

# Advisory

## Programs

SPA

MAP

*MAPNavigator*

Guided Investment Strategies

Separately Managed Account Strategies



## COVER PAGE

Waddell & Reed, Inc.  
SEC File Number: 16720  
Part 2A of Form ADV: Firm Brochure  
Asset Allocation Only Brochure  
The date of this Brochure is: **March 31, 2021**

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](mailto:advisoryproducts@waddell.com)). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Waddell & Reed, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Waddell & Reed, Inc. is a federally registered investment adviser and a broker-dealer and member of FINRA and SIPC. 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.

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Disclosure Required by SEC Rule 206(4)-2:

If you invest in an advisory account through Waddell & Reed, Inc., your mutual funds and securities will be held in a separate mutual fund account owned and controlled by you at Waddell & Reed Services Company, the transfer agent for the Ivy Funds ("Transfer Agent") and/or in a separate brokerage account at Pershing LLC, a qualified custodian. Below are the addresses for Waddell & Reed Services Company and Pershing LLC:

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

Pershing LLC  
One Pershing Place  
Jersey City, NJ 07399

From time to time investors in our advisory accounts may receive consolidated reports directly from their financial advisors. These reports may include lists or summaries of your account holding, including mutual funds and securities. We urge you to compare these reports to the official account statements of your account holdings provided at least quarterly by the Transfer Agent/Custodian to ensure that the mutual fund and securities holdings listed on these reports provided by your financial advisor match the mutual fund and securities holdings reflected on the official account statements.

## SUMMARY OF CHANGES

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

1. Updated values of the firm's Total Assets Under Management.
2. Added the Retirement Account Disclosure.

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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. WRI financial advisors have access to a broad array of investment and insurance products and services that can help satisfy their clients’ planning needs.

**Affiliated Products.** WRI is a wholly owned subsidiary of Waddell & Reed Financial, Inc., a publicly held company (NYSE: WDR). Other subsidiaries of WDR serve as an investment adviser, distributor and transfer agent of various mutual funds, including the following:

- Ivy Funds,
- Ivy Variable Insurance Portfolios, offered within variable insurance products provided by certain insurance product providers (currently Minnesota Life Insurance Company and Nationwide Life Insurance Companies) among other insurance product carriers,
- Ivy InvestEd Portfolios offered within the Ivy InvestEd 529 Plan, and
- Ivy High Income Opportunities Fund, a close-end mutual fund.

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**

Waddell & Reed financial advisors 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 financial advisor in an Advisory Relationship?***

WRI is a registered investment adviser (RIA) and its financial advisors are investment adviser representatives (IARs) of the firm. Both parties must adhere to a fiduciary duty, as defined by the Investment Advisers Act of 1940 and rules promulgated thereunder, and therefore must act solely in the best interest of their 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, including 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 described in the appropriate Advisory Services Brochure (Form ADV) and discussed in each program’s Service Agreement. You can terminate your Service Agreement and Service Agreement Supplement at any time. 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 financial 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. 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 pay 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 act in a client's best interest. 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 in your best interest and 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 you consider when deciding between an advisory or brokerage relationship with WRI?**

### ***Advisory relationship:***

1. Prefer ongoing advice related to your account
2. Prefer to pay a periodic asset-based fee
3. Prefer ongoing monitoring and rebalancing

### ***Brokerage relationship:***

1. Prefer recommendations on specific transactions
2. Prefer to pay a commission or sales charge per transaction
3. Prefer a 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 our advisory programs known as Managed Allocation Portfolios (MAP), Strategic Portfolio Allocation (SPA), MAPNavigator, Guided Investment Strategies (GIS), and Separately Managed Account Strategies (SMAS).

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 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 their 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 your financial advisor 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 Programs**

WRI offers several advisory programs to clients that want the flexibility to hold mutual funds and ETFs. WRI utilizes the Envestnet Asset Management, Inc. (“Envestnet”) technology platform which provides you and your financial advisor with tools to construct portfolios and manage portfolio models.

Depending on the program and type of account, you may select a cash sweep option (“Primary Fund”). The Primary Fund investment vehicle is either a money market fund, which is not FDIC insured, or an interest-bearing bank deposit account which is FDIC insured. Some programs do not offer an FDIC insured option. Institutional account holders are required to use a government money market fund to serve as the cash sweep option. WRI in its sole discretion may change the available Primary Fund investment vehicles at any time. Please ask your financial advisor for details.

All programs are designed to be long-term investment vehicles and should not be used for market timing.

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

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

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

It is important to consider that Wilshire will populate the asset allocation models with only advisory/institutional class shares of Affiliated Mutual Funds made available to retail clients by prospectus. Wilshire 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 offer additional share classes that have lower internal expenses, however, as noted in the prospectuses for the Affiliated Mutual Funds, these share classes are reserved for institutional clients as defined by the Affiliated Mutual Funds.

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

**Account Opening.** You, after consultation with your financial advisor, will determine your appropriate investment profile and will select an appropriate model portfolio, based on multiple factors, including but not limited to your investment objectives, risk tolerance and investment time horizon.

