



2003-04 Investment Performance Report

Ten Year Investment Performance Exceeds 10%

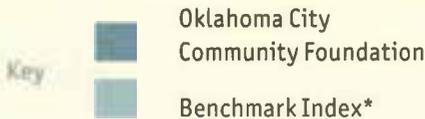
Albert Einstein once commented that the greatest invention of modern man was compound interest. The power of compounding is especially important for the investment of endowment funds. For the 10-year period, 1995-2004, our general investment pool had a compounded annual rate of return of nearly 10.3 percent, exceeding the benchmark of 9.29 percent. For example, a \$50,000 fund could grow to \$133,000 with this type of long-term investment performance.

Asset allocation and investment discipline are two critical elements for good long-term investment returns. Different asset classes will do well at various times. The discipline of rebalancing to maintain

proper diversification contributes to the long-term performance.

Investment performance for endowments produces income and provides growth to protect the income stream from inflation. The 10-year investment performance of the Oklahoma City Community Foundation provided an annual distributions of 5 percent of the average market value to charity and still added 42 percent more than inflation to the real value of the endowment. We are pleased with our FY2004 return of 15.03 percent. We are even prouder of our 10-year return of 10.28 percent because of the real long-term growth it has provided to our funds.

Investment Performance Pooled Investments



*A weighted average of S&P500 and Lehman G/C Int.

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 diversification among the asset classes is possible because of the large size of our investment pool. Also, the economies of scale produce an extremely favorable fee structure. The estimate of management

fees and custody/transactions charges for these assets for the FY2005 year is 48 basis points. The Oklahoma City Community Foundation asset allocation model for pooled investments is shown below. Our Investment Committee continually monitors the percentage allocations and rebalances among the asset classes as needed.

Asset Class Target Percentage Allocation

As of 6/30/04

Large Cap Value 18%	Large Cap Core 21%	Large Cap Growth 22%
Small/Mid Cap Value 13%	Small Cap Core 13%	Small/Mid Cap Growth 13%

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%	Small/Mid Cap Growth	10-20%
Large Cap Growth	15-25%	Large Cap Core	10-30%
Small/Mid Cap Value	10-20%	Small Cap Core	10-20%

For Investment Definitions see page 2.

Distribution Policy Benefits Endowment Funds

Of primary importance to any endowment program is 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 incomes, 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.

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.

"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."

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.

Investment and Distribution Policies Are Top Priority

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 nearly 900 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. For more information on the investment and distribution policies, please contact Carla Pickrell at 405/235-5603 or c.pickrell@occf.org.

Investment Committee 2003-04



Ronald J. Norick, CHAIRMAN
Norick Investments
Former Mayor of Oklahoma City



J. Edward Barth
PAST PRESIDENT, OKLAHOMA CITY COMMUNITY FOUNDATION
Attorney, Andrews Davis



Kenneth R. Brown
KRB & Associates



James Daniel
Vice Chairman, Bancfirst



Paul W. Dudman
Attorney, Fellers Snider Blankenship Baily & Tippens



Nicholas Duncan
President, Global Data



Kirkland Hall
2003-04 TREASURER, OKLAHOMA CITY COMMUNITY FOUNDATION
Fred Jones Industries



James H. Holloman, Jr.
PRESIDENT, OKLAHOMA CITY COMMUNITY FOUNDATION
Attorney, Crowe & Dunlevy



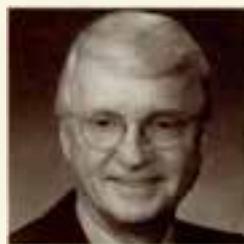
William O. Johnstone
PAST PRESIDENT, OKLAHOMA CITY COMMUNITY FOUNDATION
Council Oak Partners, LLC



Christian Keesee
Chairman, Kirkpatrick Bank



Jenee Naifeh Lister
Investment Advisor, Merrill-Lynch



John Linehan
Retired CFO, Kerr-McGee Corporation

James Hotchkiss
Hotchkiss & Associates
208 S. LaSalle Street
Chicago, IL 60604

INVESTMENT COUNSEL

Effective 6/30/04

General Pool Investment Managers

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

Earnest Partners, *Atlanta, GA*

SMALL/MID CAP GROWTH

Columbus Circle, *Stamford, CT*

LARGE CAP CORE

Barclays Global Investors, *San Francisco, CA*

SMALL CAP CORE

Kalmar Investors, *Wilmington, DE*

FIXED INCOME

Banc One Investment Advisors, *Columbus, OH & Oklahoma City, OK*
Bank of Oklahoma, *Oklahoma City, OK*
Barclays Global Investors, *San Francisco, CA*

2003-04
Investment
Performance **Report**

Pooled Investments Performance Summary

Manager	% of Total		Rate of Return
	Portfolio	% of Asset Class	Year Ended
	June 30, 2004	June 30, 2004	June 30, 2004
EQUITY			
LARGE CAP VALUE			
Wedge Capital Management	6.63%	9.87%	28.25%
Barclays Russell 1000 Value Index Fund	5.88%	8.76%	19.47%
Russell 1000 Value			21.13%
LARGE CAP GROWTH			
Holt-Smith & Yates	7.10%	10.58%	15.69%
Seneca Capital	6.85%	10.20%	13.89%
Russell 1000 Growth			17.90%
SMALL/MID CAP VALUE			
Earnest Partners	6.43%	9.59%	7.94%*
Russell 2000 Value			35.18%
SMALL/MID CAP GROWTH			
Columbus Circle Investors	7.12%	10.60%	25.82%
Russell 2500 Growth			30.12%
CORE			
Barclays Russell 1000 Index Fund	18.39%	27.39%	16.82%*
Russell 1000			19.47%
Kalmar Investments	8.73%	13.01%	35.05%
Russell 2000			33.35%
TOTAL EQUITIES	<u>67.13%</u>	<u>100.00%</u>	22.76%
S&P500 Stock Index			19.10%
FIXED INCOME			
Banc One	20.81%		.24%
Bank of Oklahoma	8.35%		1.00%
Barclays 1-3 yr. Treasury Bond Index	3.71%		-.73%*
TOTAL FIXED INCOME	<u>32.87%</u>		.52%
Lehman G/C Int. Index			-.06%
Lehman 1-3 Govt			.47%
TOTAL POOLED INVESTMENTS	<u>100.00%</u>		15.03%
Composite Indices			
65% S&P500 / 35% Lehman G/C Int.			12.39%

* Partial Period

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, 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%
June 30, 1996	16.62%	15.54%
June 30, 1995	18.52%	18.28%
Ten Years Compounded (Note A)	10.28%	9.29%

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 was changed to 65% equity and 35% fixed income.

Board of Trustees

2004-05

James H. Holloman Jr. President	John E. Kirkpatrick Founding Trustee
Ronald J. Norick	John Green
Paul B. Odom Jr.	Jane Jayroe
Kirkland Hall	Christian Keesee
James Clark	Judy Love
Nancy L. Coats	Stephen Mason
James Daniel	J. Larry Nichols
Paul W. Dudman	William Shdeed

Oklahoma City Community Foundation
P.O. Box 1146 73101-1146
1300 N. Broadway Dr.
Oklahoma City, OK 73103

405/235-5603 fax 405/235-5612 www.occf.org