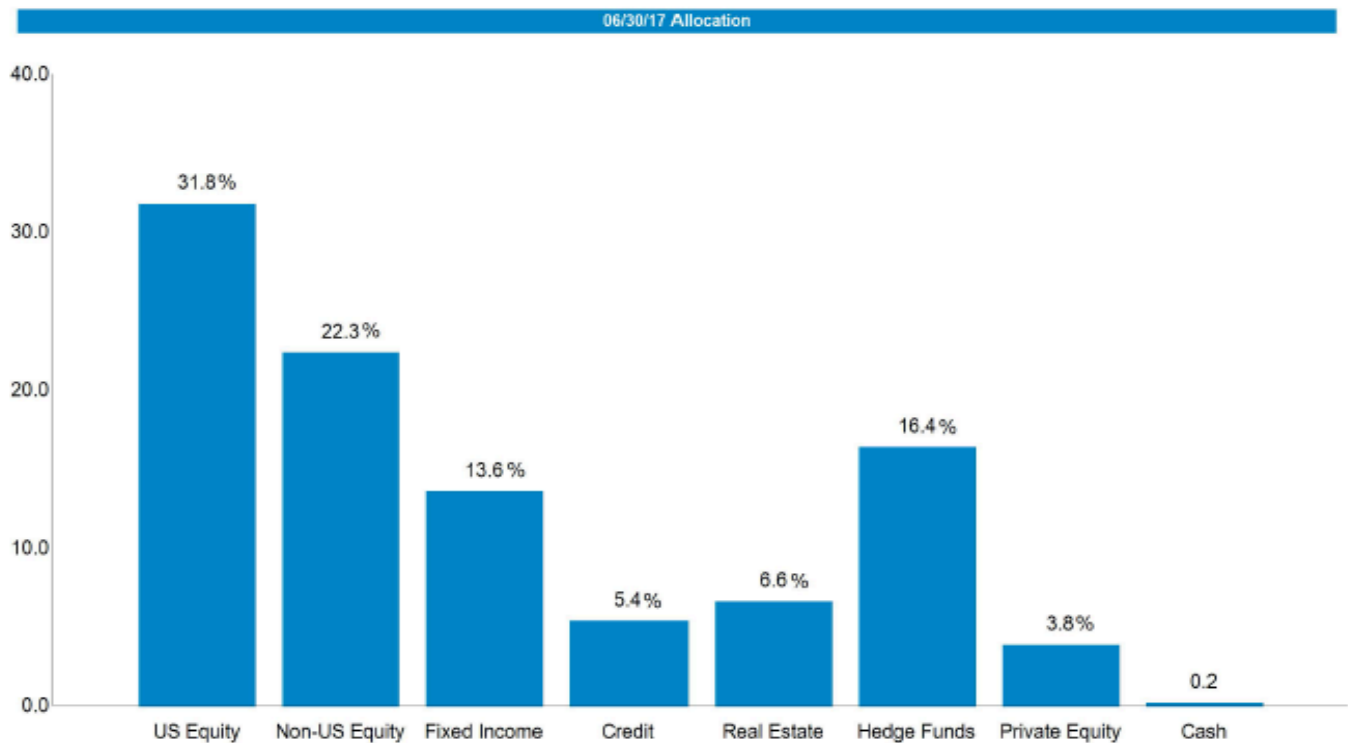


**GEOLOGICAL SOCIETY OF AMERICA &  
GEOLOGICAL SOCIETY OF AMERICA FOUNDATION**

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**REPORT FROM THE INVESTMENTS COMMITTEE CHAIR  
Fiscal Year 2017 (1 July 2016 – 30 June 2017)**

