

## **Investment Policy Statement For USA Swimming, Inc/New England Swimming Inc**

### **Overview**

USA Swimming, Inc. is a not-for-profit organization with its national headquarters located in Colorado Springs, Colorado. USA Swimming, Inc. maintains an investment portfolio for the benefit of its members.

### **Purpose of Investment Policy Statement**

The purpose of this Investment Policy Statement is to assist the Investment Committee of USA Swimming, Inc./New England (sometimes referred to herein as the “Committee”) in effectively establishing, supervising, monitoring and evaluating the investments maintained in the portfolio (referred to as “The Portfolio” which includes all USA Swimming/New England portfolio assets, including operating funds, unless specifically stated otherwise.)

The Policy:

1. Defines the investment goals and objectives of The Portfolio;
2. Documents the material facts considered and the process used to arrive at the investment decisions reached;
3. Establishes an asset allocation and investment management strategy designed to have a high probability of meeting the goals and objectives of The Portfolio;
4. Establishes a disciplined decision-making process to be followed by the investment advisors and managers in implementing the investment strategies decided upon;
5. Establishes a criteria for evaluating the success of the investment management of The Portfolio; and
6. Documents the procedural prudence followed by the Committee in taking the investment course of action followed.

With respect to the investment portion of the portfolio (referred to as “the Investments”) that are managed by the Investment Advisor “Advisor,” this statement also establishes a clear understanding between the Investment Committee and the Advisor concerning the investment policies and objectives of USA Swimming, Inc. It is contemplated that the Advisor will employ Investment Managers “Manager(s)” to manage specific segments of the Investments. The Advisor will be responsible for overseeing the Investments, monitoring individual manager performance and compliance with this document with respect to the Investments, and making asset allocation recommendations.

### **Goals and Objectives**

#### Portfolio Goals

It is a primary goal of USA Swimming, Inc. to invest the financial assets of the organization, in excess of funds needed for current operations, and to provide maximum earnings growth, based on a total return, consistent with a policy of prudent investment and protection of assets. It is also the policy of the organization to maintain operating funds to provide for liquidity to meet current operating and capital expenditure needs. Consistent with our objectives, the portfolio’s goal would be to outperform a blended benchmark consisting of 51% MSCI All Country World Index, 4% NAREIT Index and 45%

Barclays Aggregate Bond Index over a three year rolling period after fees. Secondly, the portfolio should earn inflation plus 3%.

Investment Objectives

A. Investment Funds

The invested assets of USA Swimming, Inc. are invested and maintained in a balanced investment program. The primary objective is to provide maximum growth consistent with a policy of prudent investment and protection of assets. Growth will be attained through appreciation of assets, the inclusion of additional funds when available, and from retention of earnings of the fund except earnings caused to be withdrawn as hereinafter provided.

B. Short Term Operating Account

The Short Term Operating Account is comprised of primarily operating funds that could reasonably be expected to be spent over the next 3 to 12 months. The account will be managed by the Chief Financial Officer with all transactions approved by the Treasurer except money market transfers. The securities in the account will be limited to the following investment vehicles and restrictions:

|                              | Single<br>Security<br><u>Limit</u> | Minimum<br><u>Quality</u> | Maximum<br><u>Maturity</u> |
|------------------------------|------------------------------------|---------------------------|----------------------------|
| Money Market Funds           | None                               | N/A                       | N/A                        |
| Brokered CD's                | \$100,000                          | N/A                       | 1 yr                       |
| US Treasuries                | None                               | N/A                       | 1 yr                       |
| Agency Discount Notes        | None                               | None                      | None                       |
| Commercial Paper             | \$250,000                          | A2/P2                     | 9 mo                       |
| Adjustable Rate Certificates | \$250,000                          | N/A                       | 5 wk                       |

**Asset Allocation**

The asset allocation under the Investment Policy will meet the stated goals and objectives. The asset allocation is based upon the following:

- A. That it is not productive to “time” the markets. Rather, long-term strategic asset allocation, based upon the principles of Modern Portfolio Theory, is the most prudent investment approach. That is, effective diversification can reduce risk. In utilizing this methodology, it is important to diversify into all the major asset classes as set out below, and to diversify by investment style and money manager.
- B. That gains and losses have a significant impact upon the Investments’ growth objective.
- C. That portfolios with a greater amount of stock allocations and a lesser amount of bond allocations have a higher probability of short-term losses **and** of long-term higher returns than portfolios with lesser amounts of stocks.

