

Advisory Programs

MAPChoice

MAPFlex

Variable Annuity Investment Option

SMA

LIS

MAPLatitude

COVER PAGE

Waddell & Reed, Inc.
SEC File Number: 16720
Part 2A of Form ADV: Firm Brochure
Asset Allocation and Wrap Products Only Brochure
The date of this Brochure is: **March 31, 2020**

Waddell & Reed, Inc.'s Advisory Services Brochure ("Brochure") provides information about the qualifications and business practices of Waddell & Reed, Inc. If you have any questions about the contents of this Brochure, please contact us at (1-866-937-0010 and/or advisoryproducts@waddell.com). 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.

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

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

Waddell & Reed, Inc.
6300 Lamar Avenue
Overland Park, KS 66202-4247

Contact Phone: 1-866-937-0010
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For more information about Waddell & Reed, Inc. please visit our website at 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 Ivy Funds ("Transfer Agent"), and Pershing LLC:

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

Pershing LLC
One Pershing Place
Jersey City, NJ 07399

From time to time investors in our advisory accounts may receive consolidated reports directly from their financial advisors. These reports may include lists or summaries of your account holdings, 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, Inc. has updated this Brochure to include information related to its managed account programs. Items that have been updated include:

1. Updated Asset Under Management numbers to reflect assets at December 31, 2019.

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ADVISORY BUSINESS

The following information presents an overview of Waddell & Reed, Inc. (“WRI”) and discusses generally the mutual fund and ETF asset allocation programs, wrap fee programs, and related products and services we offer, as well as a discussion of our corporate structure. This section contains certain defined terms that will be used throughout this Brochure.

Overview and Ownership

WRI is a securities broker-dealer and a federally registered investment adviser serving clients nationwide. WRI 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 affiliated mutual funds. Through the financial planning process, WRI 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.

WRI is a wholly owned subsidiary of Waddell & Reed Financial, Inc., a publicly held company (NYSE: WDR) which provides 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
- Ivy InvestEd Portfolios offered within WRI’s 529 Plan.

The aforementioned offerings are collectively referred to as the “Affiliated Mutual Funds.”

As needed or desired, financial advisors can offer mutual funds and other products that are not affiliated with WRI. They do so whenever you direct the selection of a different mutual fund, or it is in your best interest to consider other investment options consistent with your personal and financial goals.

Working with a WRI Financial Advisor

Your WRI financial advisor can offer investment advisory, insurance 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 WRI Advisor in an Advisory Relationship?

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

What does it mean to work with a WRI financial advisor in a Brokerage Relationship?

As a broker-dealer registered with the SEC and a member firm of FINRA, WRI is registered as a broker-dealer in all 50 states. Unlike an investment advisory relationship, where WRI and its financial advisors act as fiduciaries under the federal securities laws and charge a one-time fee for financial planning or on-going annual asset-based fees for advisory services, you will pay a commission or sales load to WRI for each brokerage transaction affected in your brokerage 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. However, there are mutual funds with back-end sales loads commonly referred to as a “contingent deferred sales charge” or “CDSC”. Many mutual funds also offer multiple share classes which charge different levels of fees and compensate your advisor in different ways. The applicable sales charge and mutual fund fees is set forth and described in each mutual fund’s prospectus or offering document which must be provided to you in connection with your choosing that investment. Before investing in a mutual fund, you should read the fund’s prospectus carefully. Some funds provide a “summary prospectus” that includes information on how you can obtain a full-length prospectus, while other funds may deliver a full-length prospectus only. As a broker-dealer WRI will receive other types of compensation such as trail

compensation (known as 12b-1 fees) and commissions. WRI also receives revenue sharing payments on the sale of individual investment products for which it has entered into an agreement for such revenue with a mutual fund company. In their capacity as a registered representative, your financial advisor will receive other types of compensation such as trail compensation (known as 12b-1 fees) and commissions on the sale of individual investment products. The receipt of 12b-1 fees and revenue sharing payments creates a financial incentive for your financial advisor and WRI to recommend the mutual funds that pays these types of compensation. Receipt of these payments present a conflict of interest between WRI and its clients' best interests.

When WRI is acting as a broker-dealer neither the Firm nor your financial advisor is acting as a fiduciary under the law, but each has a responsibility to deal fairly with all clients. When a recommendation is made to purchase an investment product in an account your financial advisor and WRI have an obligation to determine that the recommendation is suitable based upon your stated investment objectives, risk tolerance, time horizon, tax status and other financial information we have gathered from you. When WRI is acting as a broker-dealer neither the Firm nor your financial advisor provides on-going investment advice with respect to your commission-based accounts. WRI 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 WRI?

Advisory relationship:

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

Brokerage relationship:

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

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

Advisory Services Generally

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

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

WRI 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. . Except as otherwise provided, your financial advisor does not have any discretionary authority over the decision to purchase or sell investment and insurance products on your behalf (that is, implement the decision on his or her own). Nevertheless, WRI as described for each program below will periodically rebalance and/or reallocate your account without your prior direction.

