Potomac Valley Swimming
Proposals Regarding PVS's Investments in Mutual Funds
December 13, 2010

Proposal # 1

Make changes to the PVS Investment Policy to accomplish three goals:

1. Add definitions for Operating Reserve Fund and Designated Reserve Fund.
2. Refine the definition of "Mutual Funds" to specify "Fixed Income" and "Equity" funds.
3. Update the $100,000 per deposit limit to the current FDIC insured limit of $250,000.
4. Change the limit on equity investments from 25% to 30%.

Proposal # 2

a) Reallocate the current balance ($114,000 as of October 2010) in the PVS's Dain Rauscher account to currently used equity mutual funds.

b) (To be considered if Proposal # 1 is approved.) A bank CD at SunTrust recently matured. The maturity value of the CD was $109,000. Upon maturity, the proceeds were deposited in PVS's money market account at Wachovia bank. The current rate of return on this account is 0.30%. New bank CDs of two years or less duration are paying in the neighborhood of 1.3%. In order to generate a higher return it is proposed that PVS's investment in the Dain Rauscher account be increase by $110,000. The entire $110,000 will be invested in fixed income mutual funds. It is expected that the fixed income mutual funds will generate an annual return in the range of 4% to 6%. This action will result in a total investment in mutual funds of $180,000. At a 30% limit, the amount allowed to be invested in mutual funds is $188,000.

c) (To be considered if Proposal # 1 is not approved.) Same as Proposal # 2 b except that the additional investment in the Dain Rauscher account will be $87,000. This action will result in a total investment in mutual funds of $157,000. At a 25% limit, the amount allowed to be invested in mutual funds is $157,000.

Proposal # 3

a) Move all monies invested in the Dain Rauscher account to First Western. The investment allocation at First Western will be the same as in the Dain Rauscher account but not necessarily in the same underlying funds. The First Western account will follow the PVS investment policy guidelines.

Discussion

The value of PVS's Dain Rauscher investment portfolio as of November 30, 2010 was about $112,000. The portfolio is invested as follows: Fixed Income Mutual Funds-$50,000 (44%); Equity Mutual Funds-$33,000 (29%) and; Mixed Asset Mutual Funds-$26,000 (27%). PVS's total investment in the portfolio is $70,000. Income and market appreciation on the fund therefore accounts for $44,000 of the fund's value.

The PVS account was opened at Dain Rauscher solely because that was the Firm USA Swimming was using at the time to manage their investments. The investment allocation was intended to mirror that of USA Swimming. Since the account was opened, USA Swimming has moved their assets to First Western. As a result, PVS has no ability to insure that assets at Dain Rauscher are in any way mirroring the investment allocations used by USA Swimming at First Western. In fact, PVS's investment allocation has not changed or been rebalanced since the account was opened over a decade ago.

PVS's current Investment policy stipulates that the organization may invest up to 25% of its reserve funds in equity mutual funds. At the end of the last fiscal year (August 31, 2010), PVS's funds on reserve defined as all cash and investments on hand were $628,000. According to the investment policy guidelines, up to $157,000 could be invested in equity mutual funds.

Based on the above information and a careful reading of PVS's current investment policy, it can be argued that PVS's actual investment in mutual funds is only $70,000 which is the value of PVS's investment contributions to the account. This amount represents only 11% of PVS's available funds.

Proposals #s 1 and 2 above are intended to increase PVS's permissible investment in equity mutual funds to 30% or alternatively, to increase the amount invested to the maximum allowed under the current 25% limit. This will expose the organization to the probability of realizing a higher long term return on excess assets and to recognize that alternative investments, namely fixed rate bank CDs are currently paying a historically low rate of interest. It is also intended to become more aggressive in pursuing long term performance by increasing the portion of the portfolio that is invested in equity type mutual funds.

Proposal # 3 above is intended to authorize the entire account to be moved from Dain Rauscher to First Western. The compelling argument to move PVS's account is that it will enable PVS to have access to the same market research that is used to determine the investment allocation employed by USA Swimming in their account. First Western and Dain Rauscher are both high quality fund managers. The difference in fees between Dain Rauscher and First Western is small and immaterial to the choice of which Firm is better suited to manage PVS's investments. The only question is, does PVS want to be at the same place as USA Swimming and thereby have access to their investment research and account allocation model.

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<u>A word about investment objectives and investment allocation</u>

USA Swimming's investment objective includes two elements. First, their investments are intended to seek long term growth through market appreciation and second, to generate a certain level of current income (cash) that is used to cover annual operating requirements. Their asset allocation therefore is divided between two categories, specifically, equity securities to generate long term growth and fixed income investments that protect principal and generate a cash flow in the form of dividends (interest). The cash generated through their fixed income investments is an integral part of the revenue used by USA Swimming to fund annual operating expenses.

In contrast, PVS's investment goals for the money that is invested in mutual funds is to generate long term growth and realize an investment return that is greater than can be attained through alternative investments like bank CDs. PVS does not depend on cash flows from fixed income mutual funds to support annual operating expenses. PVS's annual expenses are covered primarily from revenue generated by registration fees and meet entry fees.

It can be rationalized that since PVS does not depend on cash generated from investments to fund annual operating costs, the organization's investment objectives are somewhat different from those of USA Swimming. Consequently, PVS can be more aggressive in pursuing long term growth than USA Swimming since the generation of current income is not one of PVS's investment objectives. In essence, PVS can and probably should assume more short term risk of negative market performance then USA Swimming in seeking greater long term growth. It is for this reason that proposal # 2 above recommends that PVS increase exposure to equity mutual funds.

A review and rebalancing of underlying investments should be performed at least once a year to insure that the portfolio is allocated in a manner that can best achieve investment objectives and stays in compliance with the organization's investment policy.

Respectfully Submitted
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