

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

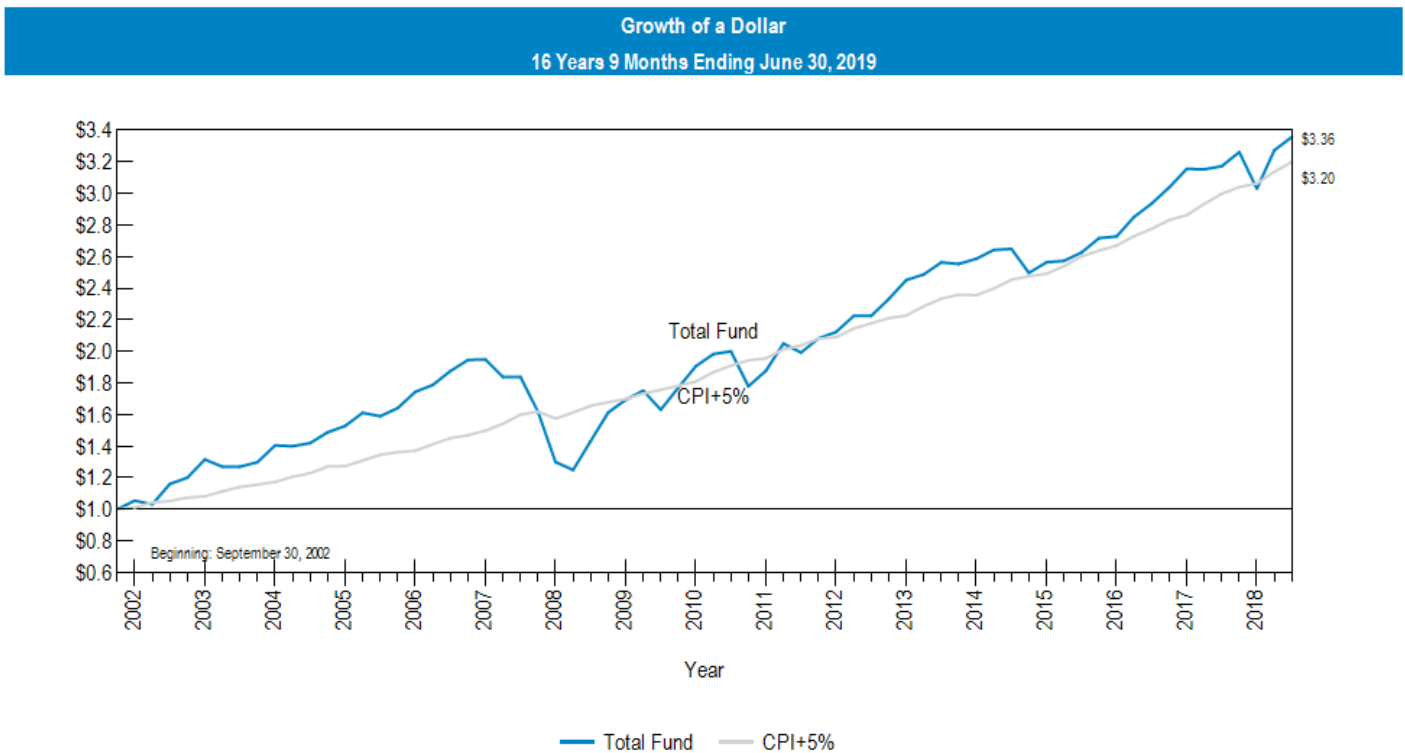
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**REPORT FROM THE INVESTMENTS COMMITTEE**  
**Fiscal Year 2019 (1 July 2018 – 30 June 2019)**

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 emphasizes publicly-traded Equity, which 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 with a focus on reducing the risk profile through diversification and the addition of private capital strategies.

