funding for the future
HELPING BUILD THE COMMUNITY'S ENDOWMENT
Oklahoma City Community Foundation
SEPTEMBER 2002

Investment Structure Evolves Over 100-Year Period

The sophisticated structure of the Community Foundation's investment management has evolved from the practices of the earliest community foundations in the 1900s. At that time, bank trust departments found themselves as trustees for a large number of trusts with charitable purposes.

While banks had expertise in investment management, they lacked experience in fulfilling the charitable intentions of the trusts. Thus, community foundations served to provide oversight to the distribution of charitable assets.

The Oklahoma City Community Foundation was started in 1969 as a corporate rather than trust form. Trustees retained control over all assets but a Fiscal Committee of bank presidents was responsible for investments. Between 1989 and 1997, trustees assumed a more aggressive role in investment oversight by appointing an Investment Committee to take on the role of monitoring investment performance. James Hotchkiss and Associates was hired as investment consultant to assist the committee. An investment policy and guidelines were adopted to establish standards of performance.

Investment and distribution services are a top priority of the trustees of the Community Foundation. It is their role to manage the community's endowment by providing and overseeing the very best investment process for every fund - regardless of size.

A long range plan adopted in 1997 called for the trustees to review and revise the investment structure to fit the needs of a $500 million foundation. Under revised bylaws, the Investment Committee is empowered to act somewhat independently to oversee investment management. The trustees approve investment policy and ratify the hiring of investment managers.

The new investment policy called for a style-based manager system with asset allocations. The investment policy and asset allocations are the focus of the story on page 2.

Portfolio Diversification Policy Pays Off

The Oklahoma City Community Foundation has recently been notified that its investment performance places it in the nation's top 10 of community foundations with assets of more than $250 million. The results were announced by the Council on Foundations, headquartered in Washington, D.C., and are based on a survey of community foundations.

Executive Director Nancy Anthony credits the performance to the work of the Investment Committee (see committee members on page 3) and their attention to the overall investment strategy. The modern portfolio theory used by the committee provides for a structured diversification of assets which will reduce the level of risk in equity investments and increase the long-term reward which equities have traditionally provided.

The Investment Committee has carefully developed an investment structure that relies on an understanding of the differences

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Distribution Policy Allows for Income Growth, Stability

Stewardship of endowment assets requires policies for investment and distribution that preserve the capital base of the endowment, produce growth in excess of inflation and generate distributions for the intended cause or organization. It is important that financial management policies address both investment and distribution.

In the fall of 1989, the Community Foundation began 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 five years, returns were on both extremes of investment performance, have proven the wisdom of a policy which stabilizes the effect of market conditions on distributions from an endowment.

Spending rules are commonly used to provide a structured method of making distributions from an endowment fund that protects the income stream from inflation, provides a predictable annual income and allows the committee to focus on maximizing total investment return.

Cash distributions from most of the endowment funds of the 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 income stream from inflation.

The annual distribution from the fund is more predictable because the amount is not tied to current income, which fluctuates due to shifts in market conditions, but is based on a rolling

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Portfolio Diversification (continued)

among styles of equity investing, both between growth and value styles, as well as owning stocks in companies of different sizes. No one style stays in favor in the market place all the time. Mixing different asset classes into an effective blend is called "portfolio theory."

To formulate an effective overall investment strategy requires a program that focuses on the behavior of asset-class mixtures and allocating funds to different asset classes. Much analysis has been performed that 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. The diversification among the asset classes is possible because of the large size of the investment pool. Additionally, the economies of scale also produce an extremely favorable fee structure. The estimate of management fees for these assets for the current year is 34 basis points.

The asset allocation model for the Oklahoma City Community Foundation pooled investments is shown below. The Investment Committee continually monitors the percentage allocations and rebalances among the assets classes. Investment managers are chosen based on their abilities to manage specific asset styles.