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 that you do not hold at WRI (e.g., equity in a home, savings accounts, brokerage accounts and interests in other qualified and non-qualified plans) as neither WRI nor your financial advisor may have knowledge of these assets.

Information included in this Brochure is incorporated into your WRI program Service Agreement, an agreement you must sign to participate in the programs discussed in this Brochure.

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

- WRI and its affiliates will receive more overall compensation when you purchase Affiliated Mutual Funds than when you purchase other similar products.
- Your financial advisor receives concentrated training and information on the products sponsored by affiliates of WRI that may cause them to recommend Affiliated Mutual Funds rather than other similar products (See “Conflicts of Interest” below for a more comprehensive discussion of conflicts of interest and their disclosure and mitigation).
- Your financial advisor receives concentrated training and information on the products offered by its product partners who pay WRI revenue sharing compensation that may cause them to recommend the products offered by these product partners rather than other products. Your financial advisor does not receive any portion of the revenue sharing. All revenue sharing compensation is paid directly to WRI.

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.

Asset Allocation and Wrap Programs

WRI offers a number of advisory programs to clients that want the flexibility to hold their securities in a brokerage account at Pershing LLC (Pershing). All programs discussed in this Brochure utilize the Pershing Managed Investments (“PMI”) platform.

Depending on the Program, you may select a cash sweep option (“Primary Fund”). Account registrations that are classified as institutional accounts require that WRI utilize a government money market fund to serve as the cash sweep option. Please ask your financial advisor for details.

MAPChoice

WRI sponsors a mutual fund asset allocation program (“MAPChoice”) that offers a selection of strategic asset allocation models, as well as features such as systematic rebalancing and client participation in determining (to a limited extent) asset allocation across asset classes.

Allocation Models and Asset Classes. 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 WRI. WRI also assigns one or more of the Affiliated Mutual Funds to each asset class within the model.

Account Opening. You will complete a questionnaire that serves to identify your 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, based on your responses to the questionnaire. After an asset allocation model is selected, you and your advisor will review the Affiliated Mutual Funds available for each asset class in the model and you will select at least one mutual fund for each asset class in the chosen model.

You may, after consultation with your financial advisor, change the weighting of the asset classes in each model within certain pre-determined parameters. This includes the ability to not use a specific asset class. WRI has partnered with Pershing Managed Investments (“PMI”) to provide portfolio construction and model management tools. These tools enable you 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, select the asset allocation model and Affiliated Mutual Funds to be used in an asset allocation model, and vary the asset class weighting within an asset allocation model, is yours.

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. You may also request an account rebalance at any time. Rebalancing may cause a taxable event.

Funding a MAPChoice Account. All initial and subsequent cash deposits into a MAPChoice account will be made into the Primary Fund. The Primary Fund investment vehicle is chosen by you from the available money market mutual funds, which are not FDIC insured, or an interest bearing bank deposit account which is FDIC insured. WRI in its sole discretion may change the available Primary Fund investment vehicles at any time. Assets invested in the Primary Fund are subsequently used to purchase

advisory/institutional class shares of the Affiliated Mutual Funds selected by you. If the account is funded by a transfer in kind, the account could be traded by a rebalance or exchange which is fund-to-fund and does not go through the Primary Fund. Upon receipt of your mutual fund selections and the account balance reaching the program minimum, your account is typically allocated to the model within 2-3 business days. You may withdraw assets from your account, so long as your account value does not drop below the then current minimum required to remain in the MAPChoice program. Additions to a MAPChoice account may result in the account rebalancing. Withdrawals from a MAPChoice account will be made through the Primary Fund and may result in an account rebalance to return the account to its target allocations. If the MAPChoice account is funded by a transfer from another financial institution, there will be a portion of the time during the transfer process where your assets are not invested in the market.

Changes to Mutual Funds and Asset Allocation Models. 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, WRI 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 WRI moves one or more mutual funds from one asset category to another you may need to select a new mutual fund to complete a model and may find that the new mutual fund you select has higher internal expenses than the mutual fund that was moved.

It is important to consider that WRI will populate the asset allocation models with only advisory/institutional class shares of Affiliated Mutual Funds made available to its retail clients by prospectus. WRI will not consider mutual funds created and managed by mutual fund companies other than affiliates of WRI even though other mutual funds may have lower internal expenses and better performance than similar Affiliated Mutual Funds. The Affiliated Mutual Funds offers other share classes that have lower internal expenses, however, as noted in the prospectus for the Affiliated Mutual Funds, these share classes are reserved for institutional clients as defined by the Affiliated Mutual Funds. You are encouraged to periodically reevaluate your asset allocation models to ensure that the selected model continues to be suitable and consistent with your evolving risk tolerance, investment objectives and time horizon. You should review the propriety of your asset allocation models with your advisor at least annually. There is no additional charge for this service.

MAPFlex

WRI sponsors a mutual fund asset allocation program ("MAPFlex") that offers a selection of strategic asset allocation models, broad choice of mutual funds, including Affiliated Mutual Funds, as well as features such as systematic rebalancing and client participation in determining (to a limited extent) asset allocation across asset classes.

