

**GEOLOGICAL SOCIETY OF AMERICA &
GEOLOGICAL SOCIETY OF AMERICA FOUNDATION**

**REPORT OF THE INVESTMENTS COMMITTEE CHAIR
Fiscal Year 2012 (1 July 2011 – 30 June 2012)**

The GSA and GSA Foundation Investments Committee is charged with investing and monitoring the performance of a diversified portfolio of stocks, bonds and alternative investments that nurture the strategic goals of the Society and the Foundation. GSA and GSAF combine their investable assets into one managed portfolio. All of GSA's and GSAF's (GSA/F) equities are in funds of funds and mutual funds, selected on the basis of long-term records of reward versus risk, in consultation with our investment advisor, *Innovest Portfolio Solutions* in Denver, Colorado ("Innovest").

Innovest reports that the portfolio is a classically-balanced portfolio with roughly 60% invested in higher risk, higher reward products and the remainder in lower risk, lower reward investments.

The GSA/F portfolio is currently modeled to provide a long-term rate of return equal to at least 5.0% more than inflation. As of June 2012, the modeled return was 7.75% (CPI + 5%). The portfolio could expect downside risk of -14.7% to -17.7% per year based on a statistical confidence level of 95%, with a 5% probability that the one year modeled loss of -10.5% will be exceeded. The growth in value of the portfolio since 1995 is shown in Figure 1, below.

