

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

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**REPORT FROM THE INVESTMENTS COMMITTEE CHAIR  
Fiscal Year 2014 (1 July 2013 – 30 June 2014)**

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 investments are in commingled funds, selected on the basis of strategy, management style, and long-term records of reward versus risk, in consultation with our investment advisor, Watershed Investment Consultants, Inc in Greenwood Village, Colorado ("Watershed"). Watershed replaced Innovest Portfolio Solutions as GSA's and GSA Foundation's investment consultant as of January 1, 2014.

Watershed reports that the portfolio's asset allocations are oriented toward long-term growth strategies, with 55% in public equity, 4% in private equity, 6% in floating rate high yield credit, 3% in real estate and 12% in investment grade debt. Hedge funds have increased to 20% of the portfolio during the transition, but different options may be considered as we move forward.

The growth in value of the portfolio since 2002 is shown in Figure 1, below.

GSA/GSAF Total Fund  
Total GSA/GSAF Fund as of June 30, 2014

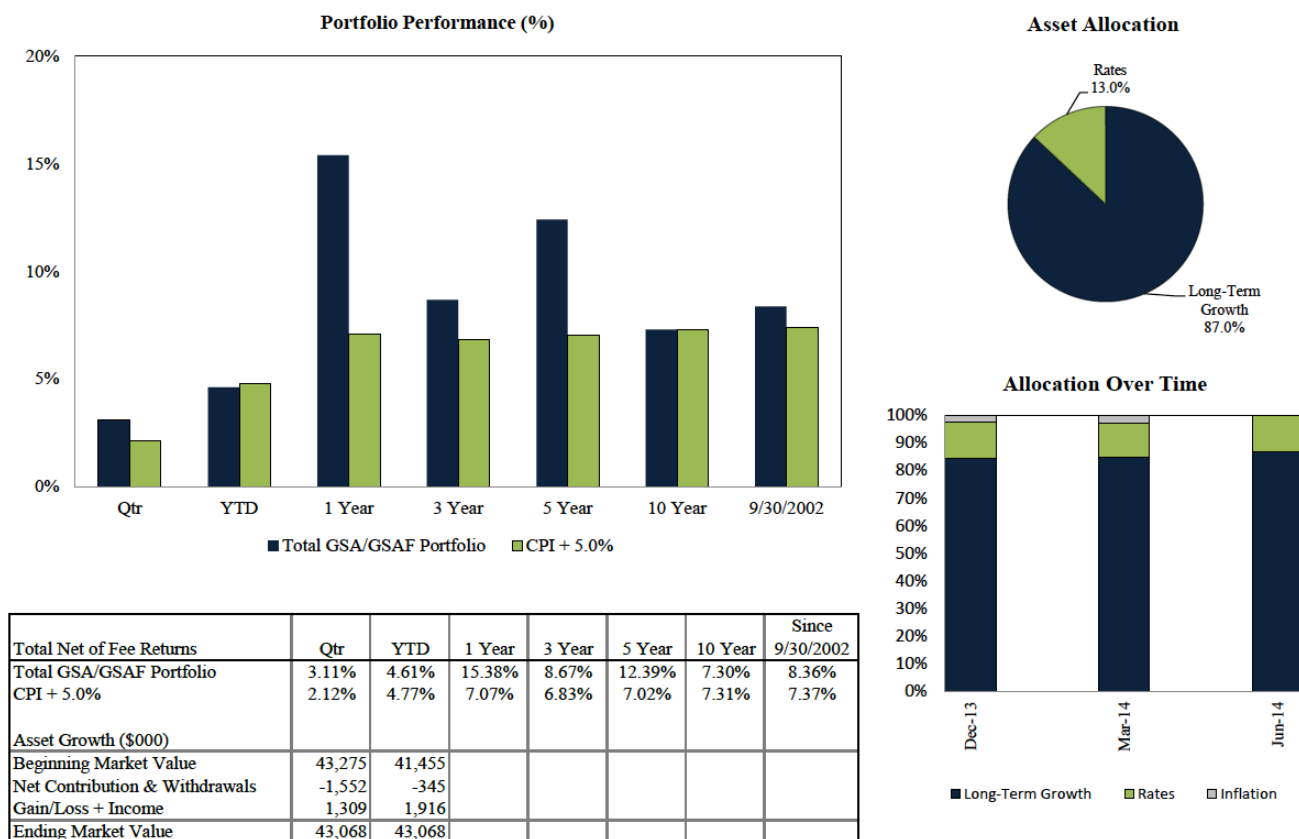


Figure 1. Cumulative returns from the GSA/GSAF (combined) portfolio (from Watershed, August 2014).