Asset Class Target Percentage Allocation

Large Cap Value 20%	Large Cap Growth 20%
CORE Russell 1000 Index Fund 30%	
Small/Mid Cap Value 15%	Small/Mid Cap Growth 15%

Asset Allocation Model - General Pool

	Target	Range
Equity	65%	40-70%
Fixed Income	35%	30-60%

Targeted Asset Class Ranges

Large Cap Value	15-25%
Large Cap Growth	15-25%
Small/Mid Cap Value	10-20%
Small/Mid Cap Growth	10-20%
CORE	20-40%

Investment Policy: A Summary

The Investment Policy of the 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 will be judged on a time horizon of three to five years.

Definitions

Growth stock: Shares of a company which 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 stock's 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 is designed to produce a market rate return (e.g., the Russell 1000) with similar volatility (risk). This makes for a consistent investment strategy - unaffected by short term investment style themes such as growth vs. value. These assets are characterized by low stock turnover and low transactions costs. Core equity investing is a prudent way to preserve assets while at the same time participating in the long term growth of the economy.

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: Stock's price divided by its earnings per share, used as a method of valuation.

Market Capitalization: Stock price multiplied by shares outstanding.

Distribution Policy (continued)

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 on the type of fund.

"Large educational and institutional endowment managers across the country seem to agree that an amount close to 5 percent of market value is a safe amount to spend and still provide protection for the principal against inflation," said Carla Pickrell, the Community Foundation's Director of Administration.

The 5 percent figure is based on an estimate of two factors over time: market return and inflation. A conservative prediction of average market return 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 more emphasis on equities in the asset allocation.

Without a spending policy based on market value, the investment strategy might focus on producing current income. This would dictate a higher percentage of fixed incomes in the portfolio since they typically produce more current income than equities.

However, equities historically outperform fixed income investments in the long run. By placing emphasis on a total return concept, the committee is able to concentrate on a goal of building significant capital appreciation.

"The total return concept is especially important because of our active encouragement of growing endowment funds," Pickrell said. "The agencies receive an annual distribution of 5 percent from their endowment that is increasing in value over time - even if there are no additional contributions to the fund."

Investment Committee 2001-2002

James H. Holloman, Jr., Chairman
Attorney, Crowe and Dunlevy

***Robert Butkin**
Treasurer, State of Oklahoma

Nicholas Duncan
President, Global Data

Jenee Naifeh Lister
Investment Advisor, Merrill-Lynch

***Patrick Ryan**
Retired Vice Chairman,
Oklahoma Gas and Electric

George J. Records, Past President,
Oklahoma City Community Foundation
Chairman, The Midland Group

J. Edward Barth, Past President,
Oklahoma City Community Foundation
Attorney, Andrews, Davis

Ex officio
William O. Johnstone, Treasurer,
Oklahoma City Community Foundation, 2001-2002
Council Oak Partners, LLC

Investment Counsel
James Hotchkiss
Hotchkiss and Associates
Chicago, IL

**Term ended June 30, 2002*

General Pool Investment Managers

Equity

Large Cap Growth
Holt-Smith and Yates
Madison, WS
Seneca Capital Management
San Francisco, CA

Mid Cap Growth
Navellier & Associates
Reno, NV
Columbus Circle Investors
Stamford, CT

Large Cap Value
Tom Johnson Investment Management
Oklahoma City, OK
Wedge Capital Management
Charlotte, NC

Small Cap
Kalmar Investments
Wilmington, DE

Core Equity
Barclays Global Investors
San Francisco, CA

Fixed Income

Banc One Investment Advisors
Columbus, OH & Oklahoma City, OK
Bank of Oklahoma
Oklahoma City, OK

