

# ERISA

## Retirement Plan Services Program

RETIREMENT PLANNING



## COVER PAGE

Waddell & Reed, Inc.  
SEC File Number: 16720  
Part 2A of Form ADV: Firm Brochure  
ERISA Retirement Plan Services Brochure  
The date of this Brochure is: **March 31, 2020**

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 (1-888-923-3355 and/or RetirementPlans@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 described herein 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).

## **SUMMARY OF CHANGES**

Since our last Part 2A filing, Waddell & Reed has updated this brochure to include information related to its ERISA retirement plan services program. Items that have been updated include:

1. Updated values of the firm's Total Assets Under Management.

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## ADVISORY BUSINESS

The following discussion presents an overview of Waddell & Reed, Inc., our corporate structure, and generally discusses related products and services we offer.

### Overview and Ownership

Waddell & Reed, Inc. (“WRI”) is a securities broker-dealer and a federally registered investment advisor serving clients nationwide. Waddell & Reed was founded in 1937 and is a wholly owned subsidiary of Waddell & Reed Financial, Inc., a publicly held company (NYSE: WDR). WRI provides competitive mutual fund offerings, including Ivy Funds, Ivy Funds VIP offered within variable insurance products provided by our strategic insurance partners (currently Minnesota Life Insurance Company and Nationwide Life Insurance Companies {collectively the “Strategic Product Providers”}) among other insurance product carriers, and the Ivy InvestEd 529 Plan.

Through the investment adviser, WRI offers several advisory programs, subject to program eligibility requirements including Waddell & Reed ERISA Retirement Plan Services (“Retirement Plan Services”). Retirement Plan Services are offered to both participant directed plans where participants seek to exercise independent control over the investment of their individual accounts (“Participant Directed Plans”) and to other plans, such as defined benefit and defined contribution plans that do not allow participants to exercise control over plan investments (“Trustee Directed”).

This brochure (“Brochure”) provides plan sponsors (the “Plan Sponsor”) of employee benefit plans (the “Plan”) with information about the Retirement Plan Services, the fees charged for the Retirement Plan Services (“Retirement Plan Services Fee”) and WRI’s business practices. The services offered by WRI through the Retirement Plan Services program are intended for employee benefit plans that are subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”).

Throughout this document, the Plan Sponsor, or its delegate will be referred to as “Plan Sponsor,” “you” or “your.” Please review this Brochure carefully before you decide to participate in Retirement Plan Services.

Other advisory programs offered through WRI are not described in this Brochure. These programs offer different services and have different fees and eligibility requirements. To learn more about other advisory programs offered by WRI, please ask your Financial Advisor for the available advisory programs.

As of Dec. 31, 2019, WRI has total assets under management in the amount of \$26,947,190,046 across all of our advisory programs. Of this amount, \$3,418,109,444 are managed using discretion.

The decision to participate in this program is yours. Before making this decision, you and your Financial Advisor should discuss whether this program is appropriate for your investment goals or needs. If you decide to participate in Retirement Plan Services, you will enter into a written Waddell & Reed ERISA Retirement Plan Services Agreement (the “Agreement”) as the responsible plan fiduciary and appoint a WRI approved platform provider for the Plan (the “Recordkeeper”) and a Third Party Investment Fiduciary (“TPIF”), as described in more detail below. The Agreement includes WRI’s acknowledgment that it is serving as a Section 3(21) non-discretionary investment adviser under ERISA when providing Fiduciary Services as defined below.

The Retirement Plan Services program is intended to be used with Plan Sponsors that:

- Value recommendations from WRI when selecting a Recordkeeper and TPIF;
- Value recommendations from WRI when selecting investment options offered by a Participant Directed Plan or investments for a Trustee Directed Plan and annual reviews of the same;
- Value educational services for Plan Sponsors and Plan participants and/or
- Are comfortable paying asset-based (percentage) fees for advisory services.

### Retirement Plan Services

WRI offers the following services to employer sponsored Plans: (1) recommending Plan Service Providers (except third party administrators (“TPAs”)) from a set list maintained by WRI that may, for example, serve as a custodian, Recordkeeper or otherwise provide services to you; (2) providing non-discretionary investment advice regarding investment options offered by Participant Directed Plans; and (3) providing educational services to Plan Sponsors and Plan participants.

**Fiduciary Services.** When WRI recommends TPIFs and provides non-discretionary investment advice regarding investment options, we are acting as a fiduciary under Section 3(21) of ERISA.

**Recordkeeper and Investment Fiduciary Recommendations.** Your WRI Financial Advisor will assist you with your search for a Recordkeeper to provide custodial, investment, record keeping and/or TPIF services to your Plan. Assistance in your search for TPAs is for informational purposes only as further described below under “Educational Services.”

