

Investment Manager Step-Out Trades

Waddell & Reed, Inc. (WRI) offers the Separately Managed Accounts Strategies (SMAS) program which provides access through third-party or independent investment management firms (Sub-Manager) to its clients. As a part of the SMAS program, Sub-Managers generally place trades through WRI's clearing and custodial firm, Pershing LLC (Pershing). On some occasions, Sub-Managers place trades through other broker-dealers. When Sub-Managers place trades through other broker-dealers, these are referred to as "step-out trades."

Step-out trades occur as a result of Sub-Managers seeking to meet their obligation to execute trades in a manner favorable to clients. This obligation is referred to as best execution. Best execution means that the Sub-Manager must place the client trades with broker-dealers that they believe can provide the best execution possible for clients. Many factors go into the decision of best execution such as execution capabilities, price, speed, efficiency, confidentiality, familiarity with buyers and sellers, or any other relevant matters. Sub-Managers may also aggregate securities to buy or sell for more than one client for best execution to the extent of current regulations.

When a Sub-Manager engages in step-out trades, it can impact clients' overall cost. When a step-out trade occurs, there usually are additional costs added to a transaction that are charged to the Sub-Manager such as mark ups, mark downs and/or other fees and commissions. These costs are passed on to clients and included in the price clients 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 clients' WRI SMAS program accounts. As a result of additional trading costs due to step-out trades, account performance may be negatively impacted.

While it is expected that most of the trades in WRI's SMAS program will be traded through Pershing, there are certain Sub-Managers that have historically directed most, if not all, their trades to outside broker-dealers. WRI does not have discretion over a Sub-Manager's trading practices or the broker-dealer they select. WRI is not a party to such transactions nor is WRI in a position to negotiate prices or affect transaction charges. Before selecting a Sub-Manager, you should carefully review all materials related to the Sub-Manager and discuss the Sub-Manager with your Financial Professional.

The Sub-Managers listed below are new to WRI's SMAS program as of October 30, 2020 and may initiate step-out trades. The average cost per share for these step-out trades may range from 0.00 - 8.00 cps* or 0.00 - 25.0 bps*.

- Alliance Bernstein
- Anchor Capital Advisors, LLC
- Blackrock Investment Management, LLC
- Boston Common Asset Management, LLC
- Brandes Investment Partners, L.P.
- Breckinridge Capital Advisors, Inc.
- Brown Advisory, LLC
- Chartwell Investment Partners
- Congress Asset Management Company
- Copeland Capital Management, LLC
- Cumberland Advisors
- Dana Investment Advisors
- Delaware Management Business Trust
- Foundry Partners, LLC
- Geneva Capital Management, LLC
- GW&K Investment Management, LLC
- Invesco Advisors & Invesco Managed Accounts, LLC
- John Hancock Investment Management
- Kayne Anderson Rudnick Investment Management, LLC
- Legg Mason Private Portfolio Group, LLC
- Loomis Sayles & Company, L.P.
- Lord Abbett & Co. LLC
- MFS Investment Management
- Nuveen Asset Management, LLC
- Pacific Income Advisers, Inc.
- PIMCO
- Reinhart Partners, Inc.
- Riverbridge Partners, LLC
- RiverFront Investment Group, LLC
- Robert W. Baird & Co. Incorporated
- Sage Advisory Services Ltd. Co.
- Schafer Cullen Capital Management Inc.
- Segall Bryant & Hamill
- The London Company
- The Roosevelt Investment Group, Inc.
- Tom Johnson Investment Management, Inc.
- Trillium Asset Management, LLC

If you have any questions regarding step-out trades, please contact your Financial Professional.

* Average cost per share is calculated based on cents per share (cps) or basis points (bps). This is calculated by taking the total number of shares stepped out for the strategy and divided by the total additional costs incurred for the trades that were stepped out. Basis points (bps) is defined as 1/100th of 1.0% or 0.01%. For example, 25bps on \$10,000 would equal \$25.00

10/30/2020