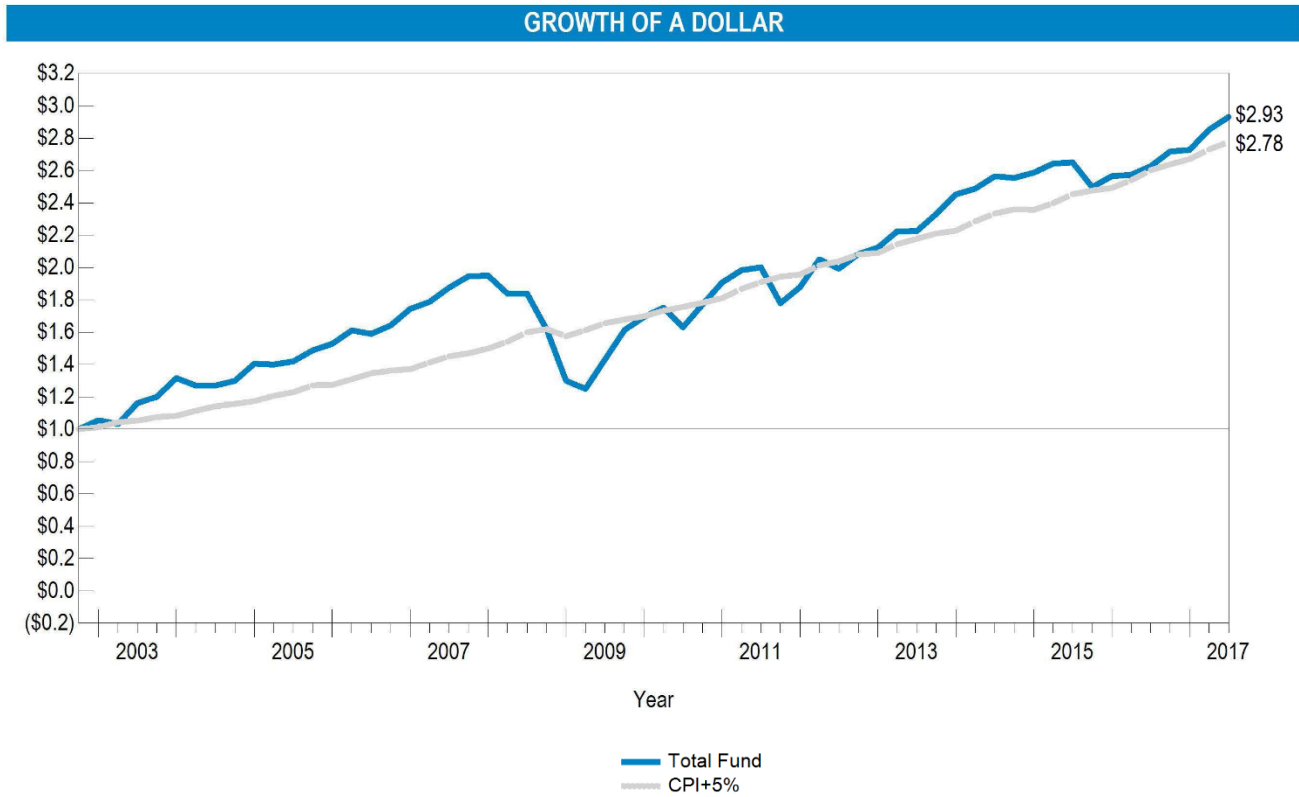
The Geological Society of America (GSA) and GSA Foundation (GSAF) Investments Committee is charged with investing and monitoring the performance of a diversified portfolio of stocks, bonds and alternative investments that nurture the strategic goals of the Society and the Foundation. GSA and GSAF combine 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, Ellwood Associates in Greenwood Village, Colorado ("Ellwood").

The portfolio's allocations are illustrated in the graph below. The portfolio emphasizes publicly-traded US Equity and International Equity. An orientation towards equity is appropriate given the portfolio's long-term return objective. The Investment Committee and Ellwood have worked to refine the allocation over the past year and added exposure to 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 Ellwood, June 2017)**