Allocation Models and Asset Classes. MAPFlex 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 WRI.

Account Opening. You will complete a questionnaire that serves to identify your 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. After an asset allocation model is selected, you and your advisor will review the mutual funds, including Affiliated Mutual Funds, available for each asset class in the model and you will select at least one mutual fund for each asset class in the chosen model.

You may, after consultation with your financial advisor, change the weighting of the asset classes in each model within certain pre-determined parameters. This includes the ability to not use a specific asset class. WRI has partnered with Pershing Managed Investments ("PMI") to provide portfolio construction and model management tools. These tools enable you 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 MAPFlex, select the asset allocation model and mutual funds to be used in an asset allocation model, and vary the asset class weighting within an asset allocation model, is yours.

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. You may also request an account rebalance at any time. Rebalancing may cause a taxable event.

Funding a MAPFlex Program Account. All initial and subsequent cash deposits into a MAPFlex account will be made into the Primary Fund. The Primary Fund investment vehicle is chosen by you from the available money market mutual funds, which are not FDIC insured, or an interest bearing bank deposit account which is FDIC insured. WRI in its sole discretion may change the available Primary Fund investment vehicles at any time. Assets invested in the Primary Fund are subsequently used to purchase shares of mutual funds, which may include Affiliated Mutual Funds, selected by you to populate your asset allocation model. If the account is funded by a transfer in kind, the account could be traded by a rebalance or exchange which is fund-to-fund and does not go through

the Primary Fund. Upon receipt of your mutual fund selections and the account balance reaching the program minimum, your account is typically allocated to the model within 2-3 business days. You may withdraw assets from your account, so long as your account value does not drop below the then current minimum required to remain in MAPFlex. Additions to a MAPFlex account may result in the account rebalancing. Withdrawals from a MAPFlex account will be made through the Primary Fund and may result in an account rebalance to return the account to its target allocations. If the MAPFlex account is funded by a transfer from another financial institution, there will be a portion of the time during the transfer process where your assets are not invested in the market.

Changes to Mutual Funds and Asset Allocation Models. MAPFlex 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, WRI periodically reviews the composition of the MAPFlex 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 WRI moves one or more mutual funds from one asset category to another you may need to select a new mutual fund to complete a model and may find that the new mutual fund you select has higher internal expenses than the mutual fund that was moved.

MAP and MAPPlus (utilizing the PMI platform on Pershing) – Closed to new accounts

WRI previously offered the MAP and MAPPlus programs utilizing the PMI platform on Pershing. These programs are closed to new accounts.

Wrap Fee Programs

WRI also offers wrap fee programs. To obtain a copy of the corresponding wrap fee brochures, please ask your financial advisor or refer to <https://www.waddell.com/advbrochures/>.

Note: WRI may change, modify or terminate the program accounts described in this Brochure at any time at its sole discretion.

Account Minimums

You must maintain the following minimums for each respective program or model portfolio:

- MAPChoice and MAPFlex – \$15,000
- MAPPlus – \$25,000

In the event that an account falls below its respective minimum, WRI may terminate its agreement with the client. WRI, at its sole discretion, may waive account minimum balance requirements.

Meetings and Reports

You should review the propriety of your asset allocation models with your advisor at least annually. There is no additional charge for this service. You are strongly encouraged to meet with your advisor more frequently if you have questions about your participation in these programs or if your personal or financial circumstances change. You will receive periodic reports, statements, confirmations, and updated summary prospectuses from the investments you own in these programs. You should carefully read all such material.

Partial Redemptions

Partial redemptions from the programs described in this Brochure are made from the investments in the account, in a manner designed to make the post-redemption account more consistent with the allocations of your selected model in effect at the time of the redemption.

Termination

The Service Agreements ("Service Agreement") for the programs described in this Brochure may be terminated at any time by you, the client, upon written notice to WRI in accordance with the terms of the Service Agreement. WRI may terminate a Service Agreement at any time upon thirty (30) days prior written notice to you. This may include a situation in which your account falls below the program account or model portfolio minimums set forth in this Brochure. If you or WRI terminate the Service Agreement, a prorated amount of the asset-based fee will be refunded to you.

Bankruptcy - Should WRI need to file for protection under bankruptcy laws and or a protective decree would need to be issued under the Securities Investor Protection Act (SIPA), any fees owed by the client, as of such date, shall be collected by WRI from any of the accounts described in this Brochure.

Terminated program accounts will be closed in accordance with one of the scenarios described below:

Terminations initiated by WRI. All of the investments in the program accounts described in this Brochure may be sold if the account value falls below the then applicable account minimum value. You will receive a thirty (30) day written notice of termination. If you fail to provide written instructions for account disposition within the thirty (30) day period, the account will be a) liquidated and the proceeds mailed to the address of record or to an intermediary of your choice or b) transferred to a non-advisory WRI account and reassigned to the Client Account Service Team or the Home Office rep code. Advisory or institutional share classes may not be available in such non-advisory accounts.

Client accounts that are not funded within 90 days of the account opening may be subject to closure and the advisory agreement may be terminated at the discretion of WRI.

