense of mutual fund share classes created specifically for investment advisory products.

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 clients purchase the Waddell & Reed 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 Waddell & Reed 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 presents 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 available share classes of other mutual funds 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 Waddell & Reed Mutual Funds.

Both Waddell & Reed and your individual Financial Advisor are compensated when you buy mutual funds and variable insurance products through Waddell & Reed. Generally, your Financial Advisor receives a substantial portion of the sales charge and distribution and shareholder service (12b-1) fees you pay in connection with your purchase. Sales charges and 12b-1 fees vary among products and, for mutual funds, among share classes. In addition to sales charges discussed above, you also pay a portion of the product's internal operating expenses.

Sales charges are paid to compensate Waddell & Reed and your Financial Advisor for the assistance they provide in helping you select suitable investments and ongoing costs associated with servicing your accounts.

Operating expenses include: fees paid for investment management (research, trading, portfolio manager compensation, administrative services and technology), distribution and shareholder service fees paid for ongoing service provided by Waddell & Reed and your Financial Advisor, and other expenses such as record keeping, portfolio accounting, regulatory reporting, audit, legal and other non-investment expenses. A significant portion of the distribution and shareholder service fees may be paid to your Financial Advisor as compensation on an ongoing basis.

For additional information, you should review carefully the summary prospectus and, where applicable, statement of additional information for the particular product you are considering. If you invest in one or more of the fee-based investment advisory products described in this brochure, you will pay an ongoing asset-based fee for advice concerning the investment of your assets in these programs. These fees are separate from, and in addition to, any financial planning fee you incur. It is possible that you will pay a financial planning fee for a financial plan that, among other things, recommends the use of one of our fee-based investment advisory products in which case you will pay an additional fee on the same 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 attempts to mitigate these conflicts of interest by disclosing them so that clients can make informed investment decisions.

## 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 products. 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.

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. I understand that I may affirmatively elect to have cash balances in my account swept into options other than WRACM, including an interest-bearing bank deposit account, which is FDIC-insured, and a municipal money market mutual fund, which is not FDIC-insured. I understand that W & R may receive compensation from Pershing, of up to 0.18% of my 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, I acknowledge that I received current disclosure documents for any sweep account options that I have affirmatively elected in lieu of WRACM.

Nationwide Life Insurance Company (Nationwide) and Minnesota Life Insurance Company (Minnesota Life) each pay W & R compensation, in addition to commissions for providing administrative and marketing services. Nationwide pays compensation to W & R 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 W & R 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 W & R after January 1, 2012. Minnesota Life pays compensation to W & R 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 W & R.

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

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

## Types of Clients

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

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

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

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

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

Asset allocation is one style that may assist you in determining if you have an appropriate mix of investments for your personal investment needs. Development of a personalized asset allocation is designed to position your assets in accordance with your financial objectives, time horizon and risk tolerance.

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

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

We do not believe that the mutual funds and asset allocation programs described in this brochure involve significant or unusual risks to our clients. However, the SMA and LIS Programs managed by and/or offered through Lockwood may, depending



on the manager(s) and management style(s) you select, present a significant risk of loss. And the products selected by the managers may also present significant or unusual risks of loss. So we strongly recommend that you read carefully the disclosure materials for the SMA and LIS programs discussed in more detail in Advisory Business above. Clients should consider carefully before investing in one or more of the Advisors products described in this brochure.

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

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

## 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 and caused 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 delivery of purchase confirmations for mutual fund asset-allocation products (MAP). FINRA found Waddell & Reed violated SEC rule 10B-10, FINRA rule 2010 and NASD rule 2230:

The firm failed to deliver numerous purchase confirmations for mutual-fund asset-allocation products accounts (MAP), during a period, and those confirmations would have confirmed multiple mutual fund share purchases that occurred in numerous investment-advisory accounts. Although the failure to deliver purchase confirmations resulted from the actions of a third-party service provider, the firm remained responsible at all times for compliance with its obligations under all applicable securities laws and regulations. The firm's investment-advisory offerings include several MAP accounts. The firm contracts with its subsidiary to act as the transfer agent for the mutual funds

that can be held in the MAP accounts and the subsidiary was obligated to send purchase confirmations on behalf of the firm to MAP-account customers. The firm's subsidiary, in turn, contracts with a third-party service provider to generate and deliver those confirmations. Until a certain date, all purchase transactions in MAP accounts resulted in the delivery of contemporaneous trade confirmations. On that date, however, the third-party service provider made a coding change to the software system that it provided to the subsidiary and other entities. The third party did not intend for the coding change to affect the MAP accounts in any way, and neither the subsidiary nor the firm requested the change. Nonetheless, one effect of the coding change was to prevent customers from receiving confirmations when cash in a MAP account was allocated to individual mutual funds. Thereafter, a MAP-account customer contacted a representative of the firm to ask why the firm was no longer issuing fund-allocation confirmations. The representative contacted the subsidiary, but did not alert the firm's compliance department of the situation. The subsidiary conducted an internal review and determined that the subsidiary's coding change had created the problem. The subsidiary also did not apprise the firm's compliance department of the situation at that time. Thereafter, the subsidiary began researching the issue and working on a solution. The subsidiary's initial work did not completely solve the problem and it implemented a second fix, which through subsequent testing verified that the problem was fully resolved. Waddell & Reed agreed to a censure and a fine of \$75,000.00

