

2008–09

Investment Performance Report

OKLAHOMA CITY COMMUNITY FOUNDATION | FALL 2009

Commitment to quality, diversified investments helps buffer impact of volatile markets

For the fiscal year ending June 30, 2009, the Oklahoma City Community Foundation's general investment pool had a total return of -14.61 percent. This annual return included one of the worst quarters in our 40-year history, -11.78 percent in the December 31 quarter, and one of the best quarters, 9.01 percent in the June 30 quarter. The volatility of the financial markets throughout the entire year has been well-noted in the press and felt in every sector of the world economy. While negative results are clearly not our investment goal, we were pleased to finish the year on a very positive note. As endowment fund investors, we have a long-term horizon. FY2009 was quite an investment storm, but we think that we have weathered through the worst and have opportunities for good investment returns in the coming quarters.

The investment performance awards for FY2009 will go to the "best of the worst." The average return for the 290 foundation endowments reporting to the Commonfund Benchmark Survey was -26.0 percent. Our return was in the top 20 percent for this group of foundations and our average investment cost of 37 basis points (0.37 percent) was less than half of the median cost of 69 basis points reported by the Commonfund survey.

Our better-than-average return resulted from a number of both long-term and timely investment strategies. First and most importantly, we have maintained a long-term diversification strategy with an allocation to high quality fixed-income assets, even in times of booming equity investments. That allocation and an investment commitment to high quality government bonds by fixed income managers produced a significant positive return of

The time horizon for our endowment assets is perpetual. We have and will continue to maintain the discipline required for a long-term investment strategy while utilizing short-term tactical allocations to add value when there is opportunity.

5.38 percent for fixed-income investments for FY2009. Second, the Investment Committee had a very disciplined approach to rebalancing which it followed throughout the year. It did not sell out of equity positions and achieved a significant rebound in the fourth quarter as equities came back. Third, we did not have any illiquid investments, and in fact, maintained a larger-than-normal cash position, which provided plenty of liquidity to meet the cash requirements for grants and distributions.

The time horizon for our endowment assets is perpetual. We have and will continue to maintain the discipline required for a long-term investment strategy while utilizing short-term tactical allocations to add value when there is opportunity. The Investment Committee and our investment counsel, Hotchkiss Associates LLC, are all very committed to long-term. And while FY2009 was certainly a test of the commitment to this discipline, we survived the test and are looking forward to the positive rewards that will come from continuing commitment to both diversification and quality investments.

Distribution Policy stabilizes economic impact on endowments

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 endowments to capitalize on good investment years as well as protect in the event of a low or negative return market. The extreme experience of declining markets in the past months underlines the importance of a policy that smooths the effects of market conditions on annual 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 over time protects future distributions from inflation. Our policy ensures that 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 12, 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.

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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 will 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 calls for a bias to equities in the asset allocation.

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 FY2009, 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 that returns 8 percent over a 10-year period, this cost difference means approximately \$6,400 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.

Diversification is a hallmark of a solid endowment investment policy and is one of the greatest advantages our investment program offers.

Oklahoma City Community Foundation Investment Policy: 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.

These objectives lead to a portfolio of high-quality 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 Barclays 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.

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. Instead, 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 will increase in value over time even if there are no additional contributions to the fund."

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. Due to the size of our investment pool, this level of equity exposure is available so that even the smallest funds benefit.

All Oklahoma City Community Foundation investments are overseen by an active committee of community leaders with strong investment expertise and are led by Hotchkiss Associates, LLC, an investment counsel that is an affiliate of United Capital Financial Advisers, Inc. (Please see page 3 for a list of committee members and investment managers). All funds benefit from the expertise of this committee and their efforts to provide the best investment product at the most efficient price. For 40 years, the Oklahoma City Community Foundation has been the leading advocate for building endowment funds in the community. Utilizing a large investment pool that allows us to keep fees low is one of the greatest advantages we provide to the endowments we administer.

Investment Terms | 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 \$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.

General Pool Investment Managers *Effective 6/30/09*

EQUITY

LARGE CAP VALUE

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

LARGE CAP GROWTH

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*
Aberdeen Asset Management, *Philadelphia, PA*

LARGE CAP CORE

Barclays Global Investors, *San Francisco, CA*

SMALL CAP CORE

Kalmar Investors, *Wilmington, DE*
Barclays Global Investors, *San Francisco, CA*

HIGH YIELD BONDS

Wells Capital Management, *San Francisco, CA*

FIXED INCOME

JP Morgan Asset Management, *Columbus, OH & Oklahoma City, OK*

Bank of Oklahoma, *Oklahoma City, OK*

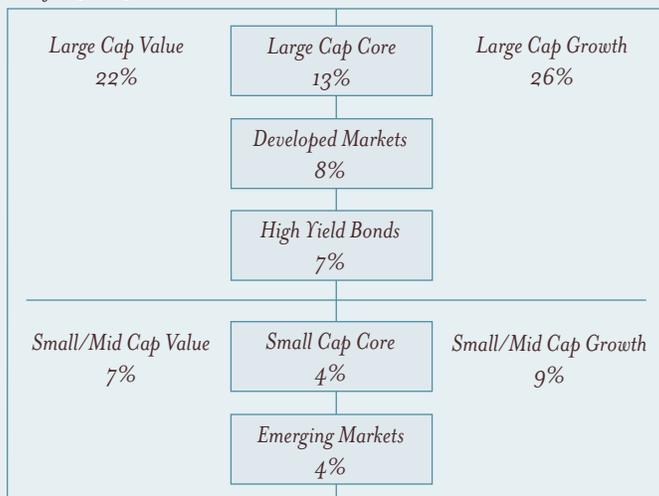
Barclays Global Investors, *San Francisco, CA*

