

2010-11

INVESTMENT PERFORMANCE REPORT

OKLAHOMA CITY COMMUNITY FOUNDATION | FALL 2011

FY2011 Investment Performance Exceeds 21 percent

The Oklahoma City Community Foundation is pleased to report a return of 21.57 percent on its pooled investments for the fiscal year ending June 30, 2011. The return represents the best fiscal year return in the 18-year history of the pooled investment fund. In addition, it follows a return of 12.99 percent for FY2010 for a compounded total return for the pooled fund over the past two years of 37.4 percent.

“The strong performance over the past two years represents our dedication to a proven process for allocation and review and a commitment to quality, diversified investments,” says Nancy B. Anthony, executive director. “I commend our Investment Committee and money managers for keeping our long-term investment perspective in mind but also seizing opportunities for tactical allocations that add value. Both the Investment Committee and our Board of Trustees view these responsibilities among the most important that we provide as managers of the community’s endowment.”

Mrs. Anthony noted that the past three years of investment performance have represented the lowest return in the organization’s history (FY2009 return of -14.61 percent) and the organization’s highest return as witnessed in FY2011.

The Oklahoma City Community Foundation uses eight active managers, six for equities and two for fixed income investments (*managers listed on page 2*). It complements its asset allocation to these managers with six index funds. Approximately 60 percent of the pooled investments are actively managed. While the volatility of the markets in recent years has been a challenge, our Investment Committee has been disciplined in staying with its policy that emphasizes diversification of assets, quality investments and a long-term perspective.

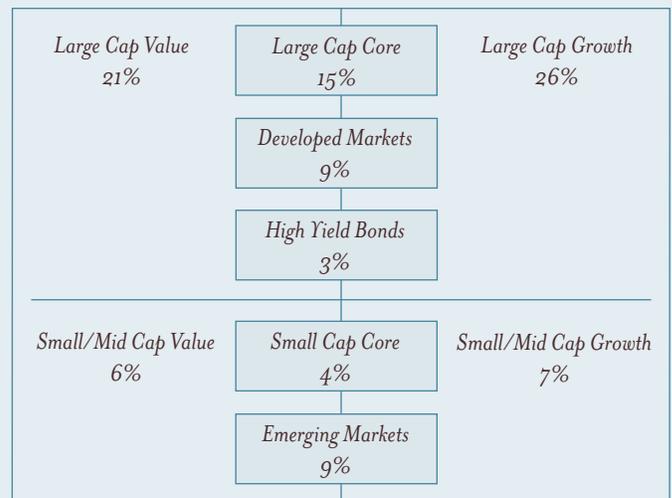
“Because the time horizon for the endowment assets we administer is perpetual, it is vital that we continue to maintain the discipline required for a longtime investment strategy combined with prudent distribution policies that produce the maximum number of dollars for charitable causes and organizations,” Mrs. Anthony added. “We especially appreciate the attention and diligence of our Investment Committee and the guidance of our investment counsel, Jack Marringa of Hotchkiss Associates, LLC.”

As of 6/30/11

Asset Allocation Model - General Pool

	Target	Range
Equity	62.5%	40-70%
Fixed Income	37.5%	30-60%
Cash	0%	0-10%

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%
High Yield Bonds	0-7%		

For Investment Definitions see page 2.

Our Investment Policy and Low Cost Benefit Funds

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. Achieving good investment results through active management and diversification is a key goal of our Trustees and Investment Committee members.

Our investment policy 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 field of expertise. The asset allocation between equity and fixed income investments allows for growth in value and stability in distribution expectations over time. For FY2011, we used eight active managers – six for equities and two for fixed income investments. As of June 30, 2011, our asset allocation was 62.5 percent in equities and 37.5 percent in fixed income investments.

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The low cost and efficient operation of our investment program benefits both large and small endowments. As a result, we have been able to produce annualized returns at a cost that is much lower than mutual funds or other balanced fund alternatives. For FY2011, the cost of investments at the

Oklahoma City Community Foundation was 33 basis points, compared to more than 100 basis points for the average mutual fund or active equity fund manager requiring a minimum account.

Diversification is a hallmark of a strong endowment investment policy and is one of the greatest benefits our investment program

offers. Our general investment pool is invested in several classes of domestic equities, in a range of fixed income securities and also has exposure to international markets. We provided a “diversified” portfolio by allocating assets to highly qualified managers in a wide range of investment classes. Due to the size of our investment pool, we are able to provide quality investments to any fund size.

Distribution Policy Helps to Stabilize Economic Impact

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, has proven the wisdom of a policy which stabilizes the effects of market conditions on distributions from an endowment.

Cash distributions from a majority 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 12 to 20, depending upon the type of fund.

There is general consensus among large educational and institutional endowment managers across the country 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.

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 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, thus allowing investment managers to focus on achieving the best total return. This is especially important because of the goal of increasing the endowment fund value. The 5 percent spending rule allows growth to occur even if there are no additional contributions to the endowment fund.

General Pool Investment Active Managers as of 6/30/2011

EQUITIES

Large Cap Value

Wedge Capital Management, *Charlotte, NC*

Small/Mid Cap Growth

Columbus Circle Investors, *Stamford, CT*

Small/Mid Cap Value

Earnest Partners, *Atlanta, GA*

Small Cap Core

Kalmar Investors, *Wilmington, DE*

International Emerging Markets

Aberdeen Asset Management, *Philadelphia, PA*

High Yield Bonds

Wells Fargo Capital Management, *San Francisco, CA*

FIXED INCOME

Bank of Oklahoma, *Oklahoma City, OK*

J. P. Morgan Asset Management, *Columbus OH & Oklahoma City, OK*

Investment Terms

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. P/E ratio is market price per share divided by earnings per share.

