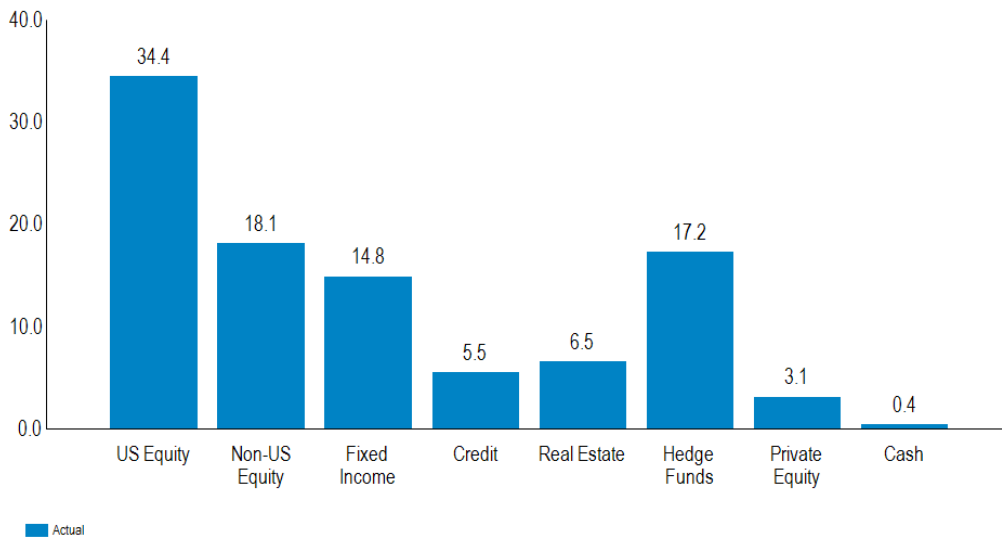


**GEOLOGICAL SOCIETY OF AMERICA &  
GEOLOGICAL SOCIETY OF AMERICA FOUNDATION**

-----  
**REPORT FROM THE INVESTMENTS COMMITTEE CHAIR**  
**Fiscal Year 2016 (1 July 2015 – 30 June 2016)**

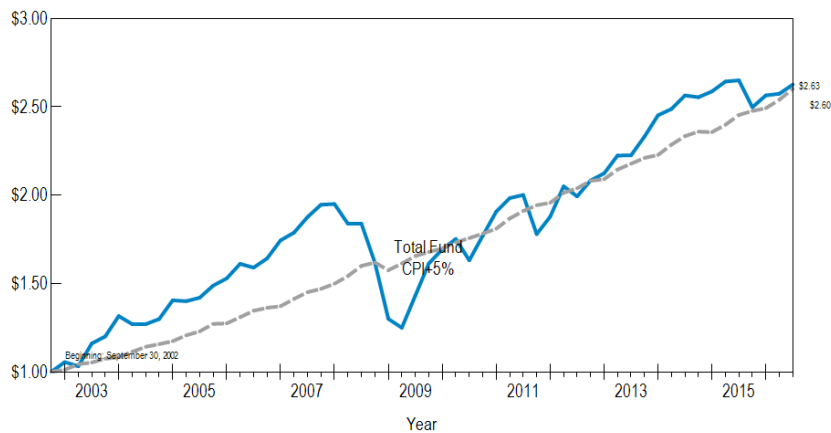
The Geological Society of America (GSA; “the Society”) and GSA Foundation (GSAF) Investments Committee is charged with investing and monitoring the performance of a diversified portfolio of stocks, bonds and alternative investments that nurture the strategic goals of the Society and the Foundation. GSA and GSAF (hereafter called GSA/GSAF) combine their investable assets into one managed portfolio. All of GSA/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, Ellwood Associates in Greenwood Village, Colorado (“Ellwood”). Watershed Investment Consultants merged with Ellwood during the past year; its management and investor relationship with GSA/GSAF remains the same.

The portfolio’s asset allocations are illustrated in Figure 1.



**Figure 1. Distribution of GSA/GSAF’s total portfolio assets (expressed in percent)**

The portfolio is orientated towards U.S. and international equity given the portfolio’s long-term return objective, with an added focus on private equity, private credit and real estate. Fixed income complements the other asset classes. The historical growth in value of the portfolio since 2002, as compared to the portfolio’s performance target benchmark of CPI + 5%, is shown in Figure 2, below.



