

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

**REPORT FROM THE INVESTMENTS COMMITTEE CHAIR
Fiscal Year 2013 (1 July 2012 – 30 June 2013)**

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 (GSA/GSAF) combine their investable assets into one managed portfolio. All of GSA's and GSAF's 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/GSAF portfolio is currently modeled to provide a long-term rate of return equal to at least 5.0% more than inflation. The growth in value of the portfolio since 1995 is shown in Figure 1, below.

As of June 30, 2013

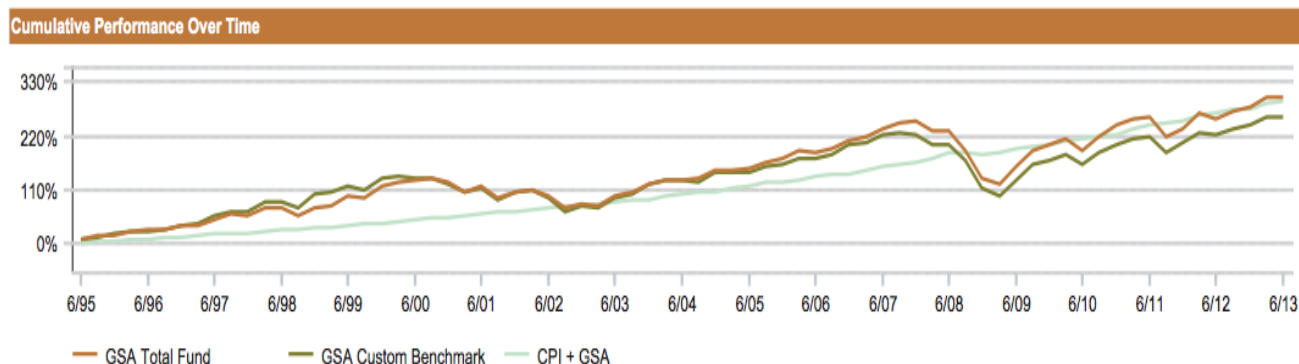


Figure 1. Cumulative returns from the GSA/GSAF portfolio compared with the goal of inflation (Consumer Price Index) plus 5.0% and with a custom index, March 1995 through June 2013, the timeframe in which Innovest has been GSA/GSAF's investment advisors (from Innovest).

The market value of GSA/GSAF's combined investment portfolio, including those funds of the GSA Foundation that are combined with GSA's investments and a separate Foundation "Pooled Income Fund" (which holds investments that generate income for the donors as part of their planned giving), increased approximately 11%, from \$34,579,480 on 30 June 2012 to an audited figure of \$38,413,229 on 30 June 2013 (compared with the recent fiscal yearend low of \$25,557,594 on 30 June 2009 and \$35,583,602 on 30 June 2011). Of the 2013 market value, GSA's share of total investments amounted to approximately \$24,106,629 (up from \$22,460,908 as of 30 June 2012 and \$23,126,110 as of 30 June 2011).

The Foundation's investments amounted to \$14,306,600 (up from \$12,118,572 as of 30 June 2012 and \$12,457,492 as of 30 June 2011). Included in this latter figure, the Foundation's Pooled Income Fund had \$359,822 as of 30 June 2013 (down from \$495,713 as of 30 June 2012 and \$641,396 on 30 June 2011). The PIF decline was due to earned interest income distributions totaling \$17,364 and the transfer of \$145,010 out of the PIF due the death of a participant.

For each asset class, Innovest has identified a benchmark (index) that allows the Investment Committee to compare GSA/GSAF’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).

