

# Information around investment manager step-out trades

## What does this mean to an investor?

October 2017

### **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 since 2015. 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 trade confirmations 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, Q2 & Q3 2017

		Percentage of Client Trades Stepped Out	Additional Cost Incurred by Client Participating in those Trades <sup>1</sup>	Percentage of Client Trades Stepped Out	Additional Cost Incurred by Client Participating in those Trades <sup>1</sup>	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 2017</b>		<b>Q2 2017</b>		<b>Q3 2017</b>	
AIM	Invesco U.S. Real Estate Securities	0.2%	0 cps	-	-	-	-
	International ADR Growth	-	-	-	-	0.4%	0 cps
Kayne Anderson Rudnick	Small Cap Quality Value	58%	1.87 cps	-	-	-	-
	Small Cap Sustainable Growth	15%	1.48 cps	-	-	-	-
Laffer Investments	Convertible	100%	0 cps	100%	0 cps	94%	0 cps
Legg Mason	Dividend Strategy Balanced	-	-	-	-	5%	1.70 cps
	Western Core Plus Bond	-	-	-	-	92%	0 cps
Mackay Shields	Convertible Securities	2%	0 cps	82%	0 cps	60%	0.48 cps
MFS	Large Cap Value	7%	0 cps	3%	0 cps	3.8%	0 cps
	Research International ADR	20%	1.7 cps	14%	3.12 cps	33%	2 cps
Nuveen	Preferred Securities	60%	0 cps	56%	0 cps	42%	0 cps
Principal Global Investors	Spectrum Hybrid Preferred	95%	0 cps	42%	0 cps	70%	0 cps
The Boston Company Asset Management, LLC	US Mid Cap Opportunistic Value	100%	0.085 cps	100%	0.098 cps	100%	1.01 cps

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

## SELECT SEPARATE ACCOUNT STEP-OUT TRADE INFORMATION FOR 2015-2016

		Percentage of Client Trades Stepped Out	Additional Cost Incurred by Client Participating in those Trades <sup>1</sup>	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>2015</b>		<b>2016</b>	
Laffer Investments	Convertible	100%	0 cps	100%	0 cps
Mackay Shields	Convertible Securities	80%	0 cps	77%	0 cps
MFS	Large Cap Value	15%	0 cps	5%	0 cps
	Research International ADR	65%	.021 cps	52%	.025 cps
Oak Ridge Investments	All Cap Growth	3.7%	3-5 cps	5.1%	3-5 cps
Principal Global Investors	Principal Small Cap Value	25%	0 cps	10%	0 cps
	Spectrum Hybrid Preferred Securities	85%	0 cps	85%	0 cps
The Boston Company	US Mid Cap Opportunistic Value	100%	.017 cps	100%	.013 cps
Victory Capital	Income Investment Grade Convertibles	100%	0 cps	100%	0 cps

## VISTA SEPARATE ACCOUNT STEP-OUT TRADE INFORMATION FOR Q1, Q2 & Q3 2017

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<b>Manager Name</b>	<b>Strategy Name</b>	<b>Q1 2017</b>		<b>Q2 2017</b>		<b>Q3 2017</b>	
Brandes	Global Equity Managed Account	76%	1.79 cps	70%	1.5 cps	77%	1 cps
	International Equity Managed Account	94%	2.46 cps	90%	1.5 cps	89%	1.5 cps
	U.S. Value Equity Managed Account	27%	1.5 cps	46%	1.5 cps	39%	1.97 cps
Lazard	Emerging Markets Equity Select ADR	57%	3 cps	100%	2 cps	89%	3 cps
Legg Mason	All Cap Blend Portfolios (MDA0)	97%	1.26 cps	86%	1.2 cps	100%	0.98 cps
	Balanced Income Managed Account	100%	0.89 cps	86%	0.91 cps	100%	0.56 cps
	Diversified All Cap Portfolios (MDA 5A)	93%	1.24 cps	55%	1.16 cps	88.1%	1.35 cps
	Dividend and Growth Portfolios (MDA3)	94%	1.27 cps	58%	1.28 cps	100%	1.30 cps
	Dividend Strategy Balanced Taxable 60/40 Managed Account	48%	1.29 cps	35%	1.41 cps	73%	1.45 cps
	Dividend Strategy Portfolios Balanced Tax Favored (60/40)	48%	1.29 cps	88%	1.42 cps	71%	1.45 cps
	Global All Cap Portfolios (MDA 7A)	86%	1.22 cps	100%	1.15 cps	100%	1.25 cps
	Global Growth Portfolios (MDA7)	73%	1.33 cps	82%	0.20 cps	84%	1.34 cps
	Global Multi Cap Growth Portfolios (MDA4)	34%	1.4 cps	59%	1.28 cps	50%	1.41 cps
	Large Cap Blend Portfolios (MDA1)	2%	1.44 cps	—	—	—	—
Thornburg	International ADR Managed Account	91%	3.45 cps	80%	1.52 cps	79%	5.78 cps

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<b>Manager name</b>	<b>Strategy name</b>	<b>2015</b>		<b>2016</b>	
Lateef	Large Cap Growth	96.3%	0 cps	N/A	N/A
Legg Mason	All Cap Blend Portfolios (MDA0)	91.2%	.015 cps	92.8%	.014 cps
	Large Cap Blend Portfolios (MDA1)	97.5%	.011 cps	61.02%	.013 cps
	Dividend and Growth Portfolios (MDA3)	59.2%	.018 cps	70.6%	.016 cps
	Global Multi Cap Growth Portfolios (MDA4)	28.75%	.016 cps	49.3%	.014 cps
	Diversified All Cap Portfolios (MDA5A)	91%	.015 cps	73.4%	.015 cps
	Global Growth Portfolios (MDA7)	83.2%	.014 cps	32.4%	.013 cps
	Global All Cap Portfolios (MDA7A)	70.5%	.015 cps	93.7%	.014 cps
	Balanced Income	13.7%	.011 cps	75.9%	.013 cps
	Dividend Strategy Portfolios Balanced Tax Favored	19.9%	.017 cps	55.7%	.016 cps
	Dividend Strategy Balanced Taxable	49%	.017 cps	72.4%	.016 cps
	Balanced Income	13.7%	.011 cps	75.9%	.013 cps
Nuveen*	Tradewinds Global ADR	N/A	N/A	N/A	N/A
	Tradewinds Multi-Cap Opportunities	N/A	N/A	N/A	N/A
Oak Ridge Investments	All Cap Growth	5%	0 - 0.03 cps	5%	0 - 0.03 cps
Philadelphia Int'l Advisors**	International ADR	N/A	N/A	N/A	N/A
Brandes	Global Balanced Portfolio	48.4%	.015 cps	43.1%	.014 cps
	U.S. Value Equity Portfolio	42.6%	.014 cps	16.2%	.015 cps
	European Equity Portfolio	100%*	0 cps	63.2%	.015 cps
	Enhanced Income Portfolio	15.4%	0 cps	8.3%	.015 cps
	Global Equity Portfolio	82.9%	.012 cps	72.2%	.014 cps
	Global Mid Cap Portfolio	82.4%	.017 cps	79.1%	.02 cps
	International Equity Portfolio	91.9%	.011 cps	75%	.011 cps
Thornburg	International Core ADR	94%	.037 cps	81.5%	.027 cps
PIMCO	Total Return SMA Strategy	100%	0 cps	100%	0 cps

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

\*\*Philadelphia Int'l Advisors was dissolved in 2015. No information is available.

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