

# Investment Performance Report

## Our Investment Management Process

A key goal of the Oklahoma City Community Foundation Trustees and our Investment Committee is to achieve good investment returns that allow for annual distributions from endowment funds, help increase the value of the funds and ensure the endowments exist for the future.

While the markets can be volatile, our intent is to have a strong process for allocation and review. We are fortunate to have a committee that is well-informed and actively involved. We have always been transparent about our investment process and the results and we are pleased that our efforts have resulted in a solid investment product for our donors and the charitable organizations.

### Investment Committee

Our Investment Committee comprises of six Trustees or past Trustees and three community leaders who are knowledgeable about investments. The members of the Investment Committee for FY2012 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. During 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 performs one of the most important functions that we offer to support donors and charitable endowment funds.

### Investment Consultant

Since 1988, Hotchkiss Associates has served as our investment consulting firm. Jack Marringa is the principal who serves as the direct contact with the committee and our staff. Based in Chicago, Hotchkiss Associates is a division of United Capital Financial Advisors. In addition to monitoring investment performance and making recommendations about asset allocation, Mr. Marringa and the firm assists with the selection of style-specific managers to implement our allocation policy.

### Our Investment Process

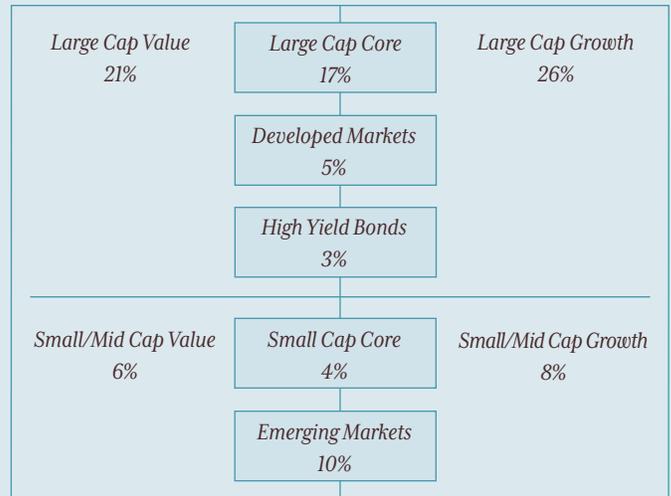
Our management process begins with the committee's determination of percentage of the assets to be allocated between equities, fixed

As of Fiscal Year ending June 30, 2012

### Asset Allocation Model - General Pool

	Target	Range
Equity	65%	40-70%
Fixed Income	35%	30-60%
Cash	0%	0%

### 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	0-10%		

For Investment Definitions see page 2.

See **PROCESS** on next page

## Maintaining a disciplined approach to investment management

Since our founding in 1969, the Oklahoma City Community Foundation has been central Oklahoma's leading advocate for building endowment funds through not only support from donors but also through sound investment and distribution strategies. Our investment policy benefits all endowments, large and small, because we balance the use of active managers and index funds in a way that maximizes the opportunity for adding value while keeping the cost low. As a result, we have produced annualized returns over 10 years that exceed the markets but at a cost much lower than mutual

funds or other balanced fund alternatives.

Our investment policy is specifically designed for an endowment fund to provide annual distributions for charitable purposes in perpetuity. Our investment policy has four major objectives:

- Capital preservation
- Inflation protection
- Continuing source of annual distribution for charitable purposes
- Investment return in the top third of professionally managed funds

Our Investment Committee uses a style-based investor management system and allocates assets to specific investment styles. The committee hires investment managers to manage a particular style. We use nine active managers; seven for equities and two for fixed income investments. Approximately 60 percent of the pooled investments are actively managed.

As endowment fund investors we have a perpetual horizon and maintain a disciplined

See **APPROACH** on next page

## Process

*Continued from previous page*

income securities and cash. Next, the committee determines the equity allocation among the various styles of equity management (see chart on page 1).

Once allocation is determined, the committee selects the style-specific managers. The managers' performance is evaluated

against the appropriate benchmark for their particular sector and their adherence to the specific style they have been engaged to manage. For FY2012, we had seven active equity managers listed below.

