

APSA Trust and Development Committee Investment Philosophy

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 October 31, 2007, are also listed.

APSA Investment Objective

—Loren D. Ross, CFA
November 12, 2007

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 and cash flow that can be earned by exercising normal business care and prudence, and that 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 balanced.

The investment philosophy especially emphasizes investment where consistent earning power and cash flow 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 management's ability to obtain superior overall rates of return and operating cash flow from 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 the extent that 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 an assessment of what a company's management is accomplishing through its internal corporate governance policies and practices with its resources of land, labor, capital, and its constituencies. In addition, the Association seeks to invest in companies in which management demonstrates its commitment to transparency in its communications and financial reports. The Association's investment viewpoint thus has a broader and deeper focus on people and how they are affected in their social, economic, and political roles as customers, employees, vendors, creditors, regulators, 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 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 tantamount to longer range 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 economic, political, and social order in the United States.

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 may 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

APSA Endowment Holdings in Trust, Congressional Fellowship, and Working Capital Portfolios

3M Company	iShares S&P GSTI Semiconductor Index Fund
Apple Inc.	iShares S&P Small Cap 600 Value Fund
Baidu.com Inc ADR	iShares TR Russell 2000 Value Index Fund
BP PLC ADR	Johnson & Johnson
C V S Caremark Corporation	Kimberly-Clark Corp.
Camden Property Trust	L-3 Communications
Canadian Pac Railway	Laboratory Corporation of America Holdings
Cemex SAB ADR	Medtronic Inc.
Cisco Systems Inc	Morgan Stanley
Citadel Broadcasting Corporation	Nutri System Inc.
Citigroup Inc.	Oil Service Holders Tr F
Coach Inc.	Procter & