USA Swimming (USA-S) & USA Swimming Foundation (Foundation)
Investment Committee 4th Q 2022 Review
Meeting Minutes from 24-Jan-2023

Meeting was called to order at 3:30pm MST.

Attendees:

FWT	Sterling	USA Swimming & Foundation
Doug Hanisch	Tony Corallo (Managing Director)	Kenneth Chung (VC Fiscal Oversight)
Heath Kinsland		Ellen Colket (Committee Chair)
John Sawyer (CIO)		Jay Definis (Foundation member)
David Stern		Michael McBroom (USA-S Athlete)
		Ryan Murphy (USA-S Athlete)
		William Poff (USA-S Staff member)
		Eric Skufca (CFO)
		Marc Tucci (USA-S member)

Meeting began with a review of the Agenda as follows:

- Approval of Q3 2022 Minutes
- Q4 USAS & USASF portfolio reviews, insights & outlook
    - Equity: FWT
    - Fixed Income: Sterling
- Banking review – Doug
- Annual review of Investment Advisory Team - discussion
- Next meeting: 26-Apr-2023@ 5:30 pm ET
- Review Actions

No changes to the agenda were requested.

The Investment Committee unanimously approved Q3 2022 meeting minutes as presented.

John - Presented **economic outlook** discussing views of markets and the economy. Positive: Green shoots, some early indications that general environment is stable with larger inflation related issues improving. Negative: Lower consumer sentiment and slowing spending. Housing has slowed dramatically. What does 2023 look like? Markets: Not great outlook with corporate earnings expected to slow further this year. However, becoming more optimistic for 2023 and 2024. A lot of talk about slowing earnings contributing to recession but that could be more of a Wall Street issue and not a Main Street issue m e.g., earnings slowdown in 2015 but no corresponding recession. Economy could still skirt a recession.

Question asked about US dollar strength and impact on portfolio allocation. John noted portfolio's persistent underweight to international markets.

John – **Reviewed USA-S performance report**. John asked for the committee's feedback on new format. Reviewed performance on pg. 10 (full panel historical return data should be available by next meeting). Discussed benchmarks at the bottom of page 10. 2022 was a difficult year with nowhere to hide. Eric - question about asset allocation and how the portfolio is currently allocated vs. benchmarks. John noted that the portfolio is largely in line with the benchmark although there are underlying tilts (e.g., US large-cap and US weighting overall).

John **reviewed Foundation performance** (starting on pg. 12)

Question asked about thoughts on increasing cash? John stated that he doesn't like using cash as an asset. Would prefer to increase fixed income allocation and be short on duration, however, that doesn't necessarily work (e.g., 2022). Difficulty with cash is knowing when to reenter and the potential for misalignment with the account's long-term goals as well as the benchmark. That is the benefit of the IPS, enforces discipline during times of disruption.

Point made that there are other cash-like opportunities. John - Yes, seeing interest in Treasuries and Ladders and shorter fixed income investments due to increased short rates. Eric - please speak to USA Swim cash holdings. John - FWT uses a sweep vehicle to provide all cash with FDIC insurance. Have been targeting lower bound of FFR, which is currently 4.25%.

Tony - started on page 13. Good positive return for the quarter but underperformed benchmark by about 0.60% due to "good news" rally. Had been slightly short on duration but moving closer to neutral. Will be moving first to duration neutral and then longer over the course of 2023. Not expecting a hard recession. Think a soft landing is possible. Barbell strategy did not perform as well as the belly of the curve due to inflation data and expectations. Barbell - short-term expect Fed to raise rates further. Think they will follow through on their commitment to reduce inflation. Long-term- expect rates to fall further as economy slows with the curve inverting further. That didn't help in 4Q22. Have been increasing mortgage exposure following (expected) peak in mortgage rates. Have started to take down corporate positions and increasing credit quality to prepare for slowing economy. Still overweight Asset Backed Securities (ABS) and Commercial Mortgage-Backed Securities (CMBS), think commercial real estate will benefit from "back-to-work". Overall, good absolute quarter, but not good relative quarter. Hurt by "risk on" sentiment.

Slide 25 - performance attribution.

Sterling thinks the Fed will raise rates by another 0.75% which will create further economic impact. Tech sector saw large boom in hiring. Overall, expect unemployment to rise. Looking for financial services sector job layoffs as well as in the industrial sector. If that filters down into services, that would be a good tell-tale sign of a coming recession. Don't think Fed will start cutting in 2023. Will wait until they see meaningful slowdown.

Question raised regarding thoughts on the strategy for 2023. "In 2022, we gave up yards, this year we will get back inches." Structured market is attractive, but Sterling wants to be careful. Cautious about MBS. Biggest move is likely to be in duration. As Fed moves to neutral, Sterling will move the portfolio first to neutral and then long on the expectation that Fed slows/stops rate hikes, economy slows, rates fall, and spreads become further inverted. Agree with John that the risk with moving into cash as the markets making a large move. Cannot ever get that back.

Review of Investment Advisors - For the committee's review of investment advisors we began with **Question 4: are there opportunities/changes to the portfolio that would better position USA-S and the Foundation to achieve the 2028 strategies**. John (FWT) - We would look at potentially increasing international exposure as well as increasing small-cap allocations on signs the economy is reaching an inflection point. Tony (Sterling) - similar to John's small-cap comment, as Fed gets to the end of rate hikes, will look to increase duration.

Question 1: How does USA Swimming compare on performance and fee structure to other non-profit firms you manage. John - performance has been good as demonstrated by relative performance vs. various benchmarks. Asset allocation has worked extremely well for the portfolio and compares well against similar account types and benchmark. From a fee standpoint, fees appear to be in line to slightly better than comparable accounts. Will try to find further data to validate that point. Tony - dispersion is quite low and in line with other portfolios. Measure performance against a large universe, on a relative basis compared to peers, account ranks very well. Through 3Q22, fees are close to median, or slightly lower. Overall, have performed well, especially over long-term in terms of generating excess returns.

Question 2: How would you assess overall performance of portfolios? This has effectively been answered.

Question 3: What stress testing and/or risk analysis scenarios can be provided for our portfolios? John - We look at how the portfolio has performed against historical ranges. David has a new tool for stress testing. We will include those results at future meetings. Tony - We have a proprietary team to stress test portfolios for changes in yield curve, interest rates, etc. Also look at risk from credit-spread standpoint. Team reviews data, sectors, etc. when making selection decisions. Happy to share risk analysis deck.

Banking review - Doug stated there were no updates. Eric added that there was a drawdown on the line of credit from $3M to $1M. That liability decreased.

General - Eric added that the USA-S and Foundation Board meetings will be held in the next week at which time the Boards will discuss and approve the updated IPS documents.

Next meeting: April 26, 2023 at 3:30pm EST.

Meeting adjourned at 4:36pm MST.