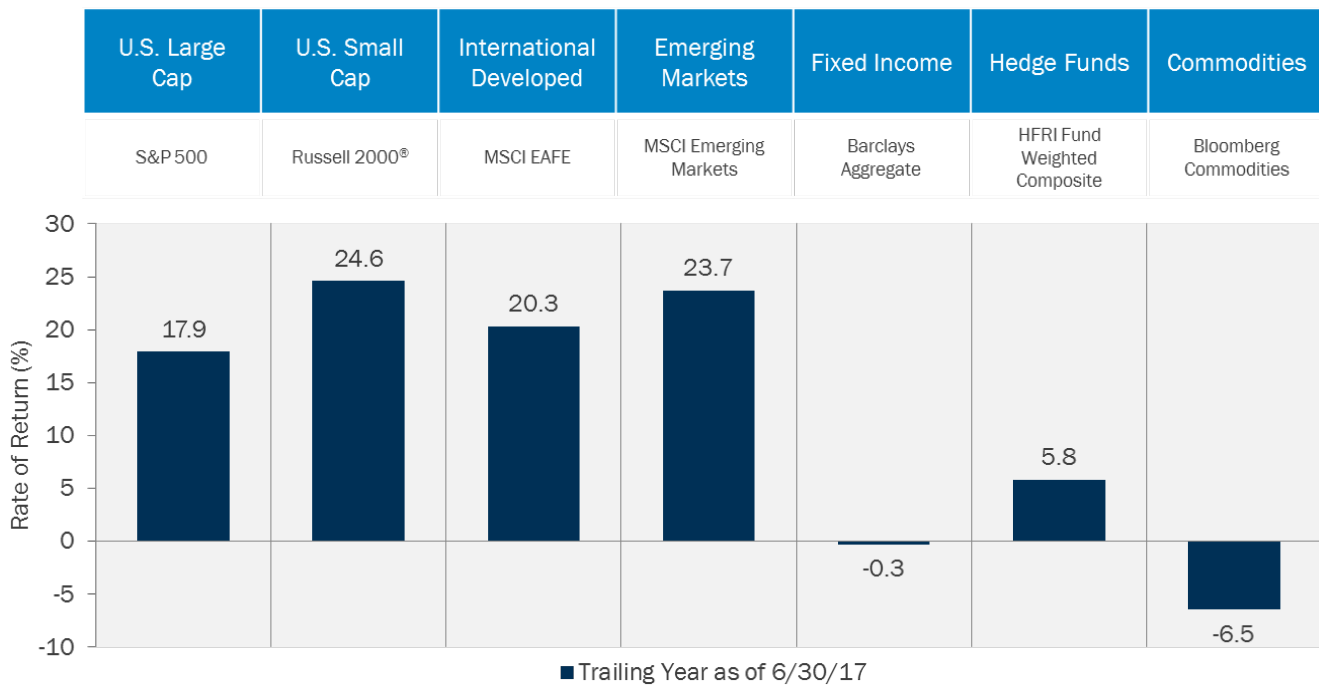
**Performance of the Investment Portfolio during FY 2017**

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 9.9%, from \$43,590,643 on 30 June 2016 to \$47,894,017 (compared with the fiscal year end low of \$25,557,594 on 30 June 2009). The increase in value was driven by strong market returns, as the combined investment portfolio earned a total return of 11.6% over the trailing year.

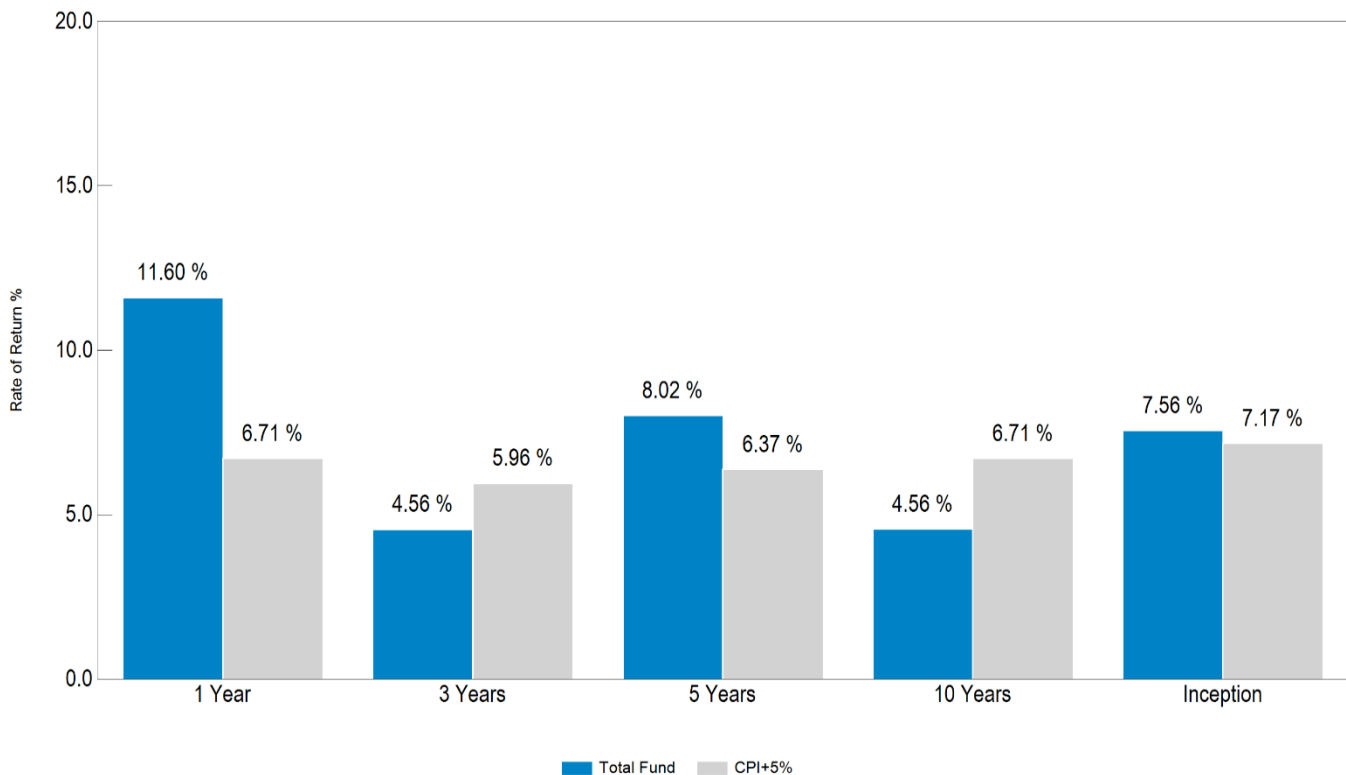
Total returns rebounded quite significantly after lagging through 2015 and into the first half of 2016. Returns across equities were most pronounced, as most equity indices posted double digit returns (as evidenced by the four columns towards the left of the chart). Fixed Income performance lagged, as the combination of low fixed income yields and modestly rising rates drove modest return depreciation.