**Funding a SPA Program Account.** Investments are allocated in accordance with the model selected by you. Prior to the initial allocation into the model, your initial and subsequent cash investments will be invested temporarily in the Primary Fund. Investments in the Primary Fund are then exchanged in accordance with a schedule established by WRI into the preselected advisory/institutional investments in each 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. Due to a variety of factors, there may be delays between the receipt of transaction requests from you and the processing of such requests. Initial and subsequent purchases from the Primary Fund are made in accordance with the percentage allocations of the selected model in effect at the time of purchase. If you invest in a SPA program account within a short period of time prior to a scheduled quarterly rebalance, you may not be eligible for the first rebalance, but will be included in the next scheduled rebalance. Partial withdrawals from a SPA account are made from the mutual funds in the SPA account, as determined by WRI, in its sole discretion, in a manner designed to make the post-redemption allocation of the SPA account more consistent with the allocations of the selected model in effect at the time of the withdrawal, but there can be no assurance that the SPA account will be allocated in accordance with the applicable model's percentage allocations. All withdrawals from SPA accounts will be made by exchanging sufficient shares of the mutual funds in the SPA account for shares of the Primary Fund, from which the withdrawal request will be fulfilled. If the SPA program 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.

Rebalancing, including for the purpose of paying advisory fees for SPA services, may constitute taxable events if done outside a tax-advantaged account or product and may result in tax liability and/or tax withholding. You are encouraged to consult a tax advisor to determine the tax consequences of participation in SPA. Redemptions of mutual fund shares from SPA accounts may cause your allocations to deviate from the allocation of your selected model.

## **Managed Allocation Portfolios (MAP)**

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

**Allocation Models and Asset Classes.** MAP consists of five primary asset allocation models: Aggressive Growth, Growth, Conservative Growth, Income and Conservative Income. Each model is constructed of up to eight asset classes, which are selected and assigned weightings within each model by WRI. WRI only assigns Affiliated Mutual Funds to each asset class within the model. In addition to the five models listed above, some legacy MAP accounts are invested in a Conservative model that is no longer available and have been incorporated into the Conservative Income model.

**Account Opening.** You, after consultation with your financial advisor, will determine your appropriate investment profile and will select an asset allocation model, based on multiple factors, including but not limited to your investment objectives, risk tolerance and investment time horizon. After an asset allocation model is selected, you and your financial advisor will review the Affiliated Mutual Funds selected for each asset class in the model and you will select at least one mutual fund for each selected 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, or 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 MAP, 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.** MAP accounts have the option to select either annual, semi-annual, or quarterly rebalancing. The rebalancing frequency of MAP program accounts is selected by you at the time you establish your MAP account. You may also request an account rebalance at any time in between the selected intervals. An account rebalance will also be triggered if your account has a cash position greater than a set percentage. Account rebalancing will be accomplished by buying, selling or exchanging shares of mutual funds as necessary, based on predefined drift parameters, to reach the target allocations indicated in your MAP Service Agreement Supplement. Rebalancing may cause a taxable event in taxable account types. Therefore, you should consult with your tax advisor before deciding to participate in a taxable MAP account.

**Funding a MAP Program Account.** All initial and subsequent cash deposits into a MAP account will be made into the Primary Fund. Assets invested in the Primary Fund are subsequently used to purchase advisory/institutional class shares of the Affiliated Mutual Funds selected by you. If your account is funded by a transfer in kind, your 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 MAP mutual fund selection and the account balance reaching the program minimum, your account is typically allocated to the model within 2-3 business days. You may invest any amount in your MAP account after your initial investment. Additions to a MAP account may result in the account rebalancing. You may also withdraw assets from your account, so long as your account value does not drop below the then current



minimum required to remain in the MAP program. Withdrawals from a MAP 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 MAP 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.** MAP model portfolios are strategic in nature and are based on long-term historical asset class assumptions and long-term forward-looking projections. Therefore, it is not likely that there will be changes to the model portfolio's asset class percentages. However, WRI periodically reviews the composition of the MAP 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 additional share classes that have lower internal expenses, however, as noted in the prospectuses 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 with your financial advisor to ensure that the selected model continues to be consistent with your evolving risk tolerance, investment objectives and time horizon.

## MAPNavigator

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

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

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

It is important to consider that the List only contains advisory/institutional class shares of Affiliated Mutual Funds and unaffiliated mutual funds made available to retail clients by prospectus. The Affiliated Mutual Funds and the unaffiliated mutual funds included in the List offer additional share classes that have lower internal expenses, however, as noted in the prospectuses for these funds, these share classes are reserved for institutional clients as defined by the respective mutual fund companies or have not been made available to WRI under its selling agreements with these funds.

**Account Opening.** You, after consultation with your financial advisor, will determine your appropriate investment profile and will select an asset allocation model, based on multiple factors, including but not limited to your investment objectives, risk tolerance and investment time horizon. After an asset allocation model is selected, you and your financial advisor will review the mutual funds selected for each asset class in the model and you will select at least one mutual fund for each selected asset class in the chosen model.

