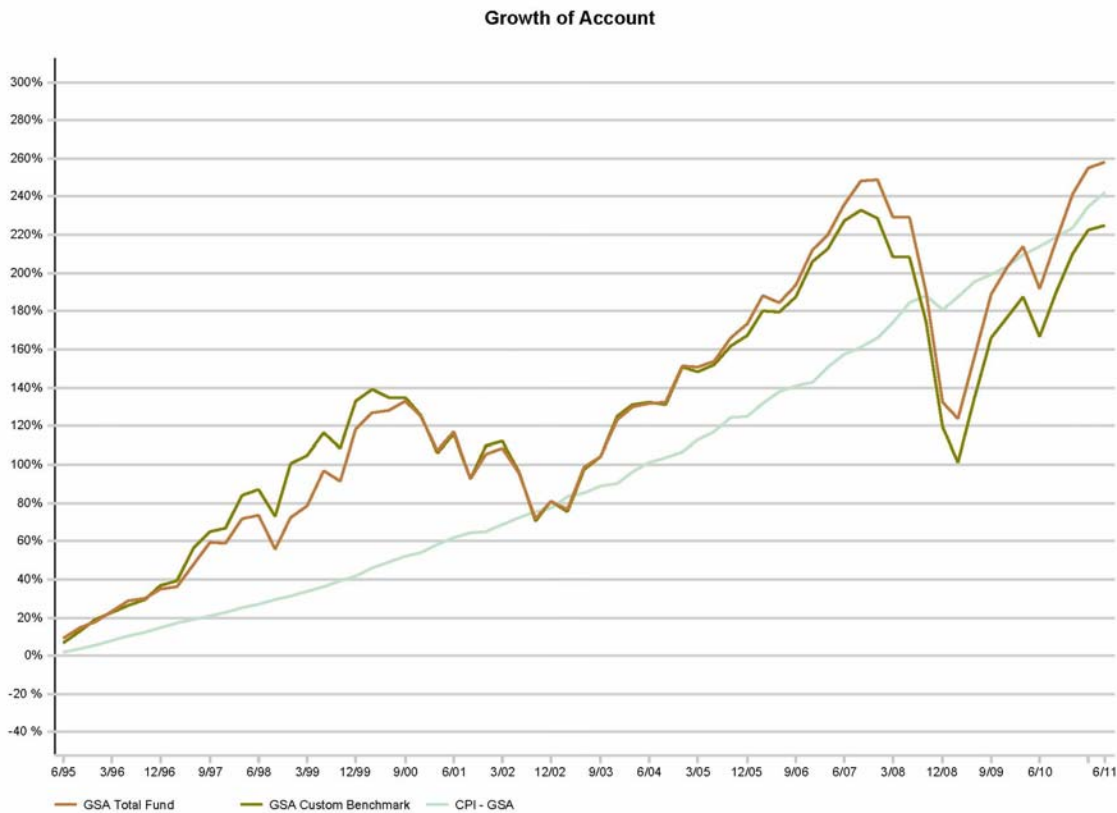
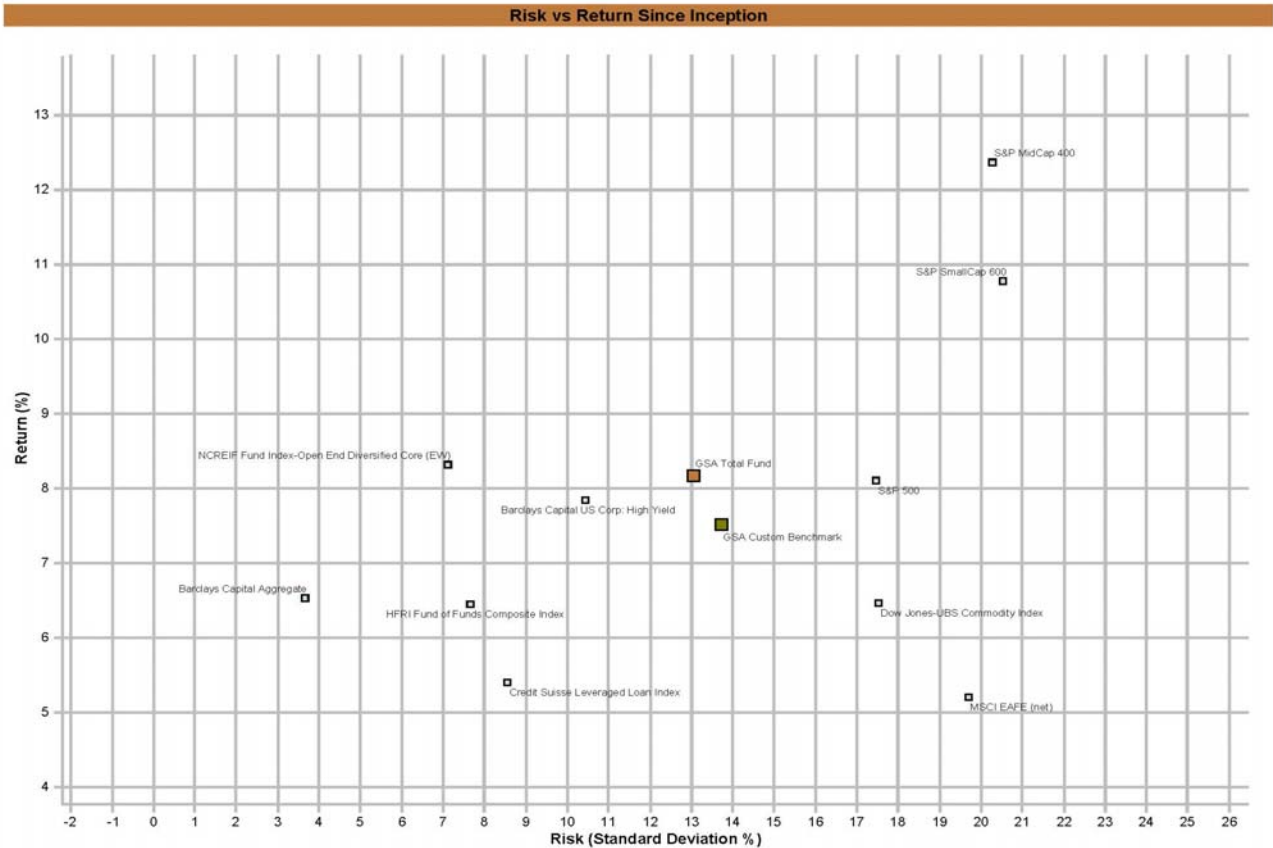