Terminations initiated by the Client. You may terminate your account any time voluntarily by providing written notice to WRI. If you elect to voluntarily terminate your program account, you must elect one of the options discussed below:

1. You may instruct WRI to redeem the investments held in your program account and transfer the cash proceeds to the address of record on the account being terminated or to an intermediary of your choice.
2. You may instruct WRI to transfer the investments held in your program account in-kind to an intermediary of your choice so long as the intermediary has an effective selling agreement in place with the companies of the mutual funds held in the account. It is your responsibility to ensure that the intermediary you select has an effective selling agreement.
3. You may transfer your Affiliated Mutual Funds held in your program account to a WRI non-advisory mutual fund account held direct at the Transfer Agent. Please refer to the fund prospectus for additional details.
4. You may transfer the mutual funds held in your account to a WRI non-advisory brokerage account held at Pershing. The shares in the account will transfer in-kind as a non-taxable event, but no additional purchases in Institutional / Advisory shares will be allowed unless you qualify as described in the relevant fund prospectus.

Termination of any account held at Pershing may incur additional charges, including, certain brokerage fees associated with your Pershing brokerage account which are disclosed in the Brokerage Fee Schedule that can be found at <https://www.waddell.com/disclosures-privacy/client-disclosures>.

You must establish the accounts described in this Brochure at Pershing. WRI clears its brokerage business exclusively through Pershing on a fully disclosed basis. You will be subject to the various account and transaction related costs and fees assessed by Pershing, which may be higher than those charged by other broker-dealers for similar services. WRI marks up certain charges to cover its costs in affecting the transactions set forth on the Brokerage Fee Schedule.

Note: WRI may change, modify or terminate the program accounts described in this Brochure at any time at its sole discretion.

Important Information regarding the program accounts described in this Brochure:

- **Affiliated Mutual Funds.** All of the mutual funds approved for use with the MAPChoice, MAP and MAPPlus programs are Affiliated Mutual Funds. The MAPFlex program offers both Affiliated Mutual Funds and unaffiliated mutual funds. It is not necessary to participate in these programs in order to purchase any of the mutual funds available in these programs, including the Affiliated Mutual Funds. However, different costs and expenses will apply as set forth in each mutual fund's prospectus and statement of additional information.
- **Performance.** There is no assurance that the investments selected for use in the program accounts described in this Brochure will perform in any particular manner. Past performance of an investment or asset class is no guarantee of future performance. Clients must carefully read the prospectus of each mutual fund selected for the program accounts described in this Brochure before investing.
- **Mutual Fund and ETF Fees and Expenses.** The asset-based fee described in the Fees and Compensation section below does not cover or include the underlying fees and expense of the mutual funds or ETFs selected for the program accounts described in this Brochure, as specifically described in each fund's prospectus. The fund's fees and expenses will reduce a client's investment return. Each fund's current fees and expenses may vary significantly in future years.
- **Other Asset Allocation programs May Be Less Expensive.** Clients may be able to invest in similar asset allocation programs through other sponsors that have lower asset-based fees and expenses and which may provide better performance than the program accounts described in this Brochure.
- **Conflicts.** The programs described in this Brochure involve significant conflicts of interest. Clients must read carefully the sections of this Brochure and the prospectus for each fund that describe and discuss those conflicts before investing.
- **Inappropriate Client Activity.** Clients are cautioned that redeeming mutual funds, particularly Class A shares on which a load was paid or Class B or C shares subject to a CDSC, to use the cash proceeds to purchase mutual funds within the programs described within this Brochure may subject clients to adverse consequences. Such redemptions may also be unsuitable. WRI may terminate the Service Agreement with clients who are determined to have engaged in such activity.

- **Nature of Share Classes.** Mutual fund shares purchased within the programs described in this Brochure are not subject to a sales load. Class A shares, on which a load was originally paid and were acquired within three years prior to the execution of your Service Agreement, are generally not suitable to be transferred into the program accounts described in this Brochure. See the “Conflicts of Interest” section for additional details.

Variable Annuity Investment Option (closed to new accounts)

WRI previously offered the Nationwide DestinationSM Architect (“NDA”) variable annuity for investment advisory accounts. The primary features of and material costs associated with the NDA can be found in the prospectus. Variable annuities are sold only by prospectus.

This product was closed to new accounts on January 31, 2019.

SMA and UMA Programs Offered Through Lockwood Advisors, Inc.

Lockwood Advisors, Inc. (Lockwood) sponsors, manages and provides access to individual account managers and investment advisory and discretionary services to financial institutions which in turn provide investment advice to their clients. WRI has engaged Lockwood to provide WRI 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 WRI to make available to you certain investment managers contractually engaged by Lockwood to manage your assets in a discretionary manner and based on your individual investment needs and goals. WRI relies on Lockwood’s due diligence process and does not conduct additional screening of SMA programs.

