OKLAHOMA CITY
COMMUNITY FOUNDATION
Helping you help the community

2004-05 Investment *Performance* Report

Fall 2005

Evolution of Investment Structure is Reflected in Asset Growth Over the Past 35 Years

A prudent investment structure has been in place at the Oklahoma City Community Foundation since its founding in 1969. While the specifics have altered over the past 35 years, the use of investment professionals has played a key role from the start. Below is a historical recap of the organization's investment strategies.

The oldest and most successful community foundations in the country – Chicago, New York and Cleveland – were started in the early 1900s out of bank trust departments. While banks were able to provide customers with sound investment and management services, they relied on distribution committees to fulfill the trusts' charitable intent. When the Oklahoma City Community Foundation was established in 1969, the Trustees utilized a similar philosophy and created a Fiscal Committee comprised of local bank presidents who served as investment professionals. The purpose of this initial strategy was twofold: one, it involved the trust departments in the early development of the organization and second, it took the investment decisions out of the hands of the Trustees and placed it with professionals.

Between 1969 and 1997, the Oklahoma City Community Foundation witnessed an increase in assets from $45,000 to $248.7 million. The Trustees, under George Records' leadership, hired investment consultants James Hotchkiss and Associates in 1990. In addition, reporting and performance expectations were strengthened and an investment policy and guidelines were adopted to define standards of performance. A long-range plan adopted in 1997 directed that the Trustees review the investment strategy and adopt standards appropriate for sustained growth. Continued on Page 3

The Historical Growth of Total Assets: 1969-2005

Diversified Investment Structure Proves Effective

Our Investment Committee chooses style specific investment managers through a national search in a thoughtful and pragmatic process. But even before the manager search begins, the committee determines allocations of funds to different asset classes. The first cut occurs in the amount allocated between equities and fixed income securities. Once the percentage allocation to equities has been reviewed, specific investing style comes into play and investment managers are selected based upon their abilities to manage specific asset styles.

The Investment Committee has developed an investment structure that relies on an understanding of the differences among styles of equity investing, both between growth and value styles as well as owning stocks in companies of varying sizes. No one style stays in favor in the market place all the time. Mixing different classes into an effective blend is called modern portfolio theory. Such a structured diversification of assets reduces the level of risk in equity investments and increases the long-term reward that equities have traditionally provided.

To formulate an effective overall investment strategy requires a program that focuses on the behavior of asset-class mixtures and allocating dollars to different asset classes. Analysis indicates asset allocation may be by far the most important decision in investing assets. Each asset class will generally have different levels of return and risk. They also behave differently. At the time one asset is increasing in value, another may be decreasing.

There are two significant ways in which the large size of our investment pool adds value. First, the economies of scale produce an extremely favorable fee structure. Management fees and custody/transactions charges for these assets for the FY2005 year were 44 basis points as compared to an expense ratio of 138 basis points for the Lipper Balanced Funds average. Second, effective diversification among asset classes is possible because of the size of the pool. The Oklahoma City Community Foundation asset allocation model for pooled investments is shown below. Our Investment Committee continually monitors the percentage allocations and rebalances among the asset classes as needed.

Asset Class Target Percentage Allocation

As of 6/30/05

Large Cap Value 21%	*Large Cap Core* 26.5%	*Large Cap Growth* 25%
Small/Mid Cap Value 9%	*Small Cap Core* 7.5%	*Small/Mid Cap Growth* 11%

Asset Allocation Model - General Pool

	Target	Range
Equity	68%	40–70%
Fixed Income	32%	30–60%

Targeted Asset Class Ranges

Large Cap Value	12–24%	*Small/Mid Cap Growth*	4–16%
Large Cap Growth	12–24%	*Large Cap Core*	20–48%
Small/Mid Cap Value	4–16%	*Small Cap Core*	7–24%

For Investment Definitions see page 2.

Distribution Policy Benefits Endowment Funds

Of primary importance to any endowment program is prudent distribution policies that will over a long-time horizon produce the maximum number of dollars for charitable causes or organizations. Spending rules are commonly used to provide a structured method of making distributions from an endowment fund that protects the distribution stream from inflation, provides a predictable annual distribution and allows the Investment Committee to focus on maximizing total investment return.

Since 1989, the Oklahoma City Community Foundation has employed a distribution policy that is designed to permit funds to capitalize on good investment years as well as protect in the event of a low or negative return market. The experience of the past few years, where returns were on both extremes of investment performance, have proven the wisdom of a policy which stabilizes the effects of market conditions on distributions from an endowment.

Cash distributions from most of the endowment funds of the Oklahoma City Community Foundation are based on a spending policy that calls for distributing 5 percent of the fund's average market value. The remaining investment return is left with the fund to add to the value, which protects the future distribution stream from inflation.

