



## Our Spending Policy: Striking the Right Balance

Of primary importance to any permanent endowment program is a prudent approach to how the annual distribution amount is calculated. The Oklahoma City Community Foundation’s approach is to have a spending policy in place that provides a structured method of making annual distributions from an endowment fund. The spending policy protects the distribution amount from inflation, provides a predictable annual distribution and allows our Investment Committee and investment managers to focus on maximizing total investment return.

Since 1989, the Oklahoma City Community Foundation has employed a spending 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 economic volatility we experienced several years ago, where returns were on both extremes of investment performance, supports the wisdom of a spending policy that stabilizes the effects of market conditions on annual distribution from an endowment.

Annual distributions from the majority of permanent endowment funds administered by the Oklahoma City Community Foundation are based on a spending policy that distributes 5 percent of the fund’s average market value for the previous 12 quarters as of March 31. The remaining investment return remains in the fund to add to the value, thus building the fund value and protecting the future distribution stream from inflation. The annual distribution from the fund is more predictable because the amount is not tied to current income that fluctuates due to shifts in market conditions. Instead, the annual distribution is based on a rolling quarter average of the fund’s market value. Initially, the number of quarters used was eight but was changed to 12 quarters in 2011 to further stabilize the flow from stock market fluctuations.

We are pleased to report that the investment performance total return for the fiscal year ending June 30, 2014 is 14.56 percent. Please see page 5 for details of the overall investment performance.

“Large educational and institutional endowment managers across the country regard the 5 percent spending policy as a standard and a safe amount to distribute while still protecting the principal,” says Nancy B. Anthony, president, Oklahoma City Community Foundation.

The 5 percent figure is based upon an estimate of two factors: market return and inflation. A conservative prediction of average market return over time is 8 percent while it is 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.

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. The spending policy also allows our investment managers to focus on achieving the best total return.

“The total return concept is especially important because of our goal of growing endowment funds,” Anthony says. “There is an available annual distribution of 5 percent from an endowment fund that is increasing in value over time even if there are no additional donor contributions to the fund.”

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# Fiscal Year 2014 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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## Our Investment Management and Policy

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.

### Low Administrative Expenses & Investment Costs

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. We attempt to balance the level of services provided with a cost conscious approach. The administrative expenses over the last five years have averaged just under 40 basis points (40/100 of 1 percent).

The low cost and efficient operation of our investment management program benefits all endowment funds. For Fiscal Year 2014, our cost of investments was 33 basis points (33/100 of 1 percent) compared to more than 100 basis points charged for the average mutual fund or active equity fund manager that requires a large minimum account.

### Investment Policy & Investment Committee's Role

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 Committee uses a style-based investor management system and allocates assets to specific investment styles. The committee remains disciplined in staying with a policy that emphasizes diversification of assets, quality investments and

### 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

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.

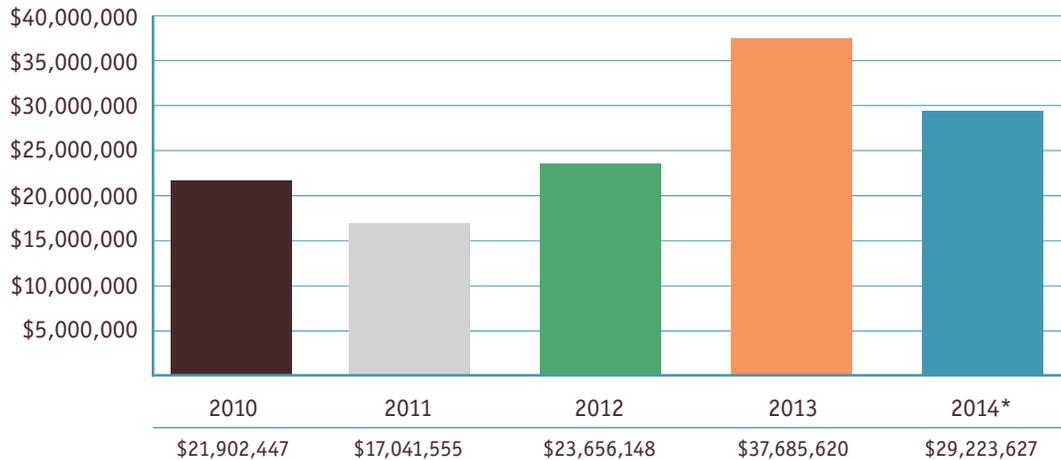
The committee hires investment managers to manage a particular style. We use seven active managers; five for equities and two for fixed income investments. Approximately 50 percent of the pooled investments are actively managed.

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 spending policy (summarized on page 1) 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.

For more information on investment and spending policies, please contact Rhonda Godwin, director of administration, at 405/606-2916.