Your WRI Financial Advisor will limit their recommendations to a select number of WRI approved Recordkeepers that offer investment related fiduciary services through ERISA Section 3(21) investment advisers (“Section 3(21) investment advisers”) or ERISA Section 3(38) investment managers (“Section 3(38) investment managers”). Section 3(21) investment advisers and Section 3(38) investment managers are collectively referred to as TPIFs. Your preference for either a Section 3(21) investment adviser or Section 3(38) investment manager will be a factor in our recommendation of a Recordkeeper since not all Recordkeepers offer investment related fiduciary services through both Section 3(21) investment advisers and Section 3(38) investment managers. In addition, your preference for a mutual fund platform or a group annuity platform may also be a factor in your Financial Advisor’s recommendation of a Recordkeeper.

Your selected TPIF will develop a list of investment options for consideration by you as the Plan Sponsor, which are limited to the investment options available to the Plan through the Recordkeeper. TPIFs may provide recommendations to replace investment options on the Plan’s current investment lineup. This will be done in accordance with the TPIF’s procedures, the details of which can be found in your agreement with your TPIF.

Section 3(38) investment managers will select and maintain the investment options available to your Plan. Section 3(38) investment managers will act in a discretionary capacity to add and/or remove investment options to your Plan. In contrast, Section 3(21) investment advisers will make recommendations to the Plan that require you, as Plan Sponsor, to act upon investment recommendations.

Although WRI will recommend Recordkeepers and TPIFs, you will be responsible for selecting the Recordkeeper, TPIF, and other Plan Service Providers for your Plan and entering into separate contractual relationships with each of these entities. In order to participate in the Retirement Plan Services you must select a WRI approved Recordkeeper and TPIF. In addition, to continue in the program you must continue to use a WRI approved Recordkeeper and TPIF.

**WRI’s Non-Discretionary Investment Advice.** The TPIF when acting as a 3(21) investment adviser will be responsible for the following: (1) the recommendation of the investment options available to the Plan; (2) the ongoing monitoring and continued availability of such investment options; (3) after approval from the plan sponsor the removal and replacement of investment options that do not meet the TPIF’s criteria; and (4) the addition, from time to time, of new investment options that meet the TPIF’s criteria. Although WRI will recommend investments from the investment options available to the Plan, the Plan Sponsor will be responsible for making the final selections for the Plan, including the final selections of fund share classes which may vary based on the expense arrangements of the Plan (“Plan Investments”).

For Plan Sponsors using a TPIF Section 3(38) discretionary investment manager, the 3(38) TPIF will be responsible for making the final Plan Investment selections. WRI will not provide investment advice on Plan Investments when a 3(38) discretionary investment manager is utilized by the Plan.

## **Recordkeeper Platforms**

Two types of platforms are generally available through Recordkeepers: trust platforms and group annuity platforms. A trust platform offers investments in mutual funds, exchange-traded funds, collective investment funds, stable value funds and/or money market funds. A group annuity platform offers investments in mutual funds, stable value funds, money market funds, collective investment funds, and/or guaranteed income annuities.

Descriptions of investments commonly available to retirement plans are listed below; other investment options may be available from your Recordkeeper.

**Mutual Funds.** Mutual funds are diversified, professionally managed portfolios of securities that pool the assets of individuals and organizations to invest toward a common objective such as current income or long-term growth.

**Exchange-Traded Funds (“ETFs”).** ETFs are typically registered investment companies with shares that track an index, a commodity or a basket of assets such as an index fund, but trade like stocks on an exchange. ETFs experience price changes throughout the day as they are bought and sold.

**Money Market Funds.** Money market funds are a type of mutual fund that invests in high-quality, short-term debt securities, pays dividends that generally reflect short-term interest rates and seeks to maintain a stable net asset value per share (typically \$1). An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund is managed to maintain a stable net asset value of \$1 per share, the value of the fund may fluctuate, and you could lose money.

**Stable Value Funds.** Stable value funds are capital preservation investment options. Stable value funds are structured in two ways: as separately managed accounts, which is a stable value fund managed for one specific retirement plan; or as a commingled fund, which pools together assets from many retirement plans. Commingled funds offer the benefits of diversification and economies of scale for smaller plans.

Regardless of how stable-value funds are structured, they are comprised of a diversified portfolio of fixed-income securities that are

insulated from interest rate movements by contracts from banks and insurance companies. The protection from interest rate volatility is universal to stable-value funds. How this contract protection is delivered depends on the type of stable value fund investment purchased. The contract protection against interest rate volatility is provided through the following investment instruments:

**Separate account contract.** A separate account contract is available on a group annuity platform, is an account held by an insurance company that holds a combination of fixed-income securities and provides principal preservation. Separate accounts may provide either a fixed rate of return or a periodic rate of return based on the performance of the underlying assets. The assets are owned by the insurance company and are set aside in a separate account solely for the benefit of the specific contract holder.

