

INVESTMENT POLICY

Purpose

The purpose of this investment Policy Statement (IPS) is to assist the Investment Committee (Committee) in effectively supervising, monitoring and evaluating the management of the Investment Portfolio (Portfolio). The Foundation's investment program is defined in the various sections of this IPS by:

1. Stating in a written document the Committee's attitudes, expectations, objectives and guidelines for the investment all assets.
2. Encouraging effective communications between the Committee and all parties involved with the investment management decisions.
3. Establishing formal criteria to select, monitor, evaluate and compare the performance results achieved by each investment option on a regular basis.

Executive Summary

Type of Client:	Non Profit
Foundation / Endowment Name:	North Carolina Swimming
State of Domicile:	North Carolina
Tax Id:	
Current Assets:	\$750,000
Time Horizon:	Long – more than 5 years
Modeled Return:	6.9%
1 -Yr Loss Limit:	-5.7%

Asset Allocation - Allocation Range Legend

Broad Asset Class	Peer Group	LL	SA	UL
Fixed Income - Broad Fixed	Income Multi-sector Bond	5.0	10.0	30.0
Fixed Income - Global Fixed Income	World Bond	5.0	10.0	15.0
Fixed Income - Intermediate Fixed Income	Intermediate-Term Bond	15.0	30.0	45.0
International Equity - Diversified Foreign	Large Blend	5.0	10.0	20.0
Large Cap Equity	Large Blend	10.0	20.0	30.0
Mid Cap Equity	Mid-Cap Blend	10.0	15.0	20.0
Small Cap Equity	Small-Cap Blend	2.0	5.0	10.0
Other	Specialty-Real Estate	2.0	5.0	10.0

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Statement of Objectives

Background

North Carolina Swimming portfolio was established with the following purpose and mission: To provide the funds necessary to support and maintain North Carolina Swimming without breaching the principal value of the portfolio. This IPS has been arrived at upon consideration by the Committee of a wide range of policies, and describes the prudent investment process the Committee deems appropriate. This process includes offering various asset classes and investment management styles that, in total, are expected to offer the opportunity to diversify the portfolio in a manner consistent with the specified risk and return requirements of the portfolio.

The objectives of the portfolio are:

1. Maintain the purchasing power of the current assets and all future contributions. The objective is to maintain the level of services and programs in relation to inflation.
2. Maintain the level of programs and services currently provided. This can only be accomplished if sufficient total return is reinvested and new funds added to keep pace with cost increases and program expansions.
3. Maximize return within reasonable and prudent levels of risk.
4. Maintain an appropriate asset allocation based on a total return policy that is compatible with a flexible spending policy, while still having the potential to produce positive real returns.
5. Investment managers are instructed to evaluate all investment options according to objective economic criteria established by the manager and if there are equally attractive investments, social factors may be considered.

Time Horizon

The investment guidelines are based upon an investment horizon of greater than five years. The Portfolio's strategic asset allocation is also based on this long-term perspective. Short-term liquidity requirements are anticipated to be non-existent, or at least should be covered by cash inflows.

Risk Tolerances

The Committee recognizes and acknowledges some risk must be assumed in order to achieve the investment objectives of the Portfolio, and that there are uncertainties and complexities associated with contemporary investment markets. In establishing the risk tolerances for this IPS, the Foundation's ability to withstand short- and intermediate-term variability was considered. A 1-yr loss limit of -5.7% has been calculated for the portfolio. Statistically speaking, there is a 5% chance (one in every twenty years) that the 1-year return will actually be lower than -5.7%. The long time horizon, current financial condition and several other factors suggest collectively some interim

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fluctuations in market value and rates of return may be tolerated in order to achieve the longer-term objectives.

Performance Expectations

In general, the Committee would like the Portfolio to earn at least a targeted return of 6.9%. It is understood an average return of 6.9% will require superior manager performance to (1) retain principal value; and (2) purchasing power.

