

# Information around investment manager step-out trades

What does this mean to an investor?

May 2018

## **What is a step-out trade?**

Step-out trading occurs when a third-party investment manager makes a decision to execute a trade with a broker-dealer other than Ameriprise in an effort to seek the best execution quality on the trade.

Certain separately managed account (SMA) investment managers place certain client trade orders with broker-dealers or exchanges other than American Enterprise Investment Services (AEIS), the clearing dealer for Ameriprise Financial Services (AFSI). These trades are known as “step-out trades.” Step-out trades assist the investment manager in meeting its obligation to seek best execution for the particular trades. To provide additional transparency, SMA investment managers provide additional details regarding these trades to allow advisors and clients more information regarding the investment manager’s trading practices and what, if any, additional transaction costs were incurred by clients as a result of placing step-out trades.

## **Why would a third-party manager perform a step-out trade?**

The investment manager is attempting to fulfill its best execution obligation and believes going to a broker-dealer other than Ameriprise will improve overall execution quality. In some instances, step-out trades are executed without any additional transaction costs from the third-party broker-dealer. In other instances, the investment manager chooses to perform a step-out trade even if the client will incur additional transaction costs because the manager believes such a decision will improve its overall execution quality. Placing these trades with other broker-dealers may or may not impact the investment performance of the client’s account.

## **What does best execution obligation mean?**

Best execution means that an investment manager must place client trade orders with broker-dealers that the manager believes are capable of providing the best execution possible for their clients' orders. When seeking best execution, an investment manager must consider a number of factors, including: what's the best opportunity out there to get a better trade price than what is currently quoted, and how quickly can the trade be executed.

## **How can a step-out affect a client?**

When a step-out trade occurs, because the investment manager is using a third party to execute a trade rather than Ameriprise, the additional cost charged by the third-party, if any, is passed to an investor and is included in the price they pay for the security. This price is in addition to what an investor pays for their wrap fee.

The following charts provide a list of the equity investment managers that informed Ameriprise that they engaged in step-out trades during Q1 2018. Listed by product and strategy, the chart shows additional transaction costs, if there were any, over the time period listed. A number of variables can impact these percentages, including the number of accounts in a strategy, the timing of inceptions and terminations of accounts, client-directed cash flows and the time period under review. All of these variables affect the percentage and dollar amount of trades that were stepped out. Existing clients can obtain information regarding their actual costs for step-out trades on client statements and trade confirmations, which are listed as Third Party Execution Fees, or by contacting their financial advisor. Information regarding each investment manager's best execution, trade aggregation and trade allocation practices, if any, as well as whether the investment manager may select broker-dealers that provide the investment manager credit toward the acquisition of research or other transaction related products and services are generally discussed in the investment manager's Form ADV Part 2A disclosure brochure.

**SELECT SEPARATE ACCOUNT STEP-OUT TRADE INFORMATION  
FOR Q1 2018**

		Percentage of Client Trades Stepped Out	Additional Cost Incurred by Client Participating in those Trades <sup>1</sup>
<b>Manager Name</b>	<b>Strategy Name</b>	<b>Q1 2018</b>	
Invesco	Invesco U.S. Real Estate Securities	76.4%	0 cps
	International ADR Growth	81.5%	0 cps
Kayne Anderson Rudnick	Small Cap Sustainable Growth	2.0%	1 cps
Laffer Investments	Convertible	100%	0 cps
Legg Mason	Dividend Strategy Balanced	28.6%	1.61 cps
Mackay Shields	Convertible Securities	79.5%	0 cps
MFS	Large Cap Value	18%	0 cps
	Research International ADR	40%	1.43%
Nuveen	Preferred Securities	51%	0 cps
Oak Ridge	Oak Ridge All Cap Growth	11.4%	3 cps
Principal Global Investors	Spectrum Hybrid Preferred	75-85%	0 cps

<sup>1</sup> Additional cost is expressed in terms of an average or range of cents per share ("cps")

**VISTA SEPARATE ACCOUNT STEP-OUT TRADE INFORMATION  
FOR Q1 2018**

		Percentage of Client Trades Stepped Out	Additional Cost Incurred by Client Participating in those Trades <sup>1</sup>
<b>Manager Name</b>	<b>Strategy Name</b>	<b>Q1 2018</b>	
Brandes	Global Equity Managed Account	1%	0 cps
	International Equity Managed Account	20.2%	0 cps
	U.S. Value Equity Managed Account	9.2%	2 cps
Lazard	Emerging Markets Equity Select ADR	47%	3 cps
Legg Mason	All Cap Blend Portfolios (MDA0)	86.9%	1.43 cps
	Balanced Income Managed Account	70%	0.82 cps
	Diversified All Cap Portfolios (MDA5A)	66.5%	1.44 cps
	Dividend and Growth Portfolios (MDA3)	42.7%	1.68 cps
	Dividend Strategy Balanced Taxable 60/40 Managed Account	98.5%	1.7 cps
	Dividend Strategy Balanced Portfolios Balanced Tax Favored (60/40)	72.4%	1.7 cps
	Global All Cap Portfolios (MDA7A)	91.5%	1.4 cps
	Global Growth Portfolios (MDA7)	100%	1.29 cps
	Global Multi Cap Growth Portfolios (MDA4)	50.7%	1.35 cps

<sup>1</sup> Additional cost is expressed in terms of an average or range of cents per share ("cps")

Contact your Ameriprise financial advisor if you have questions around step-out trades and how they may impact your accounts.

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