

## Investment Strategy: *A three-pronged approach to greater returns*

by **Jack Marringa**, *United Capital Financial Advisors, LLC*, and  
**Steven C. Agee**, *Investment Committee Chair*

“The only thing that is constant is change.” This quote, credited to the Greek philosopher Heraclitus, is not only true in everyday life, but particularly in the investment world. Since its inception, the Oklahoma City Community Foundation’s Investment Committee has recognized its fiduciary duty to monitor new investment options that align with its mission.

In Fiscal Year 2017, the Investment Committee made changes to the general pool’s investments reflecting the contrast between the need to sustain crucial distribution levels to the community with the likelihood of lower future returns in its primary two asset classes, fixed income and equities. In pursuit of higher returns within the fixed income universe, the committee adopted a new benchmark with broader quality exposures and slightly longer duration.

The committee was also aware of an explosion of available options for passive investing in both equities and fixed income. As a result, the committee made the following changes. First, adhering to its oversight responsibility, the committee terminated active equity and fixed income managers that failed to outperform their benchmarks or that exhibited greater volatility than their benchmark, replacing them with passive index funds at significantly reduced fee levels. In response to academic research indicating that dividends contribute an important portion of long-term returns for equities, the Community Foundation now has an initial position in a passive vehicle focused on dividend-payers.

Secondly, acknowledging the challenges presented by traditional equity and fixed income investments including the likelihood of lower future returns, the committee adopted an allocation to alternative investments. The committee thoroughly reviewed various alternative asset types, including hedge funds, private equity managers and others, focusing on their benefits and



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disadvantages. After important due diligence, the committee initiated positions in publicly-traded and passively-managed real estate investment trusts and master limited partnerships. These asset classes have exhibited historical returns that were not closely correlated to traditional asset classes. The exposure to these additional classes in combination with the existing investments offers the potential for higher and less volatile future returns.

Following an eight-year bull market in equities, and an even longer one in fixed income, investors with an ever-present need to make distributions are faced with a significant challenge. This is especially the case for the investor whose distribution goal endures in perpetuity like the Oklahoma City Community Foundation’s. The Investment Committee has answered this task with a multi-pronged approach to increase potential future net returns: lowering investment fees, increasing permitted exposure to higher return asset classes and diversifying asset classes to include non-correlated investments. The committee will closely monitor the success of these efforts and stands ready to respond to new investment options in the future.

### Inside

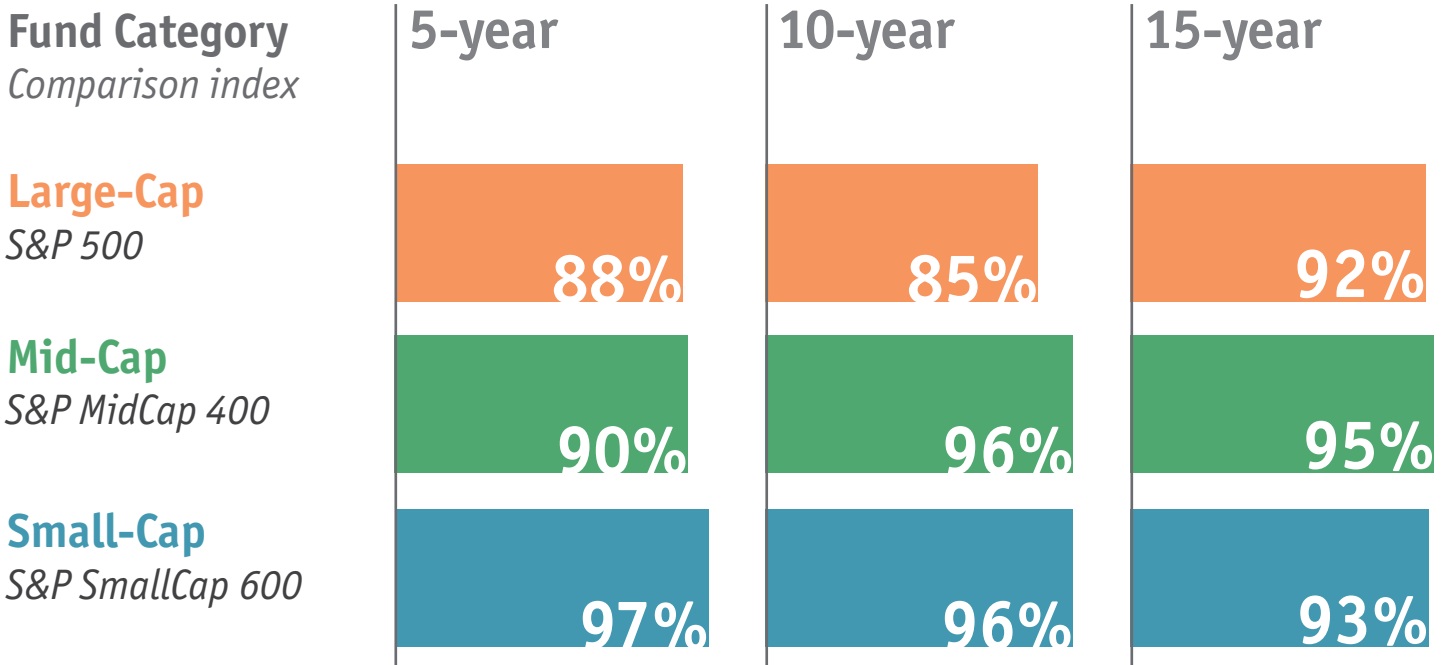
- Investment Committee & Managers
- Active vs. Passive Investing
- FY2017 Investment Performance  
**11.08%**
- Asset Allocation

# Active vs. Passive Investing

In Fiscal Year 2017, the Investment Committee replaced active equity managers that failed to outperform their benchmarks with passive index funds at significantly reduced fee levels. The rise of low-cost, passive investing is a trend seen across the investment world as few actively managed funds have kept pace with market indexes in recent years.

