

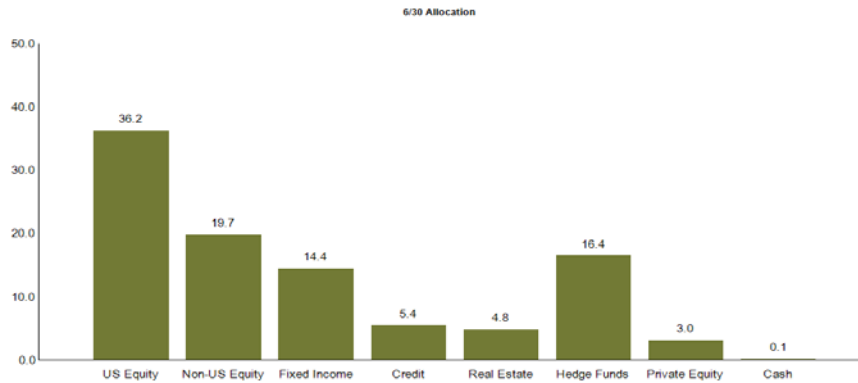
**GEOLOGICAL SOCIETY OF AMERICA &  
GEOLOGICAL SOCIETY OF AMERICA FOUNDATION**

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**REPORT FROM THE INVESTMENTS COMMITTEE CHAIR  
Fiscal Year 2015 (1 July 2014 – 30 June 2015)**

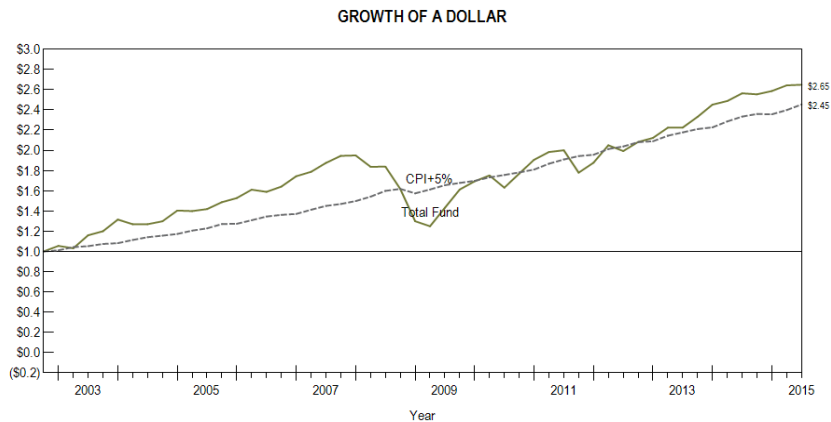
The Geological Society of America (GSA) and GSA Foundation (GSAF) Investments Committee is charged with investing and monitoring the performance of a diversified portfolio of stocks, bonds and alternative investments that nurture the strategic goals of the Society and the Foundation. GSA and GSAF combine their investable assets into one managed portfolio. All of GSA's and GSAF's 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").

The portfolio's allocations are illustrated in the graph below. The portfolio emphasizes publicly – traded US Equity and International Equity. Though an orientation towards equity is appropriate, the Investment Committee and Watershed have worked to refine the allocation over the past year, by considering hedge funds and private capital strategies, including private equity and private credit.



The historical growth in value of the portfolio since 2002 as compared to the portfolio's benchmark performance level of CPI + 5% is shown in Figure 1, below.

**Figure 1. Growth of the GSA/GSAF (combined) Portfolio 30 September 2002 (from Watershed Management Consultants, August 2015)**