**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 31 December 2002 (from Ellwood, June 2019)**



**Performance of the Investment Portfolio during FY 2018**

The market value of GSA/GSAF's combined investment portfolio, including those funds of the GSA Foundation that are combined with GSA's investments, increased approximately 8.8%, from \$51,860,655 on 30 June 2018 to \$56,429,675 on 30 June 2019 (which is over twice the size of the fiscal year end low market value of \$25,557,594 on 30 June 2009). As has been

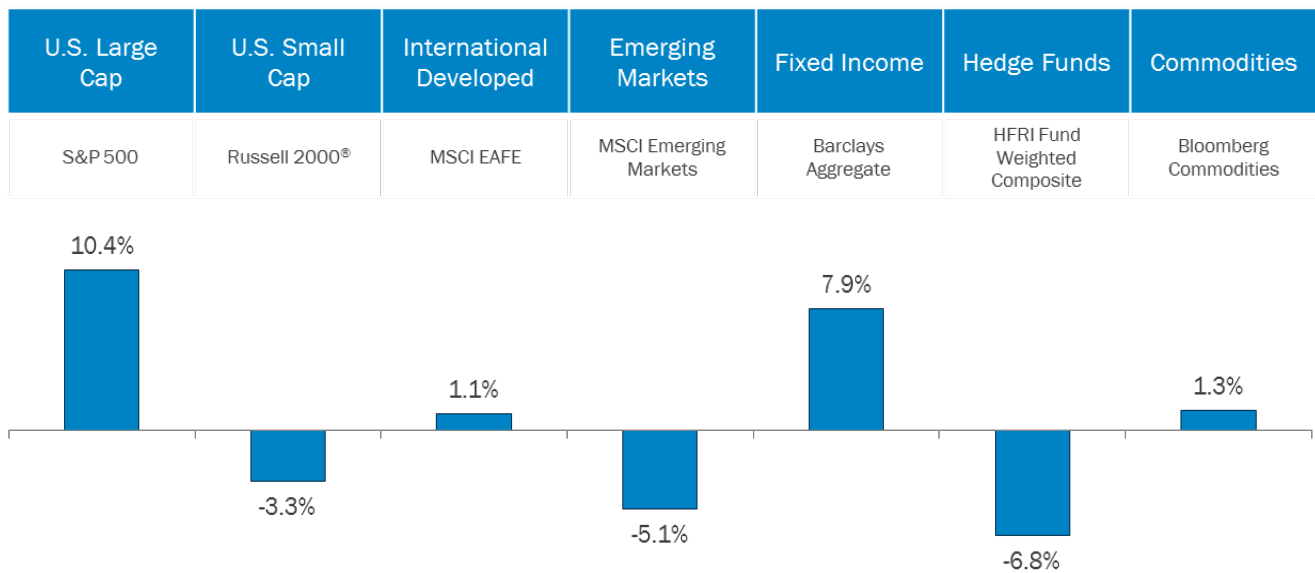
the case in previous years, the increase in value was driven by relatively strong market returns, particularly among large capital US equities.

Returns thus far in 2019 have been very strong, driven in large part by falling interest rates resulting from by a dovish Federal Reserve. Of interest, the Bloomberg/Barclays Aggregate (which is a widely used index for fixed income performance) earned a total return of 6.1% during the first half of 2019, as interest rates fell. Additionally, falling interest rates drove risk assets higher. Large capitalization US equities were among the largest beneficiaries, as the S&P 500 posted a total return of 18.5% during the first two quarters of 2019.

As noted below, trailing one year returns lag relative to the returns experienced thus far in 2019. The fourth quarter of 2018 was challenging, driven by concerns about hawkish Federal Reserve Bank policy, concerns about slowing global economic growth, and market worries about the impact of potential tariffs on global trade. For the trailing year, most other asset classes detailed below posted either muted or negative returns.

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 2.1. 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.

