

MAPDirect

Wrap Fee Program Brochure



Item 1. Cover Page

Waddell & Reed, Inc.
SEC File Number: 16720
Appendix 1 of Part 2A of Form ADV
MAPDirect
The date of this Brochure is: **March 31, 2021**

This wrap fee program brochure provides information about the qualifications and business practices of Waddell & Reed, Inc. If you have any questions about the contents of this brochure, please contact us at 1-866-937-0010 and/or advisoryproducts@waddell.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Waddell & Reed, Inc. is also available on the SEC's website at www.adviserinfo.sec.gov.

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

Note: Registration with the SEC as an Investment adviser does not imply a certain level of skill or training.

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

Waddell & Reed, Inc.
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For more information about Waddell & Reed, Inc. please visit our website at www.waddell.com

Item 2. Material 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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Item 4. Services, Fees and Compensation

Services

Waddell & Reed, Inc. (“WRI”) sponsors a wrap fee investment advisory program known as MAPDirect (the “Program”), as described in this brochure. WRI sponsors another wrap fee investment advisory program and offers other investment advisory programs and services. If you would like more information on these programs or would like to obtain brochures describing these programs, please contact us at 1-866-937-0010 and/or advisoryproducts@waddell.com.

The Program utilizes the Envestnet Asset Management, Inc. (“Envestnet”) technology platform which provides your financial advisor with tools to assist you with portfolio construction and model management.

The Program is a wrap fee investment advisory program that offers clients a selection of asset allocation models, as well as features such as systematic rebalancing and client participation in determining (within pre-determined parameters) asset allocation across multiple asset classes.

Investment in the Program will require you to establish a brokerage account with Pershing, LLC. (“Pershing”), who will act as the custodian for your assets.

Allocation Models and Asset Classes

The Program provides access to a list of screened mutual fund families and ETFs and five asset allocation models: Aggressive Growth, Growth, Conservative Growth, Income, and Conservative Income. Each Program model may consist of up to eight asset classes.

WRI has retained Wilshire Associates Incorporated (“Wilshire”) to assist WRI in determining the mutual fund families and ETFs to be included within the Program. The list of mutual fund families made available within the Program includes WRI’s Affiliated Mutual Fund family, Ivy Funds, and a selection of unaffiliated mutual fund families. Wilshire utilizes their proprietary evaluation methodology to conduct its initial analysis and annual monitoring and will, on an annual basis, recommend any changes, additions or replacements to the screened mutual fund families and ETFs, as needed. WRI is ultimately responsible for the investments made available in the Program.

It is important to consider that the mutual funds offered within the Program are advisory / institutional class shares made available to retail clients by prospectus. The mutual fund families included within the Program may offer other share classes that have lower internal expenses. However, as noted in the prospectuses of these funds, these share classes are reserved for certain types of investors or institutions and may not be available to WRI under its selling agreements with these funds or within the parameters of this Program.

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

Account Opening

You must complete a questionnaire that serves to identify your investment objectives, risk tolerance, and investment time horizon. You, after consulting with your financial advisor, will determine your appropriate investment profile and will select an asset allocation model, based on your responses to the questionnaire. After an asset allocation model is selected, you and your financial advisor will review the securities selected for each asset class in the model and you will select at least one investment 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. WRI has partnered with Envestnet to provide portfolio construction and model management tools. These tools enable you to increase each model’s risk and potential for return by changing the balance of one or more of the selected asset class weightings in the selected model. The ultimate decision to participate

in the Program, select the asset allocation model and securities to be used in an asset allocation model, and vary the asset class weighting within an asset allocation model, is yours.

Rebalancing

Program 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 Program account. You may also request an account rebalance at any time in between the selected intervals. A cash position greater than a set percentage will also trigger an account rebalance. Account rebalancing will be accomplished by buying and selling securities as necessary to reach the target asset allocation model. 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 Program account.

Funding a Program Account

All initial and subsequent cash deposits into a Program 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 securities selected by you to populate your asset allocation model. Upon receipt of your model 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 Program account after your initial investment. You may also withdraw assets from your account, so long as your account value does not drop below the then current minimum required to remain in the Program. Additions to a Program account may result in the account rebalancing. Withdrawals from a Program account will be made through the Primary Fund and may also result in a rebalancing taking place so the account returns to its target asset allocation model. If the 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.

