

Investment Performance & Financial Report for Fiscal Year 2013

Fall 2013

Utilizing Index and Exchange Traded Funds

The Oklahoma City Community Foundation General Pool uses a combination of eight active managers and eight passive managers or index funds. This combination has provided steady investment returns for our endowments at an extremely low cost.

A portfolio of equity investments (stocks) can be classified as “actively managed” when the investment manager purchases securities according to a specific investment style such as growth or value. Manager performance is judged based on a market index which includes the return on all stocks in that particular style. Equities can also be “passively managed” by using the market index and buying a proportionate number of shares of large number of stocks so that the return is expected to be equal to the index. Active stock managers attempt to “beat” the index and passive managers (index funds or exchange traded funds known as “ETFs”) will track the index.

Endowment funds like the Oklahoma City Community Foundation judge their performance over time based on a benchmark which is a composite of indices of various sectors of the equity and fixed income markets. Because we want to at least match the composite benchmark and do better if possible, we employ a strategy that includes both active managers and index funds/ETFs. The advantage of the active manager is the possibility of doing better than the market and also being more flexible when the market is volatile. The active manager can move to cash to avoid downturns and invest in opportunities that are developing. The index fund has a much lower expense ratio than an active fund and has a much lower “turn-over” rate which also lowers expenses. This expense advantage can range from 0.7 percent to 1.0 percent per year. Compounded over several years this expense advantage can be significant.

Fiscal Year 2013's Investment Performance Total Return is 11.24%

We are pleased to report that our investment performance total return for fiscal year ending June 30, 2013 is 11.24%. Capital preservation, protection against inflation and long term growth are the fundamental objectives of our investment strategy. Please see page 5 for details of our investment performance for the year.

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The Oklahoma City Community Foundation General Investment Pool portfolio strategy is based on the “modern portfolio theory” which uses a number of asset classes for diversification and risk control, and then rebalances assets on a regular basis. Investment managers are hired for specific asset classes. In 2001, the Oklahoma City Community Foundation started using index funds for some of these asset classes. The advantage of the index fund was both lower costs as well as the ability to rebalance without significant expense. Generally we have used index funds for asset classes where the markets were “efficient” and it was more difficult for an active manager to have an advantage.

We have used Blackrock index funds because they track the Russell and MSCI indices that the investment policy uses to define our performance benchmarks.

As of June 30, 2013, 43.69 percent of the total portfolio in the General Pool was held in index funds and/or ETF funds. This included 36.53 percent of the equity allocation of 58.5 percent and 7.16 percent of the fixed income allocation of 40.55 percent. International stocks and small capitalization stocks are predominately actively managed. Larger capitalization allocations have been predominately invested in index funds for the past three years. For the past fiscal year, the total cost of investments for the General Pool was 0.33 percent. This compares favorably to an active manager or an equity mutual fund fee of 1.0 percent or more.

Studies comparing “active” and “passive” management generally find that active managers frequently underperform the index funds over a time period. However, the most famous active manager, Warren Buffet, has done extremely well ignoring the indices and rejecting the theory of efficient markets. The Oklahoma City Community Foundation tries to use both approaches to their best advantage.

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Fiscal Year 2013 Investment Committee

The committee includes both Trustees and non-Trustees who all have a strong investment expertise and volunteer their time and knowledge. The committee, along with investment counsel determines asset allocation between equity and fixed income sectors.



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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. In Fiscal Year 2013, our investment costs were 33 basis points or .33 percent.

Our investment policy is specifically designed for an endowment fund to provide annual distributions for charitable purposes in perpetuity. Our policy's goals are to allow the fund to generate distributions, grow to accommodate inflation and continue to exist in the future. 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 eight active managers; six for equities and two for fixed income investments. Approximately 56 percent of the pooled investments are actively managed.

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

Our Investment Committee remains 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 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 quarter average of the fund's market value. In 2011, we increased the number of quarters from eight to 12 thus further protecting the distribution from market fluctuations. 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 which allows managers to focus on achieving the best possible total return.

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.

General Pool Investment Active Managers as of 6/30/2013

Once the Investment Committee determines equity allocation, it then selects style-specific managers. The committee evaluates each manager's performance against the appropriate benchmark for their particular sector and their adherence to the specific style they have been engaged to manage. For Fiscal Year 2013, we had eight active managers, six for equities and two in fixed income investments.

