



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 manager with two new funds. The current allocation is the Vanguard Long-Term Treasury Index Fund (VLGSX) and that is being replaced by two Fidelity Treasury Index Funds – Fidelity Intermediate-Term Treasury Index Fund (FIBAX) and Fidelity Long-Term Treasury Index Fund (FLBAX). The switch from Vanguard to Fidelity is solely due to cost. Recently, Fidelity announced significant fee reductions on several index products, including the Treasury Index Funds. The fee for both newly added products is 0.03%, which is far less than Vanguard's fee of 0.07%.

As it relates specifically to the Fidelity Index Funds, Fidelity is in the process of merging all share classes of each fund. Currently, there are five different share classes. On November 2, 2018, all share classes will be merged which ultimately eliminates any distinction between share classes. As a result, as clients view their statements, they may see "activity" relating to the conversion. Please note that this is a non-taxable event and will not impact fees or performance. In anticipation of the merger, Fidelity has already changed the fees of each share class to 0.03%.

Further, the model will maintain an allocation to Treasuries. However, we are reducing exposure to the long end of the curve and placing those proceeds into an intermediate Treasury allocation. The overall weighting to Treasuries will remain the same (3.0%). However, it will be split evenly across the intermediate and long portions of the yield curve.

We are also adding a new fund to the model – the Voya Securitized Credit Fund (VCFIX), which focuses on securitized credit. The fund has the ability to invest across the full spectrum of securitized products, including residential and commercial mortgage-backed securities (agency and non-agency), ABS and CLOs.

This fund will replace the DoubleLine Total Return Bond Fund, which invests in similar securities but has a lower yield. As of 09.30.2018, Voya's 12 month yield was 4.59% versus 3.71% for DoubleLine. We continue to have strong conviction in DoubleLine and the fund remains in the Institutional Alpha fixed income portfolio. However, for the purposes of Diversified Income, Voya's mandate aligns more with the model's mandate.

Similar to the aforementioned Treasury allocation, the overall weighting to securitized assets will remain similar to previous quarters (7.0%) but the underlying allocations will be modified where Voya will have a weighting of 5.0% and Angel Oak (which remains the portfolio) will represent 2.0% of the model.

As of 09.30.2018, the changes mentioned above will ultimately increase the yield of the portfolio while reducing fees.

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