GEOLOGICAL SOCIETY OF WASHINGTON
INVESTMENT POLICY

Adopted by Council November 1, 2017

Introduction

This Investment Policy provides guidelines for the investment of funds held by the Society and use of the proceeds therefrom. The invested funds are the Endowment Fund and the Bradley Fund. A third fund, the General Fund, accounts for the operations of the Society. The balance of the General Fund is held in a checking account. The bulk of the assets of the Endowment and Bradley Funds are held in investment accounts, but a portion of each of these invested Funds is held in the Society's checking account.

Purpose of the Invested Funds

The W.H. Bradley Memorial Fund was established in May, 1979. The purpose of the Fund, as stated in the original solicitation for contributions, was that the "proceeds" would "be used to support a W.H. Bradley Prize(s) for the best paper(s) of the year or for such other award or activity bearing his name that may later prove desirable." In subsequent years, this Fund has also supported the Great Dane prize for the best informal communication and part of the costs of an annual Bradley lecture.

The Endowment Fund was established in November, 1989. The Council minutes creating this Fund indicated that the "interest on this fund would be used to augment the General Fund in running the meetings of the Society, but the principal would not be touched." The purpose of this Fund is to ensure the future financial health of the Society.

Procedures

The following procedures should be followed to ensure that the investments continue to grow and continue to provide enough return that the Bradley and Endowment Funds can always be used for their intended purposes:

1) The Finance Committee will meet to consider the financial health of the Society and review its investments at least twice every year, once preceding the fall Council meeting and once preceding the spring Council meeting (meetings may be by electronic means if no substantive discussions are anticipated). The evaluation of the investments will include comparing their total returns to total returns of equivalent, alternative investments and to the investment objectives. Based on the results of these reviews, the Finance Committee may make recommendations for changes of investment strategy to Council; any changes that are made must first be approved by Council.
2) Contributions to the Endowment and Bradley Funds are solicited on the basis that they will be added to the Fund balance so that their "interest" or "proceeds" can be used to support the Society in the future. (The terms "interest" and "proceeds" are used here as equivalent to net total return, which equals interest plus dividends plus

realized and unrealized capital gain minus fees.) The Society solicits the contributions on this basis, so is bound by it. Ideally the balances of the Bradley and Endowment Funds should increase each year, at a minimum, by an amount representing the contributions received for that year. In addition, so that these two Funds can continue to support the Society in the future, the balance of each Fund should increase each year, at a minimum, by an amount representing inflationary growth (policy established by Council in autumn 2000, reaffirmed by Council in spring 2007).

3) In order to ensure that 1) all contributions to the Bradley and Endowment Funds have been added to the relevant Fund, and 2) each of these Funds is growing at a rate at least equal to the rate of inflation, the Treasurer will calculate a Minimum Required Balance (MRB) that fulfills these constraints for each of these Funds. Procedures for calculating the MRB of each Fund are given in the Appendix. The difference between the actual balance and the MRB provides a metric for evaluating the health of the Funds. If the actual balance of a Fund is greater than the MRB, the Fund is growing at a rate greater than that required to fulfill the two constraints because of appreciation of its investments. If the actual balance of a Fund is less than the MRB, the Fund is not growing at a rate that fulfills the constraints because the investments are performing poorly and/or too much is being expended. If the actual balance of a Fund is less than its MRB, expenditures from the Fund should be minimized until appreciation of the Fund's investments again yields an actual balance that exceeds the MRB, and Council should balance the General Fund budget by means other than transfer of monies from that invested Fund (such as decreasing number of meetings, soliciting contributions to the General Fund, or increasing dues).

4) If, at any point, the actual balance of the Bradley or the Endowment Fund is less than the total of contributions received during the life of that Fund, there must be no more expenditure from that Fund. In this situation, there should be an attempt, by soliciting contributions to the General Fund, to increase the General Fund balance so that it compensates for the total of the deficits in the two invested Funds. If expenditures from an invested Fund in this situation are necessary because there are no alternatives, Council must justify the expenditures in light of the factors governing prudent management in the most recent version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

5) The total of contributions received during the life of an invested Fund constitutes its permanently restricted balance and the difference between the actual balance of the Fund at any given time and its total of contributions as of that time constitutes its temporarily restricted balance.

6) The sums of contributions for the Bradley and the Endowment Fund as of the end of fiscal year 2001 are the starting points for adoption of the policy stated above and are the starting MRBs for the Funds (for the Bradley Fund, $22002; for the Endowment Fund, $32024).

7) If the actual balance of the Bradley or Endowment Fund at year end is greater than its MRB by no more than 25%, the transfer of monies from that Fund to the General Fund should not, ~~in any given year,~~ exceed ~~4~~3% of the total balance of the Fund from which the transfer is derived. If the actual balance at year end is greater than 25% but not more than 50% greater than its MRB, the transfer should not exceed 4% of the

total balance. If the actual balance is greater than 50% of its MRB, then these limitations do not apply, but amounts transferred should be no greater than is necessary to maintain the General Fund at the target range expressed in item 8) below. These~~is~~ limitations ~~is~~ are intended to prevent depletion of the entire expendable portion of a Fund's balance in a single year, thus preserving some monies for future use, while at the same time guarding against excess accumulations in the Bradley or Endowment Funds. Exceptions are possible in the case of unusual, one-time expenditures.

