

# **Report of Investments Committee Chair**

*1 July 2006 – 30 June 2007*

Judith Totman Parrish, Chair of GSA Investments Committee

This Report to Council summarizes the results for the GSA investment portfolio for fiscal year 2007, ending on 30 June 2007. During this period the Investments Committee held two face-to-face meetings, on 20 November 2006 and on 17 March 2007 in Denver, and in addition met via teleconference three times. A report for the first three quarters of FY2007 was submitted for the end-April Council meeting; this report represents the final report that was promised once the fiscal year ended.

## **PERFORMANCE OF INVESTMENT PORTFOLIO DURING PERIOD**

The total combined GSA Investment portfolio rose in value from \$28,509,199 on 30 June 2006 to \$32,974,292 on 30 June 2007, an overall increase of 15.66% for FY2007 (including all deposits and withdrawals). During this period, a net amount of \$555,000 was withdrawn from the portfolio by the Society for its use, so the return on the portfolio investments was approximately 17.98%.

The performance of the portfolio is affected by its diversification among cash, fixed income investments, and securities. For comparison, the S&P500 returned 20.59% for the period, and the Lehman Brothers Aggregate Bond Index returned 6.12%. The portfolio is diversified among different types of assets, consistent with the Investment Policy of the Society, as approved by Council. While such diversification limits the ability of the portfolio to “make it big” from exceptional returns in any one asset group, it also limits the risk that the committee will inadvertently choose the wrong asset in which to invest a large fraction of the portfolio. The strategy has been working well in the years since the bursting of the tech stock bubble in 2001, and the portfolio is once again performing in excess of expectations. During FY2006, the Investments Committee further broadened the diversification of the portfolio by initiating investment positions in two additional sectors of the overall securities markets. The first was a position in a commodity fund (the Pimco commodity fund product), which includes a reasonably heavy weighting in natural resources, especially oil, natural gas, and heavy metals. The second was a position in a floating rate bank securities fund (the Eaton Vance product was selected), which invests in secured floating rate loans made to small and mid-sized businesses. Each of these investment groups provides additional diversification of the portfolio with its own unique risk characteristics. When combined with the rest of the portfolio, the new positions should achieve the same level of return with less risk. Indications from the past year are that this strategy is succeeding.

## **POOLED INCOME FUND**

During FY07, the Pooled Income Fund earned approximately 5.83% and grew by 1.36%, the remainder being returned to participants. This is lower than the investment portfolio, which is to be expected as this fund is invested primarily (and appropriately) in fixed income securities, chiefly bonds. The total return on bond funds, however, was lower (6.12% Lehman Bros. Aggregate). The principal in the Pooled Income Fund at the end of the period was \$625,664.

## **PERFORMANCE REVIEW OF MANAGED FUNDS**

The committee noted the trend in private equity investment that accelerated in the US markets in the latter part of FY06 and the first part of FY07. The committee began discussion of the opportunities and risks of such investments and the place these types of investment could have in a portfolio the size of GSA's. The committee will be continuing discussions among themselves and with Innovest during the first half of FY08 (it is on the agenda for the meeting of August 11, 2007).

## **REVIEW OF INNOVEST PORFOLIO SOLUTIONS LLC**

Bruce Clark organized a review of Innovest's performance as GSA's funds advisor; this was the first time such a review had been conducted since the contract was signed 11 years ago. Members of the committee were asked to rank Innovest's performance on a number of criteria, with a total possible score of 50. The average was 46.7. The Investment Committee evaluated Innovest's service to GSA in the following areas: philosophy and approach consistent with and helpful in administering the Committee's investment plan; conclusions and recommendations that are logical, prudent, and clear to the Committee members; general approach that is appropriate to implement in bad markets as well as good markets; effective communications with the Committee, both oral and written; responses to Committee requests for information, questions about investment decisions, and disagreements that are appropriate and effective; recommendations of investments/managers that are appropriate to achieving the Committee's plan objectives; clear and accurate identification for the Committee of potential risks as well as rewards of individual investments; appropriate monitoring of the activities and decisions of the investments/managers that they recommend; conflicts of interest with Committee's investments/managers are disclosed freely; added value to the Committee's deliberations and decisions that is commensurate with its fees. The committee was unanimous in voting to retain Innovest Portfolio Solutions LLC as its funds advisor. The committee further recommends that the Investment Committee conduct regular reviews of Innovest every few years. This does not reflect any lack of satisfaction with Innovest but rather good financial practices.

## **OTHER ACTIONS OF THE INVESTMENTS COMMITTEE**

At our spring meeting in Denver, the Investments Committee welcomed Carl Fricke to the committee as a representative of the GSA Foundation and nominated John Costa to be the chair of the committee for FY2008. The Committee is to be constituted as follows:

- 5-8 Five to eight at-large members to be appointed by the Executive Committee. Recommendations for appointment shall come from the Committee on Investments. Such appointments shall be made from a list of qualified persons previously approved by Council. Normally new members of the committee will be appointed at the spring meeting of the Executive Committee.
  - 1 GSA Treasurer *ex officio* voting member
  - 1 GSA Foundation Board of Trustees Chair or designee *ex-officio* voting member
  - 1 GSA Executive Director *ex officio*, serving an indefinite non-voting-term as Headquarters Liaison.
- Conferees as needed

At the April GSA Executive Committee/Council meeting, ExCom approved John Costa as Chair, and Thayer Tutt was approved as a Member-at-Large for a 4-year term, on the Investment Committee.