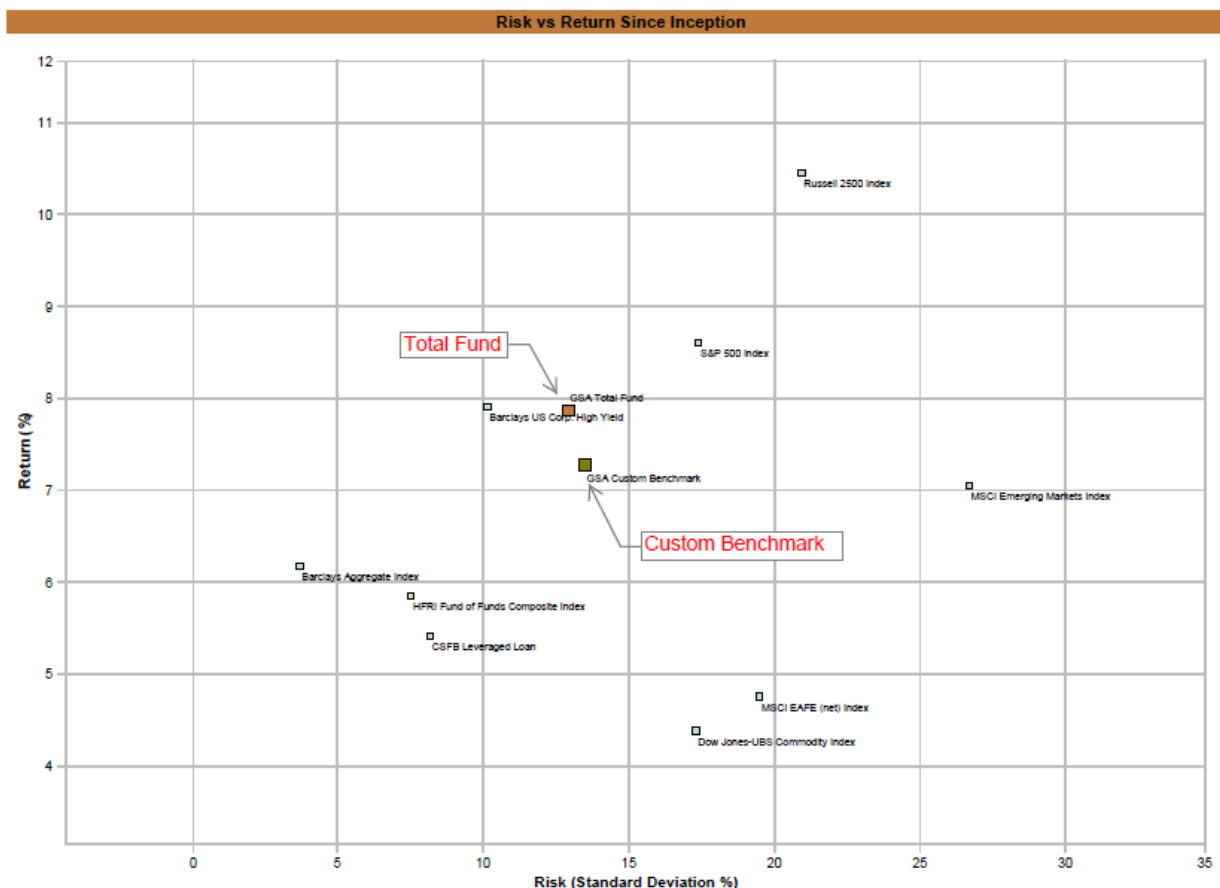


Figure 2. Risk (measured by standard deviation) versus return for the GSA/F portfolio compared with the custom index and other indices (modified by Innovest from their Q2 Portfolio Review).

Performance of the Investment Portfolio during FY 2012

As opposed to FY 2012, which saw GSA/GSAF lose a small portion (-0.18%) of its investment worth, GSA/GSAF gained 11.4% in investment value and exceeded its investment policy goal of CPI plus 5% this past fiscal year 2013 (Table 1). But it also underperformed its Custom Index in that period and the prior three-year period, while exceeding the investment policy goal by approximately 3%.

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 (total)	11.43%	10.85%	3.85%	7.86%
Custom Index	12.14%	11.27%	3.56%	7.27%
CPI + GSA	6.84%	7.84%	6.87%	7.69%

Of the 2013 market value, GSA's pre-audited share of investments amounted to approximately \$24,080,341 (up from \$22,460,908 as of 30 June 2012). The GSAF's share of investments amounted to \$13,931,569 (up from \$11,622,860 as of 30 June 2012). Excluded from this latter figure is GSAF's Pooled Income Fund. See Table 2, below.