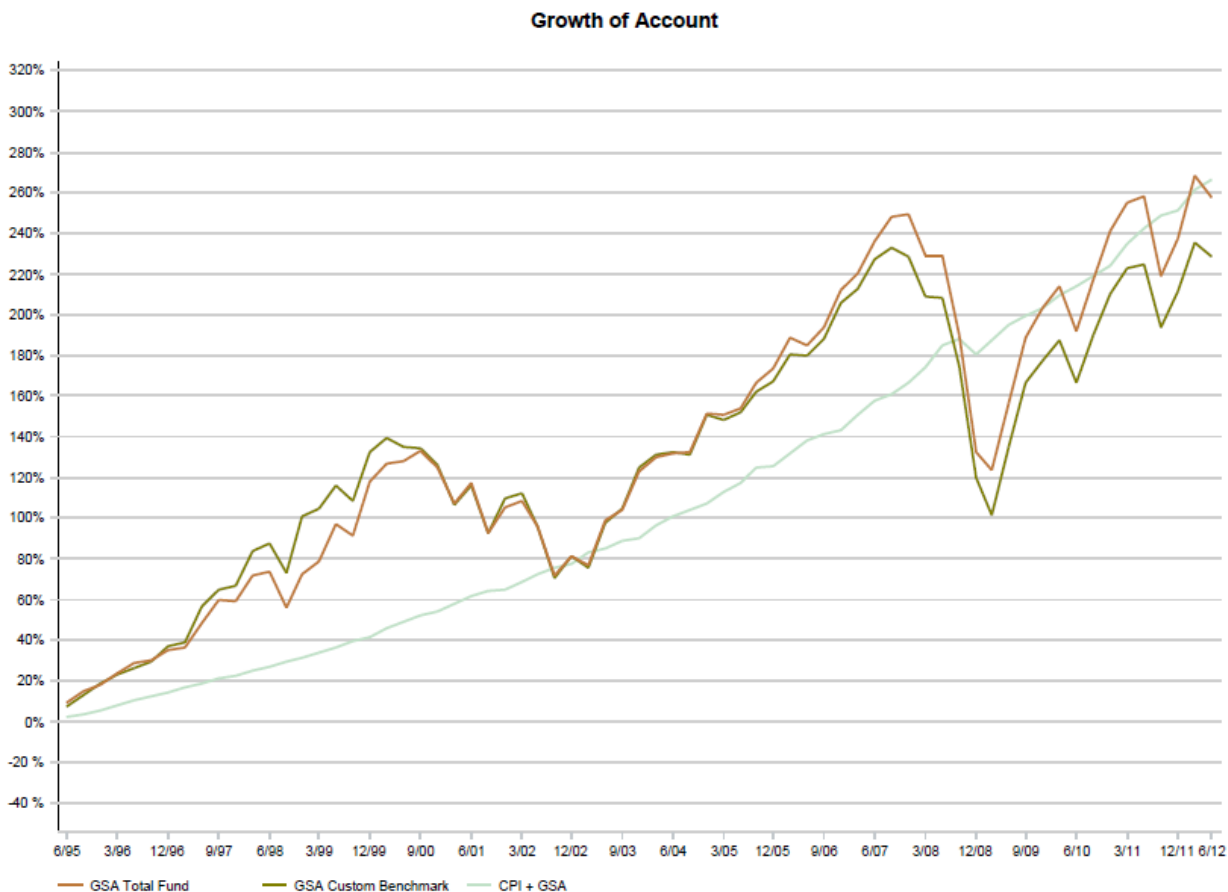


Figure 1. Cumulative returns from the GSA/F portfolio compared with the goal of inflation (Consumer Price Index) plus 5.0% and with a custom index, March 1995 through June 2012, the timeframe in which Innovest has been GSA/F's investment advisors (from Innovest).

For each asset class, Innovest has identified a benchmark (index) that allows the Investment Committee to compare GSA/F’s investments, which are actively managed by the managers of the funds chosen by the Investment Committee, with non-managed indices using advice from Innovest. Innovest also creates a “custom benchmark” to compare the portfolio’s total performance with those multiple, selected indices. Since beginning to work with Innovest in 1995, the Investment Committee has guided the growth of GSA/F’s investments at a rate higher than and with a risk slightly lower than the custom benchmark (Figure 2).