You may, after consulting 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, or 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 MAPNavigator, 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.** MAPNavigator accounts have the option to select annual, semi-annual, or quarterly rebalancing. The rebalancing frequency is selected by you at the time you establish your MAPNavigator account. You may also request an account rebalance at any time in between the selected intervals. An account rebalance will also be triggered if your account has a cash position greater than a set percentage. Account rebalancing will be accomplished by buying and selling shares of mutual funds as necessary, based on predefined drift parameters, to reach the target allocations indicated in the MAPNavigator Service Agreement Supplement. Rebalancing may cause a taxable event in taxable account types. Therefore, you should consult with your tax advisor before deciding to participate in a taxable MAPNavigator account.

**Funding a MAPNavigator Program Account.** All initial and subsequent cash deposits into a MAPNavigator account will be made into the Primary Fund. 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. Upon receipt of your MAPNavigator mutual fund selection and the account balance reaching the program minimum, your account is typically allocated to the model within 2-3 business days. You may invest any amount in your MAPNavigator account after your initial investment. Additions to a MAPNavigator account may result in the account rebalancing. You may also withdraw assets from your account, so long as your account value does not drop below the then current minimum required to remain in the MAPNavigator program. Withdrawals from a MAPNavigator 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 MAPNavigator 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.** The model portfolios are strategic in nature and based on long-term historical asset class assumptions and long-term forward-looking projections. Therefore, it is not likely that there will be changes to the model portfolio's target asset class percentages. However, WRI periodically reviews the composition of the program models to determine whether the models should be modified to better reflect WRI's analysis of the economy and forecasted long-term market conditions. These reviews may result in changes to the models, asset classes, or mutual funds within the asset classes. To the extent WRI moves one or more mutual funds from one asset category to another a new mutual fund may need to be selected to complete a model and that newly selected mutual fund may have higher internal expenses than the mutual fund that was moved. You are encouraged to periodically reevaluate your asset allocation models and mutual fund selections with your financial advisor to ensure they continue to be consistent with your evolving risk tolerance, investment objectives and time horizon.

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

## **Guided Investment Strategies (GIS)**

The GIS program offers strategic, dynamic and tactical asset allocation models utilizing mutual fund and ETF investments.

**Allocation Models.** The GIS program utilizes model portfolios that hold mutual funds and/or ETF investments. Each model portfolio is mapped to one of the following risk categories: Conservative Income, Income, Conservative Growth, Growth and Aggressive Growth. As noted below, you will score into one of the risk categories and select, with the help of your financial advisor, one of the model portfolios.

The ETF and/or mutual fund model portfolio providers ("Third Party Strategists" or "TPS") consist of several leading investment managers. WRI reserves the right to add or remove Third Party Strategists from the program at any time. These providers will periodically rebalance and make changes to the asset allocation and investment selection on a discretionary basis in the accounts. Neither WRI nor its financial advisors will manage these model portfolios.

Within the GIS program, you will also have access to SPAPLus, a series of mutual fund model portfolios. WRI has retained Wilshire to develop and maintain asset allocation model portfolios ("Model Portfolios") as an "independent financial expert" in accordance with the terms of the United States Department of Labor Advisory Opinion 2001-09A issued to Sun America Retirement Markets, Inc. on December 14, 2001 with regard to the SPAPLus models. In this role, Wilshire will periodically rebalance and make changes to asset allocation and fund selection of the Model Portfolios. The Model Portfolios will consist of allocations to both Affiliated Mutual Funds and unaffiliated mutual funds selected by Wilshire. Wilshire will periodically, as it deems appropriate, update the Model Portfolios for use by WRI with respect to the SPAPLus models for WRI's GIS program clients. Wilshire may also revise the corresponding allocations to the mutual funds or otherwise change the individual funds underlying one or more of the existing Model Portfolios. Wilshire does not create customized portfolios for individual GIS program accounts utilizing the SPAPLus models. WRI will administer initial client purchases into, as well as Wilshire's updates to, the Model Portfolios. You authorize WRI to place orders

without prior consultation to act in accordance with the asset allocation, fund selection and rebalancing of the Model Portfolios. Neither WRI nor its financial advisors will manage the Model Portfolios.

It is important to consider that the SPAPLus Model Portfolios will only contain advisory/institutional class shares of Affiliated Mutual Funds and unaffiliated mutual funds made available to retail clients by prospectus. Wilshire will not consider mutual funds created and managed by mutual fund companies other than the Affiliated Mutual Fund and unaffiliated fund companies that WRI has selected for the SPAPLus models even though other mutual funds may have lower internal expenses and better performance than those that WRI selects for the SPAPLus models. The Affiliated Mutual Funds and the unaffiliated mutual funds offer additional share classes that have lower internal expenses, however, as noted in the prospectus for these mutual funds, these share classes are reserved for institutional clients as defined by the respective mutual fund companies or have not been made available to WRI under its selling agreements with these funds.

**Account Opening.** You, after consultation with your financial advisor, will determine your appropriate investment profile and will select an appropriate model portfolio, based on multiple factors, including but not limited to your investment objectives, risk tolerance and investment time horizon.