Changes to Investments 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 securities within the asset classes. To the extent WRI moves one or more securities from one asset category to another a new security may need to be selected to complete a model and that newly selected security may have higher internal expenses than the security that was moved. You are encouraged to periodically reevaluate your asset allocation models and investment selections to ensure they continue to be consistent with your evolving risk tolerance, investment objectives and time horizon. You should review the propriety of your asset allocation models with your financial advisor at least annually. There is no additional charge for this service.

As described above, Wilshire conducts ongoing monitoring of the mutual fund families and ETFs and will, on an annual basis, recommend any changes, additions, or replacements, as needed. In the event that a fund is removed from the Program, 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 Program account that holds the fund, but you will not be permitted to purchase the fund in a new Program account or existing Program account that does not already hold the fund.

Termination

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

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

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

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 asset-based advisory fees in context of the services offered, and the specific needs of each client. Negotiable fees are available for the Program.

There are many factors that you should consider when negotiating advisory 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 your asset-based advisory fees with your financial advisor.

The financial advisor who recommends and assists you in investing in the Program is paid a portion of the fees charged to you. WRI will advance some of these advisory fees to certain financial advisors based upon a number of factors including the fee schedule of the product purchased. Note that the fees discussed in this section do not cover fees associated with certain account services available upon request from WRI, including wire transfer fees, overnight delivery fees, account termination fees, reorganization fees, etc., where applicable.

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 advisory fee will be refunded to you.

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

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

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

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

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

MAPDirect Fee Schedule

Value of Assets	Maximum Advisor Fee (Negotiable) (1)	Sponsor Fee (2)	Maximum Client Fee* (1) + (2)
On the first \$300,000	2.00%	0.20%	2.20%
On the next \$700,000	2.00%	0.20%	2.20%
On the next \$2 million	2.00%	0.15%	2.15%
On assets in excess of \$3 million	2.00%	0.10%	2.10%

* The actual Client Fee for your account is disclosed on the Service Agreement Supplement (“SAS”).

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 advisory 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 your Program account, your account may not be charged immediately. Upon reaching the program minimum, the amount billed will be contingent on the fee agreed upon between you and your financial advisor and the number of days remaining in the month. Thereafter, you will be billed at the beginning of the month in advance. Flow billing refers to any deposits or withdrawals from the account of over \$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.

Important Disclosures Regarding Wrap Fee Programs

You may find that the individual components of the Program are available to you outside the Program for more (or less) than you pay in the Program. You should discuss all of your investment options with your advisor before choosing to invest in the Program. Several factors may affect whether the Program costs are more or less than the costs of a traditional brokerage account, including trading strategy, types of securities purchased, whether the investments carry additional administrative or management fees, volume of trading, total expenses associated with trading the investments selected and the actual costs of the services utilized if purchased separately. Cash positions, including money market funds and sweep accounts, are subject to the asset-based advisory fee schedule described above.

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

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

Item 5. Account Requirements and Types of Clients

Account Minimum

The minimum account size to establish a Program account is \$15,000 for each Program account. WRI has the right, in its sole discretion, to terminate the Service Agreement for Program accounts that fall below the minimum account value, require that additional assets be deposited in the Program account to bring the account up to the minimum, or change the minimum at any time.

Types of Clients

WRI typically provides investment advice to the following types of clients:

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

Item 6. Portfolio Manager Selection and Evaluation

Portfolio Manager Selection

In the Program, your financial advisor serves as the portfolio manager and is selected by you at the time you enter into a Service Agreement with WRI. Please see the “Services, Fees and Compensation” section above for additional details on your financial advisor’s role, asset allocation models, and investment options.

Investment Discretion

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

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

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

Conflicts of Interest

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

The fees and other compensation earned by WRI and your financial advisor differ depending on the advice and products that you select. WRI and its affiliates receive more revenue from the sale of some financial products and services, particularly the Affiliated Mutual Funds, than from the sale of other products and services. It is more profitable for WRI and its affiliates if 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 agreements with the Affiliated Mutual Funds to, in return for certain fees and expenses, promote and distribute the mutual funds. Therefore, this arrangement represents a conflict of interest by which WRI and your financial advisor are incentivized to recommend the Affiliated Mutual Funds rather than other mutual funds and available share classes that may be less expensive for you, but may pay less compensation to WRI and your financial advisor.