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.

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.

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.

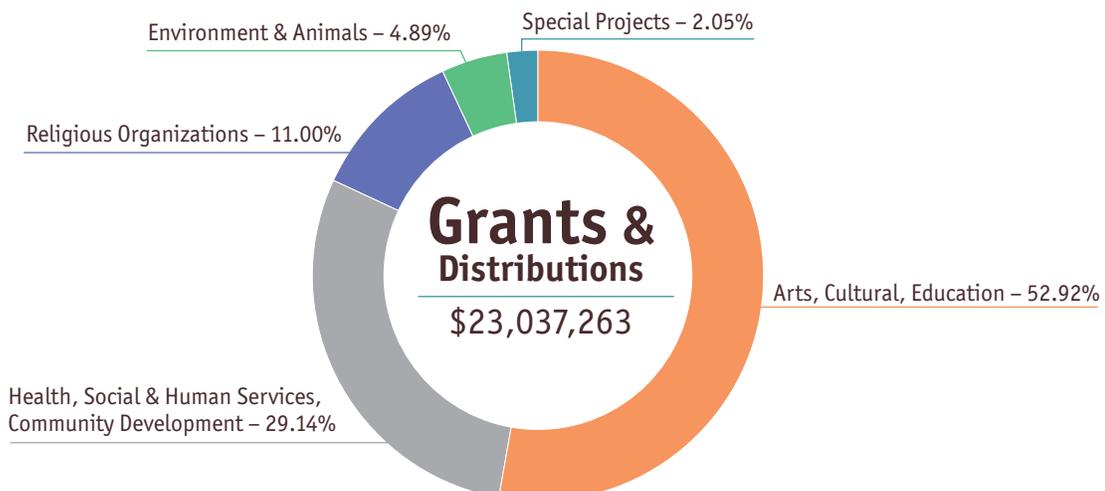
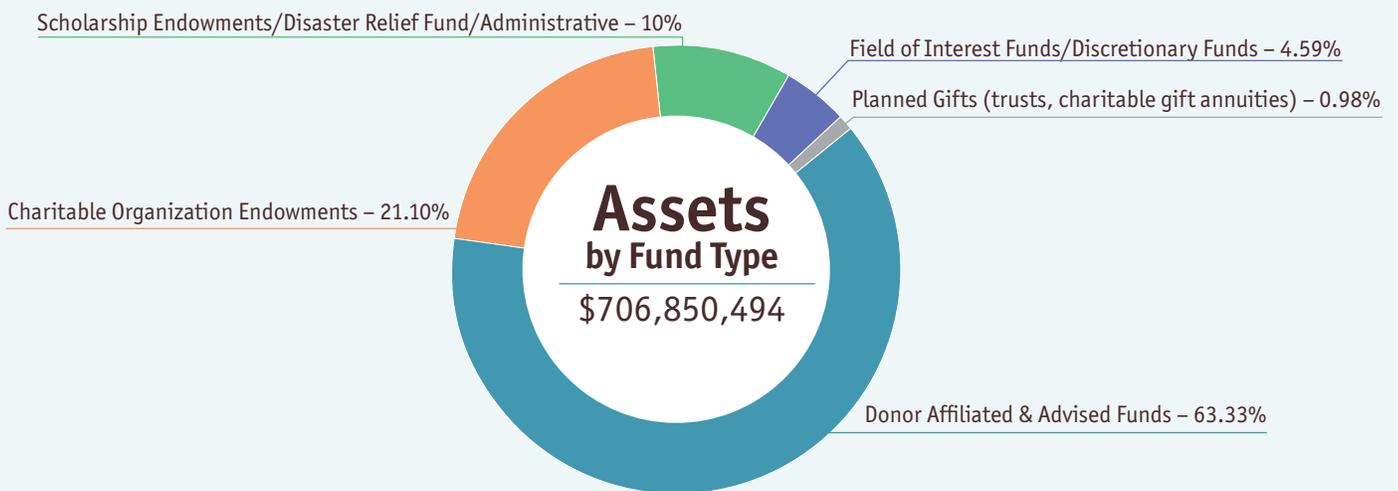
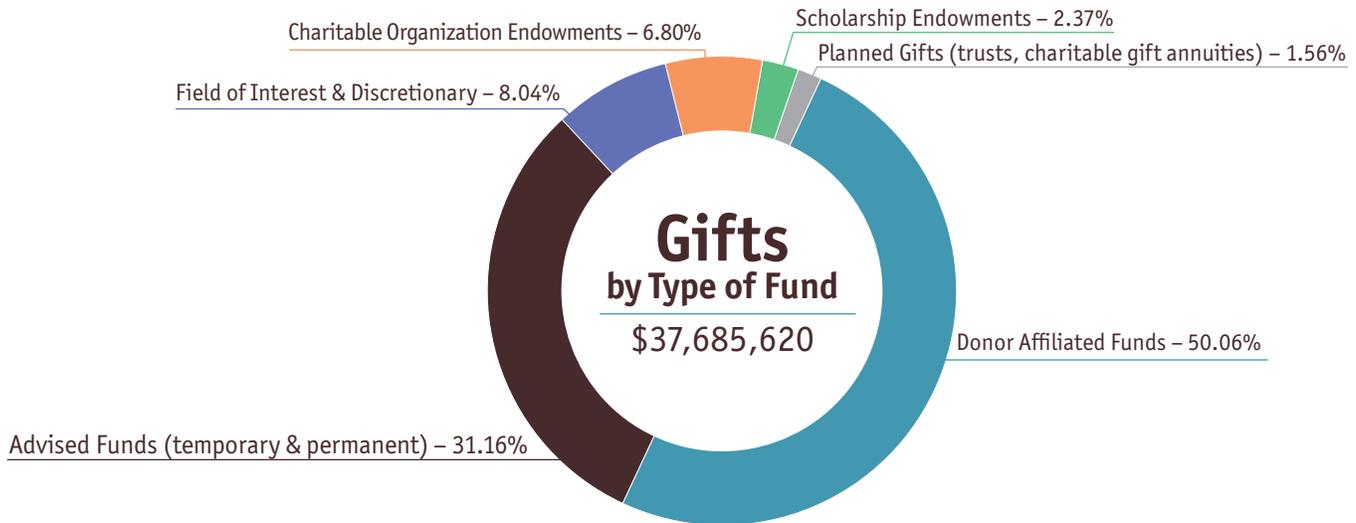
Emerging Market – Investments made in nations with social or business activity in the process of rapid growth and industrialization.