# Five-Year Growth Charts

## Gifts: Year-Over-Year Totals



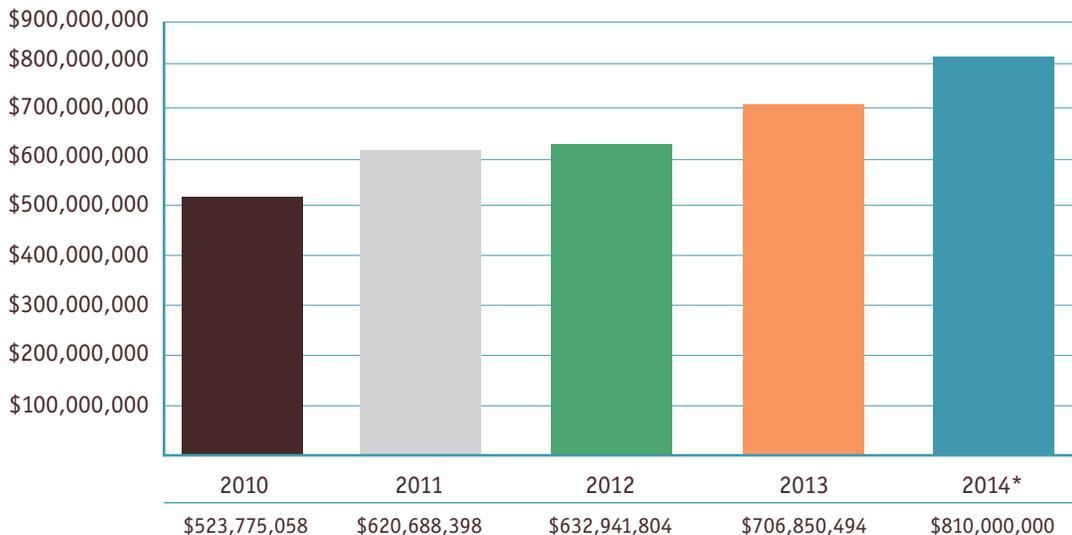
Over recent years, gifts received in a fiscal year have tended to average between \$18 million to \$20 million. The transfer of assets from charitable trusts and private foundations and planned gifts can have a dramatic impact on gifts received in a fiscal year. In 2013, it was estate gifts that impacted gifts for the year due to several charitable trusts transferring nearly \$12 million in assets to the Oklahoma City Community Foundation. In 2014, estate gifts totaling nearly \$10 million were received.

## Grants: Year-Over-Year Totals



Our Charitable Organization Endowment Program, with 320 nonprofit organizations participating, is the largest of its kind in the United States. Each year, an annual distribution is made from the endowment funds to the organizations. In 2014, this amount was \$6.79 million. In addition, \$10.4 million was granted through advised funds in 2014.

## Assets as of June 30



Thanks to prudent investment management and the generosity of donors, our assets for the fiscal year ending June 30, 2014 is at the highest level in our 45-year history.

\* Note: 2014 information is unaudited.

# General Pool Investment Active Managers as of 6/30/2014

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 2014, we had seven active managers, five 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 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) and the Russell 300 index 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 Portfolio		Rate of Return
	June 30, 2014	June 30, 2014	Year Ended June 30, 2014
<b>EQUITY</b>			
<b>LARGE CAP VALUE</b>			
O'Shaughnessy Asset Mgmt.	3.61%	5.95%	31.61%
BlackRock Russell 1000 Value Index Fund	9.23%	15.23%	23.90%
Russell 1000 Value			23.81%
<b>LARGE CAP GROWTH</b>			
BlackRock Russell 1000 Growth Index Fund	15.85%	26.14%	26.91%
Russell 1000 Growth			26.92%
<b>SMALL/MID CAP VALUE</b>			
Earnest Partners	3.70%	6.10%	23.99%
Russell 2000 Value			22.54%
<b>SMALL/MID CAP GROWTH</b>			
Columbus Circle Investors	0.00%	0.00%	6.69%*
* Firm was liquidated 10/2013			
OCCF I-SHARES RUSSELL MID	4.82%	7.94%	12.71%**
** 11 months since inception			
Russell 2500 Growth			26.26%
<b>INTERNATIONAL</b>			
BlackRock EAFE Index Fund	3.80%	6.27%	23.86%
MSCI EAFE (US\$) Net			23.57%
BlackRock Emerging Markets Index Fund	0.28%	0.47%	14.29%
Aberdeen Emerging Markets Fund	4.85%	8.00%	8.31%
MSCI EMF (Gross) Index			14.68%
<b>CORE</b>			
BlackRock Russell 1000 Index Fund	8.89%	14.67%	25.34%
Saratoga	2.82%	4.65%	13.48%
Russell 1000			25.35%
Kalmar Investments	2.77%	4.58%	19.03%
Russell 2000			23.64%
<b>TOTAL EQUITIES</b>	<b>60.64%</b>	<b>100.00%</b>	<b>23.38%</b>
S&P500 Stock Index			24.61%
Russell 3000			25.22%
<b>FIXED INCOME</b>			
JPMorgan	15.19%	38.83%	3.06%
Bank of Oklahoma	14.04%	35.92%	2.73%
Barclays 1-3 yr. Bond Fund	5.87%	15.01%	1.62%
BlackRock 1-3 yr. Treasury Bond Index Fund	4.01%	10.24%	0.92%
<b>TOTAL FIXED INCOME</b>	<b>39.10%</b>	<b>100.00%</b>	<b>2.56%</b>
Barclays Capital G/C Int. Index			2.86%
Barclays Capital 1-3 Govt			0.77%
<b>CASH</b>			
JPMorgan Money Market Fund	0.25%		0.04%
<b>TOTAL POOLED INVESTMENTS</b>	<b>100.00%</b>		<b>14.56%</b>
<b>Composite Indices</b>			
50% Russell/15% MSCI/35% Inter			15.56%
65% S&P500/35% Barclays Capital G/C Int.			16.66%