**Guaranteed Interest Contract.** A guaranteed interest contract is available on a group annuity platform, is a contract with an insurance company that provides principal preservation and a specific rate of return over a set period of time, regardless of the performance of the underlying invested assets. The invested assets are owned by the insurance company and held within the insurer's general account.

**Synthetic GIC.** A synthetic GIC is available on a group annuity platform, is a diversified portfolio of fixed income securities that is insulated from interest rate volatility by contracts (wraps) from banks and insurance companies. In this arrangement, the retirement plan and its participants own the underlying invested assets—the portfolio of fixed income securities that support the stable value fund.

**Collective Investment Funds.** A collective investment fund, sometimes referred to as a collective investment trust or collective trust fund, is a bank-administered trust that consists solely of assets of retirement plans such as 401(k) plans and other defined contribution or defined benefit retirement plans that are qualified under the Internal Revenue Code of 1986, as amended. Like mutual funds, collective investment funds may have a variety of investment objectives and strategies and are subject to investment and other risks. Unlike mutual funds, collective investment funds are not subject to the restrictions of the Investment Company Act of 1940, as amended.

**Guaranteed Income Annuities.** Available on group annuity platforms, a guaranteed income annuity generates a stream of income for a lifetime. A participant may invest in a guaranteed income annuity as a single-premium immediate annuity or through a series of payments as a deferred-income annuity. The income is guaranteed by a life insurance company and the amount of the income depends on several factors, including age, gender, premium amount and the chosen payout option. An income annuity is typically a fixed annuity not subject to stock market performance. A deferred variable annuity may offer a guaranteed lifetime withdrawal benefit or a guaranteed minimum withdrawal benefit, which guarantees the contract holder the ability to withdraw a set percentage from an annuity every year until the value of the original premium paid is withdrawn. There is no guarantee that the investment options or Plan Investments will perform in any particular manner. Past performance is not a guarantee of future results. Further details about a Plan Investment can be found in its prospectus, statement of additional information, shareholder reports, or annuity contract as applicable.

**Outside Assets.** WRI has no responsibility to provide any services related to the following types of Plan assets: any portion of Plan assets that are not maintained on the platform of the Recordkeeper ("Outside Assets"). The Outside Assets will be disregarded in determining the Retirement Plan Services Fee. The Retirement Plan Services Fee will be calculated only on the remaining assets (the "Included Assets" or the "Assets"), which may result in the Plan being subject to a higher annual fee rate (as discussed in the Fees and Compensation section).

## Educational Services

WRI will provide the Plan Sponsor education on plan types and work with Plan Service Providers to assist with Plan selection and Plan setup. WRI will provide information on the role of TPAs to Plan Sponsors as well as information about the services a TPA could provide. The Plan Sponsor is responsible for selecting a TPA for the Plan; WRI will not recommend TPAs for Plans. WRI will also review market commentary and security performance reports with the Plan Sponsor and use materials to educate Plan participants about available menu options. WRI will assist the Plan Sponsor with developing an education plan for Plan participants. Upon request, WRI may conduct Plan participant education meetings. The content of the meetings may include enrollment information, general financial and investment information, including risk tolerance and asset allocation, and general retirement planning information.

Additionally, your Financial Advisor may participate in one-on-one educational meetings with Plan participants, in which your Financial Advisors will provide information and materials that describe the Plan Investments. Upon request, your Financial Advisor will educate Plan participants about asset allocation. WRI may, at its discretion, provide asset allocation models and interactive investment materials, such as questionnaires, worksheets, software or similar materials that enable Plan participants to estimate future retirement needs.

Upon participant's eligibility to take a distribution due to a separation event, like retirement or termination, WRI may provide educational materials to participants and may be available to answer questions regarding rollover or distribution options. If participants choose to take a post-service distribution from the Plan, WRI Financial Advisors, in their individual capacities as Registered Representatives or Investment Adviser Representatives of WRI, may work with participants.

When WRI provides educational services to the Plan Sponsor and/or Plan participants, we are not acting as a fiduciary of the Plan under ERISA.

## Termination

You or WRI may terminate your participation in Retirement Plan Services at any time without an advisory termination fee by providing sixty (60) days' prior written notice. If you terminate your contractual relationship with the Recordkeeper or TPIF without selecting and entering into an agreement with an appropriate replacement Recordkeeper or TPIF, WRI will terminate your Agreement. Additionally, if the Recordkeeper is removed from Retirement Plan Services by WRI, you must contact your Financial Advisor and select a Recordkeeper available in Retirement Plan Services. If you do not select an available Recordkeeper within the time frame established by WRI, WRI will terminate your participation in Retirement Plan Services. If you or WRI terminate your participation in Retirement Plan Services, the Plan will be charged the Retirement Plan Services Fee through the date of termination.