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.

Fiscal Year 2013 Financial Highlights

Below are summaries for Fiscal Year 2013 in regard to gifts, grants and distributions and total assets. The amount of gifts received is the highest total since 2008, mainly as a result of the more than \$2.5 million received for tornado recovery and approximately \$9.4 million from the transfer of assets of several trusts. We also ended Fiscal Year 2013 with the highest assets in our 44-year history. In all, there were 92 new funds established during the fiscal year, including 38 new advised funds. Our Fiscal Year 2013 audit will be available at www.occf.org/audit after Oct. 15, 2013.



Pooled Investments Performance Summary

Manager	% of Total		Rate of Return
	Portfolio	% of Asset Class	Year Ended
	June 30, 2013	June 30, 2013	June 30, 2013
EQUITY			
LARGE CAP VALUE			
O'Shaughnessy Asset Mgmt.	3.24%	5.53%	25.33%
BlackRock Russell 1000 Value Index Fund	9.48%	16.16%	24.90%
Russell 1000 Value			25.32%
LARGE CAP GROWTH			
BlackRock Russell 1000 Growth Index Fund	15.35%	26.19%	17.01%
Russell 1000 Growth			17.07%
SMALL/MID CAP VALUE			
Earnest Partners	3.54%	6.03%	28.48%
Russell 2000 Value			24.76%
SMALL/MID CAP GROWTH			
Columbus Circle Investors	4.48%	7.64%	14.84%
Russell 2500 Growth			24.03%
INTERNATIONAL			
BlackRock EAFE Index Fund	2.75%	4.69%	18.57%
MSCI EAFE (US\$) Net			18.62%
BlackRock Emerging Markets Index Fund	0.29%	0.50%	3.08%
Aberdeen Emerging Markets Fund	4.75%	8.10%	4.46%
MSCI EMF (Gross) Index			3.23%
CORE			
BlackRock Russell 1000 Index Fund	8.71%	14.87%	21.01%
Saratoga	2.94%	5.01%	15.02%
Russell 1000			21.24%
Kalmar Investments	3.08%	5.26%	23.35%
BlackRock Russell 2000 Index Fund	0.01%	0.02%	24.50%
Russell 2000			24.21%
HIGH YIELD BONDS			
Wells Capital Management Sutter Fund	0.00%	0.00%	11.56%
CSFB High Yield Bond Index			9.17%
TOTAL EQUITIES	58.62%	100.00%	18.53%
S&P500 Stock Index			20.60%
Russell 3000			21.46%
FIXED INCOME			
JPMorgan	17.36%	42.71%	-0.09%
Bank of Oklahoma	16.10%	39.61%	1.88%
Barclays 1-3 yr. Bond Fund	5.06%	12.44%	1.69%
BlackRock 1-3 yr. Treasury Bond Index Fund	2.11%	5.24%	0.35%
TOTAL FIXED INCOME	40.63%	100.00%	0.93%
Barclays Capital G/C Int. Index			0.28%
Barclays Capital 1-3 Govt			0.34%
CASH			
JPMorgan Money Market Fund	0.75%		0.04%
TOTAL POOLED INVESTMENTS	100.00%		11.24%
Composite Indices			
65% S&P500/35% Barclays Capital G/C Int.			13.15%
50% Russell/15% MSCI/35% Inter			12.58%