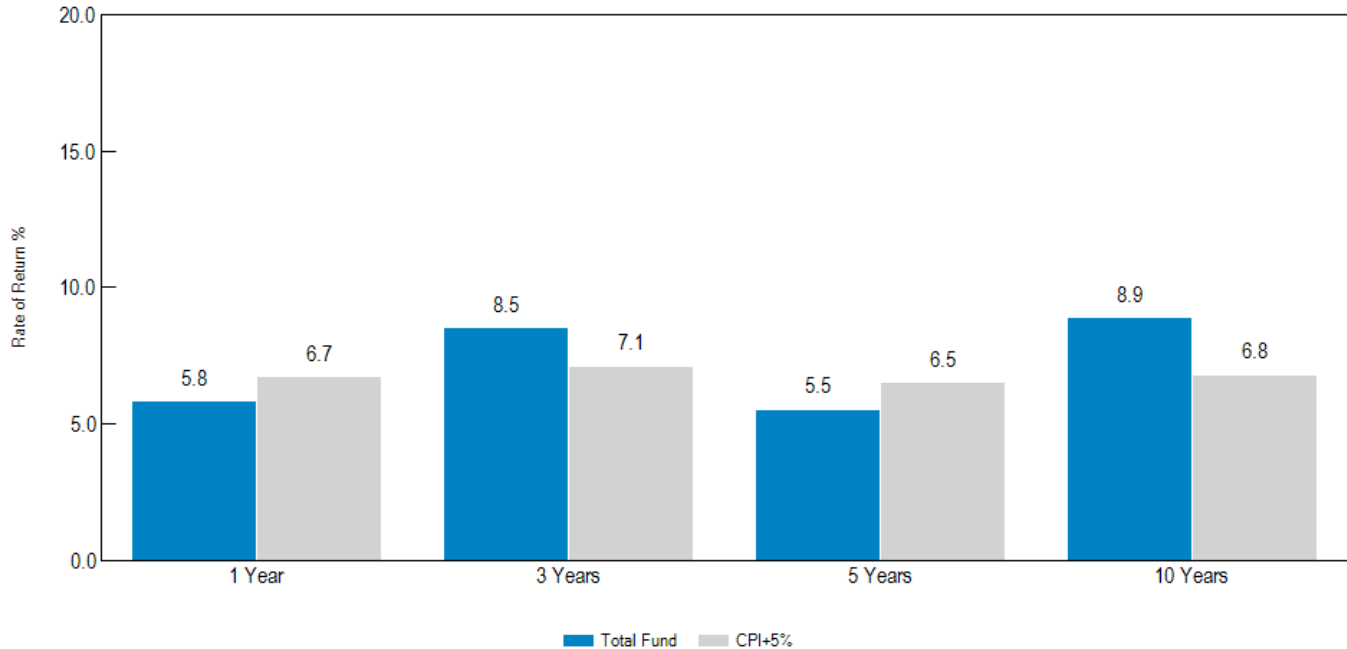
**Figure 2. One year returns (July 2017 through June 2018) of general market asset classes**



An orientation towards US equities and US fixed income has benefited portfolio returns. The Combined portfolio posted a 5.8% total investment return for fiscal year 2019, driven by the performance of large capitalization us equities and investment grade fixed income. Allocations to other assets lagged, but generally did not detract from portfolio returns.

**Figure 2.1: GSA/GSAF Investment Returns (trailing)**

**Return Summary**  
Ending June 30, 2019



Of the portfolio's 2019 total market value of \$56,425,602, GSA's share amounted to \$33,230,519. See Figure 3, below.

GSAF's share of total investments amounted to \$23,195,083. Excluded from this latter figure is the Foundation's Pooled Income Fund (PIF) which was valued at \$48,054, an amount that was largely unchanged from the previous year's value of \$46,536.

Period ending:	GSA portion	GSAF portion	Total (excl PIF)	Percentages		CPI	Yr CPI%	Society only
				GSA	GSAF			CPI-adjust (constant \$)
6/30/2019	33,230,519	23,195,083	56,425,602	58.89%	41.11%	256.14	1.64%	25,493,029
6/30/2018	31,296,876	20,339,624	51,636,500	60.61%	39.39%	252.01	2.88%	23,977,887
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