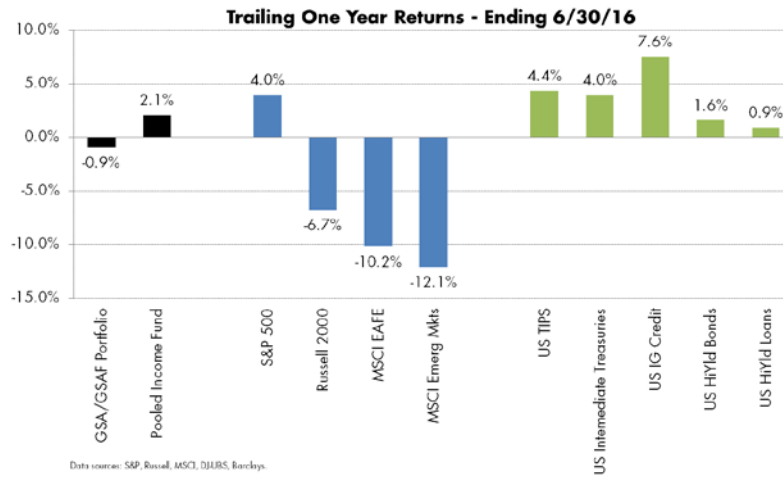
**Figure 2. Growth of the GSA/GSAF (combined) portfolio since September 2002 (from Ellwood, June 2016)**

### Performance of the Investment Portfolio during FY 2016

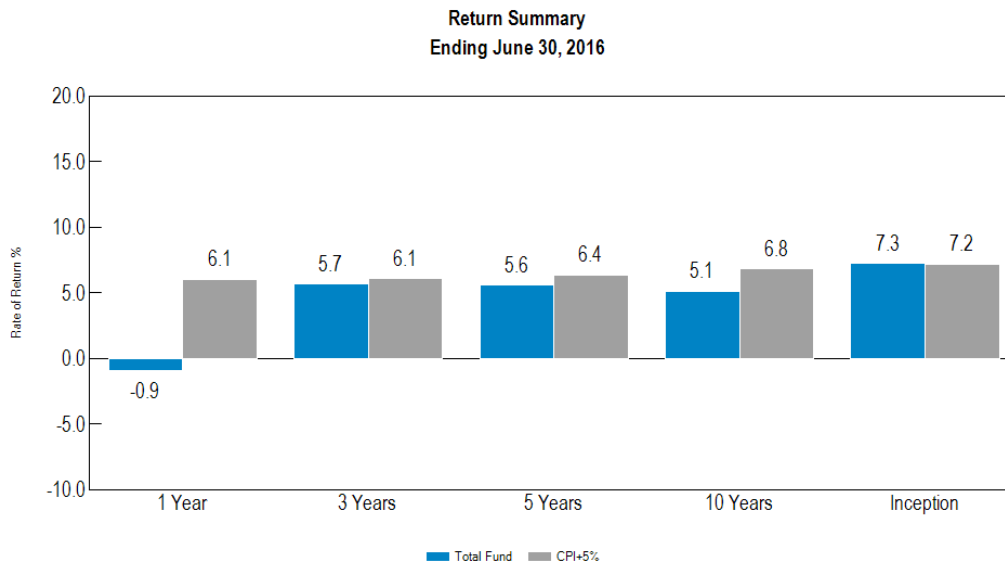
The market value of GSA/GSAF’s combined investment decreased on a fiscal year-over-year basis by approximately negative 0.9% from \$43,898,919 on 30 June 2015 to \$43,493,157. That compares to a recent fiscal year end low of \$24,983,862 on 30 June 2009. Total returns were challenging across most asset classes for the year ended 30 June 2016, as smaller capitalization US equity markets (as measured by the Russell 2000 Index) and international equity markets struggled, while real estate and the credit markets shined. Similar to FY 2015, US Equity performance drove the GSA/GSAF portfolio’s returns for the year.

The total portfolio includes a separate GSA Foundation “Pooled Income Fund” (PIF). The PIF holds investments that generate income for the donors as part of their planned giving. The PIF is invested only in fixed income (denoted in green). High quality, investment-grade fixed income performed well on an absolute basis over the trailing 12 months ending 30 June 2016. Roughly 85% of the decrease in PIF value was due to distributions over the year from the Pooled Income Fund.

**Figure 3. One year returns for the GSA/GSAF (combined) portfolio (July 2015 through June 2016) as compared to other market indices**



**Figure 4: GSA/GSAF Investment Returns (trailing; percent)**



Of the portfolio’s 2016 total market value, GSA’s share amounted to \$27,439,397 (down from \$27,695,388 as of 30 June 2015 and \$26,873,949 as of 30 June 2014). See Table 1, below.

GSAF's share of total investments amounted to \$16,053,760 (down modestly from \$16,203,531 as of 30 June 2015 and roughly in line with \$16,078,639 as of 30 June 2014). Excluded from this latter figure is the Foundation's Pooled Income Fund (PIF) which was valued at \$46,396 (which was down dramatically from \$362,518 as of 30 June 2015 and \$368,341 as of 30 June 2014) due to distributions from the portfolio.