## FEES AND COMPENSATION

When you participate in Retirement Plan Services Program, you pay fees to WRI. The following section explains:

- Who receives the fees
- When you pay the fees
- How the fees are calculated and paid
- Potential fee offsets

**ERISA Section 408(b)(2) Disclosure.** This Brochure contains disclosures designed to assist the Plan's named fiduciary or other responsible plan fiduciaries in determining the reasonableness of the fees and compensation WRI may receive as a covered service provider to the Plan.

### Retirement Plan Services Fee Paid to WRI

INCLUDED ASSETS	MAXIMUM ANNUAL FEE RATE
Up to \$2 million	100 bps
Over \$2 million to \$5 million	75 bps
Over \$5 million to \$10 million	50 bps
Over \$10 million to \$20 million	40 bps
Over \$20 million to \$30 million	35 bps
Over \$30 million to \$40 million	30 bps
Over \$40 million to \$50 million	25 bps
Over \$50 million to \$60 million	15 bps
Over \$60 million	Negotiated

Your negotiated Retirement Plan Services Fee will be identified on your most recent ERISA Service Agreement or 408(b)(2) disclosure. The Plan is obligated to pay the Retirement Plan Services Fee from Plan assets. The Retirement Plan Services Fee may be discounted or reduced according to the above table at the discretion of WRI. WRI's ability to discount or reduce the fee for clients may result in one Plan Sponsor paying more or less than another Plan Sponsor receiving the same Retirement Plan Services.

### How the Retirement Plan Services Fee is Calculated and Paid

WRI relies on the value of the Included Assets held in the Plan as provided by your Recordkeeper for purposes of calculating the Retirement Plan Services Fee. WRI will not verify the accuracy of the valuation information provided to us by your Recordkeeper.

The Retirement Plan Services Fee is calculated by the Recordkeeper by multiplying the annual fee rate in the schedule above (the "Fee Schedule") by the value of the Included Assets. Waddell & Reed, Inc.



Schedule”) by the value of the Included Assets held in the Plan in accordance with the methodology and frequency set forth in the agreement between you and your Recordkeeper.

In the first quarter of each year, WRI will review all the Fee Rates and Included Assets to determine if the Fee Rates and Included Assets correspond to a different tier on the chart above. If the Included Assets qualify your plan for a lower fee tier, the fee charged to the Plan can be adjusted without additional input from the Plan Sponsor. Fee Rate adjustments will be submitted to the Recordkeeper and will be applied prospectively.

If the Included Assets in the plan have decreased enough to warrant a Fee Rate increase, your Financial Advisor may contact you to discuss the fees charged to the Plan. The fees charged for ERISA Retirement Plan Services will not increase without the Plan Sponsor agreeing to the increase.

The Plan Sponsor shall not pay WRI or its Financial Advisors directly. The Retirement Plan Services Fee will be deducted from your Plan Assets by your Recordkeeper.

## **Other Compensation**

The following section relates to compensation received by WRI and its affiliated Financial Advisors outside of the ERISA Retirement Plan Services Program.

## **Potential Conflicts of Interest**

Throughout more than 80 years of serving investors, Waddell & Reed has developed a business structure that combines both the creation and management of the Ivy Funds and their sale to retail investors through WRI in its capacity as a registered investment advisory and/or broker-dealer and its Financial Advisors. We believe this business structure provides significant value to our clients, but also presents certain conflicts, which are discussed more fully below.

WRI is an affiliate of the principal underwriter and manager of Ivy Funds. WRI offers shares of the Ivy Funds through a distribution agreement. WRI investment professionals are not required to sell only shares of Ivy Funds, have no sales quotas with respect to these funds and receive the same percentage rate of compensation for all shares they sell, including the shares in these funds. It is possible, however, for WRI and its affiliated companies to receive more total revenue from the sale of shares of the Ivy Funds, the Ivy Variable Insurance Portfolios (the “Ivy VIP Funds”), and the Ivy InvestEd 529 than from the sale of shares of other mutual funds that are not affiliated with WRI. Employee compensation (including management and field leader compensation) and operating goals at all levels of the company are tied to varying degrees of Waddell & Reed's financial success. As such, management, sales leaders and other employees generally spend more of their time and resources promoting Ivy Funds and related products and services. Please refer to the applicable statutory prospectus for further details.

WRI Financial Advisors may recommend the variable annuities that are offered in conjunction with one of its strategic insurance partners (the “Strategic Product Providers”). The underlying investments in some of the variable annuities offered through your Financial Advisor may be made up of entirely sub-accounts containing Ivy VIP Funds. The investment managers who manage these sub-accounts and Financial Advisors are part of the same parent organization - Waddell & Reed Financial, Inc.

