OKLAHOMA CITY
COMMUNITY FOUNDATION

2002-03 *Investment Performance Report*

Helping you help the community September 2003

Investment Success is in the Mix

Asset allocation model proves effective

The Oklahoma City Community Foundation's Investment Committee chooses style specific investment managers through a national search in a very pragmatic process. But even before the manager search begins, the focus is centered on determining allocations of funds to different asset classes. The "heavy lifting" of the investment process begins here. 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. Investment managers are then chosen based upon their abilities to manage specific asset styles.

The Investment Committee has carefully 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

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Patience is Rewarded: Investment Performance Bounces Back

The roller-coaster equity market of the past six years has finally crawled back up the track to positive performance. For the past three years, the Oklahoma City Community Foundation Investment Committee has diligently and thoughtfully considered its allocation to equities, knowing the importance of being in the market when it starts to come back.

Their courage and patience paid off handsomely in the quarter-ending June 30, 2003. Total return for the Community Foundation's general pool was 5.28 percent for the fiscal year ending June 30, 2003. This compares to 3.96 percent for the composite S&P500/Lehman Government/Credit Intermediate index that we use to benchmark total performance.

"We were extremely pleased to generate a return that was better than the market and which supports our spending needs for the year," said Nancy Anthony, executive director.

Of more importance for the long-term perspective of endowment funds, the 10-year performance for the general pool was 8.71 percent compared to 8.08 for the composite index.

Distribution Policies of Prime Importance

A fundamental concern in any endowment program is the amount to distribute that will over a long-time horizon produce the maximum number of dollars for the charitable cause or organization. Spending rules are commonly used to provide a structured method of making distributions from an endowment fund and allows the 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, has 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 income stream from inflation.

The annual distribution from the fund is more predictable because the amount is not tied to current incomes, which fluctuates dues 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 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 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."

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Investment Success is in the Mix

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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. 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 and custody/transactions charges for these assets for the current year is 42 basis points.

The Oklahoma City Community Foundation asset allocation model for pooled investments is shown below. The Investment Committee continually monitors the percentage allocations and rebalances among the asset classes as needed.

Current Asset Class Target Percentage Allocation

Large Cap Value
18%

Large Cap Growth
22%

Large Cap Core
20%

Small Cap Core
12%

Small/Mid Cap Value
10%

Small/Mid Cap Growth
18%

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%
Large Cap Core	10% - 30%
Small Cap Core	10% - 20%

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 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 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 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. 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.

Priority No. 1: Investment and Distribution Policies

It is the role of the Oklahoma City Community Foundation Board of Trustees to manage the community's endowment by providing a top-quality investment and distribution policy for the more than 800 funds. Stewardship of endowment assets requires policies for investment and distribution that work together to preserve the capital base of the endowment, produce growth in excess of inflation and generate distributions for the intended charitable cause or organization.

The Trustees expend significant time and energy on this role and oversee an Investment Committee that is composed of Trustees and community-based investment professionals and is led by Investment Counsel, James K. Hotchkiss of Hotchkiss and Associates, Chicago, Illinois. The Investment Committee members are listed below.

Investment Committee 2002-03

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

James Daniel
Vice Chairman, Bancfirst

Nicholas Duncan
President, Global Data

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

John Linehan
Retired CFO, Kerr-McGee Corporation

Jenee Naifeh Lister
Investment Advisor, Merrill-Lynch

Ronald Norick
Norick Investments, Former Mayor, City of Oklahoma City

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

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

Christian Keesee
Chairman, American Bank

Investment Counsel
James Hotchkiss
Hotchkiss and Associates
208 S. LaSalle Street, Chicago, IL 60604

General Pool Investment Managers

(Effective: 07-31-2003)

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

Small/Mid Cap Value
Barclays Global Investors, San Francisco, CA

Small/Mid Cap Growth
Louis Navellier, Reno, NV
Columbus Circle, Stamford, CT

Large Cap Core
Barclays Global Investors, San Francisco, CA

Small Cap Core
Kalmar Investments, Wilmington, DE

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

Investment Committee 2002-03


James H. Holloman, Jr.


James Daniel

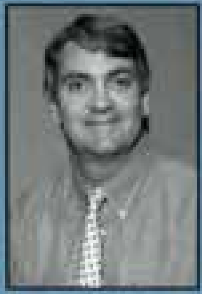

Nicholas Duncan


William O. Johnstone


Jenee Naifeh Lister


John Linehan


Ronald Norick


Kirkland Hall


George J. Records


J. Edward Barth


Christian Keesee

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Pooled Investments Performance Summary

Manager	% of Total Portfolio June 30, 2003	% of Asset Class June 30, 2003	Rate of Return Year Ended June 30, 2003
EQUITIES			
Large Cap Value			
Wedge Capital Management	6.54%	9.95%	-4.84%
Barclays Russell 1000 Value Index Fund	6.71%	10.20%	19.08%*
Russell 1000 Value			-1.02%
Large Cap Growth			
Holt-Smith & Yates	6.63%	10.08%	1.40%*
Seneca Capital	6.50%	9.89%	1.24%*
Russell 1000 Growth			2.94%
Small/Mid Cap Value			
Barclays Russell 2000 Value Index Fund	6.86%	10.42%	15.69%*
Russell 2000 Value			-3.80%
Small/Mid Cap Growth			
Columbus Circle Investors	7.17%	10.90%	6.81%
Navellier & Associates	4.29%	6.52%	-1.09%
Russell 2500 Growth			4.11%
Core			
Barclays Russell 1000 Index Fund	12.88%	19.58%	1.03%
Russell 1000			0.95%
Kalmar Investments	8.20%	12.46%	1.81%
Russell 2000			-1.64%
Total Equities	65.78%	100.00%	0.67%
S & P 500 Stock Index			0.27%
FIXED INCOME			
Banc One	23.88%		10.56%
Bank of Oklahoma	10.34%		9.37%
Total Fixed Income	34.22%		10.22%
Lehman G/C Int. Index			10.82%
TOTAL POOLED INVESTMENTS	100.00%		5.28%
Composite Indices			
65% S&P500/35% Lehman G/C Int			3.96%

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&P 500 stock index. All performance returns are gross of management fees and custody/transaction charges and net of sales commissions.

*Partial period

Year Ended	General Pool Rate of Return	Composite Indices (Note A)
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%
June 30, 1995	18.52%	18.28%
June 30, 1994	-0.30%	0.55%
Ten Years Compounded (Note A)	8.71%	8.08%

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 (LehmanG/C Int.); and total return is compared to a 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 was changed to 65% equity and 35% fixed income.