Table 2. GSA/GSAF Investment Portfolio Balances, 2000-2013

Period ending:	GSA portion	GSAF portion	Grand Total	Percentages		CPI	Yr CPI%	Society only CPI-adjust (constant \$)
				GSA	GSAF			
6/30/2013	24,080,341	13,931,569	38,011,911	63.35%	36.65%	233.50	1.75%	18,501,176
6/30/2012	22,460,908	11,622,860	34,083,768	65.90%	34.10%	229.48	1.67%	17,206,330
6/30/2011	23,126,110	11,816,096	34,942,206	66.18%	33.82%	225.70	3.53%	18,159,550
6/30/2010	19,446,288	9,369,792	28,816,080	67.48%	32.52%	218.00	0.90%	15,121,143
6/30/2009	17,296,931	7,686,931	24,983,862	69.23%	30.77%	215.70	2.60%	13,133,952
12/31/2008	16,762,247	6,649,188	23,411,435	71.60%	28.40%	210.20	0.10%	12,942,925
12/31/2007	26,173,958	7,373,390	33,547,348	78.02%	21.98%	210.00	4.10%	22,366,963
12/31/2006	24,381,362	6,595,579	30,976,941	78.71%	21.29%	201.80	2.50%	21,483,232
12/31/2005	22,139,506	5,784,057	27,923,563	79.29%	20.71%	196.80	3.40%	19,787,190
12/31/2004	21,344,918	4,863,221	26,208,139	81.44%	18.56%	190.30	3.30%	19,668,465
12/31/2003	19,320,372	4,382,063	23,702,435	81.51%	18.49%	184.30	1.90%	18,284,238
12/31/2002	16,666,802	3,550,051	20,216,853	82.44%	17.56%	180.90	2.40%	15,974,319
12/31/2001	20,470,228	4,037,352	24,507,580	83.53%	16.47%	176.70	1.60%	20,157,440
12/31/2000	25,880,125	4,547,493	30,427,618	85.05%	14.95%	174.00	--	25,880,125

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 total investments 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 Council 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 as well as asset classes, and to determine lower and upper limits for each asset class in collaboration with the recommendations of our investment consultants, Innovest. 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 3a), 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 -15.3to -18.3% per year based on statistical confidence of 95%,” for which “there is a 5% probability that the one-year modeled loss of -15.3 to -18.3% will be exceeded.” Innovest cautions that “the one-year modeled loss will vary from year to year depending on future capital market assumptions.”

With advice from Innovest, the Investment Committee also defines the goal and risk tolerance for the Pooled Income Fund (Table 4). 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.

During fiscal year 2013, the Investment Committee established asset allocations similar to the prior year, as reflected in Tables 3a, 3b, and 3c.

Table 3a. Distribution of GSA’s and GSA Foundation’s investments by asset-class group and asset class (from Innovest’s Portfolio Review, 2nd Quarter 2013, *Investment Policy Summary, Asset Allocation vs. Target Allocation, and Table of Returns*) as of 30 June 2013.

Asset-Class Group	Lower limit	Target	Upper limit	As of 30 Jun 2013
<i>Asset Class</i>				
Equity Funds	34%	45%	62%	47.42%
Domestic large cap equity	21%	23%	31%	23.91%
Domestic mid-small cap equity	6%	9%	12%	9.77%
International equity	7%	10%	13%	10.70%
Emerging markets	0%	3%	6%	3.04%
Fixed income	17%	26%	35%	25.50%
Core fixed income	11%	14%	17%	13.65%
Floating rate corporate loans	3%	6%	9%	5.88%
High-yield bond funds	3%	6%	9%	5.97%
Alternative investments	17%	29%	41%	27.07%
Low correlated hedge funds	12%	15%	18%	14.57%
Private equity funds	1%	4%	7%	3.36%
Real estate funds	3%	6%	9%	5.97%
Commodity funds	1%	4%	7%	3.17%
TOTAL		100%		100%

Table 3b. Distribution of GSA’s and GSA Foundation’s investments by asset-class group and asset class (from Innovest’s Portfolio Review, 4th Quarter 2012, *Investment Policy Summary, Asset Allocation vs. Target Allocation, and Table of Returns*) as of 31 December 2012.

Asset-Class Group	Lower limit	Target	Upper limit	As of 31 Dec 2012
<i>Asset Class</i>				
Equity Funds	34%	45%	62%	47.14%
<i>Domestic large cap equity</i>	21%	23%	31%	23.56%
<i>Domestic mid-small cap equity</i>	6%	9%	12%	9.34%
<i>International equity</i>	7%	10%	13%	11.02%
<i>Emerging markets</i>	0%	3%	6%	3.22%
Fixed income	17%	26%	35%	25.41%
<i>Core fixed income</i>	11%	14%	17%	13.59%
<i>Floating rate corporate loans</i>	3%	6%	9%	5.85%
<i>High-yield bond funds</i>	3%	6%	9%	5.97%
Alternative investments	17%	29%	41%	27.44%
<i>Low correlated hedge funds</i>	12%	15%	18%	14.16%
<i>Private equity funds</i>	1%	4%	7%	3.49%
<i>Real estate funds</i>	3%	6%	9%	6.32%
<i>Commodity funds</i>	1%	4%	7%	3.47%
TOTAL		100%		100%

Table 3c. 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, 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%

The Investment Committee occasionally adjusts the investment goals. In 1995, the goal was CPI + 5% for the main account and CPI + 3% for the Pooled Income Fund. The goal for the main account was adjusted to CPI + 5.25% in July 2006, CPI + 6% in July 2009, CPI + 5.25% in July 2011, and CPI + 5% in April 2012. The goal for the Pooled Income Fund was adjusted to CPI + 1.5% in July 2011 and CPI + 1% in April 2012.

