Investment Performance

Report 2005–06

SIMPLE. FLEXIBLE. FOREVER.

OKLAHOMA CITY COMMUNITY FOUNDATION | FALL 2006

Endowments large and small benefit from low investment fees

Participating in an investment program with more than $450 million provides great advantages for all of the funds at the Oklahoma City Community Foundation. Even the smallest endowment or scholarship fund receives the benefits that a large investment pool can provide at a cost that is significantly below normal investment management expenses.

Diversification, one of the hallmarks of good endowment investment policy, is one of the greatest advantages these funds receive. The general investment pool is invested in all classes of domestic equities, in a range of fixed income securities and also has exposure to international markets. We provide a "balanced" portfolio by allocating assets to highly qualified managers in a wide-range of investment classes. This level of equity exposure is available to large investment pools but even the smallest funds receive the benefit.

Another advantage to our investment pool is its very low-cost and efficient operation. By balancing the use of active managers and index funds in a way that maximizes the opportunity for adding value but keeps the cost low, we have been able to produce annualized returns that

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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.

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

Asset Class Target Percentage Allocation

As of 6/30/06

Large Cap Value 21%	*Large Cap Core* 24%	*Large Cap Growth* 25%
	Developed Markets 2%	
Small/Mid Cap Value 8%	*Small Cap Core* 9%	*Small/Mid Cap Growth* 10%
	Emerging Markets 1%	

Asset Allocation Model - General Pool

	Target	Range
Equity	65%	40–70%
Fixed Income	35%	30–60%
Cash	0%	0–10%

Targeted Asset Class Ranges

Large Cap Value	12–24%	*Small/Mid Cap Value*	4–16%
Large Cap Growth	12–24%	*Small/Mid Cap Growth*	4-16%
Large Cap Core	20-48%	*Small Cap Core*	7–24%
Developed Markets	0-10%	*Emerging Markets*	0-5%

For Investment Definitions see page 2.

Distribution Policy Benefits Endowment Funds

Of primary importance to any endowment program are 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 income, 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 distributions for charitable purposes in perpetuity. The time frame is therefore perpetual. The investments need to allow the fund to generate distributions, 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 distribution 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 distribution 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 6/30/06*

EQUITY

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

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

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

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

INTERNATIONAL
Barclays Global Investors, *San Francisco, CA*

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

SMALL CAP CORE
Kalmar Investors, *Wilmington, DE*
Barclays Global Investors, *San Francisco, CA*

FIXED INCOME

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

TOTAL RETURN	Year Ended June 30, 2006	Three Years Ended June 30, 2006	Five Years Ended June 30, 2006	Ten Years Ended June 30, 2006
Community Foundation	6.82%	9.72%	5.60%	8.25%
S&P 500/Lehman G/C Int *	5.54%	7.84%	3.52%	7.10%

* Composite indice based upon applicable asset allocation.

Endowments large and small benefit from low investment fees

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exceed the markets but at a cost which is significantly lower than mutual funds or other balanced fund alternatives.

For FY2006, the cost of investments at the Oklahoma City Community Foundation was 37 basis points, compared to more than 100 basis points for the average mutual fund or active equity fund manager requiring a large minimum account.

For a $50,000 fund which returns 8 percent over 10 years, this cost difference means $7,000 to $10,000 more in value to the fund. Over a 20-year period, the fee difference can amount to $40,000 or more of added fund value over the higher priced alternatives.

All Oklahoma City Community Foundation investments are overseen by an active committee of community leaders with strong investment expertise led by Hotchkiss and Associates, an investment counsel firm based in Chicago, IL. All funds benefit by the expertise of this committee and their efforts to provide the best investment product at the most efficient price.

The unique investment opportunity provided through our general investment pool is one of the greatest advantages of working with the Oklahoma City Community Foundation to manage endowment assets.

Investment Committee 2005–06

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OKLAHOMA CITY COMMUNITY FOUNDATION

Investment Performance
Report 2005–06

Pooled Investments Performance Summary

Manager	% of Total Portfolio *June 30, 2006*	% of Asset Class *June 30, 2006*	Rate of Return Year Ended *June 30, 2006*
EQUITY			
LARGE CAP VALUE			
Wedge Capital Management	7.90%	12.23%	11.32%
Barclays Russell 1000 Value Index Fund	6.11%	9.46%	12.23%
Russell 1000 Value			12.08%
LARGE CAP GROWTH			
Holt-Smith & Yates	9.39%	14.54%	.41%
Barclays Russell 1000 Growth Index Fund	6.49%	10.05%	11.39%*
Russell 1000 Growth			6.12%
SMALL/MID CAP VALUE			
Earnest Partners	5.11%	7.91%	9.83%
Russell 2000 Value			14.60%
SMALL/MID CAP GROWTH			
Columbus Circle Investors	6.21%	9.62%	13.52%
Russell 2500 Growth			14.61%
INTERNATIONAL			
Barclays EAFE Index Fund	1.52%	2.36%	15.49%*
MSCI EAFE (US$) Net			15.30%*
Barclays Emerging Markets Index Fund	.75%	1.16%	13.72%*
MSCI EMF (Gross) Index			13.69%*
CORE			
Barclays Russell 1000 Index Fund	15.66%	24.26%	9.79%*
Russell 1000			9.08%
Kalmar Investments	4.71%	7.30%	9.80%
Barclays Russell 2000 Index Fund	.72%	1.11%	-.04%*
Russell 2000			14.56%
TOTAL EQUITIES	64.57%	100.00%	9.51%
S&P500 Stock Index			8.63%
FIXED INCOME			
JPMorgan Asset Management	19.46%		.28%
Bank of Oklahoma	9.70%		1.50%
Barclays 1-3 yr. Treasury Bond Index Fund	6.27%		2.06%
TOTAL FIXED INCOME	35.43%		.92%
Lehman G/C Int. Index			-.19%
Lehman 1-3 Govt			1.86%
TOTAL POOLED INVESTMENTS	100.00%		6.82%

**Partial Period*

Composite Indices			
65% S&P500/35% Lehman G/C Int.			5.54%

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, 2006	6.82%	5.54%
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%
Ten Years Compounded (Note A)	8.25%	7.10%

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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