Period ending:	GSA portion	GSAF portion	Total (excl PIF)	Percentages		CPI	Yr CPI%	Society only
				GSA	GSAF			CPI-adjust (constant \$)
6/30/2016	27,439,397	16,053,760	43,493,157	63.09%	36.91%	241.04	1.01%	21,187,996
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**

It is likely that the portfolio's total rate of return over the next several years, and possibly longer, will be below the portfolio CPI + 5% benchmark. CPI was approximately 1% in the U.S. Such an outlook is in line with weak annual gains in investment returns being reported this year by other institutional and public pension investment programs, with a sizable number of experts expecting this low-return trend to extend over a longer term. Major themes currently affecting market performance include a strong U.S. dollar and currency exchange, interest rates, oil and gas prices, and Brazil and China. Geopolitical risks and security of principal will also play a significant factor.

During FY2016, the Society's investment portfolio growth of approximately -0.9 percent was well below the long-term growth rate of 5% plus CPI, a rate that aligns with our portfolio's return objective. In light of the current economic and capital markets environment, along with the present outlook, seeking to orient towards investments with a higher risk profile in order to chase higher yields is not favored by either the Investments Committee nor by GSA Council and the GSAF Board of Trustees. Rather, the Investments Committee favors to reduce risk by considering new investment strategies, particularly through the private capital and private credit markets.

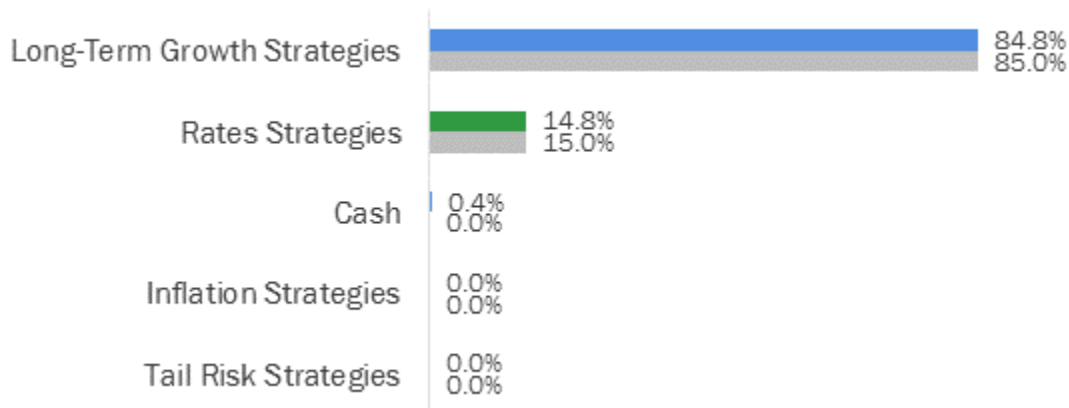
### **Current Investment-Asset Classes and Allocations**

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, Ellwood. Asset allocation is a key element in portfolio management.

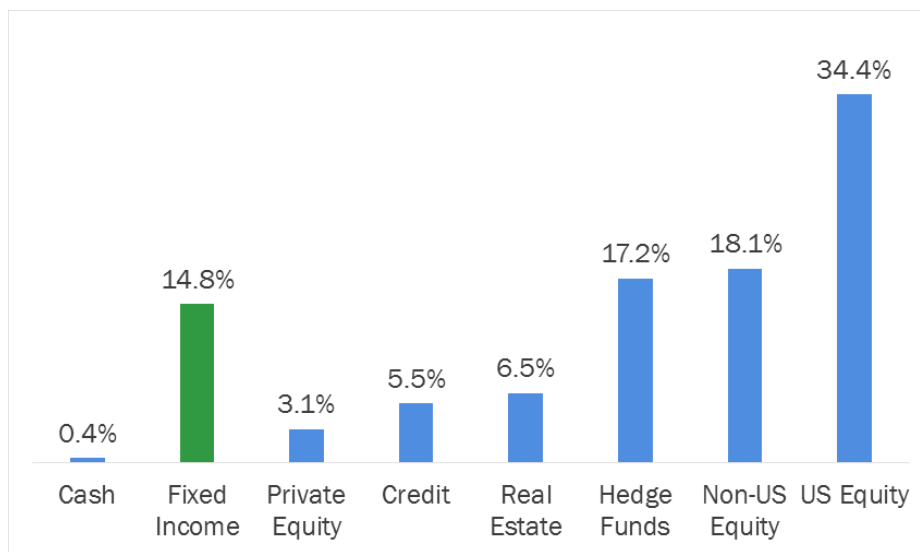
During fiscal year 2014, the Investment Committee established new asset allocation ranges, as reflected in Figure 5, below.

