

Pacific Northwest Swimming Rules and Procedures	Investment Policy
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Investment Policy Statement Pacific Northwest Swimming Inc.

Purpose

The purpose of this statement is to establish a clear understanding between the Investment Committee (The Committee), the PNS Board of Directors (The Board) and KMS Financial Services concerning the investment policies and objectives of Pacific Northwest Swimming Inc: “The Fund.” (“The Fund” is understood to include all Pacific Northwest Swimming assets, including operating funds, unless specifically stated otherwise.) The policies for each asset class within The Fund are described as part of this document. This policy outlines an overall philosophy that is specific enough to guide the Committee, yet sufficiently flexible to allow for changes in the economy and securities markets. The Investment Committee will provide realistic expectations and risk tolerance to guide the Board toward long-term rate of return objectives that will serve as a standard for evaluating investment performance. The Investment Committee will also establish the procedures for overall policy and performance review.

This statement will establish policies and restrictions to be placed on The Fund investments. However, these are not intended to impede the Committee’s effort in attaining the overall objectives of The Fund. The Investment Committee has discretion in investment selection and diversification for the purposes of increasing investment returns or reducing risk exposure. The Investment Committee also has the responsibility to shift The Fund’s asset commitment among industry sectors and individual securities to pursue opportunities presented by secular changes within the capital markets.

Guidelines

Investments of The Fund will be made for the sole interest and exclusive purpose of providing benefits to Pacific Northwest Swimming. The Fund’s assets must be invested with care, skill, and diligence that a “Prudent Person” acting in this capacity would undertake.

The Investment Committee understands that fluctuating rates of return are characteristic of the securities markets; therefore, the Managers' greatest concern should be to satisfy the organizations financial objectives which are consistency of total return, preservation of principal, liquidity to meet cash flow requirements, and long term appreciation of assets. Recognizing that short-term fluctuation may cause variations in The Fund’s performance, the Investment Committee expects to achieve total return objectives over a 3 year moving time period.

Portfolio risk levels should be established to minimize the likelihood of sharp declines in principal values. The possibility of moderate declines in total value is a risk the Investment Committee accepts as necessary to achieve superior long-term results. It should also be understood that our quadrennial cycle and cash flow requirements will be instrumental in determining the appropriate asset mix and liquidity mix.

The Committee is to vote equity proxies in a manner that best serves the Fund’s interest. The Committee is expected to be aware of corporate provisions that may adversely affect stockholdings including, but not limited to, golden parachutes, super majorities, poison pills, fair price provisions, staggered terms for board members, and other tactics. Proxies should be vigorously voted with interest of preserving or enhancing the overall portfolio value.

The Committee is prohibited from investment in private placements, letter stock, and uncovered options, and from engaging in short sales, margin transactions, or other similar specialized investment activities.

Objective Standards

The Fund's primary objective is to obtain an additional 3% return relative to the Consumer Price Index with a minimum return of 7% as a secondary objective. This objective should be pursued as a long-term goal designed to maximize benefits for the plan participants without undue risk, as defined herein.

The Investment Committee realizes that poor securities markets may persist over a period of unpredictable duration. Therefore, they have established, as part of their risk policy, a minimum acceptable return equal to the rate of increase of the Consumer Price Index.

The Investment Committee also recognizes that persistently rising securities markets may provide opportunities for above average appreciation of plan assets. Under these circumstances, the Investment Committee shall maintain the flexibility necessary to achieve a total return of the Consumer Price Index rate plus 7% annually. Understanding that a long-term positive correlation exists between volatility and positive expected returns, declines in total value in any 12-month period should not exceed -9% more than once every ten years.

It is also expected that over any 3-year period, the Committee is expected to achieve a return after fees superior to their appropriate respective benchmark as detailed below.

