Our Investment Management Approach and Process

Achieving good investment results is a key goal of the Oklahoma City Community Foundation Trustees and our Investment Committee. While the markets are often volatile, we intend to have both a strong process for allocation and review and an excellent committee that is well-informed and actively involved. We are very open about the process and the results. We are confident in our approach and are pleased that it has produced a solid investment product for Oklahoma City donors and nonprofit organizations for many years.

Investment Committee
Our Investment Committee is comprised of four Trustees or past Trustees and three community leaders who are knowledgeable about investments. The members of the Investment Committee for FY2010 are listed on page 3. It is the role of the committee to oversee the investment functions through adopting the investment policy, hiring the primary professional investment consultant and each of the investment managers. At its quarterly meetings, the committee reviews the investment performance and the recommendations for the allocation of assets to equities or fixed income and then to the various style sectors. This committee provides one of the most important functions that we offer to support donors and nonprofit endowments.

Investment Consultant
Hotchkiss Associates has served as our investment consulting firm since 1998. Jack Marringa is the Hotchkiss principal who serves as the direct contact with the Investment Committee and our staff. Based in Chicago, Hotchkiss Associates is affiliated with United Capital Financial Advisors which provides administrative and research support to the firm. In addition to monitoring investment performance and making recommendations about asset allocation, Hotchkiss Associates assists with the selection of style-specific managers to implement the Investment Committee’s allocation policy.

The Process
Our management process begins with the Investment Committee’s determination of percentages of the assets to be allocated between equities, fixed income securities and cash. Next, the committee determines the equity allocation among the various styles of equity management. (see charts above right).

Once allocation is determined, the committee selects the style-specific equity managers. The managers’ performance is evaluated against the appropriate benchmark for their particular sector. They are also evaluated as to their adherence to the specific style they have been engaged to manage. Currently we have six active equity managers.

Active Managers
Large Capitalization Value
Wedge Capital Management (Charlotte, N.C.) Wedge has worked for...
The History of our Investment Management Style

Providing professional investment management for endowment funds is a cornerstone of community foundations across the country and of the Oklahoma City Community Foundation since our establishment in 1969. Initially the Oklahoma City Community Foundation utilized the investment services available through the trust departments of several local banks such as Liberty, First National and Fidelity. Our Trustees provided oversight and investment policies and each trust department utilized a balanced fund approach to achieve the best possible return.

By the late 1990s, our assets had grown significantly and many of the local banks were no longer either locally owned or managed. Our Trustees restructured the investment function adding a very strong Investment Committee and changing to a style-based investment manager system. Since its formation, the Investment Committee has allocated assets to specific investment styles and hired investment managers to manage that particular style. James Hotchkiss from Hotchkiss Associates assumed the role of Investment Consultant to the Investment Committee to recommend both the asset allocation and specific managers. This investment management structure has been our approach since July 1, 1998.

Endowments benefit from low-cost, efficient investment program

The low cost and efficient operation of our investment program benefits all endowments, large and small. We accomplish this 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. As a result, we have been able to produce annualized returns over 10 years that exceed the markets but at a cost which is much lower than mutual funds or other balanced fund alternatives.

For FY2010, the cost of investments at the Oklahoma City Community Foundation was 39 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 over a 10-year period, this cost difference means approximately $6,000 more in value to the fund. Over a 20-year period, the fee difference can amount to $26,000 or more of added value to that same fund.

Investment Terms | Definitions

Growth Stock | Shares of a company that is growing earnings and, therefore, revenue faster than its industry or the overall market. Typically, these companies pay little or no dividends, preferring to use income to finance future 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 higher 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 $2 billion; mid cap - greater than $2 billion but less than $10 billion; large cap - greater than $10 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.
Investment and Distribution Policies: A Summary

The investment policy of the Oklahoma City Community Foundation is designed for an endowment fund to provide annual distributions for charitable purposes in perpetuity. 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.

As endowment fund investors we have a perpetual horizon. Because of this horizon, we maintain a disciplined approach to long-term investment strategy while utilizing short-term tactical allocations to add value when there is opportunity. We also remain committed to a long-term diversification strategy with an allocation to high quality fixed-income assets even in times of booming equity investments. In addition, our prudent distribution policies provide a structured method of making distributions from an endowment that protects the stream from inflation thus creating a predictable annual distribution and allows the Investment Committee to focus on maximizing total investment return.

Since 1989, we have employed a distribution policy that permits endowments to capitalize on good investment years as well as protect them in low or negative return markets. Cash distributions from most of the endowment funds we administer are based upon a spending policy that calls for distributing 5 percent of the fund’s average market value. The remaining investment return is left in the fund to increase the value. The annual distribution amount is based upon a rolling quarter average of the fund’s market value. Effective FY2011 we will increase the number of quarters from eight to 12 thus further protecting the distribution from market fluctuations.
### General Pool  Composite Indices

<table>
<thead>
<tr>
<th>Year Ended</th>
<th>General Pool Rate of Return</th>
<th>Composite Indices (Note A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 2010</td>
<td>12.28%</td>
<td>12.99%</td>
</tr>
<tr>
<td>June 30, 2009</td>
<td>-15.20%</td>
<td>-14.61%</td>
</tr>
<tr>
<td>June 30, 2008</td>
<td>-5.94%</td>
<td>-3.23%</td>
</tr>
<tr>
<td>June 30, 2007</td>
<td>15.40%</td>
<td>13.68%</td>
</tr>
<tr>
<td>June 30, 2006</td>
<td>5.54%</td>
<td>6.82%</td>
</tr>
<tr>
<td>June 30, 2005</td>
<td>5.76%</td>
<td>7.52%</td>
</tr>
<tr>
<td>June 30, 2004</td>
<td>12.39%</td>
<td>15.03%</td>
</tr>
<tr>
<td>June 30, 2003</td>
<td>3.96%</td>
<td>5.28%</td>
</tr>
<tr>
<td>June 30, 2002</td>
<td>-8.83%</td>
<td>-5.58%</td>
</tr>
<tr>
<td>June 30, 2001</td>
<td>-5.78%</td>
<td>-5.65%</td>
</tr>
</tbody>
</table>

**Ten Years Compounded (Note A)**

2.78% 1.48%

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**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.