The GSA Executive Committee requested that the Investment Committee submit an expanded list of potential future members to serve on the Investment Committee. The Investment Committee will seek additional names to submit to the GSA Executive Committee in FY 2008.

**INVESTMENT PORTFOLIO**  
**MARKET VALUE SUMMARY COMPARISON**  
**JUNE 30, 2006 TO JUNE 30, 2007**

Description		Market Value 6/30/2006	Market Value 6/30/2007	Deposits	Withdraws	Investment Value \$ Change	Investment Value % Change
<b>GEOLOGICAL SOCIETY OF AMERICA</b>							
<u>Domestic Equities:</u>							
Vanguard Index Trust	VFINX	1,977,489	\$2,182,577	\$ -	\$ 200,000	\$405,087	20.48%
Allianz RCM Large Cap	DRLCX	5,073,620	5,815,130	-	100,000	841,510	16.59%
Mainstay Equity Portfolio	ICA1Z	2,246,304	1,896,562	-	800,000	450,257	20.04%
Mainstay Select Equity Portfolio	ICSLX	3,128,860	3,895,751	-	-	766,891	24.51%
Longleaf Small Cap Fund	LLSCX	1,038,137	1,263,250	-	100,000	325,113	31.32%
Munder Mid Cap Core	MGOYX	-	1,019,625	880,650	-	138,975	
Turner Mid Cap Growth Fund CL 1	TMGFX	847,957	-	-	880,650	32,693	
<b>Total Domestic Equities</b>		<b>14,312,367</b>	<b>16,072,894</b>	<b>880,650</b>	<b>2,080,650</b>	<b>2,960,526</b>	<b>20.69%</b>
<u>International Equities:</u>							
American Beacon International Fund	AAIEX	1,573,088	1,501,529	-	450,000	378,441	24.06%
Harbor International Fund	HAINX	1,715,696	1,582,312	-	650,000	516,616	30.11%
Artisan International Fund	ARTIX	1,619,184	2,052,351	-	-	433,167	26.75%
<b>Total International Equities</b>		<b>4,907,969</b>	<b>5,136,192</b>	<b>0</b>	<b>1,100,000</b>	<b>1,328,223</b>	<b>27.06%</b>
<u>Domestic Fixed Income:</u>							
Pimco Total Returns	PTTRX	2,443,347	2,471,812	0	100,000	128,464	5.26%
<u>Absolute Return Strategies:</u>							
Ironwood	XIRONGSA	1,659,569	1,909,043	-	-	249,474	15.03%
Cadogan		1,479,509	1,665,951	-	-	186,442	12.60%
<b>Total Absolute Return Strategies</b>		<b>3,139,078</b>	<b>3,574,994</b>	<b>0</b>	<b>0</b>	<b>435,916</b>	<b>13.89%</b>
<u>Commodity Fund</u>							
Pimco Commodity Real Ret Strat Instl	PCRIX	766,443	2,456,841	1,700,000	0	(9,602)	-1.25%
<u>Bank Loan Fund</u>							
Eaton Vance Instl SR Floating Rate Fund	EIFRX	2,393,514	2,568,110	0	0	174,595	7.29%
<u>Cash and Cash Equivalents:</u>							
Schwab Money Market Fund	MMF	546,465	680,252	1,000,000	855,000	(11,213)	
Money Market Fund-GSA Holding		14	13,197	325,000	300,000	(11,817)	
<b>Total Cash and Cash Equivalents</b>		<b>546,480</b>	<b>693,449</b>	<b>1,325,000</b>	<b>1,155,000</b>	<b>(23,031)</b>	
<b>TOTAL COMBINED INVESTMENTS</b>		<b>\$ 28,509,199</b>	<b>\$ 32,974,292</b>	<b>\$ 3,905,650</b>	<b>\$ 4,435,650</b>	<b>\$ 4,995,092</b>	<b>17.52%</b>

**Contributions/Withdraws Summary:**

Net GSA Donation Adjustment	(\$25,000)					
Net GSA (Withdraw) Return	(\$530,000)					
Net Grand Total (Withdraw) Return	(\$ 555,000)					
				<u>Management Fees</u>		
				Innovest	33,606	
				Total	<u>\$ 33,606</u>	* adusted for fee deductions

<b>Pooled Income Fund - GSAF:</b>							
Cash and Money Market		\$17,249	\$20,343	32,689 *	30,287	\$ 692	4.01%
Pimco Total Return Fund		538,839	539,719	0	27,134	\$ 28,013	5.20%
Vanguard REIT Index Fund		61,186	65,603	0	2,863	\$ 7,279	11.90%
<b>Total Pooled Income Fund - GSAF</b>		<b>\$617,275</b>	<b>\$625,664</b>	<b>\$32,689</b>	<b>\$60,283</b>	<b>\$35,984</b>	<b>5.83%</b>
Cash and Money Market	Return to Participants ->		4.01%	Return to GSAF ->	0.00%	Total ->	4.01%
Pimco Total Return Fund	Return to Participants ->		5.04%	Return to GSAF ->	0.16%	Total ->	5.20%
Vanguard REIT Index Fund	Return to Participants ->		4.68%	Return to GSAF ->	6.73%	Total ->	11.41%
<b>Total Return to Participants</b>	Return to Participants ->		<b>4.97%</b>	Return to GSAF ->	<b>0.85%</b>	Total ->	<b>5.83%</b>

\* \$2,000 of this amount was an additional contribution