The combined portfolio invests on a diversified basis across various asset classes. The performance in Figure 2 details out several of the asset classes that the portfolio invests in. Corresponding performance for the total combined portfolio is further detailed in Figure 2. Though the Investment Committee monitors and evaluates the merits of commodities as a potential investment for the combined investment portfolio, it has elected not to invest portfolio assets in commodities. Thus, the portfolio has no standalone direct investment exposure in commodities.

**Figure 2. One year returns (July 2016 through June 2017) of general market asset classes**



**Return Summary  
Ending June 30, 2017**



Of the portfolio's 2017 total market value of \$47,759,030, GSA's share amounted to \$29,850,013. See Figure 3, below.

GSAF's share of total investments amounted to \$17,909,017. Excluded from this latter figure is the Foundation's Pooled Income Fund (PIF) which was valued at \$46,536, an amount that was largely unchanged from the previous year's value of \$46,396.

<b>Figure 3. GSA/GSAF Investment Portfolio Balances, 2000-2017</b>									<b>Society only</b>
<b>Period</b>	<b>GSA</b>	<b>GSAF</b>	<b>Total</b>	<b>Percentages</b>		<b>CPI</b>	<b>Yr</b>	<b>CPI-adjust</b>	
<b>ending:</b>	<b>portion</b>	<b>portion</b>	<b>(excl PIF)</b>	<b>GSA</b>	<b>GSAF</b>		<b>CPI%</b>	<b>(constant \$)</b>	
6/30/2017	29,850,013	17,909,017	47,759,030	62.50%	37.50%	244.95	1.62%	23,221,728	
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**

Given current valuations across assets, it is possible that the portfolio's total rate of return may be below CPI + 5%. During FY2017, the Society's investment portfolio growth outpaced the long-term growth rate of 5% plus CPI, a stated rate that constitutes our portfolio's benchmark performance level. Given the degree of asset appreciation and corresponding elevated valuations across liquid asset classes, the Investments Committee has focused on considering alternative assets that offer attractive risk-adjusted returns and correlation benefits.