**GEOLOGICAL SOCIETY OF AMERICA/FOUNDATION  
REPORT OF THE INVESTMENTS COMMITTEE CHAIR  
Fiscal Year 2011 (1 July 2010 – 30 June 2011)**

The GSA/F 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. All of GSA/F's equities are in mutual funds, selected on the basis of long-term records of reward versus risk, in consultation with our investment advisor, *Innovest Portfolio Solutions* in Denver, Colorado. Innovest reports that the portfolio is a classically-balanced portfolio with roughly 60% invested in higher risk, higher reward products and the remainder in lower risk, lower reward investments. The GSA/F portfolio is currently modeled to provide a long-term rate of return equal to at least 5.0% more than inflation at a calculated level of risk (5% probability that one year loss of -16% to -19% will be exceeded, based on 2011 capital market assumptions).



**Figure 1A. Cumulative returns from the GSA/F portfolio compared with the goal of inflation (Consumer Price Index) plus 5.0% and with a custom index, March 1995 through June 2011, the timeframe in which Innovest has been GSA/F's investment advisors (from Innovest).**



**Figure 1B. Risk (measured by standard deviation) versus return for the GSA/F portfolio compared with the custom index and other indices (from Innovest).**

**Performance of the Investment Portfolio during FY 2011**

FY 2011 saw substantial, partial recovery of the portfolio’s total value after experiencing the adverse global economic situation and resulting severe declines in investment returns during the 2009 fiscal year. As of 30 June 2011, the value of the portfolio, which includes funds of both GSA and the GSA Foundation, totaled \$35,583,602 as recorded by our investment advisor, *Innovest Portfolio Solutions*, up from \$29,436,122 at end of the prior year (Table 1A). With adjustments, for capital increases (mainly bequests to GSAF) and draws for Society activities, the overall investment portfolio return was a positive 21% in fiscal year 2011. Of the 2011 market value, GSA’s investments amounted to approximately \$23,126,110 (up from \$19,446,288 as of 30 June 2010). The Foundation’s investments amounted to \$12,457,492 (up from \$9,989,834 as of 30 June 2010). Included in this latter figure is the Foundation’s Pooled Income Fund that had \$641,396 on 30 June 2011 (up from \$620,041 on 30 June 2010). The total asset amount split between that proportioned to GSA as compared to GSAF is approximately 2/3 and 1/3.