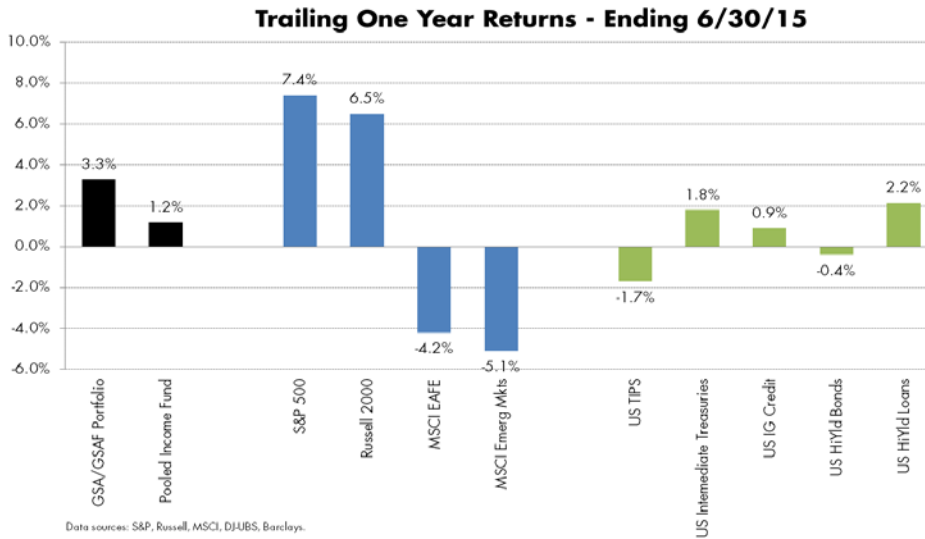


**Performance of the Investment Portfolio during FY 2015**

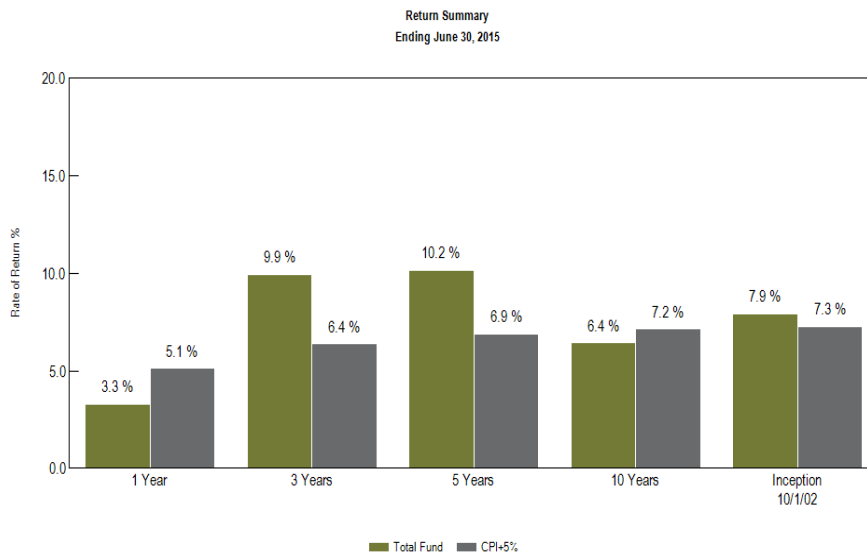
The market value of GSA/GSAF’s combined investment portfolio, including those funds of the GSA Foundation that are combined with GSA’s investments and a separate Foundation “Pooled Income Fund” (which holds investments that generate income for the donors as part of their planned giving), increased approximately 1.9%, from \$43,415,049 on 30 June 2014 to \$44,249,386 on 30 June 2015 (compared with the fiscal year end low of \$25,557,594 on 30 June 2009).

Total returns were challenging across most asset classes for the year ended 6/30/15. US Equity performance drove the GSA/GSAF portfolio’s returns for the year. The Pooled Income Fund is invested only in fixed income (denoted in green). Fixed Income returns were muted for the trailing 12 months.

**Figure 2. One year returns for the GSA/GSAF (combined) portfolio (July 2014 through June 2015) as compared to other market indices**



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



Of the portfolio's 2015 total market value, GSA's share amounted to \$27,695,388 (up from \$26,873,949 as of 30 June 2014 and \$24,080,341 as of 30 June 2013). See Table 2, below.

GSAF's share of total investments amounted to \$16,203,531 (up from \$16,078,638 as of 30 June 2014 and \$13,931,569 as of 30 June 2013). Excluded from this latter figure is the Foundation's Pooled Income Fund (PIF) which was valued at \$362,518 as of 30 June 2015 (modestly down from \$368,041 as of 30 June 2014, up from \$359,822 as of 30 June 2013).

Period ending:	GSA portion	GSAF portion	Total (excl PIF)	Percentages		CPI	Yr CPI%	Society only
				GSA	GSAF			CPI-adjust (constant \$)
6/30/2015	27,695,388	16,203,531	43,898,919	63.09%	36.91%	238.64	0.12%	21,657,076
6/30/2014	26,873,949	16,078,639	42,952,588	62.57%	37.43%	238.34	2.07%	20,862,443
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 annual 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 an exercise in bookkeeping and is not material since GSA and GSAF investment funds (other than Pooled Income Fund) are combined and managed together, and because GSAF and GSA collaboratively work together in support of the Society's programs for which Council is the visionary and guide.