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

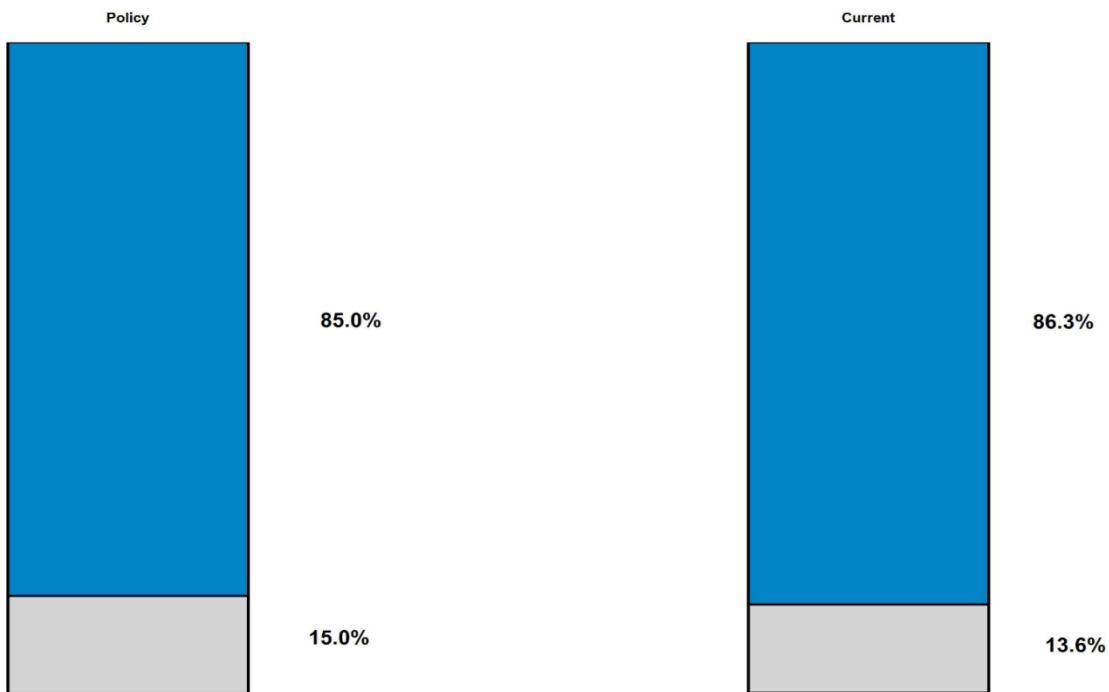
The Investment Committee establishes and adjusts strategic allocations within both asset class groups as well as asset classes, and determines lower and upper limits for each asset class in collaboration with the recommendations of our investment

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

The Investment Committee established new asset allocation ranges during fiscal year 2014, as reflected in Figure 4, below.

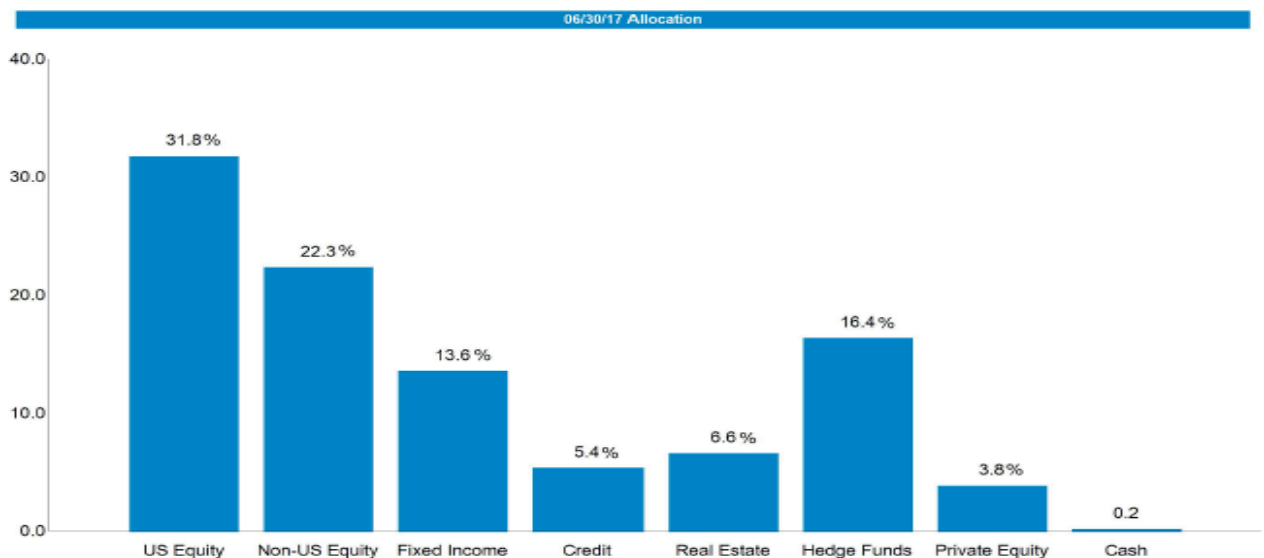
Allocations below are expressed as risk allocations. Blue columns represent allocations towards "Long-Term Growth" strategies. Long-Term Growth strategies are strategies that would be reasonably expected to perform well during a stable and growing economic environment. Gray columns represent allocations 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.