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**

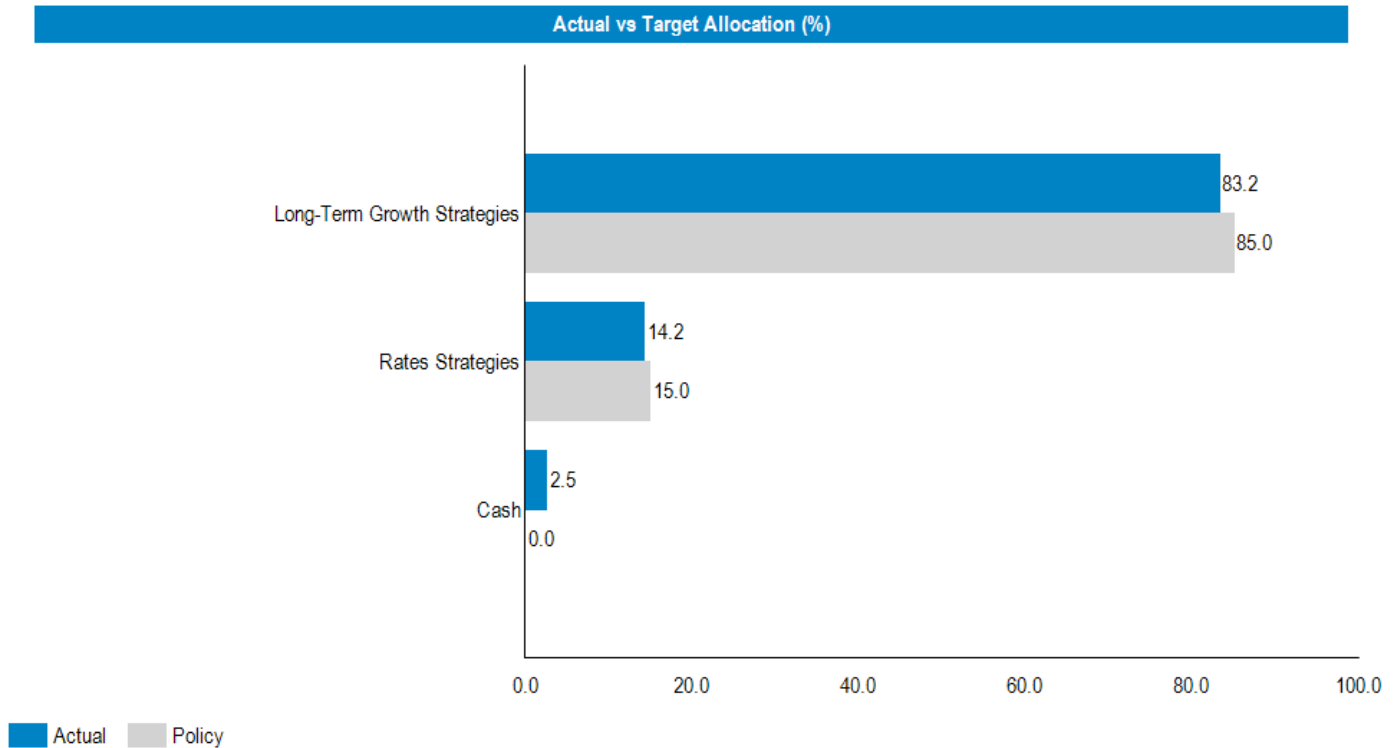
Given current valuations across assets, it is possible that the portfolio’s future total rate of return may be below CPI + 5%. During FY2019, the Society’s investment portfolio growth modestly trailed the long-term growth rate of 5% plus CPI, a stated rate that constitutes our portfolio’s benchmark performance 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 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.