## Performance of the Investment Portfolio during FY 2014

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 11.9%, from \$38,371,732 on 30 June 2013 to \$42,952,588 on 30 June 2014 (compared with the fiscal year end low of \$25,557,594 on 30 June 2009 and \$35,583,602 on 30 June 2011).

Strong equity market performance (blue bars) drove the majority of Total Portfolio performance.

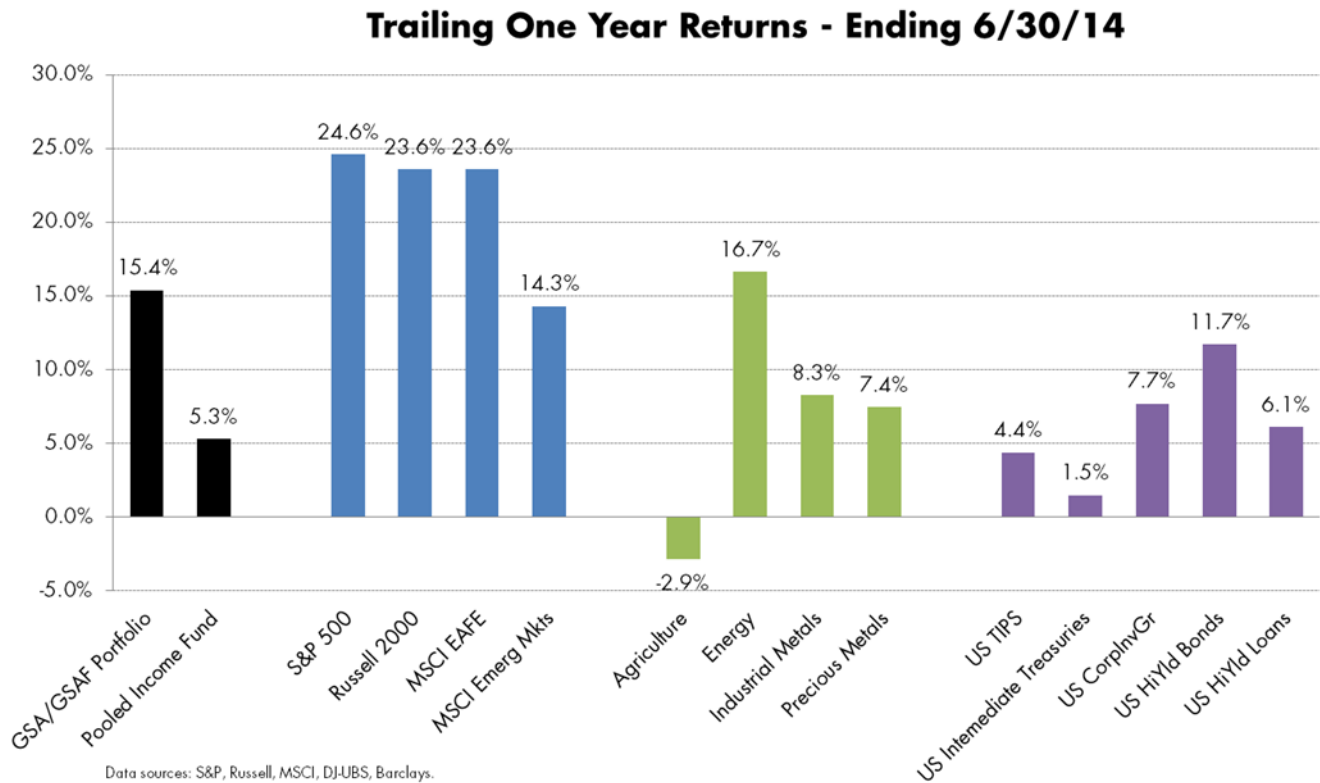


Figure 2. One year returns for the GSA/GSAF (combined) portfolio (July 2013 through June 2014) as compared to other market indices

**Table 1: GSA/GSAF Investment returns (trailing)**

		<u>One year</u>	<u>Last 3 years</u>	<u>Last 5 years</u>	<u>10 Year</u>
	GSA/F Fund (total)	15.38%	8.67%	12.39%	7.30%
CPI + GSA	7.07%	6.83%		7.02%	7.31

Of the portfolio's 2014 total market value, GSA's share amounted to \$26,873,949 (up from \$24,080,341 as of 30 June 2013 and \$22,460,908 as of 30 June 2012). See Table 2, below.