TOTAL RETURN	Year Ended June 30, 2009	Three Years Ended June 30, 2009	Five Years Ended June 30, 2009	Ten Years Ended June 30, 2009
Oklahoma City Community Foundation	-14.61%	-2.06%	1.53%	2.53%
S&P 500/Barclays G/C Int *	-15.20%	-2.72%	.55%	.91%

* Composite benchmark indices based upon applicable asset allocation.

Asset Class Target Percentage Allocation

As of 6/30/09



Asset Allocation Model - General Pool

	Target	Range
Equity	62.5%	40-70%
Fixed Income	32.5%	30-60%
Cash	5.0%	0-10%

Targeted Asset Class Ranges

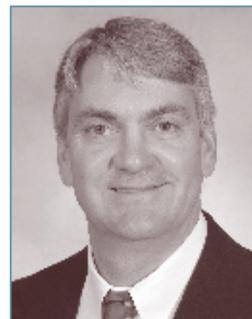
Large Cap Value	12-24%	Small/Mid Cap Value	4-16%
Large Cap Growth	12-24%	Small/Mid Cap Growth	4-16%
Large Cap Core	20-48%	Small Cap Core	7-24%
Developed Markets	0-10%	Emerging Markets	0-5%
High Yield Bonds	0-7%		

For Investment Definitions see page 2.

Investment Committee 2008-09



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2008-09

Investment Performance Report

Pooled Investments Performance Summary

Manager	% of Total		Rate of Return
	Portfolio	% of Asset Class	Year Ended
	June 30, 2009	June 30, 2009	June 30, 2009
EQUITY			
LARGE CAP VALUE			
Wedge Capital Management	6.71%	11.38%	-26.53%
Barclays Russell 1000 Value Index Fund	4.86%	8.23%	-29.04%
Russell 1000 Value			-29.03%
LARGE CAP GROWTH			
Barclays Russell 1000 Growth Index Fund	15.36%	26.02%	-24.2%
Russell 1000 Growth			-24.49%
SMALL/MID CAP VALUE			
Earnest Partners	4.40%	7.46%	-27.51%
Russell 2000 Value			-25.25%
SMALL/MID CAP GROWTH			
Columbus Circle Investors	5.03%	8.52%	-35.96%
Russell 2500 Growth			-27.30%
INTERNATIONAL			
Barclays EAFE Index Fund	4.03%	6.83%	-31.17%
MSCI EAFE (US\$) Net			-31.36%
Barclays Emerging Markets Index Fund	.94%	1.59%	-26.31%
Aberdeen Emerging Markets Fund	1.41%	2.39%	52.24%*
MSCI EMF (Gross) Index			-27.82%
CORE			
Barclays Russell 1000 Index Fund	10.41%	17.63%	-25.89%
Russell 1000			-26.69%
Kalmar Investments	3.69%	6.26%	-27.68%
Barclays Russell 2000 Index Fund	.01%	.02%	-24.24%
Russell 2000			-25.01%
HIGH YIELD BONDS			
Wells Capital Management Sutter Fund	2.17%	3.67%	2.92%*
TOTAL EQUITIES		100.00%	-27.34%
S&P500 Stock Index			-26.22%
FIXED INCOME			
JPMorgan	22.15%	60.91%	7.59%
Bank of Oklahoma	14.16%	38.94%	2.13%
Barclays 1-3yr. Treasury Bond Index Fund	.05%	.14%	3.78%
TOTAL FIXED INCOME		100.00%	5.38%
Barclays G/C Int. Index			5.27%
Barclays 1-3 Govt			4.94%
CASH			
JPMorgan Money Market Fund	4.63%		1.21%
TOTAL POOLED INVESTMENTS		100.00%	-14.61%
Composite Indices			
65% S&P500/35% Barclays G/C Int.			-15.20%

Year Ended	General Pool Rate of Return	Composite Indices (Note A)
June 30, 2009	-14.61%	-15.20%
June 30, 2008	-3.23%	-5.94%
June 30, 2007	13.68%	15.40%
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%
Ten Years Compounded (Note A)	2.53%	.91%

Note A: Equity performance is compared to the Standard and Poor's 500 stock index (S&P500); fixed income performance is compared to the Barclays Government/Credit Intermediate bond index (Barclays G/C Int.); and total return is compared to the composite of these indices with weighting based upon applicable asset allocation. For the past 10 years, the allocation benchmark has been 65% equity and 35% fixed income.



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* 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.