The annual distribution from the fund is more predictable because the amount is not tied to current incomes, which fluctuates due to shifts in market conditions, but is based on a rolling quarter average of the fund's market value, adjusted for additional contributions. The number of quarters used in the average ranges from 8 to 20, depending upon the type of fund.

"Large educational and institutional endowment managers across the country seem to agree that an amount close to 5 percent of the average market value is a safe amount to spend and still provide protection for the principal," says Carla Pickrell, director of administration for the Oklahoma City Community Foundation.

The 5 percent figure is based upon an estimate of two factors over time: market return and inflation. A conservative prediction of average market return in a balanced fund over time is 8 percent. It is widely expected that inflation would average 3 percent over time. This leaves 5 percent to spend while still protecting the fund's value for the future. The Investment Committee's focus on long-term fund growth allows for a bias to equities in the asset allocation.

While there are other approaches to determining distributions, the 5 percent spending rule does not require a specific investment allocation to income producing assets and is not subject to short-term market fluctuations. Investment managers are able to focus on achieving the best total return.

"The total return concept is especially important because of this active goal of growing endowment funds," Pickrell says. "There is an available annual distribution of 5 percent from the endowment that is increasing in value over time even if there are no additional contributions to the fund."

Oklahoma City Community Foundation Investment Policy: a Summary

The investment policy of the Oklahoma City Community Foundation is designed for an endowment fund that will provide annual income for charitable purposes in perpetuity. The time frame is therefore perpetual. The investments need to allow the fund to generate income, grow to accommodate inflation and continue to exist in the future.

The Trustees have adopted an investment policy that has four major objectives: capital preservation; inflation protection; continuing source of annual income for charitable purposes; and investment return in the top third of professionally managed funds.

These objectives lead to a portfolio of high-quality domestic equity investments and fixed-income securities. The portfolio is structured by asset allocation to a range of equity styles and then to style-specific managers who are among the best in their area. The asset allocation between equity and fixed-income investments allows for growth in value and stability in income expectations over time.

The benchmarks for measuring performance are currently the Standard and Poor's 500 stock index and the Lehman Government/Credit Intermediate bond index. Style-specific managers will be measured by appropriate benchmarks for that particular style. Managers are judged on a time horizon of three to five years.

Investment Definitions

Growth Stock | Shares of a company that is growing earnings and /or revenues faster than its industry or the overall market. Typically, these companies pay little or no dividends, preferring to use income to finance further expansion. Growth stocks tend to have higher P/E ratios than the overall stock market because investors expect future earnings growth will be higher than it is currently.

Value Stock | A stock that appears undervalued relative to the value of its assets. A stock may be a "buy" as a value stock if its cash per share (or its book value) is high relative to its stock price. P/E ratios tend to be below growth stocks and the market's because investors expect future earnings growth to be less than it is currently. Dividend yields tend to be relatively high.

The Core Equity style | Designed to produce a market rate return with similar volatility (risk). This makes for a consistent investment strategy that is unaffected by short-term investment style themes such as growth vs. value. These assets are characterized by low stock turnover and low transactions cost. Core equity investing is a prudent way to preserve assets while at the same time participating in the long-term growth of the economy. Both large cap and small cap core equity investments are utilized.

Definitions of large, mid and small market capitalization vary, but could be reasonably considered as: **small cap** - less than $1 billion; **mid cap** - greater than $1 billion but less than $5 billion; **large cap** - greater than $5 billion.

Price-to-Earnings (P/E) Ratio | A stock's price divided by its earnings per share, used as a method of valuation.

Market Capitalization | Stock price multiplied by shares outstanding.

General Pool Investment Managers *Effective 6/30/05*

EQUITY

LARGE CAP VALUE
Wedge Capital Management, *Charlotte, NC*
Barclays Global Investors, *San Francisco, CA*

LARGE CAP GROWTH
Holt-Smith and Yates, *Madison, WI*
Seneca Capital Management, *San Francisco, CA*
Barclays Global Investors, *San Francisco, CA*

SMALL/MID CAP VALUE
Earnest Partners, *Atlanta, GA*

SMALL/MID CAP GROWTH
Columbus Circle, *Stamford, CT*

LARGE CAP CORE
Barclays Global Investors, *San Francisco, CA*

SMALL CAP CORE
Kalmar Investors, *Wilmington, DE*

FIXED INCOME

JP Morgan Asset Management, *Columbus, OH & Oklahoma City, OK*
Bank of Oklahoma, *Oklahoma City, OK*
Barclays Global Investors, *San Francisco, CA*

Investment Committee 2004 -05

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Norick Investments
Former Mayor of Oklahoma City

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PAST PRESIDENT, OKLAHOMA CITY COMMUNITY FOUNDATION
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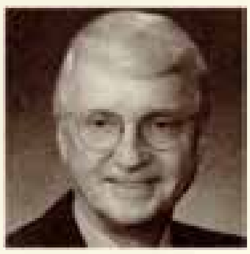
Christian Keesee
Chairman, Kirkpatrick Bank

Jenee Naifeh Lister
Investment Advisor, Merrill-Lynch



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Evolution of Investment Structure is Reflected in Asset Growth Over the Past 35 Years

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As a result, the Trustees replaced the Fiscal Committee with an Investment Committee that assumed the role of monitoring investment performance.