8) The desired balance for the General Fund at the end of each fiscal year should be between 50% and 70% of the annual expenses of the General Fund for that year. If the General Fund balance is below this target range, transfers from the Bradley and Endowment Funds should be made to adjust the General Fund balance to the desired level, subject to the limitations on such transfers cited in items 3), 4) and 7) above. Should the General Fund balance at the end of a fiscal year be above the target range, even if there are no transfers made from the invested Funds, adjustment of the Fund balance to within the target range shall be made at the end of the following fiscal year(s) by adjusting the amounts transferred from the invested Funds.

9) The Treasurer will hold the contributions to the Endowment and Bradley Funds in the checking account at least until the end of the calendar year following the end of the fiscal year in which such contributions were received, although these contributions will be assigned to the MRB and actual balance of the relevant invested Fund as they are received. At the end of the fiscal year, any transfers from the Bradley or the Endowment Fund to the General Fund will be taken from the amounts held in the checking account unless the amount in the checking account does not cover the total transfer. The Endowment and Bradley contributions remaining in the checking account through the fall, along with the General Fund balance, will be used as a cushion to cover General Fund expenses until most dues payments have been received, at the end of January. At the time dues notices are sent out in the fall, the Treasurer will evaluate the checking account balance (the desired amount is at least 50% of the total budgeted expenses for that fiscal year); any excess that represents assets of the Bradley and Endowment Funds may be transferred to the invested accounts of those Funds early in the following calendar year.

10) At the first fall Council meeting, the Treasurer will propose a budget for the new fiscal year and report on the actual balances and MRBs of the Bradley and Endowment Funds.

11) Every year, the Finance Committee will compare the growth of the MRBs of the Bradley and Endowment Funds to the growth of the expenses of the Society. If the Society's expenses have been increasing more rapidly than the MRBs, the Finance Committee will report this situation to Council and may recommend appropriate measures to Council to ensure that the two invested Funds can continue to support Society activities.

12) The Finance Committee will review this policy every two years. If changes are deemed advisable, the Committee will recommend such changes to the Council for approval.

13) Signatories to the checking account are the current President and Treasurer. Signatories to the investment accounts are the President, Past President, Council Secretary, and Treasurer. Only one signature is required for withdrawals.

Investment Objectives

The Endowment and Bradley Funds should be invested so that the MRB of each Fund increases with time, thus ensuring that the Funds remain able to contribute to support of Society programs, and their ability to support the Society is neither eroded by inflation nor adversely affected by market volatility. Recognizing that short-term market fluctuations may cause variations in account performance, the long-term target for each Fund will be that its total return should exceed the increase in the Consumer Price Index for all Urban Consumers (CPI-U) by at least 3% annually, averaged over a ten-year period.

Investment Guidelines and Asset Allocation Parameters

The Endowment and Bradley Funds should be invested in moderately conservative accounts, to ensure growth over time and to minimize large losses during economic downturns. Investments are to be in mutual funds rather than individual securities or tangible property. Diversification is an important consideration because it reduces volatility and possible loss of principal over short periods of time. The total portfolio of each Fund should be classified as a moderate-allocation balanced portfolio and should include cash, fixed income (or bond) investments, and stocks; the proportion of stocks should generally be equal to or greater than the proportion of bonds. Note: Filters applied in selection of moderate-allocation balanced mutual funds in 2010 were as follows: rated five-star by Morningstar; net total return equal to or greater than the average of similar mutual funds; risk equal to or lower than the average of similar mutual funds; consistent performance through rising and falling markets; relatively low volatility; relatively low expense ratio; assets greater than $1 billion; relatively diverse holdings.

Appendix – Calculation of the Minimum Required Balance

The Minimum Required Balance (MRB) of the Endowment and Bradley Funds will be determined throughout each fiscal year and will be the larger of: 1) the MRB of the Fund at the end of fiscal year 2001 multiplied by the value of the Consumer Price Index for All Urban Consumers (CPI-U) as of time of determination of the MRB divided by the CPI-U at the end of fiscal year 2001; and 2) the prior year's MRB plus the contributions received as of the time of determination of the MRB. An arithmetic expression of this calculation is as follows. Let $MRB_{[n]}$ represent the new Minimum Required Balance, $MRB_{[n-1]}$ represent the Minimum Required Balance at the end of the previous fiscal year, and $MRB_{[o]}$ represent the Minimum Required Balance at the end of fiscal year 2001. Let $CPI_{[n]}$ and $CPI_{[o]}$ represent the value of the Consumer Price Index for All Urban Consumers (not seasonally adjusted) at the time of determination of the MRB and at the end of fiscal year 2001, respectively. Let $C_{[n]}$ represent the value of contributions to the Fund since the end of the previous fiscal year. Two calculations will be made, as follows: 1) $MRB_{[n]} = (MRB_{[o]} \times CPI_{[n]}/CPI_{[o]})$; and 2)

$MRB_{[n]} = MRB_{[n-1]} + C_{[n]}$. The new MRB will be the larger of the two calculated values of $MRB_{[n]}$.