Managed Account Process. Your 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”). Your financial advisor will assist you 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, you will grant limited investment discretion to the Manager(s) selected. Managers will exercise this authority in the day-to-day portfolio management of your assets. You should review the propriety of your investments with your advisor at least annually. There is no additional charge for this service. You are strongly encouraged to meet with your advisor more frequently if you have questions about your participation in these programs or if your personal or financial circumstances change. You will receive periodic reports, statements, confirmations, and updated summary prospectuses from the investments you own in these programs. You should carefully read all such material. Changes will be immediately forwarded to Managers by Lockwood to the extent that such changes could impact the Manager’s management of your assets. Financial advisors may also use the changes provided by you to recommend changes in Managers. You will have a limited ability to place restrictions on individual investments to be purchased by Managers and to have direct contact with Managers.

SMA Disclosure. You must read completely and carefully this Brochure, the ADV Part 2B specific to your financial advisor(s), 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 you select. You 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. WRI 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. Your 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 investments in your 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. You are urged to obtain and read carefully the prospectus for each mutual fund purchased in your LIS account.

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

LIS Disclosure. You must read completely and carefully this Brochure, the ADV 2B specific to your financial advisor(s), the applicable Form ADV Part 2A, Appendix 1 and Part 2B provided by Lockwood. You 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 you and convert the account to a standard brokerage account custodied at Pershing.

Note: WRI may change, modify or terminate access to Lockwood and/or LIS.

Third Party Money Managers

WRI may act as a solicitor and allow its financial advisors to refer you to unaffiliated third party investment advisers offering asset management and other investment advisory services. If WRI acted as a solicitor it would be paid a portion of the fee charged and collected by the third party Advisor in the form of solicitor fees. Each solicitation arrangement is performed pursuant to a written solicitation agreement, which would comply with SEC Rule 206(4)-3 and applicable state securities rules and regulations.

Through these programs WRI will recommend third party Advisors that offer Advisory programs consistent with your stated investment objectives and risk tolerance. You may then select a recommended third party Advisor. You will then enter into a written agreement directly with the unaffiliated third party Advisor.

WRI financial advisors are available to answer questions you may have regarding your account and act as a communication conduit between you and the Advisor. Third party investment advisers may take discretionary authority to determine the securities to be purchased and sold for you. Neither WRI nor its financial advisors will have any trading authority with respect to your managed account with the Advisor(s).

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

The actual charge to you will vary depending on the Advisor selected. All fees are calculated and collected by the selected Advisor who shall be responsible for delivering WRI's portion of the client fee to WRI. You 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. WRI would not receive any portion of such commissions or fees. WRI would only be compensated by the solicitor fee described above. WRI would receive no other compensation in connection with your account. Therefore you would not pay more to use a solicitor than you would to engage the Advisor directly.

Value of Total Assets Under Management

WRI has as of December 31, 2019 total assets under management in the amount of \$26,947,190,046. Of this amount, \$3,418,109,444 are managed using discretion.

FEES AND COMPENSATION

Negotiable Fees

WRI is a registered investment adviser and its financial advisors are investment advisory representatives (IARs) of the firm. Both parties must adhere to a fiduciary duty and standard of care which requires that we place the interest of our clients ahead of our own interests. As such, it is a common practice for financial advisors and clients to negotiate their specific advisory and financial planning fees in context of the services offered, and the specific needs of each client. Negotiable fees are available for all of the advisory programs discussed in this section.

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

The financial advisor who recommends and assists you in purchasing an advisory product described in this Brochure is paid a portion of the fees charged to you for the program(s) you have chosen. Note that the fees listed below do not include miscellaneous account and services fees that may be associated with your account. For a schedule of these fees, please request it from your financial advisor.

Advisory Fee Billing Methodology, Frequency and Changes

Upon reaching the program minimum, the initial fee will be assessed for the partial period from the time the program minimum was reached through the end of the billing period. Thereafter, the method used to calculate the advisory fee is monthly in advance. Advisory fees are computed based on the prior period's ending balance. Please see the Flow Billing section below for additional details.

Upon termination of a Service Agreement, the prorated advisory fee will be refunded to you.

You will pay an ongoing asset-based fee (described below) to cover the cost of such services as consulting and administrative services, creation and continual maintenance of the proprietary tool used to select asset category percentages in each account, ongoing monitoring of and periodic revisions of the model portfolios, and services provided by your financial advisor, including annual and other periodic meetings for account reviews, answering your inquiries, assistance with annual tax reporting and meeting with you as required to reassess the propriety of your current asset allocation model selection. If, during any billing period, there is insufficient cash in an account to pay the advisory fee, WRI may in its sole discretion sell shares of the investments held in the account in amounts necessary to raise sufficient cash to pay the advisory fee. Advisory fees will be deducted automatically from the Primary Fund.

Assuming a client invests more than the first tier in any of the programs, the net effective fee will be a weighted average of the negotiated schedule fee rates, and may change with the account's asset level.

Assets transferred from existing program accounts into another program account will be charged current program fees.

WRI may change the advisory fees at any time in its sole discretion. Due to periodic changes in the fee schedules listed below, your account(s) may be charged according to a different fee schedule than the one in this Brochure. Please contact your financial advisor if you have any questions regarding your account fees.

The Advisor Fee you pay is negotiable and is to be agreed to between you and your advisor taking into account your specific needs.