Duties and Responsibilities

Investment Committee

As fiduciaries under North Carolina Swimming, the primary responsibilities of the Committee are:

1. Prepare and maintain this investment policy statement.
2. Prudently diversify the assets to meet an agreed upon risk return profile.
3. Prudently select investment options.
4. Control and account for all investment, record keeping and administrative expenses associated with the Portfolio.
5. Monitor and supervise all service vendors and investment options.
6. Avoid prohibited transactions and conflicts of interest.

Custodian

Custodians are responsible for the safekeeping of the assets. The specific duties and responsibilities of the custodian are:

1. Value the holdings.
2. Collect all income and dividends owed to North Carolina Swimming.
3. Settle all transactions (buy-sell orders).
4. Provide reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall Portfolio since the previous report.

Investment Advisor

The Investment Advisor serves as an objective, third-party professional retained to assist the Committee in managing the overall investment process. The Advisor is responsible for guiding the Committee through a disciplined and rigorous investment process to enable the Committee to meet the fiduciary responsibilities outlined above.

Separate Account Managers

1. Manage the assets under their supervision in accordance with the guidelines and objectives outlined in their respective Service Agreements, Prospectus or Trust Agreement.
2. Exercise full investment discretion with regards to buying, managing, and selling assets held in the Portfolio.

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3. Seek approval from the Committee prior to purchasing and/or implementing the following securities and transactions:
 - a. Letter stock and other unregistered securities; commodities or other commodity contracts; and short sales or margin transactions.
 - b. Securities lending; pledging or hypothecating securities.
 - c. Investments in the equity securities of any company with a record of less than three years continuous operation, including the operation of any predecessor.
4. Vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the Portfolio as described in this IPS. Each investment manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.
5. Communicate to the Committee all significant changes pertaining to the fund it manages or the firm itself. Changes in ownership, organizational structure, financial condition, and professional staff are examples of changes to the firm in which the Foundation is interested.
6. Effect all transactions for the Portfolio subject "to best price and execution." If a manager utilizes brokerage from the Portfolio assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Foundation.
7. Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals, acting in a like capacity and fully familiar with such matters, would use in like activities for like Portfolios with like aims in accordance and compliance with all applicable laws, rules, and regulations.
8. Take in to consideration in Mission-based¹ Socially Responsible Investment (SRI) preferences. It has become a generally accepted practice to permit the inclusion of an SRI strategy as a secondary screen to a normal (unrestricted) investment process. If there are equally attractive investment options, then social factors may be considered.

Asset Class Guidelines

The Committee believes long-term investment performance, in large part, is primarily a function of asset class mix. The Committee has reviewed the long-term performance characteristics of the broad asset classes, focusing on balancing the risks and rewards. Historically while interest-generating investments, such as bonds, have the advantage of relative stability of principal value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation. On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return. From an investment decision-making point of view, this year-by-year variability may be worth accepting given the Foundation's long time horizon.

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The following asset classes were selected and ranked in ascending order of risk (least to most) according to the most recent quarter's median 3-year Standard Deviation values.

- Intermediate-Term Bond
- Multisector Bond
- World Bond
- Large Blend
- Foreign Large Blend
- Mid-Cap Blend
- Specialty-Real Estate

Rebalancing of Strategic Allocation

The percentage allocation to each asset class may vary depending upon market conditions. Please reference the allocation table in the Executive Summary for the lower and upper limits for each asset class. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation and allocation ranges of the Portfolio. If there are no cash flows, the allocation of the Portfolio will be reviewed quarterly. If the Committee judges cash flows to be insufficient to bring the Portfolio within the target allocation ranges, the Committee shall decide whether to effect transactions to bring the allocation of Portfolio assets within the threshold ranges.

Implementation

The Committee will apply the following due diligence criteria in selecting each money manager or mutual fund.