Security Classes

A. Equities

All equity investments will be made within the guidelines of quality, marketability, and diversification, mandated by controlling statutes. In keeping with our general philosophy, the Investment Committee expects to maintain their equity portfolios at a risk level approximately equivalent to that of the equity market as a whole, as represented by the appropriate index benchmark with the objective of exceeding its results by 1% annually over a 3-year period. Equity holdings (including Convertibles) may be selected from the New York, American and NASDAQ stock exchanges. Equity investments must represent companies meeting a minimum capitalization requirement of \$250 million with readily available market quotations. It is expected that the median capitalization of the portfolio will exceed \$10 billion with no more than 20% to be invested in companies with capitalization below \$500 million.

Within the above guidelines, the Committee is fully responsible for security selection and diversification. However, they cannot exceed a 5% commitment of their portfolio's equity market value for an individual security or 20% for a particular industry (30% for a sector per S&P definition). If, as a result of market growth the holdings of any individual security should exceed 10% or any industry should exceed 30%, (40% for a sector per S&P definition) the Committee should endeavor to reduce the exposure back to the purchase guidelines within a reasonable period of time (90 days.)

B. Fixed Income Securities

Investment in Fixed Income securities will be managed actively to pursue opportunities presented by changes in interest rate trends. The Investment Committee expects to maintain the risk levels of the portfolio roughly equivalent to the market as a whole, with the objective of exceeding the results as represented by the Shearson Lehman Government Intermediate Index by 0.5% annually over a 3 year money time period. The Committee may choose from appropriately liquid preferred stocks, corporate debt securities, and obligations of the U.S. Government and its agencies. These investments are subject to the following limitations:

1. Average portfolio maturity should not exceed 10 years at any time, with total portfolio risk similar to the Shearson Lehman Government/Corporate Intermediate Index. No issues may be purchased with more than 20 years to maturity. It is expected that no more than 25% of Fixed Income investments may exceed 10 years in maturity.

2. Investments in securities of a single issuer, with the exception of the U.S. Government and its agencies, must not exceed 10% of The Fund's fixed income market value.
3. Individual Corporate securities (excluding Convertibles) must meet or exceed a credit rating of A/A to be purchased. BBB/BBB rated securities that have been downgraded may be held for a reasonable time (90 days) before being sold. Split rated securities (A/BBB) may be held, but not purchased.
4. Individual Preferred stocks (excluding Convertibles) must be rated A/A at the time of purchase and may be held if downgraded for a reasonable time (90 days) before being sold. Split rated securities may be held, but not purchased.
5. Investments in high yield/lower rated bonds may be done through a mutual fund, or separate manager, specializing in that area, where diversification of the portfolio would be expected to offset the higher inherent credit risks. Investments in High Yield (below investment grade) may not exceed 10% of the Longer Term Investment accounts and is expressly forbidden for operating accounts. Such investments would be done in an effort to offset interest rate risk inherent in government bonds, thus enhancing overall portfolio returns and reducing overall portfolio risks.

The Committee is prohibited from investing in private placements or from speculating in covered/uncovered financial futures. Within the above restrictions, the Committee has complete discretion over timing and selection of individual Fixed Income securities.

C. Cash Equivalents

The Committee may invest in Commercial Paper, Repurchase Agreements, Treasury Bills, Certificates of Deposit, and money market funds to provide income, liquidity for expense payments, and preservation of The Fund's principal value. All such assets must represent maturities of less than 3 years at the time of purchase. Commercial Paper assets must be rated A-1 or P-1 by Standard & Poors and Moodys respectively. The Committee may not purchase shortterm financial instruments with speculative characteristics (uncertainty of principal and/or interest). The Committee also may not invest more than 20% of The Fund's market value in the obligation of a single issuer, or more than \$100,000 in any 1 commercial bank CD, with the exception of the U.S. Government and its fully guaranteed agencies.

D. Other Assets

The Committee should not purchase assets other than those mentioned above without the consent of the PNS Board of Directors (properly documented in meeting minutes). Investments in futures contracts, commodities, and currency exchange rates are strictly prohibited. Securities of foreign companies traded in ADR's or on foreign stock exchanges may not be purchased. Without the PNS Board of Directors' consent, investments not specifically addressed by this statement are forbidden.