Fiscal Year Ended	General Pool Rate of Return	Composite Indices (Note A)	Allocation Benchmark (Note B)
June 30, 2014	14.56%	16.56%	16.66%
June 30, 2013	11.24%	12.58%	13.15%
June 30, 2012	2.31%	1.63%	5.44%
June 30, 2011	21.57%	21.96%	21.26%
June 30, 2010	12.99%	12.32%	12.28%
June 30, 2009	-14.61%	-16.09%	-15.20%
June 30, 2008	-3.23%	-4.76%	-5.94%
June 30, 2007	13.68%	16.49%	15.40%
June 30, 2006	6.82%	8.90%	5.54%
June 30, 2005	7.52%	8.16%	5.76%
<b>Ten Years Compounded (Note A)</b>	<b>6.73%</b>	<b>7.14%</b>	<b>6.84%</b>

Note A: 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.

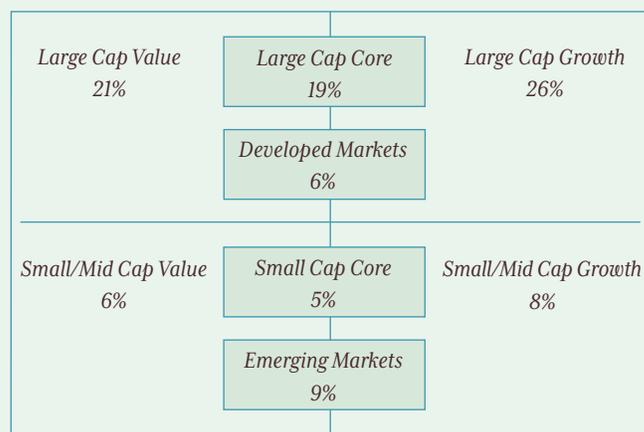
Note B: Equity performance is compared to the Standard and Poor's 500 stock index (S&P500); fixed income performance is compared to Barclays Capital Government/Credit Intermediate bond index (Barclays Capital G/C Int) and total return is compared to a composite of these two indices.

As of Fiscal Year ending June 30, 2014

## Asset Allocation Model - General Pool

	Target	Range
Equity	60%	40-70%
Fixed Income	37.5%	30-60%
Cash	2.5%	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%

For Investment Definitions see page 3.

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.



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## Fiscal Year 2014 Investment Performance Pooled Investments

	Year Ended June 30, 2014	Three Years Ended June 30, 2014	Five Years Ended June 30, 2014	Ten Years Ended June 30, 2014
<b>EQUITIES</b>				
Oklahoma City Community Foundation	23.38%	13.61%	17.83%	7.75%
S&P 500	24.61%	16.58%	18.83%	7.78%
Russell 3000	25.22%	16.46%	19.33%	8.23%
MSCI ACWI ex US	21.75%	5.73%	11.11%	7.75%
<b>FIXED INCOME</b>				
Oklahoma City Community Foundation	2.56%	3.04%	4.19%	4.53%
Barclays Capital G/C Int	2.86%	2.83%	4.09%	4.33%
<b>TOTAL RETURN</b>				
Oklahoma City Community Foundation	14.56%	9.26%	12.25%	6.73%
50% Russell3000/15%MSCI ACWI/35% Barclays Capital G/C Int (Note B)	16.56%	10.17%	12.87%	7.14%
65% S&P500/35% Barclays Capital G/C Int (Note A)	16.66%	11.78%	13.71%	6.84%

See Notes A & B on page 5.

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