1. Regulatory oversight: Each investment option should be managed by: (i) a bank; (ii) insurance company; (iii) a registered investment company (mutual fund); or, (iiii) a registered investment adviser.
2. Correlation to style or peer group: The investment option should be highly correlated to the asset class being implemented. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the investment option to the appropriate peer group.
3. Performance relative to a peer group: The investment option's performance should be evaluated against the peer group's median manager return, for 1, 3 and 5-year cumulative periods. [Suggested threshold: Performance should be above the peer group median for 1-3, 3, and 5-year periods.]
4. Performance relative to assumed risk: The investment option's risk-adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the peer group's median manager's risk-adjusted performance. [Suggested threshold: Risk-adjusted performance should be above the peer group median.]
5. Minimum track record: The investment option should have sufficient history so that performance statistics can be properly calculated. [Suggested threshold: Inception date should be 3-years or more.]

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6. Assets in the product: The investment option should have sufficient assets so that the portfolio manager can properly trade the account. [Suggested threshold: The investment option should have at least \$75 million under management (can include assets in related share classes).]
7. Holdings consistent with style: The underlying securities of the investment option should be consistent with the associated broad asset class. [Suggested threshold: At least 80% of the underlying securities should be consistent with the broad asset class. For example, a Large-Cap Growth product should not hold more than 20% in cash, fixed income and/or international securities.]
8. Expense ratios/fees: The investment option's fees should be fair and reasonable. [Suggested threshold: Fees should not be in the bottom quartile (most expensive) of the peer group.]
9. Stability of the organization: There should be no perceived organizational problems. [Suggested threshold: The same Plan management team should be in place for at least two years.]

Monitoring

Performance Objectives

The Committee acknowledges fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Recognizing that short-term fluctuations may cause variations in performance, the Committee intends to evaluate investment performance from a long-term perspective. The Committee is aware the ongoing review and analysis of the investment options is just as important as the due diligence process. The performance of the investment options will be monitored on an ongoing basis and it is at the Committee's discretion to take corrective action by replacing a manager if they deem it appropriate at any time. On a timely basis, but not less than quarterly, the Committee will meet to review whether each investment option continues to conform to the search criteria outlined in the Implementation section; specifically:

1. The investment option's adherence to the due diligence criteria;
2. Material changes in the investment option's organization, investment philosophy and/or personnel; and,
3. Any legal, SEC and/or other regulatory agency proceedings affecting the investment option's organization.

Benchmarks

The Client has determined that performance objectives be established for each investment option. Manager performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large-cap domestic equity manager) and the relevant peer group (e.g. the large-cap growth mutual fund universe for a large-cap growth mutual fund).

- Foreign Large Blend MSCI World Ex US NR USD

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|--------------------------|---------------------------|
| • Intermediate-Term Bond | LB US Govt/Credit 5-10 Yr |
| • Large Blend | S&P 500 TR |
| • Mid-Cap Blend | S&P MidCap 400 TR |
| • Multi-sector Bond | LB US Universal |
| • Specialty-Real Estate | DJ Wilshire REIT |
| • World Bond | Citi WGBI NonUSD USD |

Watch List Criteria

An investment option may be placed on a Watch List and a thorough review and analysis of the investment option may be conducted, when:

1. An investment option performs below median for their peer group over a 1-, 3- and/or 5-year cumulative period.
2. An investment option's 3-year risk adjusted return (Alpha and/or Sharpe) falls below the peer group's median risk adjusted return.
3. There is a change in the professionals managing the investment option.
4. There is a significant decrease or increase in the investment option's assets.
5. There is an indication the investment option is deviating from the stated style and/or strategy.
6. There is an increase in the investment option's fees and expenses.
7. Any extraordinary event occurs that may interfere with the investment option's ability to prudently manage investment assets. The decision to retain or terminate an investment option cannot be made by a formula. It is the Committee's confidence in the investment option's ability to perform in the future that ultimately determines the retention of an investment option.

Measuring Costs

The Committee will review at least annually all costs associated with the management of the Portfolio, including:

1. Expense ratios of each mutual fund against the appropriate peer group.
2. Administrative Fees; costs to administer the Portfolio, including record keeping, custody and trust services.
3. The proper identification and accounting of all parties receiving soft dollars and/or 12b-1 fees generated by the Portfolio.

Investment Policy Review

The Committee will review this IPS at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.