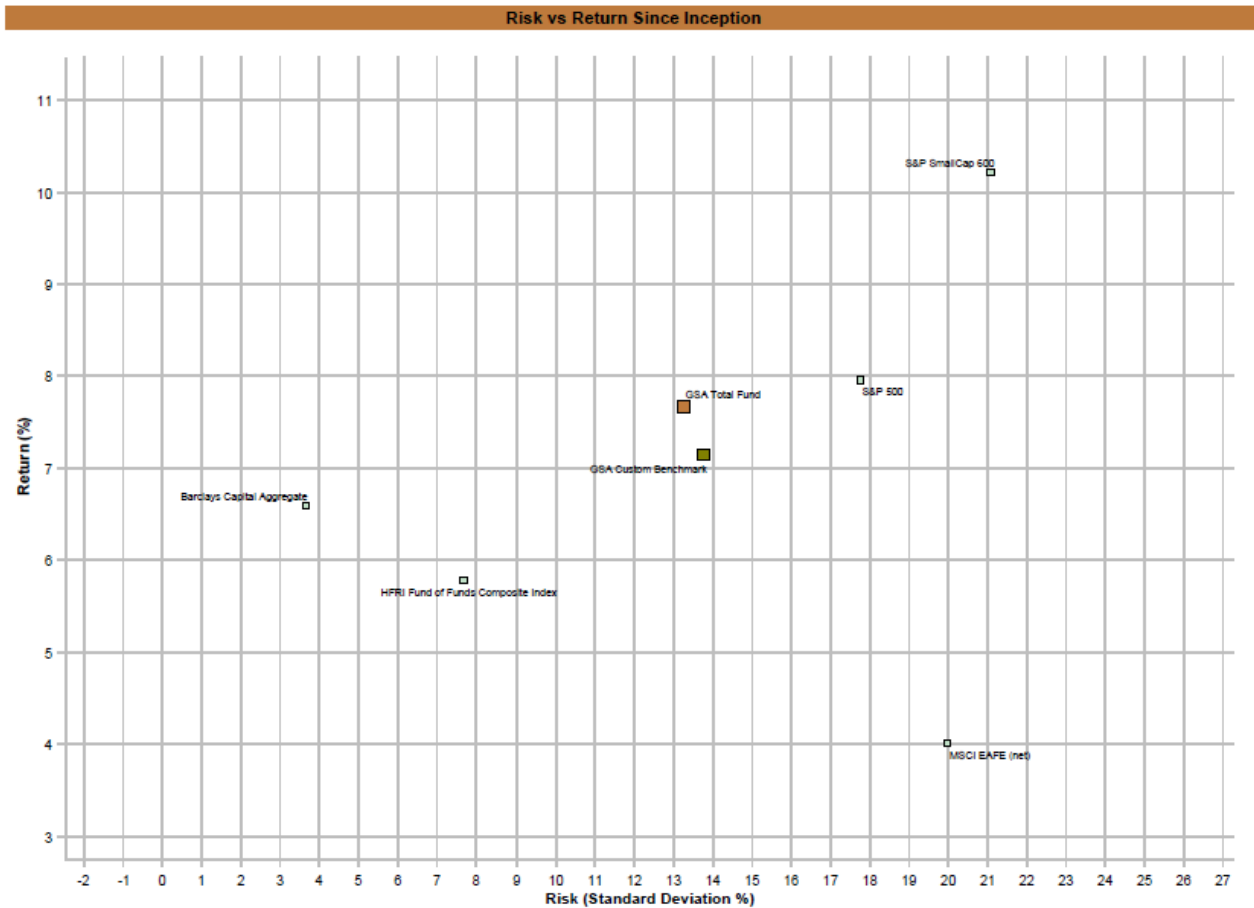


Figure 2. Risk (measured by standard deviation) versus return for the GSA/F portfolio compared with the custom index and other indices (from Innovest Q2 Portfolio Review).

Performance of the Investment Portfolio during FY 2011

As opposed to FY 2011 which saw substantial, partial recovery of the portfolio’s total value after experiencing the adverse global economic situation and resulting severe declines in investment returns, GSA/F lost a small portion (-0.18%) of its investment worth in last fiscal year 2012 (Table 1). It also underperformed its Custom Index and investment policy goal of CPI plus 5% in that period. The prior three-year period saw returns essentially matching the Custom Index, while exceeding the investment policy goal by approximately 4%.

Table 1: GSA/GSAF Investment returns (calendar year)

	<u>One year</u>	<u>Last 3 years</u>	<u>Last 5 years</u>	<u>Since Inception (1995)</u>
GSA/F Fund	-0.18%	11.74%	1.27%	7.67%
Custom Index	1.10%	11.78%	0.07%	7.14%
CPI + GSA	6.94%	7.93%	7.6%	7.73%

The market value of GSA/F’s investment portfolio, including those funds of the GSA Foundation (GSAF) that are combined with GSA’s investments and a separate GSAF “Pooled Income Fund” (which holds investments that generate income for the donors as part of their planned giving), decreased approximately 3%, from \$34,942,206 on 30 June 2011 to \$34,083,768 on 30 June 2012 (compared with the recent fiscal year-end low of \$24,983,862 on 30 June 2009). See Table 2. As of 2 October 2012, the market value of the combined investment portfolio is \$35,797,077.

Table 2. GSA/GSAF Investment Portfolio Balances, 2000-2012

Period ending:	GSA portion	GSAF portion	Grand Total	Percentages		CPI	Yr CPI%	Society only
				GSA	GSAF			CPI-adjust (constant \$)
6/30/12	22,460,908	11,622,860	34,083,768	65.90%	34.10%	229.5	1.68%	17,204,681
6/30/11	23,126,110	11,816,096	34,942,206	66.18%	33.82%	225.7	3.53%	18,159,550
6/30/10	19,446,288	9,369,792	28,816,080	67.48%	32.52%	218	0.90%	15,121,143
6/30/09	17,296,931	7,686,931	24,983,862	69.23%	30.77%	215.7	2.60%	13,133,952
12/31/08	16,762,247	6,649,188	23,411,435	71.60%	28.40%	210.2	0.10%	12,942,925
12/31/07	26,173,958	7,373,390	33,547,348	78.02%	21.98%	210	4.10%	22,366,963
12/31/06	24,381,362	6,595,579	30,976,941	78.71%	21.29%	201.8	2.50%	21,483,232
12/31/05	22,139,506	5,784,057	27,923,563	79.29%	20.71%	196.8	3.40%	19,787,190
12/31/2004*	21,344,918	4,863,221	26,208,139	81.44%	18.56%	190.3	3.30%	19,668,465
12/31/03	19,320,372	4,382,063	23,702,435	81.51%	18.49%	184.3	1.90%	18,284,238
12/31/02	16,666,802	3,550,051	20,216,853	82.44%	17.56%	180.9	2.40%	15,974,319
12/31/01	20,470,228	4,037,352	24,507,580	83.53%	16.47%	176.7	1.60%	20,157,440
12/31/00	25,880,125	4,547,493	30,427,618	85.05%	14.95%	174	--	25,880,125