Table 4. Current targets (strategic allocations) and ranges for GSA Foundation's Pooled Income Fund, effective June 2012, with a targeted return of CPI + 1%, using data from Innovest's 2nd Quarter 2013 Portfolio Review, as of 30 June 2013.

Asset Class *	Lower limit	Strategic allocation	Upper limit	Actual as of 30Jun2013
Domestic Fixed Income & Opportunistic Fixed Income	39%	42%	45%	40.51%
Defensive Fixed Income	19%	22%	25%	21.05%
Floating Rate Corporate Loans	7%	10%	13%	9.46%
High Yield (bond funds)	7%	10%	13%	10.11%
REITs	5%	8%	11%	8.65%
Master Limited Partnerships	6%	8%	11%	9.16%
Cash & Cash Equivalents				1.07%
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.

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 6/30/13, the Pooled Income Fund consisted of a core bond portfolio (41%), defensive fixed income (21%), floating rate corporate loans (9%), high yield (10%), real estate investment trusts (9%), energy infrastructure Master Limited Partnership (9%), and cash (1%).

For calendar year 2013 the Pooled Income Fund earned a 2.8% rate of return. Through the first six months of 2013, the portfolio had a return of 2.2%. The average annual compound return for the past seven years was 7.49%. Distributions to Pooled Income Fund participants of \$17,364 in earned interest were made in 2013. Additionally, \$145,010 was transferred out of the Pooled Income Fund to another GSA Foundation fund due to the death of a PIF participant. The balance in the portfolio as of June 2013 was \$359,822.

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 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%”.

Innovest uses a prediction model that takes into account past performance and volatility of investments in individual asset classes. 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).

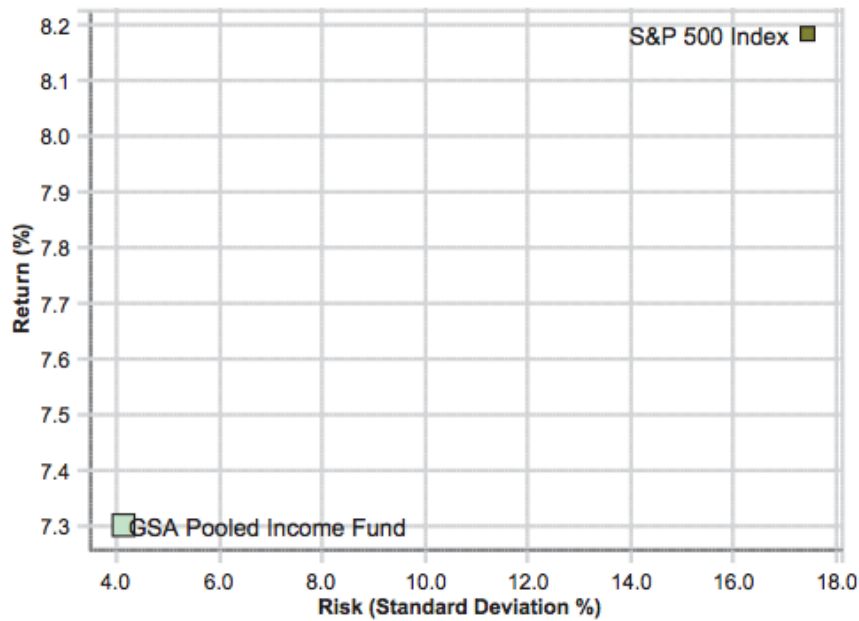


Figure 3. Risk (measured by standard deviation) versus return for the GSAF Pooled Income portfolio compared with the custom index and other indices (from Innovest Q2 Portfolio Review).

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).