Having broad diversity in the GSA/F portfolio was beneficial; the portfolio continued to outperform its custom index benchmark in these challenging times (Table 1B), showing the

benefits of active investment management.

**Table 1A. GSA/GSAF Investment Portfolio Balances, 2000-2011**

Period	GSA	GSAF	Grand	Percentages		CPI	Year	Society only CPI-adjust (constant \$)
				GSA	GSAF			
Ending:	Portion	Portion	Total				CPI%	
6/30/2011	23,126,110	11,816,096	34,942,206	66.18%	33.82%	221.6	1.65%	18,495,534
6/30/2010	19,446,288	9,369,792	28,816,080	67.48%	32.52%	218	0.90%	15,121,143
6/30/2009	17,296,931	7,686,931	24,983,862	69.23%	30.77%	215.7	2.60%	13,133,952
12/31/2008	16,762,247	6,649,188	23,411,435	71.60%	28.40%	210.2	0.10%	12,942,925
12/31/2007	26,173,958	7,373,390	33,547,348	78.02%	21.98%	210	4.10%	22,366,963
12/31/2006	24,381,362	6,595,579	30,976,941	78.71%	21.29%	201.8	2.50%	21,483,232
12/31/2005	22,139,506	5,784,057	27,923,563	79.29%	20.71%	196.8	3.40%	19,787,190
12/31/2004*	21,344,918	4,863,221	26,208,139	81.44%	18.56%	190.3	3.30%	19,668,465
12/31/2003	19,320,372	4,382,063	23,702,435	81.51%	18.49%	184.3	1.90%	18,284,238
12/31/2002	16,666,802	3,550,051	20,216,853	82.44%	17.56%	180.9	2.40%	15,974,319
12/31/2001	20,470,228	4,037,352	24,507,580	83.53%	16.47%	176.7	1.60%	20,157,440
12/31/2000	25,880,125	4,547,493	30,427,618	85.05%	14.95%	174	--	25,880,125

**Table 1B: GSA/GSAF Investment returns**

	<u>One year</u>	<u>Last 3 years</u>	<u>Last 5 years</u>
GSA/F Fund	22.6%	2.8%	4.7%
Custom Index	21.8%	1.8%	3.1%
CPI + 5.0%	9.0%	6.4%	7.5%

### Current Investment-Asset Classes and Allocations

Late during 2009-2010 fiscal year, a modest position was added in “Direct Real Estate Investments”. This recommendation was approved by Council in April 2010, but the investment change was not made until early July 2010 and thus is incorporated in this past fiscal year’s results.

GSA Council and GSAF authorized the Investment Committee to adjust strategic allocations within both asset class groups and asset classes and to determine lower and upper limits for each asset class, in collaboration with the recommendations of our investment advisor.

Although post the close of the 2010-2011 fiscal year, it is important to report that in August 2011 the Committee's investment advisor recommended, and subsequent action was approved by the Committee, rebalancing the portfolio due to the extraordinary volatility and declines that had occurred the prior several weeks. The yield on the 10-year Treasury had fallen from 2.94% in mid-July to 2.23% in mid-August. As a result of the volatility, some equities in the portfolio declined in value as a percent of the total portfolio, while some fixed income in the portfolio increased in value as a percentage of the total portfolio. Although the values were not outside of the +/-3% rebalancing range, the rebalancing was undertaken to benefit from the volatility and market declines by selling certain appreciated fixed income mutual funds and buying certain depreciated equity mutual funds. This action also helped maintain asset allocations within the portfolio's strategic asset allocations limits.