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

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

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

Waddell & Reed Mutual Funds: Please read carefully the discussion above under Other Fees and Compensation regarding

the conflicts of interest inherent in the relationship between Waddell & Reed and the Waddell & Reed Mutual Funds. Also, the investment managers for the Waddell & Reed Mutual Funds are wholly owned subsidiaries of Waddell & Reed.

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

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

Lockwood Advisors, Inc.: Lockwood Advisors, Inc. is an affiliate of Pershing LLC. Waddell & Reed uses Lockwood Advisors, Inc. as a platform for several of the fee-based asset allocation and wrap programs we offer as an investment advisor. Waddell & Reed pays various fees to Lockwood Advisors, Inc. for its services. Waddell & Reed offers its investment advisory clients SMA and UMA products sponsored and/or managed by Lockwood Advisors, Inc. Waddell & Reed receives a portion of the fees charged to clients by the managers of these products. Please read carefully the discussion about these products, Advisory Business, SMA and UMA Programs offered through Lockwood, Inc. and Pershing LLC above.

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

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

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

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

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

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

Our advisors may purchase or sell the same general securities (i.e. stocks and bonds) they recommend to our Clients. We review transactions in these securities on an ongoing basis to determine whether our clients receive the best execution. We have guidelines in our Code of Ethics to ensure that you receive



the most favorable price in these situations.

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

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

Please read carefully the section above entitled “Conflicts of Interest” for a thorough discussion of the conflicts that exist when our Financial Advisors recommending the Waddell & Reed Mutual Funds to clients.

## Brokerage Practices

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

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

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

Waddell & Reed is eligible to and receives revenue sharing participation for mutual fund assets that are purchased in the FUNDVEST® program. Participating mutual fund sponsors pay a fee to Pershing to participate in this program, and a portion of this fee is shared with W&R. None of these additional payments is paid to any W&R advisors who sell these funds. Clients should be aware, however, that mutual funds in this program may have higher internal expenses than mutual funds that are not in the program and may experience commensurately lower performance than similar mutual funds with lower internal expenses. To help mitigate any conflict of interest, we monitor the sales activities of our Advisors to ensure that the products and services they offer to you are appropriate.

Broker-Dealers that participate in Pershing's FUNDVEST® pro-

gram 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 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 service agreements with clients that engage in short term trading of mutual funds within FUNDVEST®.

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

## Principal Transactions and Agency Cross Transactions

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

## Trade Errors

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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

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Waddell & Reed relies primarily on third party quotation services, including services provided by Pershing LLC to determine the value of securities in Program accounts. If a price is unavailable or believed to be unreliable, we may determine the value in good faith. If the your portfolio strategy includes mutual funds, shares of 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

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

## Review of Accounts

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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.

Client 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 brochure. These home office Supervisory Principals conduct frequent reviews of client accounts for conformity with company policy and procedures.

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

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

## Client Referrals and Other Compensation

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Please read carefully "Conflicts of Interest" above to learn more about Waddell & Reed and your Financial Advisor may benefit when you purchase the Waddell & Reed Mutual Funds.

Neither Waddell & Reed nor your Financial Advisor compensate anyone directly or indirectly for client referral.

## Custody

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

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

## Investment Discretion

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In specific situations Waddell & Reed will allow limited investment discretionary services to be offered by qualified and approved Financial Advisors to specific approved clients. Within approved programs you may authorize your Waddell & Reed, Financial Advisor to exercise limited investment discretion over your account. Your Financial Advisor must obtain written authorization from you prior to exercising discretionary authority over your account (currently MAPFlex and MAPLatitude). This limited discretionary trading authority will be granted in the appropriate client services agreement or via a separate discretionary trading authorization form. If discretionary authority is granted, it is limited to the ability to purchase and exchange mutual funds within your chosen risk profile and investment model. If your risk profile or model choice needs to be modified, this will require you and your advisor to complete a new Risk Tolerance Questionnaire and a client services agreement prior to changes being made to your existing model. Your Financial Advisor may not withdraw funds or securities from your account without your express written permission.

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

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

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

## Voting Client Securities

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

## Financial Information

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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).

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**1.888.WADDELL**  
*Visit us online at [www.waddell.com](http://www.waddell.com)*