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.

Fixed Income – An investment that provides income in the form of fixed periodic payments and the eventual return of principal at maturity. Income is not impacted by the rate of inflation or interest rates. Examples of fixed income investments include government bonds, certificate of deposits, money market and preferred stock.

Benchmark – A standard against which the performance of an individual security or group of securities is measured. The

Oklahoma City Community Foundation uses the Standard & Poor’s 500 Stock Index (S&P500) to measure performance of equities investment and Barclays Government/Credit Intermediate (Barclays G/C Int.) bond index to measure fixed income performance.

Developed Market – Investments made in countries considered more developed, less risky than emerging markets.

Emerging Market – Investments made in nations with social or business activity in the process of rapid growth and industrialization.

High Yield Bonds – Bonds that are rated below investment grade at the time of purchase.

Total Return – When measuring performance, the actual rate of return of an investment or pool of investments over a given evaluation period. Total return includes interest, capital gains, dividends and distribution realized over a given time period.

Pooled Investments Performance Summary

Manager	% of Total		Rate of Return
	Portfolio	% of Asset Class	Year Ended
	June 30, 2011	June 30, 2011	June 30, 2011
EQUITY			
LARGE CAP VALUE			
<i>Wedge Capital Management</i>	6.66%	10.76%	21.72%
<i>BlackRock Russell 1000 Value Index Fund</i>	6.57%	10.60%	29.04%
<i>Russell 1000 Value</i>			28.94%
LARGE CAP GROWTH			
<i>BlackRock Russell 1000 Growth Index Fund</i>	16.23%	26.20%	35.02%
<i>Russell 1000 Growth</i>			35.01%
SMALL/MID CAP VALUE			
<i>Earnest Partners</i>	3.89%	6.28%	35.20%
<i>Russell 2000 Value</i>			31.35%
SMALL/MID CAP GROWTH			
<i>Columbus Circle Investors</i>	4.78%	7.72%	44.74%
<i>Russell 2500 Growth</i>			44.71%
INTERNATIONAL			
<i>BlackRock EAFE Index Fund</i>	4.60%	7.43%	30.41%
<i>MSCI EAFE (US\$) Net</i>			30.36%
<i>BlackRock Emerging Markets Index Fund</i>	0.56%	0.90%	27.64%
<i>Aberdeen Emerging Markets Fund</i>	4.49%	7.25%	31.14%
<i>MSCI EMF (Gross) Index</i>			28.17%
CORE			
<i>BlackRock Russell 1000 Index Fund</i>	9.69%	15.64%	31.51%
<i>Russell 1000</i>			31.93%
<i>Kalmar Investments</i>	2.51%	4.06%	49.53%
<i>BlackRock Russell 2000 Index Fund</i>	0.01%	0.02%	37.62%
<i>Russell 2000</i>			37.41%
HIGH YIELD BONDS			
<i>Wells Fargo High Yield Bd Fd</i>	1.95%	3.15%	12.60%
<i>CFSB High Yield Bond Index</i>			14.17%
TOTAL EQUITIES	61.95%	100.00%	32.36%
<i>S&P500 Stock Index</i>			30.68%
FIXED INCOME			
<i>JPMorgan</i>	19.08%	51.33%	3.96%
<i>Bank of Oklahoma</i>	17.13%	46.10%	4.38%
<i>BlackRock 1-3yr. Treasury Bond Index Fund</i>	0.96%	2.57%	1.29%
TOTAL FIXED INCOME	37.17%	100.00%	4.08%
<i>Barclays Capital G/C Int. Index</i>			3.77%
<i>Barclays Capital 1-3 Govt</i>			1.38%
CASH			
<i>JPMorgan Money Market Fund</i>	0.88%	100.00%	0.7%
TOTAL POOLED INVESTMENTS	100.00%		21.57%
Composite Indices			
<i>65% S&P500 / 35% Barclays Capital G/C Int.</i>			21.26%

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)
<i>June 30, 2011</i>	21.57%	21.26%
<i>June 30, 2010</i>	12.99%	12.28%
<i>June 30, 2009</i>	-14.61%	-15.20%
<i>June 30, 2008</i>	-3.23%	-5.94%
<i>June 30, 2007</i>	13.68%	15.40%
<i>June 30, 2006</i>	6.82%	5.54%
<i>June 30, 2005</i>	7.52%	5.76%
<i>June 30, 2004</i>	15.03%	12.39%
<i>June 30, 2003</i>	5.28%	3.96%
<i>June 30, 2002</i>	-5.58%	-8.83%
Ten Years Compounded (Note A)	5.42%	4.07%

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 Capital 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.

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Investment Performance Pooled Investments

	Year Ended June 30, 2011	Three Years Ended June 30, 2011	Five Years Ended June 30, 2011	Ten Years Ended June 30, 2011
EQUITIES				
Community Foundation	32.36%	3.98%	3.79%	4.32%
S&P 500	30.68%	3.33%	2.94%	2.72%
FIXED INCOME				
Community Foundation	4.08%	5.78%	6.21%	5.60%
Barclays Capital G/C Int	3.77%	5.75%	6.08%	5.34%
TOTAL RETURN				
Oklahoma City Community Foundation	21.57%	5.45%	5.23%	5.42%
65% S&P 500/35% Barclays Capital G/C Int	21.26%	4.90%	4.62%	4.07%

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