**Funding a GIS Program Account.** All initial and subsequent cash deposits into a GIS account will be made into the Primary Fund. Assets invested in the Primary Fund are subsequently used to purchase investments within the selected model portfolio. Upon receipt of your model portfolio selection and the account balance reaching the program minimum, your account is typically allocated to the model within 2-3 business days. If you invest in a SPAPLus model portfolio within a short period of time prior to a scheduled quarterly rebalance, you may not be eligible for the first rebalance, but will be included in the next scheduled rebalance. You may invest any amount in your account after your initial investment. Additions to the account may result in the account rebalancing. You may also withdraw assets from your account, so long as your account value does not drop below the then current minimum required to remain in the model portfolio. Withdrawals from the account will be made through the Primary Fund and may also result in rebalancing taking place so the account returns to its target allocations. If the 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.

For ETF trades, WRI will utilize an institutional average price account that will allocate the trades in a manner consistent with WRI's fiduciary duty to its clients. This process ensures equal pricing to each client in that each client receives the average price for the aggregate order.

## **Separately Managed Account Strategies (SMAS)**

WRI has contracted with Envestnet to offer the SMAS program which provides access to actively managed investment strategies from a roster of third-party or independent investment management firms ("Sub-Manager").

**Allocation.** The SMAS program utilizes Sub-Managers that specialize in a specific investment style and/or diversified portfolio of investments. Each account is mapped to one of the following risk categories: Conservative Income, Income, Conservative Growth, Growth and Aggressive Growth. As noted below, you will score into one of the risk categories and select, with the help of your financial advisor, one of the Sub-Managers.

The SMAS Sub-Manager you select will periodically rebalance and make investment changes to your account on a discretionary basis. Sub-Managers also have discretionary authority over broker-dealer selection and execution of trading done in your SMAS program account. Sub-Managers typically place trades through Pershing, but they can place trades through other broker-dealers (step-out trades), which involve additional costs that are passed on to you. Please refer to the section titled "Brokerage Practices" for more information on step-out trading.

Neither WRI nor its financial advisors will manage these accounts.

**Account Opening.** You, after consultation with your financial advisor, will determine your appropriate investment profile and will select a SMAS Sub-Manager, based on multiple factors, including but not limited to your investment objectives, risk tolerance and investment time horizon. You will have a limited ability to place restrictions on individual investments or specific sectors to be purchased by the Sub-Manager.

**Funding a SMAS Program Account.** All initial and subsequent cash deposits into a SMAS 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 investments selected by the SMAS Sub-Manager. You may invest any amount in your account after your initial investment. You may also withdraw assets from your account, so long as your account value does not drop below the then current minimum required to remain

in the account. Additions to the account may result in the account rebalancing. Withdrawals from the account will be made through the Primary Fund and may also result in rebalancing taking place. If the 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.

## 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/>.

## Account Minimums

You must maintain the following minimums for each respective program:

- GIS – \$5,000 or more, depending on the Third Party Strategist or Model Portfolio selected
- SPA – \$10,000
- MAP – \$15,000
- MAPNavigator – \$15,000
- SMAS – varies depending on the Sub-Manager selected and is disclosed in the individual Sub-Manager ADV Brochure.

If an account falls below its respective minimum, WRI may terminate your Service Agreement and Service Agreement Supplement. WRI, at its sole discretion, may waive account minimum balance requirements.

## Meetings and Reports

You should review the propriety of your accounts with your financial advisor at least annually. There is no additional charge for this service. You are strongly encouraged to meet with your financial 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, if applicable, updated summary prospectuses from the investments you own in these programs. You should carefully read all such material. WRI may consider all periodic reports, confirmations, statements to have been fully accepted by you as accurate and conclusive unless you notify WRI's Operations Department at 1-866-937-0010 or Pershing of any discrepancies within ten (10) days of receipt of the same.

## 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") and Service Agreement Supplements ("SAS") 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 and SAS at any time upon thirty (30) days prior written notice 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 you, 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 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. If you or WRI terminate the Service Agreement, a prorated amount of the asset-based fee will be refunded to you. WRI will provide 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 in-kind to a non-advisory WRI brokerage account held at Pershing (MAPNavigator, GIS, SMAS) or a WRI non-advisory mutual fund account held direct at the Transfer Agent for the Affiliated Mutual Funds (MAP and SPA). 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 Service Agreement and SAS may be terminated at the discretion of WRI.

**Terminations initiated by the Client.** You may terminate your Service Agreement any time voluntarily by providing written notice to WRI. If you elect to voluntarily terminate your Service Agreement, 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 for the Affiliated Mutual Funds. The I shares in the MAP and SPA program accounts will be converted to load-waived A shares as a non-taxable event. Please refer to the Affiliated Mutual Funds' prospectuses for additional details.
4. If you own a MAPNavigator, GIS, or SMAS program account, you may transfer your unaffiliated mutual funds or individual investments to a WRI non-advisory brokerage account held at Pershing. If applicable, the Institutional/Advisory share class holdings may be allowed to transfer in-kind, but no additional purchases will be allowed into that share class, unless you qualify for such shares as described in the relevant unaffiliated mutual funds' prospectuses.

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 Schedule of Miscellaneous Account and Service Fees that you were provided upon opening your account and can also be found at <https://www.waddell.com/disclosures-privacy/client-disclosures>.

If you open a MAPNavigator, GIS, or SMAS program account as described in this Brochure, you must establish those accounts 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 these charges to cover its costs in affecting the transactions set forth in the Schedule of Miscellaneous Account and Service Fees. The Schedule of Miscellaneous Account and Service Fees is provided to you upon the opening of your account and can also be found at <https://www.waddell.com/disclosures-privacy/client-disclosures>.