GSAF's share of total investments amounted to \$16,078,638 (up from \$14,291,391 as of 30 June 2013 and \$12,118,572 as of 30 June 2012). Excluded from this latter figure is the Foundation's Pooled Income Fund (PIF) which was valued at \$368,041 as of 30 June 2014 (up from \$359,822 as of 30 June 2013 and down from \$495,713 on 30 June 2012).

Period ending:	GSA portion	GSAF portion	Total (excl PIF)	Percentages		CPI	Yr CPI%	Society only
				GSA	GSAF			CPI-adjust (constant \$)
6/30/2014	26,873,949	16,078,639	42,952,588	62.57%	37.43%	237.90	1.88%	20,901,291
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.

### **Five Year Budget Forecast**

Expected returns are viewed as long-term in nature. Watershed forecasts a 7.2% long-term return (nominal) of which 3% represents inflation (assumed) and 4.2% as the annualized real rate of return (modeled). The historical return objective has been CPI + 5%.

### **Current Investment-Asset Classes and Allocations**

The Investment Committee establishes and adjusts strategic allocations within both asset class groups as well as asset classes, and determines lower and upper limits for each asset class in collaboration with the recommendations of our investment consultant, Watershed. Asset allocation is a key element in portfolio management.

During fiscal year 2014, the Investment Committee established new asset allocation ranges, as reflected in Table 3.

**Table 3. Targets (strategic allocations) and ranges for GSA and GSA Foundation investments, June 2014**

Strategy Allocation	6/30 Allocation (%)	IPS Allowable Range
Public Equity	55%	
Private Equity	4%	
Hedge Funds	20%	
Credit	5%	
Real Estate	3%	
<b>Total Long - Term Growth</b>	<b>87%</b>	<b>60% - 90%</b>
Fixed Income	12%	
<b>Total Rates</b>	<b>12%</b>	<b>10% - 30%</b>
Cash	1%	
<b>Total GSA/ GSAF Portfolio</b>	<b>100%</b>	

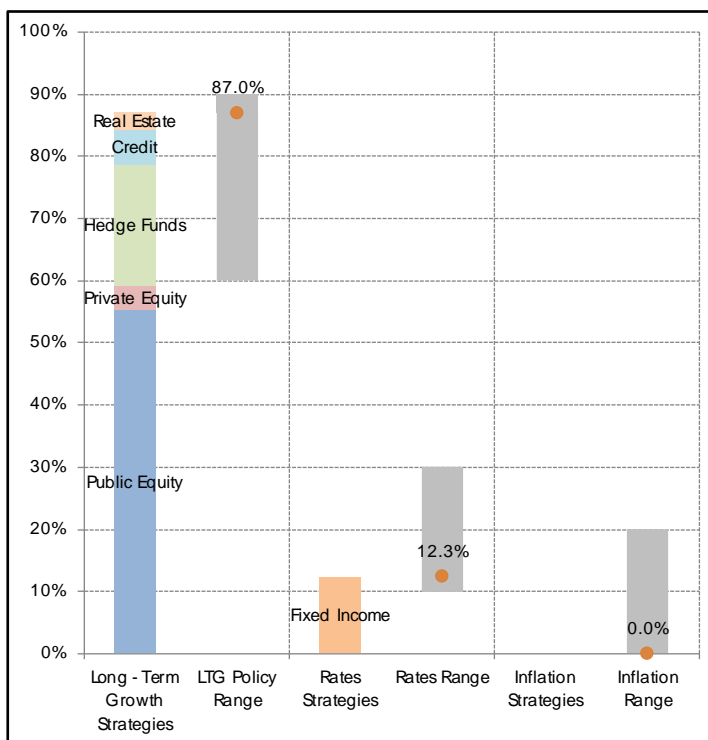


Figure 3. Asset allocation for the portfolio as of 30 June 2014.