## Index Funds

In addition to these managers who actively select stocks in each of their respective sectors, we also use a group of index funds

to provide additional diversification within each sector. The return from the index funds is targeted to match the market, and the relatively low cost of these index funds assists us in maintaining a very low total cost for our investment operations. The primary provider of these index funds is BlackRock (New York) (formerly Barclays Global Investors) and the annual costs range from 5 basis points to 35 basis points.

## General Pool Investment Active Managers *as of 6/30/2012*

### Large Capitalization Value

**O'Shaughnessy Asset Management** (Stamford, Conn.) Hired in February 2012 and invests in companies with a market capitalization greater than \$10 billion and are classified as value stocks.

### Large Capitalization Core

**Saratoga Research and Investment Firm** (Saratoga, Calif.) Hired in February 2012, the firm's orientation is to high-quality companies at a price that provides an opportunity for appreciation.

### Small Capitalization Value

**Earnest Partners, LLC** (Atlanta, Ga.) Hired in 2003 and manages value stocks with capitalization of \$2 billion or less.

### Small/Mid Capitalization Growth

**Columbus Circle Investors** (Stamford, Conn.)

Hired in 2001 to manage stocks with a market capitalization of less than \$10 billion that are classified as growth stocks having good prospects for increasing revenue and earnings.

### Small Capitalization Core

**Kalmar Investments Inc.** (Wilmington, Del.) Hired in 1998, Kalmar's style is described as "growth with value" in the small-capitalization universe and is classified between both growth and value for asset allocation decisions.

### High Yield Bonds

**Wells Capital Management** (San Francisco, Calif.) Hired in 2009, Wells is a division of Wells Fargo and manages a portfolio of bonds with greater risk and higher yield than normal fixed income securities but still investment grade. The Investment Committee has classified this

asset with equities because of the type of risk associated with this asset class.

### International

**Aberdeen Asset Management** (U.S. headquarters in Philadelphia, Pa.) Hired in 2008, the firm is a global investment management group that provides an active manager component in the emerging markets sector.

### Fixed Income

Our fixed income investments are managed by **JP Morgan Chase Asset Management** and **BOK Financial**. Both of these institutions have a long history in our community and have worked with the Oklahoma City Community Foundation for many years.

## Approach

*Continued from previous page*

approach to long-term investment strategy while utilizing short-term tactical allocations to add value when opportunities arise. 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 policy (summarized below) provides 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.

While the volatility of the markets in recent years has been a challenge, our committee has remained disciplined in staying with a policy that emphasizes diversification of assets, quality investments and a long-term perspective. Both the committee and our Trustees view these responsibilities as among the most important that we provide as managers of the community's endowment.

## Distribution Policy

Since 1989, we have used 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 12-quarter average of the fund's market value. 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.