On June 9, 2017, a new rule implemented by the U.S. Department of Labor became applicable to financial institutions and financial advisors when making certain investment recommendations to owners of retirement accounts. To assist clients and prospective clients in assessing recommendations made by Waddell & Reed financial advisors, client relationship information is being made available in the Client Relationship Notification located on the Waddell & Reed website at: <https://www.waddell.com/CRN>. You can also request a copy by calling our Client Services Call Center at 1.888.WADDELL (923.3355).

## **Compensation to Financial Advisor**

Both Waddell & Reed and your 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, distribution and shareholder service (12b-1) fees paid 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 will 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 Waddell & Reed investment accounts.

Operating expenses include: fees paid for investment management (research, trading, portfolio manager compensation, administrative services and technology), distribution and shareholder services 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.

Before purchasing investment products from your Financial Advisor you should consider that most of Waddell & Reed's revenue is generated from the sale of mutual funds and variable insurance products that charge commissions. This commission revenue is generated by the sale of the Ivy Funds, unaffiliated mutual funds, and variable insurance products distributed through both Strategic Partners and other insurance providers.

Financial Advisor may recommend products issued by WRI's affiliated mutual fund company. WRI and its affiliated mutual fund company receive additional compensation when an account is invested in affiliated products. Financial Advisors, however, are not paid more by WRI to recommend investment products issued by its affiliated mutual fund company.

Financial Advisors may recommend platforms run by its Strategic Product Providers as part of the ERISA Retirement Plan Services program. WRI and these providers may receive indirect benefits from the recommendation of said providers' platform through the sale of jointly offered products. Financial Advisors, however, are not paid more by WRI to recommend the Strategic Product Providers' platforms. For more information refer to the Client Relationship Notification available on WRI's website at <https://www.waddell.com/CRN>.

**Rule 12b-1 Fees:** Mutual fund companies or their affiliates may pay 12b-1 fees to the Recordkeeper for distribution and marketing expenses with respect to fund investments held in the Plan. 12b-1 fees may receive different treatment depending upon the Recordkeeper and platform the Plan Sponsor selects. In some cases, the Recordkeeper may retain the 12b-1 fees to offset distribution, marketing, or platform expenses. Conversely, some Recordkeepers allow the Plan Sponsor to direct the Recordkeeper to pay an amount equal to the 12b-1 fees received by the Recordkeeper to pay all or a portion of the Plan expenses. This may result in higher or lower plan expenses.

**Shareholder Accounting Revenue:** Mutual fund companies may pay shareholder accounting revenue to the Recordkeeper for account record-keeping and administrative services provided by the Recordkeeper with respect to fund investments held in the Plan.

## **Additional Fees and Expenses Paid to Recordkeepers and Investment Fiduciaries**

Each Recordkeeper and TPIF may charge the Plan fees and expenses for their services. Please consult your agreement with your Recordkeeper and your TPIF for more information. These fees and expenses are in addition to the Retirement Plan Services Fee described above and vary depending on the particular Recordkeeper and TPIF.

## **Internal Fees and Expenses of Investment Options**

Mutual funds have internal management fees and ongoing expenses for operating the fund (internal fees and expenses) that are deducted from the fund's assets, which has the effect of reducing the fund's net asset value. Many funds have different share classes with different fees and expenses. The prospectus for each mutual fund will describe the internal fees and expenses.

Stable value funds and collective investment funds similarly have internal management fees and ongoing expenses for operating the fund. Internal fees and expenses are in addition to the Retirement Plan Services Fee described above and vary depending on the particular investment. Any internal fees and expenses charged by an investment will affect the investment performance of the investment options offered by the Plan.

**Retirement Plan Services is an investment advisory program.** ERISA Retirement Plan Services is an investment advisory program offered by WRI. The services provided through ERISA Retirement Plan Services are described in the Advisory Business section of this brochure and in Section 2 and Appendices A and B of the Agreement. For a description of the fees paid directly from the Plan in connection with ERISA Retirement Plan Services, please refer to Client Referrals and Other Compensation section of this Brochure and Section 3 and Appendix A of the Agreement.

WRI could receive compensation from sources other than the Plan, Plan participant accounts or the TPIF in connection with the accounts or services provided. Please refer to the Other Compensation section of this Brochure. WRI and its affiliates benefit from the fees paid by Plan Sponsor as described in Client Referrals and Other Compensation section of this Brochure.

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

WRI does not charge performance-based fees or engage in side-by-side investment management.

## **TYPES OF CLIENTS**

WRI offers clients a wide range of financial services. ERISA Retirement Plan Services is designed to offer advisory services to United States corporations and other organizations sponsoring employee benefit plans subject to ERISA, such as 401(k) plans, other defined contribution plans and defined benefit plans.

ERISA Retirement Plan Services, however, is not a program designed to provide advisory services to SEP IRAs, SIMPLE IRAs, single participant 401(k) plans, governmental defined contribution plans or 403(b) plans not subject to ERISA. Other investment advisory programs that may meet the investment objectives of these other plan types may be available through WRI. Contact your WRI Financial Advisor for more information.