Of the 2012 market value, GSA's investments amounted to approximately \$22,460,908 (down from \$23,126,110 as of 30 June 2011).

The GSAF's investments amounted to \$11,622,860 (down from \$11,816,096 as of 30 June 2011). Excluded from this latter figure is GSAF's Pooled Income Fund which had a value of \$495,707 as of 30 June 2012 (down from \$641,396 on 30 June 2011 and \$620,041 on 30 June 2010); more on this is described later in this report. The decline is mostly due to realization of one of the funds included in the Pooled Income Fund by a participant – these funds were moved to the Foundation's investment account.

The relative increase in GSAF's proportion of the portfolio's assets in comparison to GSA's share is because donations and other contributions are chiefly being raised by and placed into the Foundation's side of the asset equation. For all practical purposes, this difference in allocation is not material since GSA and GSAF investment funds (other than Pooled Income Fund) are combined and managed together, and GSAF and GSA work together to support the Society's programs for which Counsel is the visionary and guide.

Current Investment-Asset Classes and Allocations

Council authorized the Investment Committee to adjust strategic allocations within both asset class groups and asset classes and to determine lower and upper limits for each asset class, in collaboration with the recommendations of our investment consultants, Innovest Portfolio Solutions, LLC, of Englewood, Colorado. Innovest uses a prediction model that takes into account past performance and volatility of investments in individual asset classes. In its current model (summarized in Table 2a), Innovest targets an annual return of 7.75%, reflecting the Investment Committee's goal of being 5% above the consumer price index (CPI). Innovest's model yields a risk tolerance, which is stated as "expected downside risk of -14.7 to -17.7% per year based on statistical confidence of 95%," for which "there is a 5% probability that the one-year modeled loss of -14.7 to -17.7% will be exceeded." Innovest cautions that "the one-year modeled loss will vary from year to year depending on future capital market assumptions."

During fiscal year 2013, the Investment Committee slightly modified its asset allocations as reflected in Tables 3a, 3b and 3c. The Investment Committee added the asset class of emerging markets during the year. This could be considered a subcategory of international equities but is listed separately in Table 3a.

GSA's current investment goal of earning at least 5.0% more than inflation generally had, until the current recession, been met. As of 30 June 2012, our investments were performing close to the target.

Table 3a. Current targets (strategic allocations) and ranges for GSA and GSA Foundation investments, according to the Investment Committee's instructions, effective June 2012, with a targeted return of 7.75% (CPI + 5%), using data from Innovest's 4th Quarter 2011 Portfolio Review, as of 30 June 2012.

Asset Class *	Lower limit	Strategic allocation	Upper limit	Actual as of 30Jun2012
Domestic Equities				
Large Cap Value	8.5%	11.5%	14.5%	11.2%
Large Cap Growth	8.5%	11.5%	14.5%	11.4%
Mid Cap	1.5%	4.5%	7.5%	4.6%
Small Cap	1.5%	4.5%	7.5%	4.6%
International Equity	7%	10%	13%	10.1%
Emerging Markets	0%	3%	6%	3.4%
Domestic Fixed Income & Opportunistic Fixed Income	11%	14%	16%	13.8%
Floating Rate Corporate Loans	3%	6%	9%	5.9%
High Yield (bond funds)	3%	6%	9%	6.1%
Commodities	1%	4%	7%	3.8%
Real Estate	3%	6%	9%	6.3%
Private Equity	1%	4%	7%	4.1%
Low Correlated Hedge Funds	12%	15%	18%	14.5%
Cash & Cash Equivalents				0.2%
TOTAL		100%		100%

Table 3b. Previous targets (strategic allocations) and ranges for GSA and GSA Foundation investments, according to the investment policy dated 5 March 2012.