**Table 2A. Distribution of GSA's and GSA Foundation's investments by asset-class group (from Innovest's 4<sup>th</sup> Quarter 2010 Portfolio Review) as of 31 December 2010.**

<b>Asset-Class Group*</b>	<b>Lower limit</b>	<b>Upper limit</b>	<b>As of 30 June 2010</b>
<i>Asset Class</i>			
<b>Equity Funds</b>	<b>40%</b>	<b>65%</b>	<b>53.83%</b>
<i>Domestic large cap equity</i>	21%	31%	28.39%
<i>Domestic mid-small cap equity</i>	5%	15%	11.66%
<i>International equity</i>	9%	19%	13.78%
<b>Fixed income &amp; cash-equivalents</b>	<b>15%</b>	<b>35%</b>	<b>24.66%</b>
<i>Core fixed income</i>	10%	20%	13.34%
<i>High-yield bond funds</i>	0%	10%	5.23%
<i>Bank-loan funds</i>	3%	13%	6.09%
<i>Cash and cash-equivalents#</i>			\$784,711
<b>Alternative investments</b>	<b>10%</b>	<b>30%</b>	<b>21.52%</b>
<i>Absolute return (hedge fund-of-funds)</i>	5%	15%	12.24%
<i>Commodity funds</i>	0%	8%	4.87%
<i>Private-equity funds</i>	0%	9%	4.41%
<i>Real-estate investment funds*</i>			0

Footnotes:

\* The asset class of real-estate investment funds was added by Council, and funds were transferred to this asset class after 30 June 2010.

# Cash and cash-equivalents are not included in the Innovest calculation of percentages.

**Table 2B. Distribution of GSA's and GSA Foundation's investments by asset-class group (from Innovest's 4<sup>th</sup> Quarter 2010 Portfolio Review) as of 31 December 2010**

<b>Asset-Class Group</b>	<b>Lower limit</b>	<b>Upper limit</b>	<b>As of 31 Dec 2010</b>
<i>Asset Class</i>			
<b>Equity Funds</b>			
<i>Domestic large cap equity</i>	21%	31%	26.09%
<i>Domestic mid-small cap equity</i>	5%	15%	10.06%
<i>International equity</i>	9%	19%	14.09%
<b>Fixed income &amp; cash-equivalents</b>			
<i>Core fixed income</i>	10%	20%	14.73%
<i>Floating-rate corporate loans</i>	3%	13%	7.10%
<i>High-yield bond funds</i>	0%	9%	4.29%
<i>Cash and cash-equivalents#</i>			\$213,644
<b>Alternative investments</b>			
<i>Absolute return (hedge fund-of-funds)</i>	5%	15%	10.79%
<i>Commodity funds</i>	0%	10%	3.42%
<i>Private-equity funds</i>	0%	9%	3.71%
<i>Real-estate investment funds</i>	1%	11%	5.72%

**Table 2C. Distribution of GSA's and GSA Foundation's investments by asset-class group (from Innovest's 2<sup>nd</sup> Quarter 2011 Portfolio Review) as of 30 June 2011**

<b>Asset-Class Group</b>	<b>Lower limit</b>	<b>Upper limit</b>	<b>As of 30 Jun 2011</b>
<i>Asset Class</i>			
<b>Equity Funds</b>			
<i>Domestic large cap equity</i>	21%	31%	25.69%
<i>Domestic mid-small cap equity</i>	5%	15%	10.78%
<i>International equity</i>	9%	19%	14.22%
<b>Fixed income &amp; cash-equivalents</b>			
<i>Core fixed income</i>	9%	19%	14.32%
<i>Floating-rate corporate loans</i>	3%	13%	6.91%
<i>High-yield bond funds</i>	0%	9%	4.24%
<i>Cash and cash-equivalents#</i>			\$481,556
<b>Alternative investments</b>			
<i>Low-volatility hedge fund</i>	5%	15%	10.51%
<i>Commodity funds</i>	0%	10%	3.29%
<i>Private-equity funds</i>	0%	10%	4.29%
<i>Real-estate investment funds</i>	1%	11%	5.77%

Footnotes:

# Not included in the Innovest calculation of percentages.

## **Pooled Income Fund**

The Investments Committee also oversees a Pooled Income Fund, which 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 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. As of 6/30/11, the Pooled Income Fund consisted of a core bond portfolio (47%), defensive fixed income (24%), high yield (4%), floating rate corporate loan (8%), real estate investment trusts (8%), and energy infrastructure Master Limited Partnership (6%).

Last year the Pooled Income Fund had a total income of 9.35%, which was 83% greater than the goal of CPI plus 3%. Approximately \$5,000 was distributed in the 4<sup>th</sup> quarter of 2010 and about \$8,000 (total) in the 2010 calendar year.

## **Changes to Investment Portfolio Management**

In the February 2011, the Investment Committee requested, and both the GSA Council and GSAF approved, “Guidelines for Managing the Investment Portfolio for the Geological Society of America, Inc and the Geological Society of America Foundation, Inc”. The purpose of these Guidelines is to inform the Investment Committee of its duties and responsibilities for investing the funds held by GSA and GSAF.