**Note: WRI may change, modify or terminate the program or program accounts described in this Brochure at any time in its sole discretion upon thirty (30) days' notice to you.**

**Important Information regarding the program accounts described in this Brochure:**

- **Affiliated Mutual Funds.** All the mutual funds approved for use with the MAP and SPA programs are Affiliated Mutual Funds. The MAPNavigator program and SPAPlus models offer both Affiliated Mutual Funds and unaffiliated mutual funds. It is not necessary to participate in the MAP, SPA, or MAPNavigator programs, or use a SPAPlus model, 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. You 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 your investment return. Each fund's current fees and expenses may vary significantly in future years.
- **Other Asset Allocation Programs May Be Less Expensive.** You 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. You must carefully read the sections of this Brochure and the prospectus for each fund that describe and discuss those conflicts before investing.
- **Inappropriate Client Activity.** You 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 you to adverse consequences. Such redemptions may also be unsuitable and not in your best interest. 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 (3) years prior to the execution of your Service Agreement, are generally not suitable to be transferred into a SPA, MAP, MAPNavigator, GIS, or SMAS program account and would generally not be in your best interest. See the "Conflict of Interest" section for additional details.

## **Fee-Based Annuity (closed to new accounts)**

WRI previously offered the Nationwide Destination<sup>SM</sup> Architect 2.0 (“NDA”) variable annuity for investment advisory accounts. The primary features of, and material costs associated with, the NDA annuity can be found in the prospectus. Variable annuities are sold only by prospectus. The fee-based annuity program was closed to new accounts on January 31, 2019.

## **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 investment adviser 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 would recommend third party investment advisers that offer advisory programs consistent with your stated investment objectives and risk tolerance. You may then select a recommended third-party investment adviser. You will then enter into a written agreement directly with the unaffiliated third-party investment adviser.

WRI financial advisors are available to answer questions you may have regarding your account and act as a communication conduit between you and the third-party investment adviser. 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 third-party investment adviser(s).

Investment advisory programs generally have account minimums that will vary from adviser to adviser. A complete description of the third-party investment adviser’s services, fees schedules and account minimums will be disclosed in the third-party investment adviser’s 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 third-party investment adviser selected. All fees are calculated and collected by the selected adviser 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 third-party investment adviser directly.

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

WRI has as of December 31, 2020 total assets under management in the amount of \$33,250,553,374. Of this amount, \$6,371,423,977 is managed using discretion.

# **FEES AND COMPENSATION**

## **Negotiable Fees**

WRI is a registered investment adviser and its financial advisors are investment adviser 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 fees in context of the services offered, and the specific needs of each client. Advisor fees are negotiable for all the advisory programs discussed in this section.

There are many factors that you should consider when negotiating the advisor 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 advisor 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. If elected by the financial advisor, WRI will advance some of the advisor fee to your financial advisor. WRI may at its discretion pay your financial advisor some of the fixed Sponsor Fee.

Note that the fees discussed in this section do not cover certain account services available upon request from WRI, including wire transfer fees, overnight delivery fees, account termination fees, reorganization fees, etc., where applicable.

Please refer to the section titled “Brokerage Practices” for additional information on step-out trading, which can result in additional costs to SMAS program accounts.

**Sponsor Fee** – WRI has the discretion to change the Sponsor Fee at any time. The Sponsor Fee is not a negotiated fee. You will receive notice of any Sponsor Fee change at least thirty (30) days prior to the change.

**Advisor Fee** – The Advisor Fee is negotiated between you and your advisor within the parameters of each Advisory Program’s Total Client Fee Schedule as set forth in WRI’s Advisory Brochures.

**Total Client Fee** – Your Total Client Fee may change based upon you and your advisor re-negotiating the Advisor Fee. If you and your financial advisor negotiate a new Advisor Fee, you will be provided a new SAS with your new Fee Schedule. The Total Client Fee may also change based upon WRI’s discretion to change the Sponsor Fee at any time. You will receive notice of the Sponsor Fee change at least thirty (30) days prior to the change.

## 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 your Service Agreement, the prorated asset-based fee will be refunded to you.

You will pay an ongoing asset-based fee (Client Fee described below) to cover the cost of such services as consulting and administrative services, creation and continual maintenance of the tools 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 as requested by you, 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 asset-based 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 asset-based fee. Your asset-based fee will be deducted automatically from the Primary Fund.

Assuming you invest 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 shown in your SAS and may change with the account’s asset level.