Asset Class *	Lower limit	Strategic allocation	Upper limit	Actual as of 31Dec2012
Domestic Equities				
Large Cap Value	10%	13%	16%	14%
Large Cap Growth	10%	13%	16%	13%
Mid Cap	2%	5%	8%	5%
Small Cap	2%	5%	8%	5%
International Equity	11%	14%	17%	13%
Domestic Fixed Income & Opportunistic Fixed Income				
Floating Rate Corporate Loans	5%	8%	11%	7%
High Yield (bond funds)	1%	4%	7%	4%
Commodities	1%	4%	7%	3%
Real Estate	3%	6%	9%	6%
Private Equity	1%	4%	7%	5%
Low Correlated Hedge Funds	7%	10%	13%	11%
TOTAL		100%		100%

Table 3c. Distribution of GSA's and GSA Foundation's investments by asset-class group (from Innovest's 2nd Quarter 2011 Portfolio Review) as of 30 June 2011.

Asset-Class Group	Lower limit	Upper limit	As of 30 Jun 2011
<i>Asset Class</i>			
Equity Funds			
<i>Domestic large cap equity</i>	21%	31%	25.7%
<i>Domestic mid-small cap equity</i>	5%	15%	10.8%
<i>International equity</i>	9%	19%	14.2%
Fixed income & cash-equivalents			
<i>Core fixed income</i>	9%	19%	14.3%
<i>Floating-rate corporate loans</i>	3%	13%	6.9%
<i>High-yield bond funds</i>	0%	9%	4.2%
<i>Cash and cash-equivalents[#]</i>			\$481,556
Alternative investments			
<i>Low-volatility hedge fund</i>	5%	15%	10.5%
<i>Commodity funds</i>	0%	10%	3.3%
<i>Private-equity funds</i>	0%	10%	4.3%
<i>Real-estate investment funds</i>	1%	11%	5.8%

Footnotes:

Not included in the Innovest calculation of percentages.

Table 3d. Current targets (strategic allocations) and ranges for GSA Foundation's Pooled Income Fund, effective June 2012, with a targeted return of 3.75% (CPI + 1%), using data from Innovest's 2nd Quarter 2012 Portfolio Review, as of 30 June 2012.

Asset Class *	Lower limit	Strategic allocation	Upper limit	Actual as of 30Jun2012
Domestic Fixed Income & Opportunistic Fixed Income	39%	42%	45%	41.3%
Defensive Fixed Income	19%	22%	25%	21.4%
Floating Rate Corporate Loans	7%	10%	13%	9.8%
High Yield (bond funds)	7%	10%	13%	10.0%
REITs	5%	8%	11%	8.4%
Master Limited Partnerships	6%	8%	11%	8.0%
Cash & Cash Equivalents				1.1%
TOTAL		100%		100%

Pooled Income Fund

The Investments Committee also oversees a Pooled Income Fund, which is part of the GSA Foundation. Donors that gift substantial monetary contributions to the Foundation can receive quarterly cash payments of the interest income until death, at which time the original donation becomes part of the regular investment portfolio of the Foundation.

With advice from Innovest, the Investment Committee also defines the goal and risk tolerance for the Pooled Income Fund. Because donors rely on this fund for income, a more conservative return is expected (CPI + 1%) and a lower risk is tolerated than for the main investments of GSA and GSA Foundation.

The primary investment goal aims to optimize direct income (interest, dividends) relative to capital gains, the latter of which are not distributed to the donors. As of 6/30/12, the Pooled Income Fund consisted of a core bond portfolio (42%), defensive fixed income (22%), high yield (10%), floating rate corporate loan (10%), real estate investment trusts (8%), and energy infrastructure Master Limited Partnership (8%).

For calendar year 2011 the Pooled Income Fund earned a 1.90% rate of return (see Table 4) . Through the first six months of 2012, the portfolio had a return of 4.90%. The average annual compound return from 1/1/2005 to 6/30/2012 was 6.95%. Distributions of 3.74% in 2011 (12 months; \$23,969) and 2.68% in 2012 (first six months; \$13,277) were made. The balance of the portfolio as of June 2012 was \$495,707.