MAPChoice Fee Schedule

| Value of Assets | Maximum Advisor Fee (1) | Fixed Program Fee (2) | Maximum Client Fee* (1) + (2) |
|------------------------------------|----------------------------|--------------------------|----------------------------------|
| On the first \$300,000 | 1.50% | 0.00% | 1.50% |
| On the next \$700,000 | 1.25% | 0.00% | 1.25% |
| On assets in excess of \$1 million | 1.00% | 0.00% | 1.00% |

MAPFlex Fee Schedule

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

* The actual Client Fee for your account is disclosed on the Service Agreement.

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

You will pay an asset-based fee to Lockwood quarterly that will cover Lockwood's sponsor and advisory fees and Pershing's clearing and custody of account assets. These services may change from time to time. Lockwood's fees vary depending on the amount of assets you place with Equity/Balanced and Fixed Income Managers. Each Manager charges a separate fee for its ongoing discretionary asset management services. Lockwood or your selected Manager may "trade away" from Pershing at their discretion in pursuit of best execution, which may result in additional costs and added fees to you. You should review the applicable Lockwood Form ADV, Part 2A Appendix 1 to determine the fees they will pay to Lockwood and the Managers to participate in the SMA program. In addition to these fees, you will pay WRI an asset-based fee as described below.

SMA Equity Fees

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

SMA Fixed Income Fees

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

* The actual Client Fee for your account is disclosed on the Service Agreement.

Fees payable to WRI 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 advisory fees will be refunded pro rata if a SMA program account is closed prior to a quarter's end. WRI may change the fees it charges at any time in its sole discretion.

LIS Fees

You 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. You 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, you will pay WRI an asset-based fee. The total fee you may pay to WRI, Lockwood, Pershing, and the Manager is described below.

LIS Fees

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

Fees payable to WRI 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.

Household Account Grouping

Account balances in multiple WRI advisory program accounts (MAP, MAPPlus, MAPChoice, MAPFlex, and MAPLatitude) using the PMI platform will be aggregated for purposes of determining the applicable advisory fee rate. This householding is automatic and is triggered by accounts which share the same financial advisor ID, client last name and physical address.

SMA and LIS program accounts (Lockwood sponsored programs) are aggregated for purposes of determining the applicable advisory fee rate, but are not aggregated with the WRI program accounts referenced in the previous paragraph.

Flow Billing

As you add and withdraw money from programs described in this Brochure, your accounts may not be charged immediately. At account inception, the amount billed will be contingent on the fee agreed upon between you and your advisor and the number of days remaining in the month. Thereafter, you will be billed at the beginning of the month in advance. Flow billing refers to any deposits or withdrawals from the account of over \$1,000 during the month and after account inception. At the beginning of the month, an analysis is done to calculate the effect flows into and out of the account should have had on your fee for the previous month. These are then billed or credited as adjustments to your monthly fee. Please note that flow billing does not apply to SMA and LIS program accounts.

If you have questions about your fees charged in any of our programs, please contact your financial advisor.

CONFLICTS OF INTEREST

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

The fees and other compensation earned by WRI and your financial advisor differ depending on the advice and products that you select. WRI and its affiliates receive more revenue from the sale of some financial products and services, particularly the Affiliated Mutual Funds, than from the sale of other products and services. It is more profitable for WRI and its affiliates if clients purchase the Affiliated Mutual Funds. Employees of WRI 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. WRI generally also receives more total revenue when the Affiliated Mutual Funds are used inside the asset allocation and Wrap fee programs we sponsor.

WRI has agreements with the Affiliated Mutual Funds to, in return for certain fees and expenses, promote and distribute the mutual funds. Therefore, this arrangement represents a conflict of interest by which WRI and your financial advisor are incentivized to recommend the Affiliated Mutual Funds rather than other mutual funds and available share classes that may be less expensive for clients, but may pay less compensation to WRI 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 WRI's financial success. As such, management, sales leaders and other employees generally spend more of their time and resources promoting WRI affiliated products and services, including the Affiliated Mutual Funds.

In addition to the advisory service fees, mutual funds charge annual operating expenses which include fees paid for investment management (research, trading, portfolio manager compensation, administrative services and technology).

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

Financial advisors may also charge a fee to prepare a written financial plan from which they may make an investment recommendation. The investment recommendation may be implemented through any financial services firm and need not be implemented through WRI. Should you choose to implement the recommendations through WRI 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 WRI and its affiliates, you may pay more or less than if you purchased similar products and investment advisory services through other financial services firms.

WRI offers services to you through two separate channels of financial advisors: (1) Classic financial advisors and (2) Choice financial advisors. The availability of certain products and services may differ between our Classic and Choice financial advisor channels.

Depending on your Advisor's channel, the products and services offered to you may be limited to only those products and services available within your Advisor's respective channel. The limitations of products and services offered to you through our financial advisor channels may not be in your best interest. You are encouraged to review the respective Brochure for each advisory program WRI offers. The Brochures provide detailed descriptions of the products and services available to you. When applicable and upon your request, WRI will refer a financial advisor that can offer the advisory program of your choice.