By 1997, bank mergers had reduced the original investment manager group to three. The new investment policy replaced the balanced fund managers system with a style-based manager system with all asset allocation to be made by the committee based upon the style best suited for each manager. With the addition of a small-cap manager who brought the small cap discipline to the pooled fund, Affiliated Funds were encouraged to move from an individual balanced fund manager to the general pool to provide for more investment diversity.

The next major change in the investment structure took place in 2000 with the development of investment styles that sought to determine the best investment product mix and to identify the managers who would produce the best performance within those styles. This approach is referred to as "modern portfolio theory" and is widely utilized to ensure diversity while pursuing maximum total return for large endowments. The following structure for the general pool fund equities were approved and put into place by July 1, 2000: Core Equity – 30%; Large Cap Growth – 30%; Large Cap Value – 30%; and Small Cap Growth or Value – 10%.

Over the past five years, the Investment Committee has made revisions to its strategy and investment styles as economic conditions dictate. For current allocations, please refer to the Asset Class Target Percentage Allocation chart on page 1. Asset allocation, along with manager selection, is the most important task of the Investment Committee and they review and revise the tactical allocation each quarter. Much of the success of the investment strategy for the past five years is attributable to the attention and diligence of the Investment Committee.

For more information on the investment and distribution policies, please contact Carla Pickrell at 405/235-5603 or c.pickrell@occf.org.

OKLAHOMA CITY COMMUNITY FOUNDATION

2004-05
Investment Performance Report

Pooled Investments Performance Summary

Manager	% of Total Portfolio June 30, 2005	% of Asset Class June 30, 2005	Rate of Return Year Ended June 30, 2005
EQUITY			
LARGE CAP VALUE			
Wedge Capital Management	6.36%	9.30%	10.03%
Barclays Russell 1000 Value Index Fund	7.41%	10.84%	13.72%
Russell 1000 Value			14.05%
LARGE CAP GROWTH			
Holt-Smith & Yates	8.20%	12.00%	3.48%
Seneca Capital	7.24%	10.60%	-.13%
Barclays Russell 1000 Growth Index Fund	1.54%	2.25%	N/A*
Russell 1000 Growth			1.70%
SMALL/MID CAP VALUE			
Earnest Partners	6.92%	10.12%	23.47%
Russell 2000 Value			14.38%
SMALL/MID CAP GROWTH			
Columbus Circle Investors	7.64%	11.18%	12.53%
Russell 2500 Growth			7.46%
CORE			
Barclays Russell 1000 Index Fund	17.71%	25.91%	7.69%
Russell 1000			7.92%
Kalmar Investments	5.33%	7.80%	6.60%
Russell 2000			9.45%
TOTAL EQUITIES	68.35%	100.00%	8.93%
S&P500 Stock Index			6.30%
FIXED INCOME			
JPMorgan Asset Management	19.18%		5.13%
Bank of Oklahoma	7.65%		4.43%
Barclays 1-3 yr. Treasury Bond Index	4.82%		1.72%
TOTAL FIXED INCOME	31.65%		4.50%
Lehman G/C Int. Index			4.77%
Lehman 1-3 Govt			2.05%
TOTAL POOLED INVESTMENTS	100.00%		7.52%
Composite Indices 65% S&P500/35% Lehman G/C Int.			5.76%

* Partial Period

Notes: Investment managers are measured against the index selected for that manager's specific style with the overall performance of the equities being measured against the S&P500 stock index. All performance returns are gross of management fees and custody/transaction charges and net of sales commissions.

Year Ended	General Pool Rate of Return	Composite Indices (Note A)
June 30, 2005	7.52%	5.76%
June 30, 2004	15.03%	12.39%
June 30, 2003	5.28%	3.96%
June 30, 2002	-5.58%	-8.83%
June 30, 2001	-5.65%	-5.78%
June 30, 2000	10.30%	6.19%
June 30, 1999	12.51%	16.26%
June 30, 1998	20.35%	19.15%
June 30, 1997	19.43%	20.49%
June 30, 1996	16.62%	15.54%
Ten Years Compounded (Note A)	9.21%	8.07%

Note A: Equity performance is compared to the Standard and Poor's 500 stock index (S&P500); fixed income performance is compared to the Lehman Government/Credit Intermediate bond index (Lehman G/C Int.); and total return is compared to the composite of these indices with weighting based upon applicable asset allocation. For fiscal years prior to June 30, 1999, the mid-range of the asset target allocation was 50% equity and 50% fixed income. Beginning with FY '99 the allocation benchmark was changed to 65% equity and 35% fixed income.

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