## SPA Fee Schedule

Value of Assets	Maximum Advisor Fee (1)	Sponsor Fee (2)	Maximum Client Fee* (1) + (2)
On the first \$300,000	2.00%	0.11%	2.11%
On the next \$700,000	2.00%	0.11%	2.11%
On assets in excess of \$1 million	2.00%	0.11%	2.11%

## MAP Fee Schedule

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

## MAPNavigator Fee Schedule

Value of Assets	Maximum Advisor Fee (1)	Sponsor Fee (2)	Maximum Client Fee* (1) + (2)
On the first \$300,000	2.00%	0.15%	2.15%
On the next \$700,000	2.00%	0.15%	2.15%
On assets in excess of \$1 million	2.00%	0.15%	2.15%

## Guided Investment Strategies Fee Schedule

Value of Assets	Maximum Advisor Fee (1)	Sponsor Fee (2)	Manager Fee** (3)	Maximum Client Fee* (1) + (2) + (3)
On the first \$300,000	2.00%	0.30%	see below	2.53%
On the next \$700,000	2.00%	0.30%	see below	2.53%
On assets in excess of \$1 million	2.00%	0.30%	see below	2.53%

## Separately Managed Account Strategies Fee Schedule

### Equity Strategies

Value of Assets	Maximum Advisor Fee (1)	Sponsor Fee (2)	Manager Fee*** (3)	Maximum Client Fee* (1) + (2) + (3)
On the first \$1,000,000	2.00%	0.20%	see below	2.80%
On the next \$2,000,000	2.00%	0.15%	see below	2.75%
On assets in excess of \$3 million	2.00%	0.10%	see below	2.70%

### Fixed Income Strategies

Value of Assets	Maximum Advisor Fee (1)	Sponsor Fee (2)	Manager Fee*** (3)	Maximum Client Fee* (1) + (2) + (3)
On the first \$1,000,000	2.00%	0.15%	see below	2.75%
On the next \$2,000,000	2.00%	0.12%	see below	2.72%
On assets in excess of \$3 million	2.00%	0.10%	see below	2.70%

\* The actual Client Fee for your account is disclosed on your Service Agreement Supplement ("SAS").

\*\* Ranges from 0.00% - 0.23% based on the Third Party Strategist selected. A complete description of the Third Party Strategists' services, fee schedules and account minimums are disclosed in the Third Party Strategists' Form ADV Part 2A or similar disclosure brochure which will be provided to you by your financial advisor at or before account opening.

\*\* Ranges from 0.02% - 0.60% based on the Sub-Manager selected. A complete description of the Sub-Managers' services, fee schedules and account minimums are disclosed in the Sub-Managers' Form ADV Part 2A or similar disclosure brochure which will be provided to you by your financial advisor at or before account opening.

## Household Account Grouping

Account balances in multiple WRI advisory program accounts (MAP, MAPNavigator, MAPDirect, SPA, and GIS) using the Envestnet platform will be aggregated for purposes of determining the applicable asset-based fee rate. Please consult with your financial advisor for additional details.

Account Grouping is allowed for:

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

## Flow Billing

As you add and withdraw money from programs described in this Brochure, your account may not be charged immediately. Upon reaching the program minimum, the amount billed will be contingent on the current fee schedule in place for your program account 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 \$10,000 during the month and after reaching the program minimum. 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.

Depending on the program or product you select, moving from one program or product to another program or product will trigger a prorated fee credit for the remaining days in the month for the program or product that you are moving out of. Subsequently, you will be assessed a prorated inception fee for the remainder of the month that you are invested in the newly selected program or product.



## CONFLICTS OF INTEREST / LIMITATIONS

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 you purchase the Affiliated Mutual Funds. Employees of WRI and its affiliates may indirectly receive higher compensation and other benefits when you purchase these products. In addition, certain products, such as insurance, may pay more total compensation than other products. 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 revenue sharing arrangements with certain available product companies outside of advisory programs. WRI receives revenue sharing payments on the sale of the mutual funds available within the MAPNavigator, SPA and SPAPlus programs and models for which it has entered into an agreement for such revenue with the mutual fund companies. Your financial advisor does not receive any portion of the revenue sharing payment. However, the receipt of revenue sharing payments creates a financial incentive for WRI to include the mutual funds that pay these types of compensation in the MAPNavigator, SPA and SPAPlus programs and models. Receipt of these payments present a conflict of interest between WRI and its clients' best interests.

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.

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 the Affiliated Mutual Funds.

WRI offers certain sales incentive programs to its financial advisors. Such sales incentive programs may include sales conference trips, marketing compensation and services, meals, sponsor fee payouts and other similar cash and non-cash compensation. Sales incentive programs are based on Total Gross Revenue, 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. To qualify for sales incentive programs, your financial advisor may be incented to offer you products or services that yield higher sales production. 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 when you choose this fund than it would by you choosing to invest your cash holdings in one of the unaffiliated money market funds or the interest bearing bank deposit account within your investment advisory programs.

Financial advisors may qualify for a forgivable loan that is offered by WRI. This loan does not increase the cost of asset-based fees charged to your account. However, your financial advisor will have a conflict of interest with you due to the structure of the forgivable loans. Certain financial advisors may qualify for a forgivable loan due to their production level and length of service. 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. When made available to WRI by the mutual fund company, WRI offers Advisory and Institutional share classes in the mutual fund asset allocation programs described in this Brochure. Some mutual fund companies offer what is commonly referred to as “Clean” shares or other lower cost share classes. These share classes are less expensive to own as they typically have no front-end sales charge and minimal, if any, annual 12b-1 fees for fund services and sub transfer agent fees. Clean shares, or other lower cost share classes, may be available at other financial institutions, but are not available in WRI’s Advisory Programs.