**Figure 4. Targets (strategic allocations) and Ranges for GSA and GSA Foundation Investments, June 2017**



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 5. Asset allocation for the portfolio as of 30 June 2017**



**Pooled Income Fund**

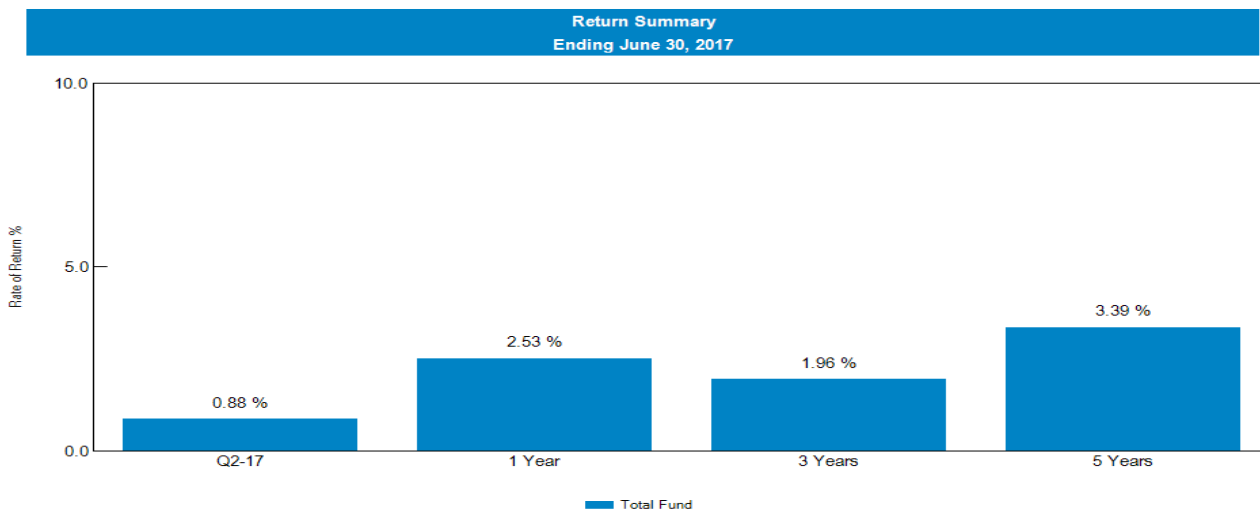
The Investments Committee also oversees the Pooled Income Fund (PIF). PIF is part of the GSA Foundation. Donors that gift substantial monetary contributions to the Foundation can receive quarterly cash payments of the interest income until death, at which time the original donation is assigned to and 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 largely due to transfers out. 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 over the years because no new funds are being received and transfers out to the Foundation as distributions to participants are being made.

Pooled Income Fund Portfolio Balances 2007-2017				
Fiscal Year	Market Value	Transfers to Foundation	Distributions to Participants	
2017	\$ 46,536		\$ 1,021	
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	\$ 143,250	\$ 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			

**Figure 6: Pooled Income Fund Investment Returns (trailing)**



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### **Highlighted Activities of the Investment Committee- FY 2016-17**

The past year has been focused on Private Capital strategies, including Private Equity Private Capital strategies. Beginning in the summer of 2017, the Committee elevated portfolio risk management strategies to the forefront.

At its June 2017 annual meeting in Denver, the Committee reviewed capital markets and the macro outlook as part of the Committee's annual asset allocation and portfolio performance review. That included discussing realistic major benchmarks, portfolio fees, and giving a special thank-you for outgoing Judy Parrish's long-term, professional service on the Committee. 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, including allowing for additional investments in private capital strategies, asset allocation ranges, investment pacing, and portfolio liquidity. Other quarterly Committee meetings included discussions and actions on redemptions, liquidation and replacement of certain investments, the Committee continues 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 (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 and geo-political 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 for FY 2017-18 are: Richard Berg (GSA Treasurer), Bruce Clark, Carl Fricke (Chair), Eric Henry, Tom Holzer (GSAF Treasurer), Hony Tarrall, Peter Lipman, Lisa Pratt (GSAF), Steve Farrell, and Thayer Tutt. Vicki McConnell, Jack Hess and Tom Haberthier participate as non-voting members.

### **In Conclusion**

All Investment Committee members, GSA and GSAF ex-officos, and our Investment Advisor Paul Schreder (Ellwood) deserve a particular thanks for exceptional service. Besides volunteering their valuable time, and providing insightful commentaries and well-founded independent opinions at quarterly meetings, they are often contacted at other times throughout the year for perspectives and advice.

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, 22 September 2017