## Percentage of U.S. actively-managed equity funds outperformed by benchmark

as of Dec. 31, 2016



Source: S&P Dow Jones Index

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*CFO, The Oklahoma Publishing Company*

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# Fiscal Year 2017 Investment Performance Pooled Investments as of June 30, 2017

	Q4	Fiscal Year	Calendar Year	Three Years	Five Years	10 Years
<b>EQUITIES</b>						
Oklahoma City Community Foundation	3.29%	18.27%	10.07%	7.73%	12.83%	6.48%
S&P 500	3.09%	17.90%	9.34%	9.61%	14.63%	7.18%
Russell 3000	3.02%	18.51%	8.93%	9.10%	14.58%	7.26%
MSCI ACWI ex US	5.99%	21.00%	14.45%	1.27%	7.70%	1.59%
<b>FIXED INCOME</b>						
Oklahoma City Community Foundation	0.82%	-0.10%	1.46%	1.75%	1.74%	3.92%
Barclays Capital G/C Int	0.01%	-0.21%	1.73%	1.73%	1.77%	3.87%
<b>TOTAL RETURN</b>						
Oklahoma City Community Foundation	2.55%	11.08%	6.94%	5.46%	8.37%	5.63%
50% Russell3000/15%MSCI ACWI/ 35% Barclays Capital G/C Int (Note A)	2.70%	11.98%	7.13%	5.46%	9.01%	5.50%
65% S&P500/35% Barclays Capital G/C Int (Note B)	2.33%	11.29%	6.63%	7.00%	10.09%	6.30%

Note A: Equity performance is compared to the Russell 3000 stock index and the MSCI ACWI exUS International equity index; fixed income performance is compared to the Barclays Capital Government/Credit Intermediate bond index (Barclays Capital G/C Int) and total return is compared to a composite of these three indices.

Note B: Equity performance is compared to the Standard and Poor's 500 stock index (S&P500); fixed income performance is compared to Barclays Capital Government/Credit Intermediate bond index (Barclays Capital G/C Int) and total return is compared to a composite of these two indices.

## 10-year Investment Performance History

Fiscal Year Ended	General Pool Rate of Return	Composite Indices (Note A)	Policy Benchmark (Note B)
June 30, 2017	11.08%	11.98%	11.29%
June 30, 2016	1.34%	1.20%	4.35%
June 30, 2015	4.20%	3.49%	5.49%
June 30, 2014	14.56%	16.56%	16.66%
June 30, 2013	11.24%	12.58%	13.15%
June 30, 2012	2.31%	1.63%	5.44%
June 30, 2011	21.57%	21.96%	21.26%
June 30, 2010	12.99%	12.32%	12.28%
June 30, 2009	-14.61%	-16.09%	-15.20%
June 30, 2008	-3.23%	-4.76%	-5.94%
<b>Ten Years Compounded (Note A)</b>	<b>5.63%</b>	<b>5.50%</b>	<b>6.30%</b>

For more information about our investment policies, contact Rhonda Godwin at [r.godwin@occf.org](mailto:r.godwin@occf.org) or 405/606-2916.

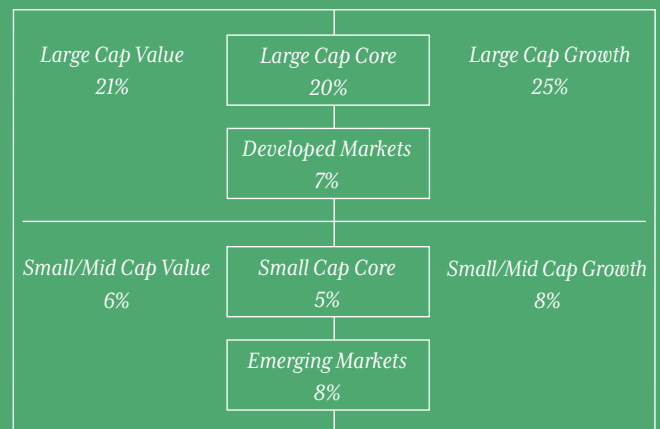
[occf.org/investmentmanagement](http://occf.org/investmentmanagement)

As of Fiscal Year ended June 30, 2017

### Asset Allocation Model - General Pool

	Target	Range
Equity	56%	45-70%
Fixed Income	34%	20-45%
Cash	0%	0-10%
Alternatives	10%	5-15%

### Asset Class Target Percentage Allocation for Equities



### Target Asset Class Ranges

Large Cap Value	18-28%	Small/Mid Cap Value	4-10%
Large Cap Growth	18-28%	Small/Mid Cap Growth	4-10%
Large Cap Core	20-48%	Small Cap Core	10-24%
Developed Markets	5-15%	Emerging Markets	5-10%
REITs	3-8%	MLPs	3-8%

2017 INVESTMENT PERFORMANCE REPORT

# 2017 Investment Performance Report



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## Inside

- FY2017 Returns 11.08%
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- Active vs. Passive Investing

Confirmed in Compliance with National Standards for U.S. Community Foundations

## Five-year Impact of Investment Performance

Based on past investment performance of the Oklahoma City Community Foundation's general pool, a \$100,000 gift to an endowment in 2013 would have increased in value by \$45,470 by 2017 without any additional gifts. Over the five-year period, the endowment would have generated \$18,003 in investment earnings and yielded \$27,467 in distributions to charity.

**Increase in value: \$45,470**

- \$18,003 investment earnings
- \$27,467 distributions to charity