Effective July 1, 2002

Investment Committee Added effective July 1, 2002 for Fiscal 2002-2003

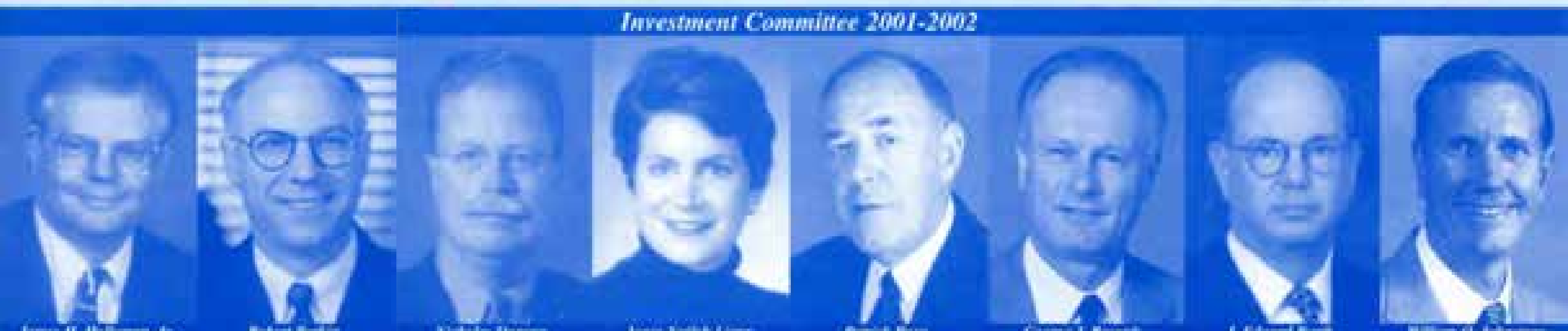
Jim Daniel
Vice Chairman,
BancFirst

John Linehan
Retired CFO,
Kerr-McGee Corporation

Ron Norick
Norick Investments,
Former Mayor of Oklahoma City

Ex Officio
Kirkland Hall, Treasurer, Oklahoma City Community Foundation, 2002-2003
Fred Jones Industries

Investment Committee 2001-2002



James H. Holloman, Jr · Robert Butkin · Nicholas Duncan · Jenee Naifeh Lister · Patrick Ryan · George J. Records · J. Edward Barth · William O. Johnstone

Oklahoma City Community Foundation

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Pooled Investments Performance Summary

Manager	% of Total Portfolio June 30, 2002	Year Ended June 30, 2002	*Compounded Annual Rates of Return* Three Years Ended June 30, 2002	Five Years Ended June 30, 2002
EQUITIES				
Large Cap Value				
Tom Johnson Investment Management	*7.00%*	-21.41%	NA	NA
Wedge Capital Management	*7.18%*	-1.88%	NA	NA
Russell 1000 Value		-8.95%	-2.92%	6.52%
S&P 500 Barra Value		-18.09%	-5.69%	4.11%
Large Cap Growth				
Bank of Oklahoma	*9.16%*	-19.31%	-11.75%	0.47%
Russell 1000 Growth		-26.49%	-16.15%	-0.28%
S&P 500 Barra Growth		-18.50%	-13.23%	2.45%
Small/Mid Cap Value				
Kalmar Investments	*8.43%*	-3.35%	7.96%	NA
Russell 2000		-8.60%	1.69%	4.44%
Small/Mid Cap Growth				
Columbus Circle Investors	*4.56%*	-5.55% *	NA	NA
Navellier & Associates	*4.52%*	-6.53% *	NA	NA
Russell 2000 Growth		-25.00%	-9.63%	-1.98%
S&P Mid Cap 400/Growth		-9.73%	2.47%	12.21%
Core				
Barclays Global Investors (Index Fund)	*21.42%*	-17.74%	NA	NA
Russell 1000		-17.88%	-8.62%	3.90%
Total Equities	*62.27%*	**-14.07%**	**-5.88%**	**4.77%**
S&P 500 Stock Index		**-17.99%**	**-9.17%**	**3.68%**
FIXED INCOME				
Banc One	*37.73%*	9.18%	8.32%	7.63%
Total Fixed Income	*37.73%*	**9.18%**	**8.12%**	**7.47%**
Lehman G/C Int		**8.17%**	**7.76%**	**7.21%**
TOTAL POOLED INVESTMENTS	*100.00%*	**-5.58%**	**-0.58%**	**5.88%**
Composite Indices				
65% S&P 500/35% Lehman G/C Int		**-8.83%**	**-3.24%**	**4.91%**

*Partial Period

Note that 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&P 500 stock index.