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 and the Russell 3000 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, 2013	11.24%	13.15%	12.58%
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%
Ten Years Compounded	6.78%	6.42%	6.96%

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.

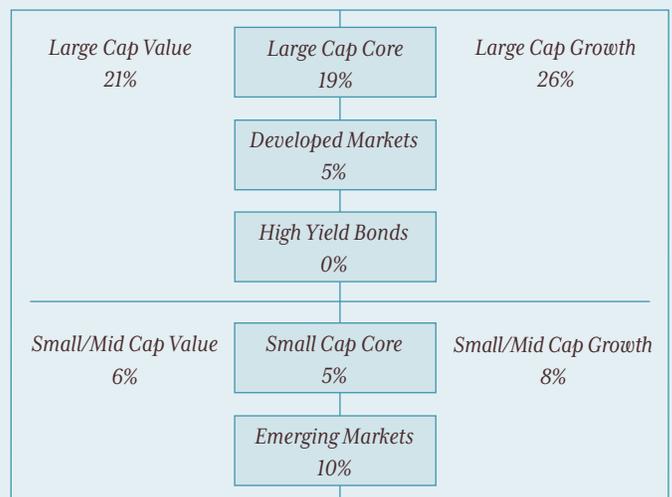
Note B: Equity performance is compared to the Russell 3000 stock index and the MSCI ASWI exUS International equity index; fixed income performance is compared to the Barclays Capital Government/Credit Intermediate bond index (Barclays Capital G/C Int) and total return is compared to a composite of these three indices.

As of Fiscal Year ending June 30, 2013

Asset Allocation Model - General Pool

	Target	Range
Equity	57.5%	40-70%
Fixed Income	37.5%	30-60%
Cash	5.0%	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	5-10%	Emerging Markets	5-10%
High Yield Bonds	0%		

For Investment Definitions see page 3.



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Fiscal Year 2013 Investment Performance Pooled Investments

	Year Ended June 30, 2013	Three Years Ended June 30, 2013	Five Years Ended June 30, 2013	Ten Years Ended June 30, 2013
EQUITIES				
Oklahoma City Community Foundation	18.53%	16.33%	6.00%	7.70%
S&P 500	20.60%	18.45%	7.01%	7.30%
Russell 3000	21.46%	18.63%	7.25%	7.81%
MSCI ASW/exUS	13.63%	7.99%	-0.80%	8.62%
FIXED INCOME				
Oklahoma City Community Foundation	0.93%	3.51%	4.75%	4.32%
Barclays Capital G/C Int	0.28%	3.14%	4.57%	4.03%
TOTAL RETURN				
Oklahoma City Community Foundation	11.24%	11.25%	5.87%	6.78%
65% S&P 500/35% Barclays Capital G/C Int	13.15%	13.11%	6.56%	6.42%
50% Russell 3000/15% MSCI World/35% Barclays Capital G/C Int.	12.58%	11.72%	5.60%	6.96%

See Notes A & B on page 5.

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Phone 405/235-5603

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