Depending on your financial advisor’s licenses and training, the products and services offered to you may be limited. The limitations of products and services offered to you may not be in your best interest. For example, the GIS program offers both mutual fund and ETF model portfolios. If your financial advisor only has a Series 6 license, they will only be able to offer you mutual funds, but not ETFs. 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.

**Retirement Account Disclosure:** This paragraph relates to your retirement plan account or individual retirement account (together referred to as “retirement account”) and any recommendations we make with regard to those accounts.

This paragraph will be interpreted and administered in accordance with Prohibited Transaction Exemption 2020-02 [Section II], *Improving Investment Advice for Workers & Retirees*. If any terms of this paragraph are inconsistent with the terms of your Client Agreement/Service Agreement, this paragraph will be controlling.

When we provide investment advice to you regarding your retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way we make money creates some conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interest ahead of yours. Under this rule’s provisions, we must:

- Meet a professional standard of care when making investment recommendations (give prudent advice);
- Never put our financial interests ahead of yours when making recommendations (give loyal advice);
- Avoid misleading statements about conflicts of interest, fees, and investments;
- Follow policies and procedures designed to ensure that we give advice that is in your best interest;
- Charge no more than is reasonable for our services; and
- Give you basic information about conflicts of interest.

Additional information regarding our conflicts of interest can be found in WRI’s Client Relationship Summary and Regulation Best Interest Disclosure at <https://www.waddell.com/Disclosures-Privacy/Client-Disclosures>. A copy of these disclosures can also be requested by calling WRI’s Client Services Call Center at (866) 937-0010.

We do not undertake as part of this fiduciary acknowledgment to provide any legal, tax or accounting advice in connection with your retirement account(s). It is your responsibility to obtain legal, tax and accounting guidance from independent professional sources prior to making any investment decision. WRI attempts to mitigate these conflicts of interest and limitations by disclosing them so that you 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 provides investment advice to the following types of clients:

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

*Please carefully read 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 may assist you in determining if you have an appropriate mix of investments for your personal investment needs. Development of a personalized asset allocation is designed to position your assets in accordance with your financial objectives, time horizon and risk tolerance. The asset allocation programs described are based primarily on an investment concept known as Modern Portfolio Theory, which states that through diversification you may be able to minimize the effects of investment risks and that gains in one investment class may help offset losses in another. There is no certainty that any investment or strategy will be profitable or successful in achieving your specific investment objectives. Principal values of your investments will fluctuate and, when redeemed, may be worth more or less than your original investment. Asset allocation does not ensure a profit or protect against losses in a declining market.

If you have a substantial amount of your net worth concentrated in one or a small number of investment products or asset classes, the asset allocation process we use may prompt your financial advisor to recommend that you sell those investments and asset classes. It is always important to consult your tax and legal advisors before making significant changes to your investments because these changes may cause you to incur adverse tax consequences. Neither 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, to offer programs that do not involve significant or unusual risks to our clients. You should consider carefully before investing in one or more of the Advisory products described in this Brochure.

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

WRI offers some advisory programs that feature Environmental, Social and Governance (“ESG”) strategies. ESG investing incorporates environmental, social, and/or governance issues into the analysis, selection, and management of investments. ESG criteria are used by investors and portfolio managers to screen investments and assess a company's impact in one or more of these areas. ESG investing limits the types and number of investment opportunities available. The programs offering ESG strategies may invest in securities or industry sectors that underperform the market as a whole or underperform other strategies screened for sustainable investing standards.

For more information, please review the prospectus for the underlying investments used within the ESG strategies or contact your financial advisor.

## **DISCIPLINARY INFORMATION**

On January 15, 2013, a Letter of Acceptance Waiver and Consent (No. 2011029075101) was approved by FINRA relating to the failure of the firm to deliver purchase confirmations for a period of time. The firm failed to deliver numerous purchase confirmations for mutual-fund asset-allocation program accounts (MAP), during a period, and those confirmations would have confirmed multiple mutual fund share purchases that occurred in numerous investment-advisory accounts. Although the failure to deliver purchase confirmations resulted from the actions of a third-party service provider, the firm remained responsible at all times for compliance with its obligations under all applicable securities laws and regulations. The firm's investment-advisory offerings include several MAP accounts. The firm contracts with its subsidiary to act as the transfer agent for the mutual funds that can be held in the MAP accounts and the subsidiary was obligated to send purchase confirmations on behalf of the firm to MAP-account customers. The firm's subsidiary, in turn, contracts with a third-party service provider to generate and deliver those confirmations. Until a certain date, all

purchase transactions in MAP accounts resulted in the delivery of contemporaneous trade confirmations. On that date, however, the third-party service provider made a coding change to the software system that it provided to the subsidiary and other entities. The third party did not intend for the coding change to affect the MAP accounts in any way, and neither the subsidiary nor the firm requested the change. Nonetheless, one effect of the coding change was to prevent customers from receiving confirmations when cash in a MAP account was allocated to individual mutual funds. Thereafter, a MAP-account customer contacted a representative of the firm to ask why the firm was no longer issuing fund-allocation confirmations. The representative contacted the subsidiary, but did not alert the firm's compliance department of the situation. The subsidiary conducted an internal review and determined that the subsidiary's coding change had created the problem. The subsidiary also did not apprise the firm's compliance department of the situation at that time. Thereafter, the subsidiary began researching the issue and working on a solution. The subsidiary's initial work did not completely solve the problem and it implemented a second fix, which through subsequent testing verified that the problem was fully resolved. Without admitting or denying FINRA's allegations, Waddell & Reed agreed to a censure and fine of \$75,000 to settle the regulatory action.