Allocations below are expressed as risk allocations. Blue columns represent allocations towards "Long-Term Growth" strategies, whereas the green column represents "Rates" strategies. Long-Term Growth strategies are strategies that would be reasonably expected to perform well during a stable and growing economic environment. The portfolio's investments are allocated across several asset classes, as detailed in Figure 6 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. "Rates" strategies 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, as noted in the gray bars below.

**Figure 5. Targets (strategic allocations) and Ranges for GSA and GSA Foundation Investments, June 2016**



**Figure 6. Asset allocation for the portfolio as of 30 June 2016 (expressed in percent)**



**Pooled Income Fund**

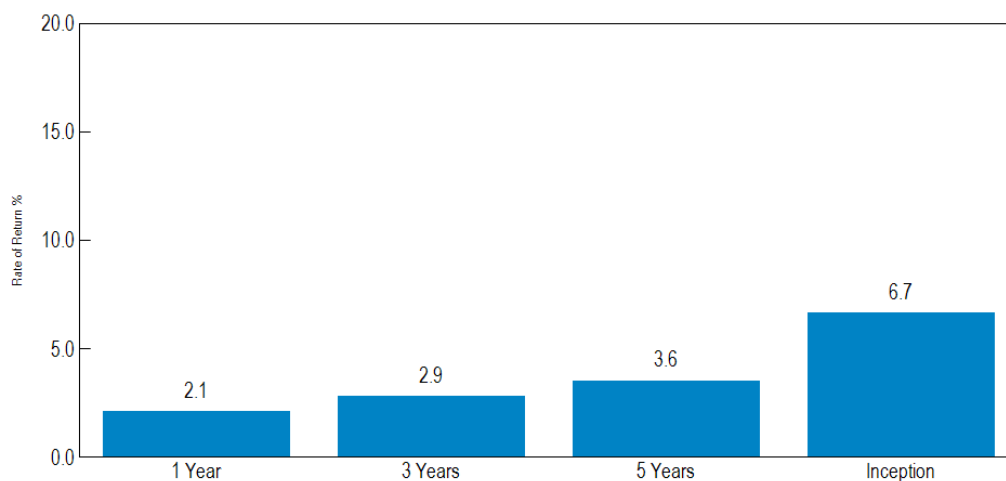
The Investments Committee also oversees the Pooled Income Fund (PIF). PIF is part of the GSA Foundation. Donors that gift substantial monetary contributions to the Foundation can receive quarterly cash payments of the interest income until death, at which time the original donation is assigned to and 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 2.1% this past year, though the total portfolio value decreased by approximately \$316,122 primarily due to payouts. 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 while transfers out to the Foundation, and distributions to participants are being made. The PIF will likely cease to exist in the near future as its assets decline to zero.

**Figure 7: Pooled Income Fund Investment Returns (trailing)**

Return Summary  
Ending June 30, 2016



**Table 2: Pooled Income Fund Portfolio Balances, 2007 - 2016**

Fiscal Year	Market Value	Transfers to Foundation	Distributions to Participants
2016	\$46,396	\$307,503	\$4,463
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 2016**

The past fiscal year has been focused on portfolio refinements than wholesale changes. At its June 2016 meeting, the Committee reviewed capital markets and the long-term outlook as part of the Committee's annual asset allocation review. That included assessing its Investment Policy in relation to alternate asset mixes, expected returns and associated risks. The meeting also included a review of various investment strategies that have the potential to offer attractive risk-adjusted returns while decreasing the portfolio's exposure to publicly-traded equities. That review included allowance for additional investments in private capital

and private equity strategies. The Committee continues to identify and assess investment strategies that will add to portfolio performance in constructive and responsible ways.

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

The Investments Committee consists of members from both the Society (GSA) and the GSAF that have been approved by GSA Council. The Committee meets by phone or in person at least 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 (Ellwood Associates) 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 principles include 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 as of June 2016 are: Bruce Clark, Charlie Andrews, Carl Fricke (Chair), Eric Henry, Hony Tarrall, Judy Parrish, Peter Lipman, Steve Farrell, and Thayer Tutt. Vicki McConnell, Jack Hess and Tom Haberthier participate as non-voting members.

### **In Conclusion**

Vicki McConnell (GSA Executive Director), Jack Hess (GSAF Executive Director), Tom Haberthier (GSA Controller), Bruce Clark (GSA Treasurer), Geni Klagstad (GSAF Office Manager), all Investment Committee members (especially those from outside of GSA- Eric, Hony and Thayer) and Paul Schreder (Ellwood) deserve special thanks for their exceptional and dedicated 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, Chair  
GSA and GSAF Investments Committee  
August 2016