



INTEROFFICE MEMORANDUM

TO: USA SWIMMING INVESTMENT COMMITTEE
FROM: JOHN SAWYER, FWT CHIEF INVESTMENT OFFICER
SUBJECT: INVESTMENT ACCOUNT CUSTODY
DATE: MARCH 21, 2023
CC:

Committee Attendees: Kenneth Chung, Michael McBroom, Marc Tucci, Jay Definis, Ellen Colket (absent – Ryan Murphy)

USA Swimming Attendees: Eric Skufca, Will Poff

Also attending: John Sawyer with First Western

The Investment Committee met to discuss the evolving market disruption stemming from Silicon Valley Bank's failure as well as to review the custody arrangement of USA Swimming's and USA Swimming Foundation's investment assets.

Over the past week, US and foreign markets have experienced noticeable volatility stemming from the failure of two US banks: Signature Bank and Silicon Valley Bank. While these banks had unique business models, the rapid increase in interest rates during 2022 has impacted the banking sector more broadly.

In Silicon Valley's case, an industry concentration of depositors within the VC-technology space led to a coordinated withdrawal of deposits that led to a series of events resulting in the bank's failure. Signature Bank focused on specialty lending for low-income housing in NYC along with providing banking services for digital-currency related activities and realized similar deposit pressures over the week leading up to their failure.

The impact of rising rates has resulted in unrealized losses in bank bond holdings more generally and has become an area of focus for investors. As such, the sector has seen ongoing volatility as investors work to tease out which banks, if any, may have additional issues and risk failure.

Given the general unrest related to banks, the Investment Committee asked how USA Swimming's and USA Swimming Foundation's investment assets are held and what exposure, if any, there was to a bank failure.

Supplemental material was provided to the committee addressing how bank custody works with a focus on the segregation of assets held in a “trust department” and how that differs from a brokerage firm where investment clients are creditors of the institution.

USA Swimming and USA Swimming Foundation use First Western Trust for portfolio accounting, portfolio performance, and sub-custodian services in addition to asset management and consultation for account asset allocation and portfolio management. The primary custodian for USA Swimming holdings is Fifth Third Bank based in Cincinnati, OH. For both First Western and Fifth Third, USA Swimming’s and USA Swimming Foundation’s assets are segregated and independent of the related financial institutions. Should either (or both) banks fail, USA Swimming’s and USA Swimming Foundation’s assets are held separately from the respective bank and would not be encumbered or considered assets of the bank.

John Sawyer described a situation in Houston, TX during the Financial Crisis where Stanford Financial failed and he was able to move assets from their trust department the week of seizure by federal authorities. The principal of asset segregation within a bank’s trust department is longstanding and well tested.

The committee adjourned.