### Pooled Income Fund

The Investments Committee also oversees the Pooled Income Fund (PIF). PIF 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 is assigned to and 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.

The market value of GSAF's PIF investments appreciated by 5.3% this past year, although the total dollar gain was only approximately \$8,000. The overall dollar-wise appreciation in the total PIF value was tempered due to distributions in earned interest income totaling \$10,419 and a low-interest rate environment. The Pooled Income Fund is structured to generate income with low levels of risk, primarily investing in fixed income.

**Table 4: Pooled Income Fund Investment returns (trailing)**

	<u>One year</u>	<u>Last 3 years</u>	<u>Last 5 years</u>	<u>10 Year</u>
Pooled Income Fund	5.28%	4.87%	7.47%	7.02%
CPI + 1%	3.07%	2.83%	3.02%	3.31%

**Table 5: Pooled Income Fund Portfolio Balances, 2005 - 2013**

Fiscal Year	Market Value	Transfer out of PIF
2013	359,822	145,410
2012	495,707	
2011	641,396	
2010	620,041	
2009	574,650	
2008	566,157	
2007	625,644	
2006	617,274	
2005	701,490	

**Highlighted Activities of the Investment Committee- FY 2014**

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. As such, the Committee, along with GSA Council and the GSAF Board of Trustees, undertook an investment advisor search beginning in February 2013.

In the second half of 2013, the Committee recommended, and both the GSA Council and the GSAF Board of Trustees voted, to change its investment consultant advisor from Innovest to Watershed. As of January 1, 2014, Watershed became the two organizations' official advisor. Transition took place beginning in late 2013. That continued into spring of 2014 and was essentially complete by April 2014.

The Committee:

- Simplified the Total Portfolio during the April transition. In total, roughly 50% of the market value of the Total Portfolio was restructured.
- Eliminated poorly performing and duplicative strategies in the portfolio, reducing the number of total line items by 10.
- Decreased core real estate and high yield credit and eliminated commodities, with corresponding increases to equities and hedge funds. The Total Portfolio's risk profile has not been altered meaningfully as a result of the changes.
- Placed some emphasis on reducing investment management fees, primarily by indexing several equity strategies.
- Simplified PIF, maintaining current risk and return characteristics while reducing the number of holdings. Seven current funds were liquidated and replaced with two new funds: the PIMCO Moderate Duration Fund (60%) and the Ridgeworth Seix Floating Rate High Income Fund (40%). The restructure was undertaken to accomplish two things: 1) generate income comparable to that currently generated, and 2) reduce the correlation to equity markets. The transition accomplished the following: (a) the current allocation offers comparable yield to the previous allocation at a lower cost, and (b) reduced the risk profile (as measured by volatility, correlation and drawdown on a trailing three-year basis).

The Committee, in consultation with Watershed, revised the Combined Investment Portfolio Policy Guidelines, Statement of Investment Policy, Pooled Income Fund Investment Policy Guidelines, and Pooled

Income Fund Statement of Investment Policy documents. Those documents were submitted to GSA Council and the GSA Foundation Board of Trustees for approval and adoption. Both governing bodies voted for approval.

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

At its May 2014 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.

### **Investment Committee Membership**

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.

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.

Members of the Investment Committee are: Peter Lipman, Jon Price, Thayer Tutt, Bruce Clark, Steve Farrell, Hony Tarrall, Murray Hitzman, Judy Parrish, Charlie Andrews and Carl Fricke (Chair). Jack Hess, Geoff Feiss and Tom Haberthier participate as non-voting members.

Memberships for one member, Bruce Clark, were renewed for the new fiscal year beginning June 2014. Bruce replaced Jon as GSA Treasurer. Carl Fricke was re-nominated as Committee Chair.

### **Conclusion**

Tom Haberthier (GSA Controller), Jon Price (GSA Treasurer), Jack Hess (GSA President), Geoff Feiss (GSAF Executive Director), Geni Klagstaff (GSAF Office Manager), all Investment Committee members and Watershed 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, especially as we transitioned from one investment consultant to another.

We believe that the Society's investments are on fundamentally sound footing and are being responsibly managed.

Respectfully submitted,

Carl Fricke, Chairman, GSA's and GSAF's Investments Committee, 20 August 2014