Year	6/30 balance	Distribution	Distribution %	Portfolio Rate of Return
2005	\$701,490.09	\$21,650.13	3.09%	4.20%
2006	\$617,274.60	\$28,164.59	4.56%	7.70%
2007	\$625,664.29	\$31,284.31	5.00%	6.10%
2008	\$566,157.06	\$29,544.27	5.22%	1.70%
2009	\$574,650.21	\$36,337.87	6.32%	15.60%
2010	\$620,041.42	\$22,346.95	3.60%	10.70%
2011	\$641,395.75	\$23,969.19	3.74%	1.90%
2012*	\$495,707.47	\$13,276.52	2.68%	4.90%

* Distributions thru 6/30/2012

Table 4. Pooled Income Fund balances, distributions and rates of return, 2005 to 2012 (Source: Innovest, 2012)

For each asset class, Innovest has identified a “custom benchmark” or index that allows the Investment Committee to compare GSAF’s Pooled Income investment performance with non-managed indices using advice from Innovest (Figure 3). Since beginning to work with Innovest in 1995, the Investment Committee has guided the historical growth of the Pooled Income fund at a higher rate and with a risk slightly lower than the custom benchmark (Figure 4).

Innovest uses a prediction model that takes into account past performance and volatility of investments in individual asset classes. The Investment Committee’s goal for the Pooled Income portfolio is 1% above the consumer price index (CPI). Innovest’s model yields a risk tolerance, which is stated as “expected downside risk of -5.5% to -8.5% per year based on statistical confidence of 95%”.



Figure 3. Risk (measured by standard deviation) versus return for the GSAF Pooled Income portfolio compared with the custom index and other indices (from Innovest Q2 Portfolio Review).