There may be a minimum asset requirement to participate in ERISA Retirement Plan Services depending on the Recordkeeper the Plan Sponsor selects.

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

**Recordkeepers and Investment Fiduciaries.** WRI evaluates a limited universe of available Recordkeepers that provide required reports and data feeds to enable WRI to complete necessary ERISA 408(b)(2) communications and offer WRI approved TPIFs. The initial and primary due diligence of the TPIFs is performed by the Recordkeepers. Additionally, WRI analyzes the TPIFs for the number of years of 3(21) and/or 3(38) services offered, total ERISA plans and assets held, history of any litigation and/or disciplinary actions filed by clients or regulators, market share, key personnel tenure and professional credentials and designations, and a description of tools and research used to evaluate investments and managers.

WRI and the Recordkeeper will enter into an agreement whereby WRI will act as an investment advisor to the ERISA Retirement Plan. WRI may retain the Recordkeeper to provide investment, record-keeping and/or other services. The agreement will specify certain minimum services to be provided by the Recordkeeper, including developing and maintaining systems and procedures to pay the ERISA Retirement Plan Services Fee owed to WRI. Recordkeeper and TPIFs undergo annual monitoring by WRI to ensure they meet WRI's requirements for ERISA Retirement Plan Services.

If a Recordkeeper or a TPIF is removed from the ERISA Retirement Plan Services program, you must select another WRI-approved Recordkeeper and/or TPIF in order to continue to participate in the ERISA Retirement Plan Services program.

Although WRI will recommend Recordkeepers and TPIFs, the Plan Sponsor is ultimately responsible for selecting the Recordkeeper and TPIF.

**Plan Investments.** As described above in "Non-Discretionary Investment Advice," your Financial Advisor may recommend investment options from among the investment options recommended or selected by the TPIF. Your Financial Advisor may consider various factors including investment history, past performance, and investment strategy as part of the review of investment options.

Although WRI will recommend investments from the investment options available to the Plan, the Plan Sponsor will be responsible for making the final selections for the Plan, including the final selections of fund share classes which may vary based on the expense arrangements of the Plan ("Plan Investments").

All investments involve risk. Plan Investments will fluctuate in value and may be worth more or less than the original cost to purchase. Diversification does not guarantee a profit or protect against loss. Plan Sponsor and Plan participants should consider the investment objectives, risks, charges and expenses of each Plan Investment before deciding to invest. Please review each individual fund prospectus for additional information. WRI is not responsible for the performance of an investment, the Plan, or the account of a Plan participant.

WRI does not provide legal or tax advice. You should consult with your legal or tax professional before participating in a Retirement Plan.

## DISCIPLINARY INFORMATION

On Jan. 15, 2013, a Letter of Acceptance Waiver and Consent (No. 2011029075101) was approved by FINRA relating to the failure of the firm to deliver purchase confirmations for a period of time. The firm failed to deliver numerous purchase confirmations for mutual-fund asset-allocation program accounts (MAP), during a period, and those confirmations would have confirmed multiple mutual fund share purchases that occurred in numerous investment-advisory accounts. Although the failure to deliver purchase confirmations resulted from the actions of a third-party service provider, the firm remained responsible at all times for compliance with its obligations under all applicable securities laws and regulations. The firm's investment-advisory offerings include several MAP accounts. The firm contracts with its subsidiary to act as the transfer agent for the mutual funds that can be held in the MAP accounts and the subsidiary was obligated to send purchase confirmations on behalf of the firm to MAP-account customers. The firm's subsidiary, in turn, contracts with a third-party service provider to generate and deliver those confirmations. Until a certain date, all purchase transactions in MAP accounts resulted in the delivery of contemporaneous trade confirmations. On that date, however, the third-party service provider made a coding change to the software system that it provided to the subsidiary and other entities. The third party did not intend for the coding change to affect the MAP accounts in any way, and neither the subsidiary nor the firm requested the change. Nonetheless, one effect of the coding change was to prevent customers from receiving confirmations when cash in a MAP account was allocated to individual mutual funds. Thereafter, a MAP-account customer contacted a representative of the firm to ask why the firm was no longer issuing fund-allocation confirmations. The representative contacted the subsidiary, but did not alert the firm's compliance department of the situation. The subsidiary conducted an internal review and determined that the subsidiary's coding change had created the problem. The subsidiary also did not apprise the firm's compliance department of the situation at that time. Thereafter, the subsidiary began researching the issue and working on a solution. The subsidiary's initial work did not completely solve the problem and it implemented a second fix, which through subsequent testing verified that the problem was fully resolved. Without admitting or denying FINRA's allegations, Waddell & Reed agreed to a censure and fine of \$75,000 to settle the regulatory action.