WRI offers certain sales incentive programs to its financial advisors. Such sales incentive programs may include reward trips, marketing compensation and services, meals, program fee payouts and other similar cash and non-cash compensation. Sales incentive programs are based on Total Gross Revenue targets and ranking, and not exclusively on one product or service. These sales incentive programs may create a conflict of interest in the products or services offered to you by your WRI financial advisor. In an effort to qualify for sales incentive programs, your financial advisor may be incented to offer you products or services that yield higher sales production. In an effort to resolve this conflict, WRI supervises and monitors its financial advisors' investment recommendations to reasonably ensure that such recommendations are in your best interest.

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

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

Mutual Fund companies typically offer different ways to buy mutual fund shares. Some mutual funds offer only one share class of a particular mutual fund while others may offer multiple share classes of each mutual fund. In addition to the more broadly known retail share classes (A, B and C) many fund companies have developed additional specialized share classes designed specifically for investment advisory programs and/or institutional investors. These share classes are sometimes referred to as Advisory or Institutional share classes. Advisory or Institutional shares contain higher embedded fund expenses due to transfer agent and recordkeeping fees. Some mutual fund companies offer what is commonly referred to as "Clean" shares or other lower cost share classes. Typically, these share classes have minimal, if any, transfer agent or recordkeeping fees and therefore, are less expensive to own. When available by the mutual fund company, WRI offers Advisory and Institutional share classes in the mutual fund asset allocation programs described in this Brochure. Clean shares, or other lower cost share classes, may be available at other financial institutions, but are not available in WRI's Advisory Programs.

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

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

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

TYPES OF CLIENTS

WRI 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

WRI 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, including asset allocation, 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.

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 WRI 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.

WRI has selected mutual funds and asset allocation programs, as described in this Brochure, in an effort to offer programs that do not involve significant or unusual risks to our clients. The SMA and LIS Programs managed by and/or offered through Lockwood do not have the same oversight as WRI programs due to their management by third parties. As a result, these programs may present a significant risk of loss or unusual risk to clients. Performance of the SMA and LIS programs and risk of loss is dependent upon the manager(s) and management style(s) you select. WRI strongly recommends that you read carefully the disclosure materials for the SMA and LIS programs discussed in more detail in Advisory Business above.

Depending on your anticipated trading volume it may be less expensive to pay commissions in a traditional brokerage account than to pay a continuing asset-based fee to participate in an advisory product that charges an asset-based fee.

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

DISCIPLINARY INFORMATION

On January 15, 2013 a Letter of Acceptance, Waiver and Consent (No. 2011029075101) was approved by FINRA relating to the delivery of purchase confirmations for mutual fund asset-allocation products (MAP). FINRA found WRI 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 subsidiaries 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. WRI agreed to a censure and a fine of \$75,000.

On June 19, 2015 the State of New Hampshire, Department of State, Bureau of Securities (the “Bureau”) received a complaint from a New Hampshire resident and former client of WRI, which raised concerns regarding certain financial planning fees charged by an investment adviser representative of WRI. Based on the content of the complaint, the Bureau initiated an investigation. During the course of its investigation, the Bureau determined that the investment adviser 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 WRI’s supervision of the investment adviser representative in question. The Bureau noted that WRI had taken steps to enhance its supervision of the financial planning conducted by its investment adviser representatives. All of the Bureau’s allegations against WRI are limited to investment advisory activities.

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

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

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

WRI has material relationships and arrangements that are material to the investment advisory programs discussed in this Brochure with the following:

Affiliated Mutual Funds: Please read carefully the discussion above under Fees and Compensation, Other Fees and Compensation, and Conflicts of Interest regarding the conflicts of interest inherent in the relationship between WRI and the Affiliated Mutual Funds. The investment manager for the Affiliated Mutual Funds is Ivy Investment Management Company, a wholly owned subsidiary of Waddell & Reed Financial, Inc.

W&R 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 the Strategic Product Providers.

Strategic Product Providers: We discuss our relationship with the 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.

Pershing: WRI clears its brokerage business exclusively through Pershing on a fully disclosed basis. Clients that establish brokerage accounts with WRI must establish those accounts at Pershing. Clients will be subject to the various account and transaction related costs and fees assessed by Pershing, which may be higher than those charged by other broker-dealers for similar services. WRI marks up certain charges to cover its costs in affecting the transactions set forth on the Brokerage Fee Schedule.

Lockwood Advisors, Inc.: Lockwood Advisors, Inc. is an affiliate of Pershing. WRI uses Lockwood Advisors, Inc. as a platform for several of the fee-based asset allocation and wrap programs we offer as an investment adviser. 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. Please read carefully the discussion about these products, Advisory Business, SMA and UMA Programs offered through Lockwood, Inc. and Pershing above.

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

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

WRI 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.

WRI, 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.