Therefore, since long-term higher returns are very important in meeting the objectives of the Investments, the asset allocation shall contain a mixture of stocks and bonds that subject the portfolio to the potential of moderate, but not devastatingly large short-term losses, and provide the potential for higher long-term returns.

| <u>Asset Allocation Mix</u> | <u>Target</u> | <u>Minimum</u> | <u>Maximum</u> |
|-----------------------------|---------------|----------------|----------------|
| <b>Stocks</b>               | <b>51%</b>    | <b>41%</b>     | <b>61%</b>     |
| <b>Real Estate</b>          | <b>4%</b>     | <b>2%</b>      | <b>6%</b>      |
| <b>Bonds</b>                | <b>44%</b>    | <b>34%</b>     | <b>54%</b>     |
| <b>Cash</b>                 | <b>1%</b>     | <b>0%</b>      | <b>5%</b>      |

### **Historic\* and Expected Returns**

The long-term un-audited historic rate of return on the Investments is shown below. It is based on the historic expected long-term total return for each asset class, and then adjusted for interest rate environment and each asset class' percentage weighting in your portfolio. This is compared against the assumed long-term average rate of inflation (as measured by the Consumer Price Index). The difference between the nominal rate of return and the inflation rate is your real (after-inflation) expected return. Actual performance will vary from these assumed rates and there is no guarantee that this return objective will be achieved either in any single year or over the longer term. The portfolio return will also be reduced by the deduction of advisory and money management fees.

|                        | <b>Year 1</b> | <b>Year 3</b> | <b>Year 5</b> | <b>Year 10</b> | <b>Year 20</b> |
|------------------------|---------------|---------------|---------------|----------------|----------------|
| <b>95th Percentile</b> | 33.23         | 21.84         | 18.54         | 15.30          | 13.07          |
| <b>Historic Return</b> | 8.74          | 8.14          | 8.02          | 7.93           | 7.89           |
| <b>5th Percentile</b>  | (12.7)        | (4.54)        | (1.88)        | .87            | 2.87           |

\*Mathematically calculated returns are based on historic asset class returns. Based on First Western Investment Advisor's capital market assumptions, the expected value returns are believed to be in the 5.25% - 7.5% range gross of investment advisory fees.

At least two benchmarks for each asset class shall be selected to compare future performance against. One or more passive indices that are reflective of the universe of securities within that asset class shall be selected. In addition, one or more active manager benchmarks will be used to compare relative performance of the investment vehicle used herein to other managers investing within a particular asset class.

The Committee recognizes that any particular investment strategy will have periods where it will fall short of achieving its goal. During such period, the Committee expects rational explanations for such under-performance.

Risk will be measured by standard deviation and may be more or less risky than the blended index benchmark. Risk in excess of 15% plus or minus the benchmark may require additional examination. Returns will also be monitored on a risk adjusted basis as measured by the Sharpe Ratio. (Return of the portfolio minus the risk free rate divided (the risk free rate is measured by the 5 year Treasury note) by the standard deviation.

**Investment Vehicles**

In implementing the asset allocation policy, it is intended that there be extensive diversification by investment style. Frank Russell Investment Management Company funds, through First Western Investment Advisors, have been selected as the primary method of effectively implementing the asset allocation.

First Western Investment Advisors, the registered investment advisor to the Investments, will monitor the performance of each fund or manager and report to the Committee. First Western Investment Advisors will recommend replacement funds or managers.

**Rebalancing**

The asset allocation shall be rebalanced to the target allocations set out above after any quarter in which one or more of the minimum or maximum allocations are exceeded. Furthermore, in the event of a sudden or significant change in the asset allocation attributable to market conditions, the asset allocation may be rebalanced between quarters.

**Costs**

The costs associated with the management of each asset class shall be reviewed at least annually. It is the Investments’ objective that the total costs of managing the funds, including the investment advisory fees, shall be average or below when compared to the average fees for a similar mix of mutual funds. Averages from Morningstar Analytical Service shall be used for determining the appropriate average.

**Communications**

Unless otherwise requested, the Advisor must furnish the Investment Committee with a quarterly account review detailing investment performance (time-weighted), portfolio holdings, an investment strategy, and the value of the Investments. The Investment Committee will also receive timely information about changes in investment philosophy, management, ownership, and key personnel of Frank Russell Investment Management Company.

Investment Committee meetings will be held quarterly.

The Investment Committee may call more frequent meetings if significant concerns arise about the Advisor’s investment strategy or performance of the Investments.

**Execution**

This Investment Policy Statement is hereby approved and adopted on Dec 17, 2019 by the NE Board of Directors.

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_