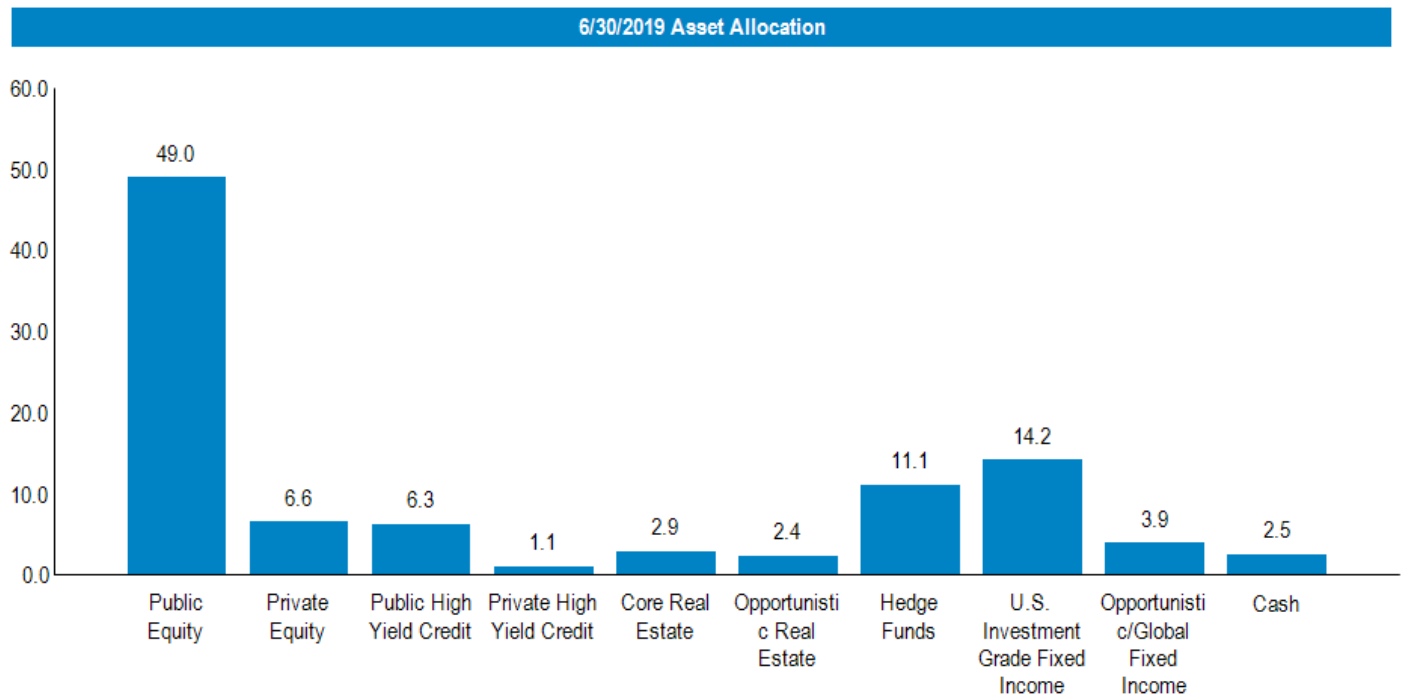
Allocations for GSA’s portfolio assets below are expressed as risk allocations within a well-defined range dictated by GSA’s investment committee policy. Long-Term Growth strategies are strategies that would be reasonably expected to perform well during a stable and growing economic environment. The bulk of this allocation is invested in marketable equities. Rates Strategies, which are generally comprised of Investment Grade Fixed Income, are expected to provide a ballast to performance during difficult economic and capital markets environments. The Current Allocation closely mirrors the Policy Index, with the largest difference attributable to a holding in cash.

**Figure 4. Targets (strategic allocations) and Ranges for GSA and GSA Foundation Investments, June 2019**



The portfolio allocates across several asset classes, as illustrated below. Public Equity, Private Equity, Public High Yield Credit, Hedge Funds, and U.S. Investment Grade Fixed Income, comprise the majority 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 2019**