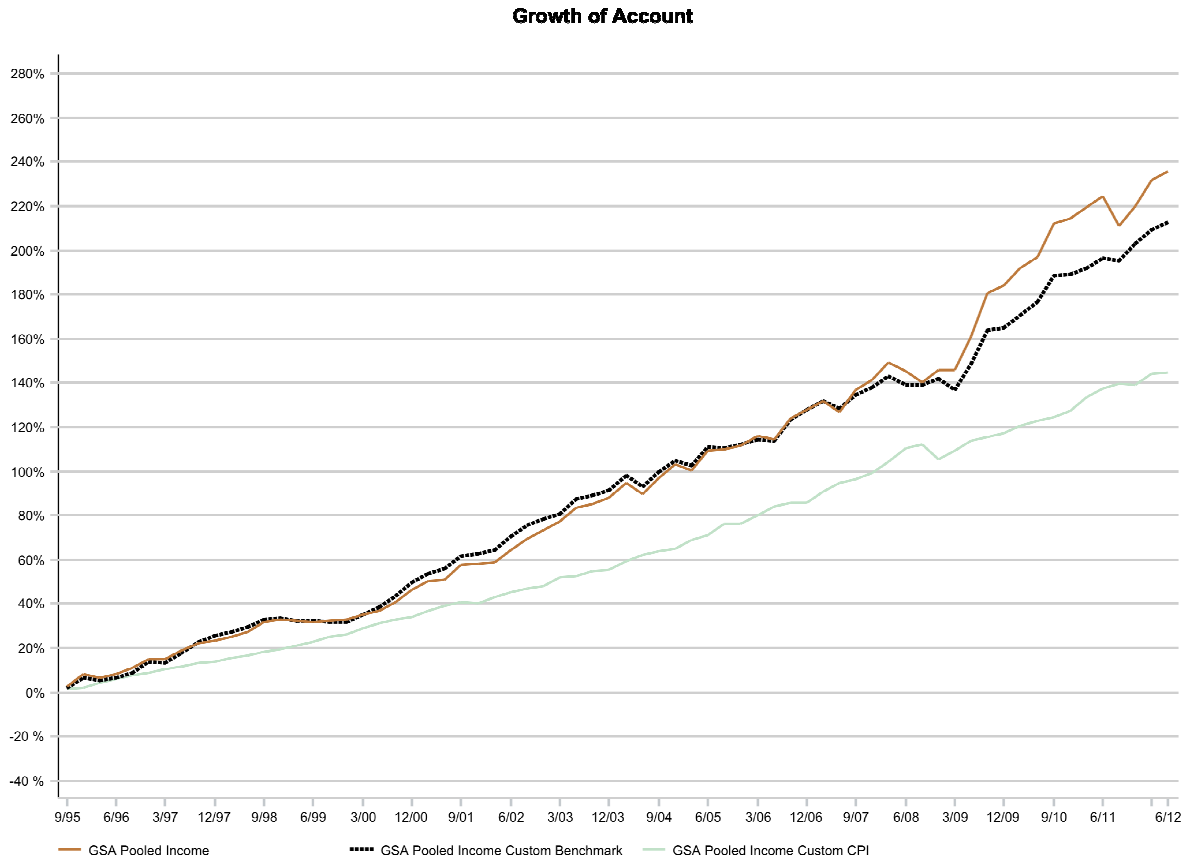


Figure 4. Cumulative returns from the GSAF Pooled Income portfolio as compared with the goal of inflation (Consumer Price Index) plus 1.0% and with a custom index, September 1995 through June 2012, the timeframe in which Innovest has been GSA’s and GSAF’s investment advisors (from Innovest).

Issues and Potential Concerns

The Committee continues to be concerned and actively involved in assessing risk and performance going forward given the current and expected economic outlook. Domestic and international capital markets have been volatile, and uncertainty and tail risk have increased. The potential for decreased investment rates of return in coming years is real and likely longer term (many years). Sustained unfavorable conditions would have significant impacts on investment returns and could impact spending draws by the Society.

Some of the major issues that can or will impact the portfolio’s investment returns include sovereign borrowing and bank debt, significant and persistent unemployment, the U.S. “fiscal cliff” with no recipe in place for heading off another U.S. recession, low GDP growth, increasing energy and commodity prices, rising taxes and fees, escalating health care costs, unsustainable governmental entitlement/benefit programs, housing recovery, and consumer spending.

The Committee, along with its investment advisor, is maintaining vigilant outlook, actively assessing risk and continuously monitoring portfolio performance, to respond to the dynamic and challenging economic landscape.

Highlighted Activities of the Investment Committee- FY 2012

The Investments Committee meets four or more times a year to review the financial and operational performance of the portfolio, consider the recommendations from our investment consultants, and consider updates and changes to the investment portfolio. The Committee meets at least one time in person with other meetings, generally held quarterly, using web-based conference calls in order to reduce costs.

In November 2011 the Committee reviewed a Foundation Universe report that discussed comparative asset allocations of like-sized portfolios in order to give the Committee a feel for how the GSA/F portfolio compares.

In its February 2012 meeting, the Committee approved an update to the Investment Policy Statement. Changes were made in wording to describe the IPS in more plain English to make it simpler for others to understand.

At its May 2012 meeting, the Committee reviewed the capital markets and the long-term outlook as part of the Committee's annual asset allocation review. That included assessing Investment Policy in relation to alternate asset mixes, expected returns and associated risks. GSA/F's advisor, Innovest Portfolio Solutions, stated that the portfolio is very well diversified and has all of the asset classes that a portfolio of this type should have. The Investment Policy Statement was amended to CPI plus five percent for the 2012 asset allocation.

Subject to approval by GSA Counsel and GSAF, the Investment Committee re-elected Peter Lipman, Hony Tarrell and Carl Fricke to another term, and Carl Fricke as Chair for 2013. Bruce Clark graciously agreed to continue as the Committee's representative on GSA's Audit Committee, and Peter Lipman agreed to again serve as the Committee's representative on GSA's Finance Committee.

I sincerely thank Tom Haberthier, Jon Price, Investment Committee members and Innovest for their assistance in providing data, supplying valuable contributions throughout the year, and reviewing this report.

Respectfully submitted,

Carl Fricke, GSA's and GSAF's Investments Committee Chair, 15 September 2012