## **Changes to the Assessment Process of Underperforming Assets**

The Committee recognized that several of the portfolio’s investments were underperforming its investment advisor’s custom benchmarks for extended periods of time (years). At the Committee’s May 2011 meeting, Innovest proposed a new procedure for assessing current versus life-to-date risk/return relationships with respect to underperforming assets whereby it:

1. Analyzes the trailing three-year time frame
2. Identifies all underperforming assets
3. Produces a search book with alternative candidates to the underperforming assets
4. Presents the search book to the Committee at its next meeting for discussion

The Committee adopted this change and began using it for its Q3 (September 2011) meeting.

## **Independent Portfolio Review**

Recognizing that the portfolio had not been reviewed by an outside party for more than four years, the Committee decided to undertake that task beginning in the spring of 2011. That review and internal Committee discussions, is continuing. A key component of this informal review is to help the Committee think about asset allocation in the context of performance, risk, time horizons, liquidity, asset management, cost and investment policy, and to suggest how the Committee may improve portfolio management.

The review and constructive comments are focused on: a) asset classes and asset allocations, b) investment recommendations or alternatives with regard to selection of specific assets within those classes, and c) cost.

Several themes derived from the discussions including: processes for managing risk and uncertainty in today's volatile marketplace and globally-stressed economic conditions, risk tolerance versus return, the product search process, comparative costs for index funds versus active management, and portfolio management styles. No decisions have been reached at the time this report was prepared.

## **Continuing Issues and Potential Concerns**

Throughout the past fiscal year, and especially since the 30 June 2011 close, the Committee has been very concerned and is actively involved in assessing risk and performance going forward given the current and expected economic outlook. Domestic and international capital markets, economies, governments and businesses have been extraordinarily volatile, and uncertainty has increased. Many parts of the US (as is the case for quite a number of other countries) economies are running at stall speed, flat-lined or declining. The potential for decreased investment returns in coming years is real and likely longer term (many years). Sustained unfavorable conditions would have significant impacts on investment returns and could impact spending draws by the Society.

Some of the major issues that can or will impact the portfolio's investment returns include very large and growing government deficits with continued borrowing, high unemployment, distressed real-estate markets, financial contagion in Europe/sovereign risks, US credit downgrade, low or flat GDP growth, increased energy and commodity prices, reduced incomes and rising taxes/fees, escalating health care costs, unsustainable governmental entitlement/benefit programs, public discontent and uncertainty, and more.

The Committee, along with its investment advisor, is maintaining vigilant outlook, actively assessing risk and continuously monitoring portfolio performance, to respond to today's dynamic and challenging economic landscape.

## **Activities of the Investment Committee during FY 2011**

The Investments Committee meets four or more times a year to review the financial and operational performance of the portfolio, consider the recommendations from our investment consultants, and consider updates and changes to the investment portfolio. The Committee meets at least one time in person with the balance of its formal meetings conducted using web-based conference calls in order to reduce costs. Carl Fricke completed his initial term as Chair of the Investment Committee in 2011. In its February meeting the Committee reappointed Carl Fricke as Chair for FY2012 and approved several other members to continuing terms; one member resigned in 2011 for personal reasons.

In November 2010 the Committee adopted its investment advisor's recommendations to invest one-quarter of the Pooled Income Fund portfolio in opportunistic fixed income, putting half of that investment into two different strategies.

In February 2011, the Committee recommended approval of "Guidelines for Managing the

Investment Portfolio for the Geological Society of America, Inc and the Geological Society of America Foundation, Inc” and sent it to GSA and GSAF for consideration. Large Cap Growth Mutual Funds, International Value Equity searches and reviews were made. A Five-Year Outlook, and Asset Allocation Mixes were discussed, resulting in sales, purchases, retention and realignment of certain assets.

At its May 2011 meeting, the Committee adopted a new procedure for monitoring, assessing and dealing with underperforming assets (described in Changes to the Assessment Process of Underperforming Assets, above). The Committee scaled down the Pooled Income Fund risk by adding a low duration fixed income strategy, invested in an energy infrastructure Master Limited Partnership, and adjusted the allocation mix (by 2-4%) of the Pooled Income Fund.

Respectfully submitted,

Carl Fricke, Investments Committee Chair