**Pooled Income Fund**

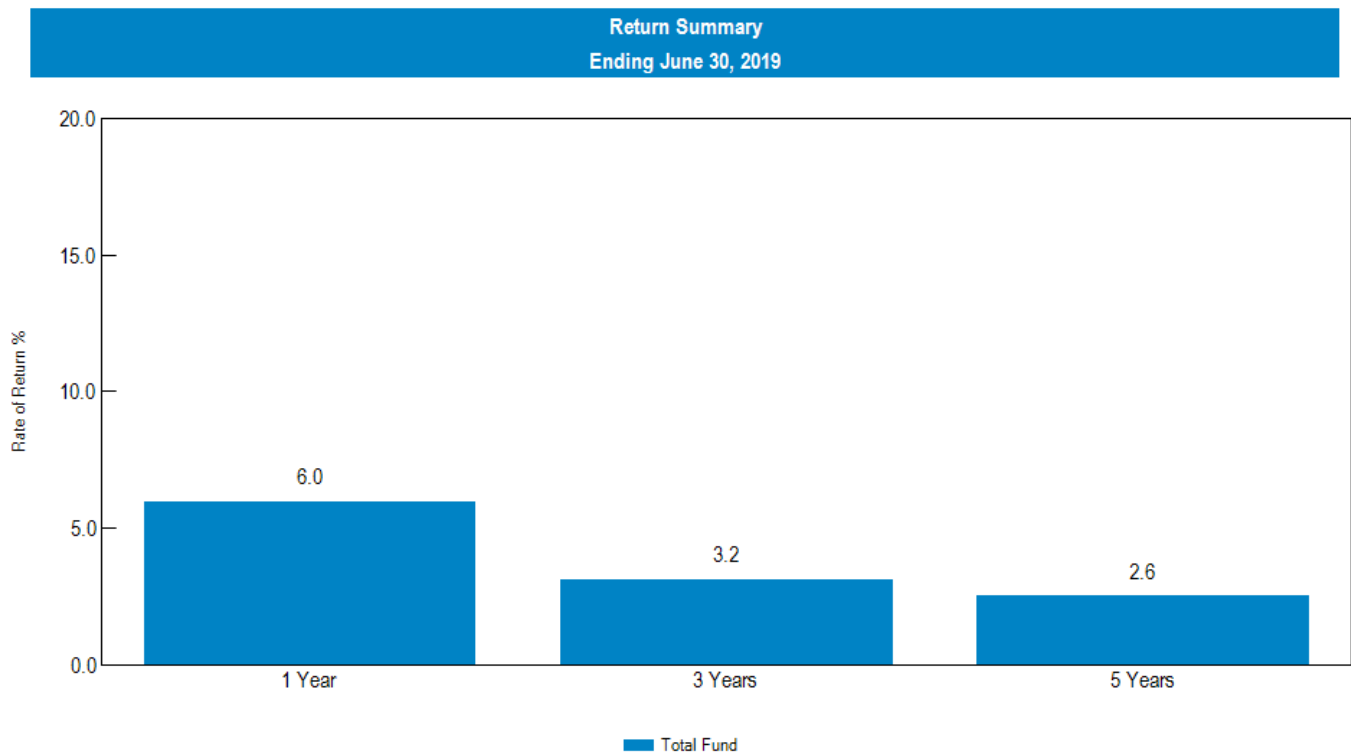
The Investments Committee also oversees the Pooled Income Fund (PIF). PIF is part of the GSA Foundation. Donors that gift substantial monetary contributions to the Foundation during their lifetimes can receive quarterly cash payments of the interest income until death, at which time the original donation 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 6.0% this past year. 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 participants pass away.

Pooled Income Fund Portfolio Balances 2007-2018			
Calendar Year	Market Value	Transfers to Foundation	Distributions to Participants
2018	\$ 48,054		\$ 1,344
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)



**Highlighted Activities of the Investment Committee- FY 2018-19**

The Committee sought to continue to reduce risk and diversify the portfolio towards Alternatives during the past fiscal year.

Specifically, the Committee adjusted allocations within the Total Portfolio in the following ways. The Committee:

- Modestly reduced US equities and retained cash for future liquidity needs
- Committed to an additional Private Equity fund and an additional Private Credit fund
- Invested approximately \$400,000 in two previously approved Private Capital strategies that focus on private lending and distressed credit

- Invested approximately \$300,000 in previously approved buyout and venture capital strategies
- did not need to make additional distributions to GSA in FY 2019 (for on-going operations and strategic commitments)

The Committee continues to review strategies in an effort to enhance the portfolio's risk / return profile, with an eye towards reducing the portfolio's risk profile given the committee's increasingly cautious economic, and therefore investment, outlook. In line with that view, though not technically enacted in Fiscal Year 2018 – 2019, the Committee approved the following during the Committee's strategic meeting in June 2019:

- Reducing hedge funds and floating rate credit in favor of investment grade fixed income
- Approving an additional Buyout Private Equity fund

#### **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 2018-19 are: Richard Berg (GSA Treasurer), Bruce Clark, Carl Fricke (Chair), Eric Henry, Tom Holzer (GSAF Treasurer), Hony Tarrall, Peter Lipman, Michel Manship (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-officios, and our Investment Advisor Paul Schreder (Ellwood) deserve 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 a fundamentally sound foundation and are being responsibly managed.

Respectfully submitted,

Carl Fricke, Chairman, GSA's and GSAF's Investments Committee, 18 September 2018