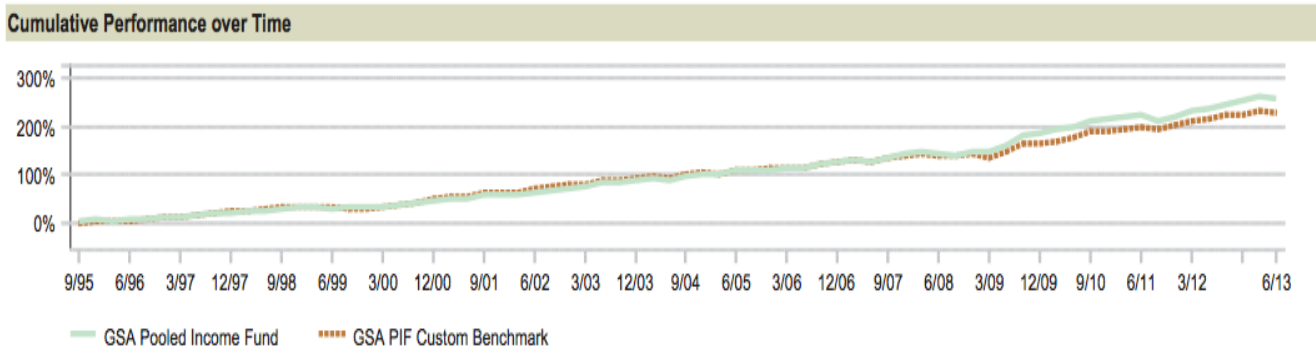


Figure 4. Cumulative returns from the GSAF Pooled Income portfolio as compared with the goal of inflation (Consumer Price Index) plus 1.0% and with a custom index, September 1995 through June 2013, the timeframe in which Innovest has been GSA's and GSAF's investment advisors (from Innovest).

Issues and Potential Concerns

The Committee is persistently involved in actively assessing risk and portfolio performance. Headwinds this past year included concerns over a number of countries in trouble with their borrowing costs and bank debt, geopolitical instabilities and risks to economic growth, the "fiscal cliff", inflation adjusted income growth and unemployment, the future for bond investments and rising interest rates. Major tailwinds for equity market valuations were low interest rates and improving earnings. The Committee, along with its investment advisor, maintains a vigilant outlook to respond to the dynamic and challenging economic landscape. Guiding principals are five to ten year outlook, preservation of capital, the embracement of and respect for risk, and compliance with investment policies.

The Investment Committee has a fiduciary responsibility, on behalf of GSA and GSAF, to periodically re-evaluate the performance, working relationship, and fees of the investment advisor. Since the GSA and GSAF investment advisor, Innovest Portfolio Solutions LLC (Innovest), was most recently reviewed about 10 years ago, the Committee, along with GSA Council and the GSAF Board of Trustees, decided to undertake an investment advisor review this year. A conventional review cycle is three to five years. As such, a rigorous evaluation framework and process was developed by the Committee. This process is now in place such that periodic reviews are planned on a regular (3-5 year) basis.

Beginning in February 2013, the Committee went through a careful, diligent and thorough process. It first created a rationale for sourcing, evaluating, selecting, and monitoring an investment advisor. It then designed a clear RFP, issued it and evaluated proposals from seven firms that responded. The Committee narrowed the field to four candidates, interviewing the top three as well as Innovest, in face-to-face meetings in September. As of the writing of this report, no final decision has been made by GSA Council or GSAF's Board of Trustees regarding a change in investment advisor. The Committee will make its recommendation to Council and the Foundation Board of Trustees during their meetings in October.

The Committee noted that the number of participants in the Pooled Income Fund will likely decrease in size and that more donors are managing their own money rather than giving it to GSA for pooled income fund management.

Highlighted Activities of the Investment Committee- FY 2013

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. Other meetings are generally held quarterly using web-based conference calls in order to reduce costs.

At its May 2013 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/GSAF's advisor, Innovest Portfolio Solutions, stated that the portfolio is balanced and well diversified, and has all of the asset classes that a portfolio of this type should have.

The Committee retained the Innovest Asset Allocation of its current Investment Policy Statement (CPI + 5.0% and 1.0% expected return).

Two members, Murray Hitzman and Cindy Stewart, were due to rotate off of the Committee as of the end of June 2013. Murray Hitzman's term was renewed, Steve Farrell replaced Cindy Stewart, Judy Parish was added to committee, and Carl Fricke was re-nominated as Committee Chair.

Conclusion

Tom Haberthier, Jon Price, all Investment Committee members and Innovest are to be especially thanked for their participation, assistance in providing data, supplying valuable contributions throughout the year, and reviewing this report. It was a very busy year, involving a lot of time on behalf of those involved, and much was successfully accomplished.

Respectfully submitted,

Carl Fricke, GSA's and GSAF's Investments Committee Chair, 25 September 2013