# Model Update | July 2018

In an effort to keep you updated on the management and oversight of Sterling Capital Advisory Solutions' Models, we are writing to inform you of an update to the Diversified Income Model ("Model"). Below is a summary of these changes.

We are replacing the current long Treasury ETF with a long Treasury mutual fund. The current allocation is the iShares 20+ Year Treasury Bond ETF (TLT), which is being replaced by the Vanguard Long-Term Treasury Index (VGLT). The newly-implemented manager, Vanguard, has a fee of 0.07% that is more than half of the "old" manager, iShares, which is 0.15%.

The Model's high yield allocation has been expanded to include two new funds – the Hotchkis & Wiley High Yield Fund (HWHIX) and Federated Institutional High Yield Fund (FIHBX). Please note, the overall high yield allocation will remain the same, however, two new managers will be added. Both Hotchkis & Wiley as well as Federated are actively managed strategies. With volatility persisting, Sterling Capital believes actively managed high yield strategies should outperform passive vehicles. The team continues to have conviction the Model's current allocation, the VanEck Fallen Angels ETF (ANGL), and consequently will remain in the portfolio, just the overall weighting will be reduced. We expect the two new funds to be a compliment to the fallen angels ETF.

Similar to high yield, where Sterling Capital believes active management should outperform passive, the team is making changes to the current MLP allocation to incorporate an active manager. We are replacing the Global X MLP ETF (MLPA) with the Oppenheimer SteelPath MLP Select 40 (MLPTX). The newly added active manager is being added to reduce the risk of the MLP allocation while seeking to generate increased total return in the MLP space.

Each of the aforementioned allocations are being added to as the team seeks to increase the overall return expectation for the Model while lowering the risk profile. Exposures will remain similar from the "old" to the "new" Model. Sterling Capital expects the yield on the overall portfolio to move higher but it should be noted that a minimal increase to the blended expense ratio will also occur.