On June 19, 2015, the State of New Hampshire, Department of State, Bureau of Securities (the "Bureau") received a complaint from a New Hampshire resident and former client of Waddell & Reed, which raised concerns regarding certain financial planning fees charged by an investment advisor representative of Waddell & Reed. Based on the content of the complaint, the Bureau initiated an

investigation. During the course of its investigation, the Bureau determined that the investment advisor representative in question engaged in several violations of New Hampshire securities law, including verbally misrepresenting to his clients the nature of financial planning fees he charged those clients. The Bureau also noted certain deficiencies in Waddell & Reed's supervision of the investment advisor representative in question. The Bureau noted that over the past two years, Waddell & Reed has taken steps to enhance its supervision of the financial planning conducted by its investment advisor representatives and these enhancements will be finalized during the second quarter of 2017. All of the Bureau's allegations against Waddell & Reed are limited to investment advisory activities.

Pursuant to Waddell & Reed's Financial Planning Refund Program, Waddell & Reed agreed to refund a portion of certain financial planning fees paid by the clients of the investment advisor representative in question, in the amount of \$2,012,615.80. Waddell & Reed also agreed to pay the Bureau's costs of investigation in the amount of \$300,000, an administrative fine in the amount of \$300,000, and a contribution to the Bureau's investor education fund in the amount of \$300,000.

## OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

You should be aware that WRI, its affiliates and its Financial Advisors perform services for other clients outside of ERISA Retirement Plan Services, including execution of brokerage transactions (e.g., the purchase or sale of securities and insurance products), research, the retail distribution of securities (e.g., mutual funds), the participation in principal transactions and certain underwritings and other investment advisory services. WRI and its affiliates may receive compensation, including fees and commissions associated with these transactions. WRI has a financial interest in our clients' transactions and the recommendations we make to clients to buy or sell securities or investment products.

A potential conflict of interest exists where WRI has an existing business relationship with its sub-advisers, Recordkeepers, Investment Fiduciaries, Ivy Funds and Strategic Product Providers. WRI receives revenue sharing from certain unaffiliated mutual fund families inside of advisory programs. WRI also receives revenue sharing from its affiliated mutual fund company - Ivy Funds. WRI's receipt of revenue sharing creates a potential conflict of interest in the form of additional financial incentives. We believe that this potential conflict of interest is addressed through internal policies to prevent WRI from considering existing business relationships when recommending certain investment options and/or Recordkeepers or Investment Fiduciaries.

WRI has material relationships and arrangements with the following:

**Pershing LLC.** WRI clears its brokerage business exclusively through Pershing LLC on a fully disclosed basis. Retail clients that establish brokerage accounts with WRI must establish those accounts at Pershing LLC. Retail 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, WRI receives a share of certain charges imposed by Pershing LLC on the brokerage accounts they carry for us.

**IVY Mutual Funds.** Please read carefully the discussion above in the Other Compensation section regarding the conflicts of interest inherent in the relationship between WRI and the IVY Mutual Funds

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

**Strategic Product Providers.** We discuss our relationship with Strategic Product Providers under Advisory Business, Overview and Ownership above. Most of the variable insurance products we sell are created by our Strategic Product Providers. 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. WRI uses Lockwood Advisors, Inc. as a platform for several of the fee-based asset allocation and wrap programs we offer as an investment advisor. WRI pays various fees to Lockwood Advisors, Inc. for its services. WRI offers its investment advisory clients SMA and UMA products sponsored and/or managed by Lockwood Advisors, Inc. WRI receives a portion of the fees charged to clients by the managers of these products.

## CODE OF ETHICS

Waddell & Reed has adopted a Code of Ethics, which 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, 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 others, material nonpublic information.

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

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

Waddell & Reed, Inc.  
Legal Department  
Attention: Code of Ethics  
6300 Lamar Avenue  
Overland Park, KS 66202-4247

## **BROKERAGE PRACTICES**

WRI will not execute trades for Plan Sponsors participating in the ERISA Retirement Plan Services.

## **REVIEW OF ACCOUNTS**

Your WRI Financial Advisor will perform an annual review in conjunction with the Plan Sponsor of the Plan, an which may include a review of the following: the Recordkeeper, TPIF, fees charged by Plan Service Providers, the selection of either a mutual fund platform or a group annuity platform, Plan participation, contributions and demographics, Plan Investments and the qualified default investment alternative (“QDIA”) selection.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

Waddell & Reed has a financial interest in our clients’ transactions and the recommendations we make to clients to buy or sell securities or investment products. Waddell & Reed has revenue sharing arrangements with certain available product companies outside of advisory programs. 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 financial advisors (“affiliated persons”), these arrangements could affect the judgment of Waddell & Reed or its affiliated persons when recommending investment products. We believe the potential conflicts of interest that are created by these revenue sharing agreements are addressed through internal policies to prevent Waddell & Reed, in its capacity as investment adviser, and any affiliated person, from considering existing business relationships when selecting or recommending investment products.