WRI 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 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 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 WRI or its financial advisors. They may purchase these securities through any broker-dealer or investment adviser that have a selling agreement when applicable. Nevertheless, clients that decide to purchase securities in brokerage accounts through WRI must do so only through brokerage accounts carried for WRI by Pershing. All transactions effected in these brokerage accounts will be executed by Pershing. By directing brokerage executions through Pershing, 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. We believe Pershing provides highly competitive execution quality based on (i) speed and certainty; (ii) price improvement; and (iii) overall execution quality.

WRI offers a wide range of mutual funds and is a participant in Pershing’s FUNDVEST® program. Participating mutual fund sponsors pay a fee to Pershing to participate in this program. None of these additional payments is paid to WRI or to any WRI advisor 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. Pershing, at their sole discretion, may add or remove mutual funds from the FUNDVEST® program or may terminate the FUNDVEST® program without prior notice.

Broker-Dealers that participate in Pershing’s FUNDVEST® program will be assessed by Pershing a short-term redemption fee if participating mutual funds are sold within one month. Similar short-term redemption fees may be charged by mutual fund short-term

redemption fees are not charged to the client. Never-the less, FUNDVEST® is not appropriate for short term traders. W&R may terminate investment advisory service agreements with clients that engage in short term trading of mutual funds within FUNDVEST®.

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

Principal Transactions and Agency Cross Transactions

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

Trade Errors

WRI has a trade error procedure to resolve trading errors that may occur in advisory 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. WRI maintains an error account to facilitate handling trade errors. Gains may be offset by losses in the error account.

Valuation

WRI relies primarily on third party quotation services, including services provided by Pershing to determine the value of securities in advisory 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 Affiliated Mutual Funds, the shares 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 unaffiliated mutual funds will be valued at their net asset values on the valuation date as provided by pricing sources that WRI 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 may be used.

Benchmark Selection

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

REVIEW OF ACCOUNTS

WRI's multifaceted supervisory structure includes Designated Supervising Principals ("DSP") located in various field offices ("Field DSP") and the Financial Advisors Division Office of Supervisory Jurisdiction ("FAD OSJ DSP") located in the Home Office. Branch offices are part of a Market structure, which in turn are part of a larger Region. Within this Market and Region structure, the Field DSP could be a Regional Vice President, Market Director, or an Area Sales Leader. Field DSPs are responsible for the general day-to-day supervision of all financial advisors assigned to his or her Branch office, Market, or Region. FAD OSJ DSPs supervise the offer and sale of certain securities products sold through financial advisors, Field DSPs and Home Office registered persons with personal production.

The appropriate DSP conducts reviews of client accounts for conformity with company policy and procedures.

You will receive client statements (at least quarterly) with respect to your advisory accounts maintained through WRI. You may also receive periodic reports from the individual securities or mutual fund shares you hold.

Your financial advisor must attempt to contact you to review your advisory account(s) at least annually to determine whether your financial situation or investment objectives have changed or whether you want to modify your current holdings or model.

CLIENT REFERRALS AND OTHER COMPENSATION

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

WRI has a financial interest in our clients' transactions and the recommendations we make to clients to buy or sell securities or investment products. WRI has revenue sharing arrangements with certain available product companies outside of advisory programs. Although WRI 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 WRI 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 WRI, in its capacity as investment adviser, and any affiliated person, from considering existing business relationships when selecting or recommending investment products.

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

CUSTODY

The Securities, including mutual funds, you purchase to fund your investment advisory product discussed in this Brochure are held in your brokerage account at Pershing or at Nationwide. The securities you purchase in the Lockwood SMA and LIS programs discussed in this Brochure are held in your brokerage account at Pershing. You will receive confirmations, quarterly statements at a minimum, and other reports from the mutual funds you hold from Pershing.

Nationwide holds the Nationwide DestinationSM Architect 2.0 variable annuities directly and will provide quarterly statements, trade confirmations and other reports for the investments held in the annuities.

INVESTMENT DISCRETION

Within approved advisory programs, you may grant WRI limited discretionary trading authority over your investment advisory account. Written authorization granting this limited discretionary trading authority must be obtained from you prior to an investment adviser representative ("IAR") exercising any discretionary trading authority in your account. After your written authorization is received, WRI will appoint and approve an IAR to utilize limited discretionary trading in your account. WRI or the appointed IAR may not withdraw funds or securities from your account(s) without your express written permission.

WRI will periodically rebalance and/or reallocate your investment advisory account without your prior direction according to the advisory program you have selected.

In the event that WRI has discretionary trading authority in your retirement account and the IAR appointed by WRI to trade your account(s) uses Affiliated Mutual Funds, a portion of the underlying management fee for those Affiliated Mutual Funds may be rebated back to you. These fee rebates will appear on your client statement. This same fee rebate will not be applied to non-retirement accounts regardless of whether you have granted WRI discretion over your non-retirement account or not.

Within the Lockwood SMA and LIS programs, Lockwood or the chosen SMA investment adviser manages a client's assets in a discretionary manner, based on the client's individual investment needs and goals.

VOTING CLIENT SECURITIES

WRI does not accept authority to vote client securities proxies.

FINANCIAL INFORMATION

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

WRI 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 Financial's Annual Report and Form 10-K can be found under Investor Relations at www.waddell.com.