### **Five Year Budget Forecast**

Expected returns, and consequently portfolio management, are viewed as long-term (> five years) 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%. Looking forward, it is possible that the portfolio's total rate of return may be below CPI + 5% over the shorter term (less than five years) given current and foreseeable market and global economic conditions, and corresponding volatilities. During FY2015, the Society's investment portfolio growth of approximately 3.7 percent was well below the long-term growth rate of 5% plus CPI, a stated rate that constitutes our portfolio's benchmark performance level. An alternative of selecting investments with a higher risk profile is not favored by either the Investments Committee or by GSA Council and GSAF Board of Trustees as the Committee favors preservation of capital over risk in attempting to achieve higher returns.

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

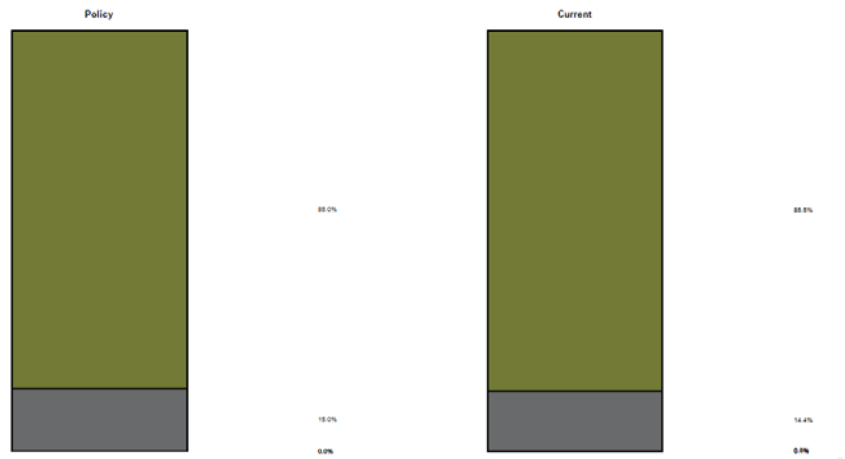
The Investment Committee establishes and adjusts strategic allocations within both asset class groups as well as asset classes, and determines lower and upper limits for each asset class in collaboration with the recommendations of our investment consultant, Watershed. Asset allocation is a key element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

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

Allocations below are expressed as risk allocations. Green columns represent allocations towards "Long - Term Growth"

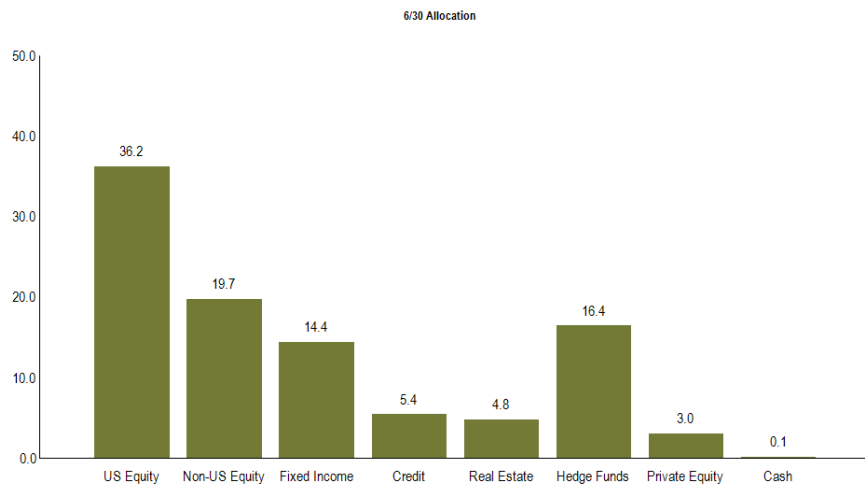
strategies. Long - Term Growth strategies are strategies that would be reasonably expected to perform well during a stable and growing economic environment. Gray columns represent allocations towards "Rates" strategies, which are comprised of Investment Grade Fixed Income, and would be expected to provide a ballast to performance during difficult economic and capital markets environments. The Current allocation closely mirrors the Policy Index.