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

## 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, 2012	June 30, 2012	June 30, 2012
<b>EQUITY</b>			
<b>LARGE CAP VALUE</b>			
O'Shaughnessy Asset Mgmt.	2.87%	4.95%	N/A
BlackRock Russell 1000 Value Index Fund	9.58%	16.54%	1.74%
Russell 1000 Value			3.01%
<b>LARGE CAP GROWTH</b>			
BlackRock Russell 1000 Growth Index Fund	15.05%	25.97%	5.45%
Russell 1000 Growth			5.76%
<b>SMALL/MID CAP VALUE</b>			
Earnest Partners	3.54%	6.11%	-3.14%
Russell 2000 Value			-1.44%
<b>SMALL/MID CAP GROWTH</b>			
Columbus Circle Investors	4.34%	7.49%	-3.50%
Russell 2500 Growth			-3.19%
<b>INTERNATIONAL</b>			
BlackRock EAFE Index Fund	2.86%	4.93%	-13.50%
MSCI EAFE (US\$) Net			-13.83%
BlackRock Emerging Markets Index Fund	0.44%	0.76%	-16.02%
Aberdeen Emerging Markets Fund	5.01%	8.65%	-3.24%
MSCI EMF (Gross) Index			-13.38%
<b>CORE</b>			
BlackRock Russell 1000 Index Fund	7.12%	12.29%	3.85%
Saratoga	2.83%	4.88%	N/A
Russell 1000			3.01%
Kalmar Investments	2.32%	4.01%	-1.66%
BlackRock Russell 2000 Index Fund	0.01%	0.02%	-1.87%
Russell 2000			-2.08%
<b>HIGH YIELD BONDS</b>			
Wells Capital Management Sutter Fund	1.96%	3.38%	4.96%
CSFB High Yield Bond Index			7.30%
<b>TOTAL EQUITIES</b>	<b>57.96%</b>	<b>100.00%</b>	<b>0.30%</b>
S&P500 Stock Index			5.45%
Russell 3000			3.84%
<b>FIXED INCOME</b>			
JPMorgan	19.19%	46.02%	6.21%
Bank of Oklahoma	17.61%	42.23%	5.49%
Barclays 1-3 yr. Bond Fund	2.42%	5.80%	N/A
BlackRock 1-3 yr. Treasury Bond Index Fund	2.48%	5.95%	0.97%
<b>TOTAL FIXED INCOME</b>	<b>41.71%</b>	<b>100.00%</b>	<b>5.70%</b>
Barclays Capital G/C Int. Index			5.42%
Barclays Capital 1-3 Govt			0.86%
<b>CASH</b>			
JPMorgan Money Market Fund	0.34%		0.08%
<b>TOTAL POOLED INVESTMENTS</b>	<b>100.00%</b>		<b>2.31%</b>
<b>Composite Indices</b>			
65% S&P500 / 35% Barclays Capital G/C Int.			5.44%
50% Russell / 15% MSCI / 35% Inter			1.63%

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.

Fiscal Year Ended	General Pool Rate of Return	Composite Indices (Note A)	Allocation Benchmark (Note B)
June 30, 2012	2.31%	5.44%	1.63%
June 30, 2011	21.57%	21.26%	21.96%
June 30, 2010	12.99%	12.28%	12.32%
June 30, 2009	-14.61%	-15.20%	-16.09%
June 30, 2008	-3.23%	-5.94%	-4.76%
June 30, 2007	13.68%	15.40%	16.49%
June 30, 2006	6.82%	5.54%	8.90%
June 30, 2005	7.52%	5.76%	8.16%
June 30, 2004	15.03%	12.39%	15.01%
June 30, 2003	5.28%	3.96%	3.48%
<b>Ten Years Compounded (Note A)</b>	<b>6.27%</b>	<b>5.60%</b>	<b>6.17%</b>

Note A: 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.

Note B: Equity performance is compared to the Russell 3000 stock index and the MSCI ASWI 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.

## Investment Committee FY2012



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### Investment Counsel

Hotchkiss Associates, LLC  
303 W. Madison, Suite 1050, Chicago, Ill. 60606

\*FY2012 Trustee \*\*Past Trustee ■ Joined committee July 1, 2012



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## Investment Performance Pooled Investments

	Year Ended June 30, 2012	Three Years Ended June 30, 2012	Five Years Ended June 30, 2012	Ten Years Ended June 30, 2012
<b>EQUITIES</b>				
Oklahoma City Community Foundation	0.30%	15.77%	0.47%	5.94%
S&P 500	5.45%	16.38%	0.22%	5.33%
Russell 3000	3.84%	16.73%	0.39%	5.81%
MSCI ASW/exUS	-14.56%	6.96%	-4.62%	6.74%
<b>FIXED INCOME</b>				
Community Foundation	5.70%	5.89%	6.17%	5.26%
Barclays Capital G/C Int	5.42%	5.80%	6.01%	5.07%
<b>TOTAL RETURN</b>				
Oklahoma City Community Foundation	2.31%	12.00%	3.04%	6.27%
65% S&P 500/35% Barclays Capital G/C Int	5.44%	12.79%	2.75%	5.60%
50% Russell 3000/15% MSCI World/35% Barclays Capital G/C Int.	1.63%	11.65%	2.16%	6.17%

See Notes A & B on page 3.

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