

Report of Investments Committee Chair

1 July 2007 – 30 June 2008

John E. Costa, Chair of GSA Investments Committee

This Report to Council summarizes the results for the GSA investment portfolio for fiscal year 2008, ending on 30 June 2008. During this period the Investments Committee held two face-to-face meetings, on 7 March 2008 and on 22 August 2008 in Denver, and in addition met via teleconference two times. A report for the first three quarters of FY2008 was submitted for the end-April Council meeting. So much has happened in the last two quarters of 2008 that this report will extend beyond the end of the 2008 fiscal year in order to be a bit more current.

PERFORMANCE OF INVESTMENT PORTFOLIO DURING PERIOD

At the end of the 2008 fiscal year, the total value of the GSA portfolio was \$32,239,925. In one quarter, ending on Sept. 30, 2008, the value of the portfolio declined \$3.5M to \$28,742,678. We do not have results for calendar 2008 year-end at this time, but we expect a similar decline in the fourth quarter as in the third. The S&P Index is on-track for a 2008 decline of about 33%, and we would expect the GSA portfolio to fare better than that, but not by much.

2008 has seen one of the most severe recessions world-wide since the Great Depression. Volatility has reached record levels, credit is still hard to obtain, unemployment is inching higher and higher, and consumer confidence is at all-time lows. The GSA portfolio is designed to be broadly diversified, and expected to gain a bit less than average during stock market bull runs, and lose less during bear markets, like now (Dec. 2008). Over the last 13 years, GSA has captured about 97.4% of the upside of our customized index, while realizing only 94.1% of the downside. Our investment advisor, Innovest Portfolio Solutions, has modeled our portfolio performance such that there is a 5% probability that a one-year modeled loss of -10.7% will be exceeded. We are going to be way over this threshold in calendar year 2008, so this will give you some idea of how poorly the financial markets have performed. It is the equivalent of the 1,000-year flood, whose annual probability is very small, but not zero.

The performance of the portfolio is affected by its diversification among cash, fixed income investments, and securities. The portfolio is diversified among different types of assets, consistent with the Investment Policy of the Society, as approved by Council. During FY2008, the Investments Committee further broadened the diversification of the portfolio by initiating an investment position in private equity, which provides additional diversification of the portfolio with its own unique risk characteristics. When combined with the rest of the portfolio, private equity should achieve the same level of return with less risk.

What should GSA do at this point in light of the terrible financial environment? First, we will not make any significant changes in the asset allocation, because we have worked very hard in the past to achieve a diversification that will sustain the Society over near-geologic timescales in financial circles – multiple decades. Second, we will study the current investing environment for new opportunities to increase returns. Third, we remain optimistic in the belief that the stock market will hit bottom while headlines are still distressing and economic fundamentals are weak – in short you can't predict the bottom, and you won't know it until it has come and gone, and recovery is underway. Finally, the Society and Foundation may have to tighten its belt for a while and rely less on draws from the investment portfolio for continuing support and new initiatives.

POOLED INCOME FUND

At the end of the third quarter in 2008, the Pooled Income Fund lost -0.13%. This is a far better result than the investment portfolio, which is to be expected as this fund is invested primarily (and appropriately) in fixed income securities, chiefly bonds and domestic and international real estate investments trusts. The principal in the Pooled Income Fund at the end of the third quarter 2008 was \$566,157.

OTHER ACTIONS OF THE INVESTMENTS COMMITTEE

At our spring meeting in Denver, the Investments Committee welcomed Hony Terrell to the committee. The Committee is constituted as follows:

- 5-8 Five to eight at-large members to be appointed by the Executive Committee. Recommendations for appointment shall come from the Committee on Investments. Such appointments shall be made from a list of qualified persons previously approved by Council. Normally new members of the committee will be appointed at the spring meeting of the Executive Committee.
- 1 GSA Treasurer *ex officio* voting member
- 1 GSA Foundation Board of Trustees Chair or designee *ex-officio* voting member
- 1 GSA Executive Director *ex officio*, serving an indefinite non-voting-term as Headquarters Liaison.
- Conferees as needed.

The GSA Executive Committee requested that the Investment Committee submit an expanded list of potential future members to serve on the Investment Committee. The Investment Committee will seek additional names to submit to the GSA Executive Committee in FY 2008-2009.

INVESTMENT PORTFOLIO
MARKET VALUE SUMMARY COMPARISON
JUNE 30, 2008 TO DECEMBER 31, 2008

Description		Market Value 6/30/2008	Market Value 12/31/2008
GEOLOGICAL SOCIETY OF AMERICA			
<u>Domestic Equities:</u>			
Vanguard Index Trust	VFINX	\$1,895,938	\$1,448,867
Allianz RCM Large Cap	DRLCX	5,271,979	3,793,027
Mainstay Equity Portfolio	ICA1Z	1,612,153	1,154,150
Mainstay Select Equity Portfolio	ICSLX	3,607,147	2,592,163
Longleaf Small Cap Fund	LLSCX	1,038,771	725,940
Munder Mid Cap Core	MGOYX	1,046,152	722,804
Total Domestic Equities		14,472,141	10,436,952
<u>International Equities:</u>			
American Beacon International Fund	AAIEX	1,292,446	901,499
Harbor International Fund	HAINX	1,306,951	828,219
Artisan International Fund	ARTIX	2,009,320	1,270,309
Total International Equities		4,608,716	3,000,027
<u>Domestic Fixed Income:</u>			
Pimco Total Returns	PTTRX	2,573,161	2,576,202
<u>Absolute Return Strategies:</u>			
Ironwood	XIRONGSA	1,926,408	1,481,371
Cadogan		1,859,630	1,654,389
Total Absolute Return Strategies		3,786,038	3,135,760
<u>Private Equity Portfolio</u>			
Powershare Exchange	PSP	1,092,690	-
Listed Private Equity	LPEIX	-	513,360
Portfolio Advisors (total commitment \$1,000,000)		180,758	261,375
Private Advisors (total commitment \$750,000)		123,962	151,057
Total Private Equity Portfolio		1,397,410	925,792
<u>Commodity Fund</u>			
Pimco Commodity Real Ret Strat Instl	PCRIX	2,391,062	1,036,580
<u>Bank Loan Fund</u>			
Eaton Vance Instl SR Floating Rate Fund	EIFRX	2,491,980	1,755,276
<u>Cash and Cash Equivalents:</u>			
Schwab Money Market Fund	MMF	517,422	542,818
Money Market Fund-GSA Holding		1,995	2,030
Total Cash and Cash Equivalents		519,417	544,848
TOTAL COMBINED INVESTMENTS		\$ 32,239,925	\$ 23,411,436