APSA Investment Practices

In order to keep members informed about APSA financial practices, the APSA Trust and Development Board, which is charged by the APSA Constitution to oversee Association assets, reports from time to time on Association investment practices.

APSA's investments are managed professionally by Mr. Loren Ross of Cedarpoint Capital Management, Inc., New York, with oversight by the APSA Trust and Development Board. The following is a statement of investment philosophy articulated by Cedarpoint Capital Management on APSA's behalf. The holdings in APSA's Trust and Congressional Fellowship Portfolios, as of June 2006, are also listed.

APSA Investment Objective

—Loren D. Ross, CFA
March 15, 2006

The Association's primary investment objective is to provide for its short- and long-term financial needs so the Association can fulfill its tax-exempt purpose of encouraging the study of Political Science, including Political Theory, Political Institutions, Politics, Public Law, Public Administration, and International Relations.

Financial strategy is of paramount importance, but it is not the only element in the Association's investment program. The Association assumes responsibility for the social and moral implications and consequences of its investment policy, and avoids investments inconsistent with the pursuit of peace and of a democratic and humane social order. These significant, additional criteria, together with the Association's financial considerations constitute its investment philosophy, which is intended to be responsive not only to economic realities but to social and political realities as well.

In common with the management of many other private pools of capital such as pension funds, trust funds, and endowment funds, the Association emphasizes maximum investment productivity. This is the greatest possible overall rate of return that can be earned by exercising normal business care and prudence, and which is consistent with the Association's particular requirements. The Association, for example, needs a regular flow of interest and dividends (augmented sometimes by portions of specified principal funds) to fulfill its operating purpose. Income must also be sufficient to enable the Association to expand its activities and programs in the future.

Growth in the Association's capital funds over the long-term is necessary to provide increased income; to overcome erosion in real value due to inflation; and to allow greater capacity to absorb investment risks. The Association's investment philosophy does not ignore or avoid investment risks. On the contrary, it is aware of their potential severity and frequency and thus encourages its investment management to compare potential gains with concomitant risks of loss as well as to anticipate and minimize short-run and long-term fluctuations in values of holdings whenever feasible.

There is a related long-term goal to define levels of risk that are appropriate or acceptable for the Association's investments. The investment philosophy also encourages a flexible stance with regard to changing interest rate levels and therefore seeks a diversified, equity-oriented portfolio of investment assets, which may also include limited holdings of fixed income securities—since income, capital appreciation, and risks must all be addressed.

The investment philosophy especially emphasizes investment where consistent earning power clearly has been demonstrated, but has not yet been fully discounted in the capital markets. This is in the belief that profitability is the clearest demonstration of managements' ability to obtain superior overall rates of return on the resources they employ in their businesses, regardless of the specific characteristics of their companies or industries. Probabilities correspondingly are heightened for secure interest and principal payments, increasing dividend payouts and ultimately greater equity values. These investment criteria guide the search for values existing in the relationship between current stock or bond prices and historical and anticipated growth in profits. There is also a focus on financial condition at several points in time to determine the quality of resources that has been obtained and organized to carry on an enterprise.

Social Concern

Investment criteria are thus used to assess the "quality of management" in terms of its financial expertise, and ultimately shape investment decision-making. However, there is an added dimension to the investment process. In the Association's view and from society's broader perspectives, there is a social concern that relates to the managements and activities of corporations. There are social criteria, first, as to how the managers of certain companies (whose bonds or stocks represent otherwise suitable investment possibilities) are accountable for fulfilling their political and social responsibilities. Second, there are social judgments as to what the managers are doing constructively within their corporate framework in considering the impact of their operations and products on the economy and the environment—specifically in meeting human needs and ameliorating many kinds of current social problems, such as pollution, poverty, discrimination, unsafe conditions, lack of health care opportunities and urban blight—and on balance furthering a democratic society.

The Association's social concern is consistent with its investment criteria, in the sense of what a company's management is accomplishing through its internal governance policies with its resources of land, labor, capital and its constituencies. In this case, the Association has a broader and deeper focus on people in their social, economic, and political roles as customers, employees, vendors, creditors, regulators and shareholders and stakeholders comprising society at large.