**Table 3. Targets (strategic allocations) and Ranges for GSA and GSA Foundation Investments, June 2015**



The portfolio allocates across several asset classes, as detailed below. Public Equity, Hedge Funds, Credit, Real Estate, and Private Equity comprise the bulk of the portfolio’s exposures (and would be classified as “Long – Term Growth” strategies). This allocation mix is believed to be consistent with the portfolio’s perpetual time horizon and return objective.

**Figure 3. Asset allocation for the portfolio as of 30 June 2015**



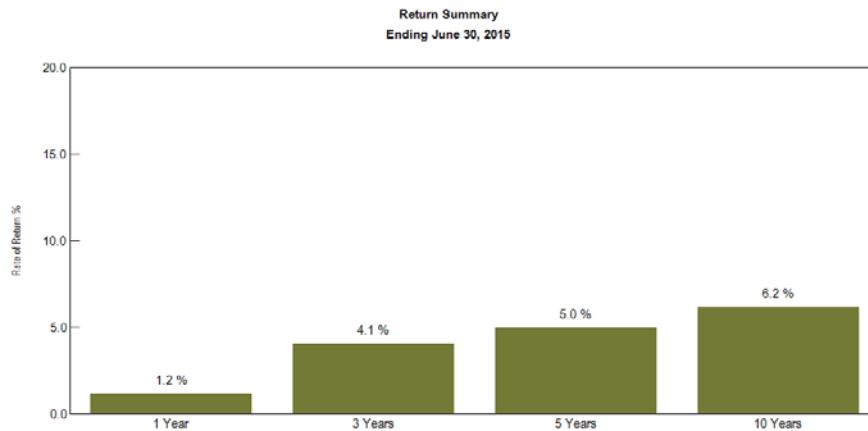
**Pooled Income Fund**

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 1.2% this past year, though the total portfolio value decreased by approximately \$5,800. The Pooled Income Fund is structured to generate income with low levels of risk, primarily investing in fixed income. The overall size of the PIF has been steadily decreasing because little or no new funds are being received, transfers out to the Foundation and distributions to participants are being made.

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



**Table 5: Pooled Income Fund Portfolio Balances, 2007 – 2015**

Fiscal Year	Market Value	Transfers to Foundation	Distributions to Participants
2015	\$362,518		\$11,934
2014	\$368,341		\$9,235
2013	\$359,822	\$145,410	\$15,100
2012	\$495,707	\$143,205	\$24,046
2011	\$641,396	\$14,905	\$23,715
2010	\$620,041		\$25,037
2009	\$574,650		\$29,006
2008	\$566,157	\$80,252	\$23,131
2007	\$625,644		

**Highlighted Activities of the Investment Committee- FY 2014-15**

The past year has been more focused on portfolio refinements than wholesale changes, with refinements to the Hedge Fund and Investment Grade fixed income allocations. The Committee remains committed to Private Capital strategies, allocating to a new Private Equity strategy and considering several Private Capital strategies.

At its June 2015 meeting, the Committee reviewed capital markets and the long-term outlook as part of the Committee's annual asset allocation review. That included assessing the Investment Policy in relation to alternate asset mixes, expected returns and associated risks. The meeting also included a review of various strategies that would offer the potential to offer attractive risk-adjusted returns while decreasing the portfolio's exposure to publicly-traded equities. The Committee will continue to seek to identify investment strategies that will be additive to portfolio performance in constructive and responsible ways.

### **Investment Committee Membership and Operation**

The Investments Committee consists of members from both the Society and GSA Foundation that have been approved by GSA Council. The Committee meets by phone or in person four or more times a year to review the financial and operational performance of the portfolio, and consider changes recommended by our external Investment Advisor (Watershed Investment Consultants) and Committee Members to the investment portfolio.

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 portfolio is invested in accordance with a written investment policy approved jointly by the GSA Council and the GSA Foundation Board of Directors.

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

### **In Conclusion**

Bruce Clark (GSA Treasurer), Geni Klagstad (GSAF Office Manager), Jack Hess (GSAF Executive Director), Tom Habberthier (GSA Controller), Vicki McConnell (Executive Director), all Investment Committee members and Paul Schreder (Watershed Investment Consultants) deserve special thanks for their exceptional service- volunteering their valuable time, providing insightful commentaries and opinions throughout the year, and contributing to this report.

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, 08 September 2015