Employee compensation (including management and field leader compensation) and operating goals at all levels of the company are tied to varying degrees to WRI’s financial success. As such, management, sales leaders and other employees generally spend more of their time and resources promoting WRI affiliated products and services, including the Affiliated Mutual Funds.

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

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

Depending on your 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. You are encouraged to review the respective Brochure for each advisory program WRI offers. The Brochures provide detailed descriptions of the products and services available to you. When applicable and upon your request, WRI will refer a financial advisor that can offer the advisory program of your choice.

WRI offers certain sales incentive programs to its financial advisors. Such sales incentive programs may include reward trips, marketing compensation and services, meals, program fee payout 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. In an effort to qualify for sales incentive programs, your financial advisor may be incented to offer you products or services that yield higher sales production. In an effort to resolve this conflict, WRI supervises and monitors its financial advisors' investment recommendations to reasonably ensure that such recommendations are in your best interest.

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

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

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/Dislosures-Privacy/Client-Dislosures>. 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 by disclosing them so that you can make informed investment decisions.

Advisory Business

WRI offers various types of investment advisory services, including:

- Financial Planning
- Asset Allocation Programs
- Wrap Fee Programs
- ERISA Retirement Programs

We attempt to tailor each of our investment advisory services to your individual personal, financial and investment needs. We do this by requiring you to complete new account paperwork that captures your personal financial information, risk tolerance and investment objectives, among other things.

Performance-Based Fees and Side-By-Side Management

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

Methods of Analysis, Investment Strategies and Risk of Loss

WRI typically recommends a broad asset allocation strategy across a number of diverse asset classes.

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

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.

The Program enables you to assume greater risk by selecting from a broad array of investments and by selecting and pursuing higher risk investment strategies. You have the option to choose the mutual funds or ETFs in which you invest and the investment strategy you pursue within the limits associated with the Program.

The Program, depending on the securities you select and the investment style(s) you pursue, may present a significant risk of loss.

Voting Client Securities

WRI does not accept authority to vote your securities proxies.

Item 7. Client Information Provided to Portfolio Managers

You may only participate in the Program through your WRI financial advisor. In most cases, your financial advisor is not the Program portfolio manager, because the Program is not managed on a discretionary basis except as discussed above in the “Investment Discretion” section. You, with the assistance of your financial advisor, make all investment decisions and product selections from the list of eligible securities. You are encouraged to contact your financial advisor anytime you have a material change in your financial situation, investment objectives and/or risk tolerance.

Item 8. Client Contact with Portfolio Managers

WRI places no restrictions on your ability to contact and consult with your financial advisor. You are encouraged to contact your financial advisor regularly and anytime you experience material changes in your financial situation, investment objectives and/or risk tolerance.

Item 9. Additional Information

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 were 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 the Program 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 Brokerage Fee Schedule.

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

Custody of Program Accounts

Assets managed in Program accounts will be custodied in brokerage accounts held by Pershing. WRI has entered into a fully-disclosed clearing agreement with Pershing pursuant to which Pershing has agreed to custody the brokerage account assets of WRI's clients and to execute certain securities transactions on behalf of those clients. Pershing will act as the sole custodian for all assets in Program accounts. Pershing will perform all custodial functions customarily performed for brokerage accounts, including but not limited to crediting of interest and dividends. You will retain ownership of all cash and securities in the Program accounts, which will be reflected on the books and records of WRI. If you have other brokerage accounts at Pershing, any fees charged for maintenance of those accounts will be separate from and in addition to fees charged for Program accounts. You must consider before electing to participate in the Program that, by using Pershing as the custodian of your Program assets, you may pay higher account-related fees and execution charges, and may not always receive as favorable executions as investors who participate in fee-based asset management products similar to the Program but who have the ability to select the broker dealer or other platform to custody their assets and execute their transactions.

Execution of Transactions

Transactions in Program accounts will be executed exclusively through WRI's clearing broker-dealer, Pershing. WRI regularly monitors Pershing's execution quality. We believe Pershing provides highly competitive execution quality based on (i) speed and certainty of execution; (ii) price and size improvement; and (iii) overall execution quality.