Certain companies may make distinct, substantial, and costly efforts to fulfill their proper responsibilities. These undertakings may well require a great deal more capital and management commitment than in the past, and, in turn, might penalize profits in the short run and lead to some

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reduction in investment value or diminution in the productivity of assets in the short run. The Association's investment philosophy accepts this situation within the above time limitations, provided that the primary investment criteria are fulfilled and that longer-range productivity is not jeopardized. The Association believes along with Peter Drucker [the eminent management thinker of the past century], that "Profit is not the explanation, cause, or rationale of business behavior and business decisions, but rather the test of their validity."

More positively, if the primary investment criteria are satisfied, the investment philosophy favors investment in shares of companies that are clearly committing capital and management to worker well being and alleviating widespread social problems. Such socially responsible programs undertaken by corporations are viewed as comparable to long-term capital expenditures. The investment philosophy evaluates them in much the same way and expects real financial and social returns in the form of more prosperous markets and improved social and living conditions within a generally upgraded domestic economic, political, and social order.

It is possible, from an investment-risk point of view, that as the nation's social and political awareness grows, legislation at all levels of government may result in economic penalties and regulations to force companies to act upon their corporate responsibilities. Developments such as consumer boycotts, corporate sabotage (including theft) and shareholder lawsuits may well hinder irresponsible companies that are solely interested in maximizing their short-run profits. Such disruptions distract management and may well reduce profitability. In the short run, investment in these companies might carry undue risk for these reasons alone, and thus could turn out unprofitable.

On the other hand, companies that exhibit social awareness, good corporate governance and accountability will have these qualities reflected over the long term in their improved profitability, premium capitalization rates of their earning power and in their equity prices. The Trust and Development Board regularly reviews specific Association investment positions and investment management's rationale for these investments. The T&D Board encourages investment management to actively consult and utilize various research services about socially responsible investing. Management normally reviews a broad range of sources, data and screening criteria that concern socially responsible investing offered by, among others, the Calvert Group, KLD Research & Analytics, Institutional Shareholder Services [formerly known as Investors Responsibility Research Center], SRI World Group, The Domini 400 Social Index, Domini Social Investments, and Proxy Edge, and incorporates this information in its investment decisions.

In sum, if primary investment criteria are fulfilled, the T&D Board gives preference to those investment alternatives that reflect not only the Association's social and moral concerns but also contribute towards alleviating society's broader problems.

APSA Endowment Holdings in Trust and Congressional Fellowship Portfolios

24/7 Real Media Inc. New
3M Company
American Intl Group
Apple Computer Inc.
BP PLC ADR
Camden Property Trust
Canadian Pacific Railway
Cemex SA ADR New
Citigroup Inc.
Coach Inc.
Danaher Corporation
Disney (Walt) Company
Dodge & Cox International Fund
Dreyfus Short Intermediate Government
Ebay Inc.
EnCana Corporation
Endo Pharmaceuticals Holdings Inc.
Energy Select Sector SPDR Index
Excelsior Value and Restructuring
Fidelity Contrafund
Fidelity Equity Income
Freddie Mac
General Electric Company
GNMA
Harris Corporation
Home Depot Inc.
Intel Corporation
iShares Goldman Sachs Semiconductor Index
iShares MSCI Emerging Markets Index
iShares S&P Small-Cap 600/BARRA Value Index
iShares TR Russell 2000 Value Index
Kimberly-Clark Corp.
L-3 Communications
Laboratory Corporation of America Holdings
Medtronic Inc.
Merrill Lynch Working Capital Management
Morgan Stanley
Netflix Inc.
Nutri System Inc.
Oil Service Holders Select
Openwave Systems Inc.
Pfizer Incorporated
Principal Financial Services, Inc.
Procter & Gamble
RiverSource Mid Cap Growth Fund
Royal Dutch Shell A ADRF
Schwab Money Market
Sequoia Fund
St. Paul Travelers Companies
Staples Inc.
StreetTRACKS DJ Wilshire
T Rowe Price Small Cap Value Fund
Technology Select Sector SPDR Index
Tyco Intl. Ltd. New
UnitedHealth Group Inc.
Vanguard Short-Term Corporate Portfolio
Washington Mutual Inc.
Zimmer Holdings Inc.

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