Account Specific Information

Operating Funds

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 PNS Treasurer. The securities in the account will be limited to the following investment vehicles and restrictions:

Money Market Funds
Wells Fargo Checking Account
Wells Fargo Savings Account
Bank of America Checking Account (National Meet Account)
Officials' Committee Checking Account (Managed by the Officials' Committee, reconciled to the PNS Accounts quarterly)

Longer Term Investments

Reserve and Endowment Accounts

The Reserve and Endowment Accounts are comprised of investments for which there is not current identified need or anticipated liquidity need. These funds are further broken down by Equity Accounts and Bond Accounts. It is anticipated that Equity Accounts will be run as domestic equity. It is anticipated that the maximum equity exposure should never exceed 65% of the combined Equity and Bond Account values.

Principal / Income Allocation

The combined Reserve and Endowment Account is allocated as follows:

Reserve	75.0 %
Athlete Endowment	15.0 %
Programs Endowment	10.0 %

The income (loss) of the combined funds shall be allocated in accordance with the above percentages. The percentages shall be adjusted as funds are contributed or withdrawn to maintain the endowment principal balances that existed prior to any contributions or withdrawals.

Asset Allocation

The Investment Committee asset allocation policies reflect, and are consistent with, the investment objectives and risk tolerances expressed throughout this statement. These policies, developed after examining the historical relationships of risk and return among asset classes, are designed to provide the highest probability of meeting or exceeding The Fund's return objectives at the lowest possible risk.

It is expected that diversification will occur by asset class (stocks, bonds, cash), geographically (both local and national securities), credit quality (both high grade and high yield, with an emphasis on high grade), market cap (large cap, median cap and small cap, with an emphasis on large cap), and style (growth and value).

General asset allocation decisions will be made by the Investment Committee and the consultant. Specific asset allocation with the Fixed Income and Equity classes are the responsibility of the Committee. As a result, the following standards will be used to evaluate The Fund's asset allocation, measured at market value.

1. The investment returns of The Fund's asset allocation will be measured against those of a target portfolio consisting of 55% Equities, 40% Fixed Income securities, and 5% Cash equivalents.
2. Equities, including all convertible securities, may comprise up to a maximum of 65% of The Fund's market value with a minimum requirement of 0%.
3. Fixed Income securities, including preferred stocks, should not exceed a maximum of 70% of The Fund's market value and may represent as little as 10%.
4. Cash equivalents, including all senior debt securities with less than 3 years to maturity, may represent a maximum of up to 100% of The Fund's value. They should constitute at least 5% at all times.

These asset allocation boundaries are based on market value of all of The Fund's assets. If changes in market value should lead to allocations exceeding these boundaries by 10% of the portfolio at the end of any calendar

quarter, our consultant will notify The Committee who will endeavor to reduce/increase exposure back to the guidelines within 90 days.

If the Committee believes that certain opportunities justify allocations beyond the limits prescribed above, they may exceed them only with the PNS Board of Directors' consent. Such recommendation should be submitted in writing to our managed account consultant and could be expected to be acted upon within 10 days.

Communications

Unless otherwise requested, the Committee must furnish the Board of Directors with a quarterly account review detailing investment performance (time-weighted), portfolio holdings, an investment strategy, and The Fund's value. The Investment Committee also must provide timely information about changes in the investment philosophy, management, ownership, and key personnel.

Investment Committee meetings will be held annually at the Fall House of Delegates' Meeting.

The Investment Committee may call more frequent meetings if concerns arise about the investment strategy or performance, or if key changes occur in the personnel or organizational structure.

KEY INFORMATION

ORIGINAL INVESTMENT POLICY ADOPTION: October 2005

REVISED: None

IRS TAX IDENTIFICATION: # _____

CUSTODIAN: KMS Financial Services

INVESTMENT CONSULTANT: James Hansen

ACKNOWLEDGMENT

By acknowledging in writing, the receipt of this statement, the investment consultant agrees to its terms and conditions. The signatures below affirm that this statement has been read, understood and accepted.

PNS Finance Vice-Chair

Investment Manager

Signature

Signature

Date: _____

Date: _____

PNS General Chair

PNS Treasurer

Signature

Signature

Date: _____

Date: _____