On June 19, 2015 the State of New Hampshire, Department of State, Bureau of Securities (the "Bureau") received a complaint from a New Hampshire resident and former client of 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 registered as a broker-dealer and investment adviser. Investment adviser representatives are also registered representatives of the broker-dealer. As such, your financial advisor may offer our financial planning services, various asset allocation and wrap programs, some of which are sponsored by WRI, and general securities products, including:

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

**Affiliated Mutual Funds:** Please read carefully the discussion above under Fees and Compensation, Other Fees and Compensation, 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 these charges to cover its costs in affecting the transactions set forth on the Schedule of Miscellaneous Account and Service Fees which you can find at <https://www.waddell.com/disclosures-privacy/client-disclosures>.

**Envestnet:** WRI has entered into an agreement with Envestnet pursuant to which Envestnet provides certain advisory, administrative and technological services to WRI. Each program described in this brochure utilizes Envestnet's platform tools for account selection, account opening and on-going account servicing and management. WRI has contracted with Envestnet to offer the GIS and SMAS program, whereby clients have access to actively managed investment strategies from a roster of third-party or independent investment management firms made available on Envestnet's platform.

## **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**

The Affiliated Mutual Funds within the MAP and SPA programs described above are purchased on a direct application basis from the product sponsor through WRI. The mutual funds and ETFs within the MAPNavigator and GIS programs are purchased in a separate brokerage account through Pershing. Clients will be subject to brokerage account fees as described in the Schedule of Miscellaneous Account and Service Fees which can be found at <https://www.waddell.com/disclosures-privacy/client-disclosures>. For ETF trades, WRI will utilize an institutional average price account that will allocate the trades in a manner consistent with WRI's fiduciary duty to its clients. This process ensures equal pricing to each client in that each client receives the average price for the aggregate order. We do not select or direct clients to any other broker-dealer for client transactions in connection with the asset allocation programs discussed in this Brochure.

### **Step-Out Trades**

Sub-Managers in the SMAS Program have the authority to place trades through broker-dealers other than Pershing. WRI refers to trades placed at broker-dealers other than Pershing as "step-out trades." A Sub-Manager will execute a step-out trade when they reasonably believe placing the transaction at another broker-dealer will result in a price, including mark ups, mark downs and/or other fees and commissions that is favorable to you. Sub-Managers may also consider other relevant factors, including execution capabilities, speed, efficiency, confidentiality, familiarity with buyers and sellers, etc., that may justify a step-out trade even if it doesn't result in a more favorable price.

When a Sub-Manager places a step-out trade, it can impact your overall cost. When a step-out trade occurs, there are additional costs added to the transaction which are charged to the Sub-Manager such as mark ups, mark downs and/or other fees and commissions. These costs are passed on to you and included in the price you pay for the transaction. These costs are not shown on trade confirmations or account statements. These costs are in addition to the asset-based advisory fees applicable to SMAS program accounts. As a result of additional trading costs due to step-out trades, account performance may be negatively impacted.

Before selecting a Sub-Manager, you should carefully review the Sub-Manager's Form ADV Part 2A or similar disclosure brochure which will be provided to you at the time of the initial solicitation.

Additional information regarding step-out trading, including a list of Sub-Managers that may initiate step-out trades and the costs associated with such trades can be found at <https://www.waddell.com/disclosures-privacy/client-disclosures>.

## **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 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 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. Field DSPs are responsible for the general day-to-day supervision of their assigned financial advisors. 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 will 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 how WRI and your financial advisor may benefit when you purchase Affiliated Mutual Funds. Neither WRI nor your financial advisor may compensate anyone directly or indirectly for client referrals.

## **CUSTODY**

The Affiliated Mutual Funds purchased in MAP and SPA advisory program accounts are held at Waddell & Reed Services Company, which is an affiliate of WRI. Quarterly statements, trade confirmations and other reports from the Affiliated Mutual Funds held in these advisory program accounts will be provided from the Affiliated Mutual Funds.

Nationwide holds the Nationwide Destination<sup>SM</sup> Architect 2.0 variable annuities directly and will provide quarterly statements, trade confirmations and other reports for the investments held in the annuities.

The securities, including Affiliated Mutual Funds and unaffiliated mutual funds, purchased in MAPNavigator, GIS, and SMAS investment advisory accounts are held in a brokerage account at Pershing. Pershing will provide trade confirmations, quarterly statements at a minimum and other reports for the investments held in these programs.

## **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.

WRI offers the GIS and SMAS programs on a non-discretionary basis; however, you will grant limited discretionary trading authority to the Third Party Strategist you select with respect to the purchase and sales of securities within your GIS or SMAS account.

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.

## **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 Inc.'s Annual Report and Form 10-K can be found under Investor Relations at [www.waddell.com](http://www.waddell.com).