Waddell & Reed has additional policies and procedures, including client disclosures, to address this conflict. For more information regarding revenue sharing, please visit <http://www.waddell.com/disclosures-privacy/important-client-documents> or request a revenue sharing disclosure document from your financial advisor.

WRI does not enter into arrangements with unaffiliated third parties to refer or solicit clients to any advisory program offered by WRI.

Your Financial Advisor (and other WRI Financial Advisors, to the extent they provide services to, or on behalf of, the Plan) receives a portion of the monthly Retirement Plan Services Fee. As a result, your Financial Advisor has a financial incentive not to negotiate the Retirement Plan Services Fee. The portion of the Retirement Plan Services Fee paid to your Financial Advisor is at the discretion of WRI. The fee rate paid to your Financial Advisor will be the same regardless of the Recordkeeper or TPIF you select. As a result, your Financial Advisor does not have a financial incentive to recommend one provider over another.

Certain unaffiliated mutual fund companies and/or ETF sponsors (or their investment advisers) and Recordkeepers may pay certain expenses on behalf of Financial Advisors, including training and educational expenses, and in some instances may make payments directly to WRI to subsidize training and educational costs for Financial Advisors. They may also participate in conferences or other marketing activities with WRI and may be asked to share in the cost of those activities as well. WRI has not entered into any agreement with any ETF or mutual fund (or its investment adviser or its distributors or affiliates) providing for payment of such expenses as a condition of recommending an investment option or a Recordkeeper. Our Financial Advisors are not allowed to consider an advisory product partner’s sponsorship of a marketing activity when recommending investment options or a Recordkeeper for Retirement Plan Services.

## **Existing Clients Prior to Use of this Brochure**

If you opened an account pursuant to which WRI served as the broker of record to your Plan (an “Existing Client”), your account was a brokerage account. If you invested in certain investment products, WRI received compensation from the Recordkeeper to cover a variety of services provided by WRI, including marketing products to new investors, educating WRI Financial Advisors and servicing existing client accounts.

WRI typically had a choice of compensation options regarding the timing and structure of compensation that WRI received when you purchased certain investment options. The structure of the compensation selected by WRI had no impact on the value of your investment nor did it affect the fees that you paid to the Recordkeeper. Certain investment products provided compensation options that included a combination of an upfront commission over a limited duration and/or an ongoing trail fee. The Recordkeeper made these payments from sources available to it, including the fees that you paid to the Recordkeeper.

Under the Retirement Plan Services described in this Brochure, WRI will not receive any compensation from the Recordkeeper but will instead receive the Retirement Plan Services Fee, which is an investment advisory fee owed to WRI by you. However, it is not WRI’s intention to be paid more in investment advisory fees than the fees set forth in the Fee Schedule in Item 5 above, inclusive of the value of the compensation previously paid to WRI by the Recordkeeper. For this reason, if you continue in Retirement Plan Services with the same Recordkeeper, your Retirement Plan Services Fee will be either the amount of the Retirement Plan Services Fee set forth in the Fee Schedule in Item 5 of this Brochure, or an amount equal to the trail fee WRI would have received from the Recordkeeper had your former account continued, whichever is lower.

WRI will reduce its Retirement Plan Services Fee to the extent necessary to allow the Recordkeeper to recoup any upfront commissions that it previously paid to WRI.

Therefore, it is not expected that the fee that you will pay to the Recordkeeper will increase. However, the fee you pay to the Recordkeeper may continue to be the same, even if WRI lowers the Retirement Plan Services Fee as described above. The fee you pay to your Recordkeeper is subject to the terms of your agreement with the Recordkeeper.

## **CUSTODY**

WRI does not provide custody services in connection with Retirement Plan Services. Generally, the Recordkeeper and/or Custodian or Plan trustee will provide custody services for a fee.

## **INVESTMENT DISCRETION**

WRI has no discretion over the investment of Plan assets or to interpret the Plan documents, to determine eligibility or participation under the Plan, or to take any other action with respect to the management, administration or any other aspect of the Plan.

## **VOTING CLIENT SECURITIES**

WRI will not be responsible for voting (or recommending how to vote) proxies for Clients participating in Retirement Plan Services. Client or, if applicable, Plan participants, will be responsible for voting proxies of Plan Investments.

## **FINANCIAL INFORMATION**

Waddell & Reed neither requires nor solicits the prepayment of more than \$1,200 in advisory fees six months or more in advance from any client, and therefore has not included a balance sheet of its most recent fiscal year in this Part 2A Brochure. Waddell & Reed is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients, nor has it been the subject of a bankruptcy petition at any time during the past ten years.

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

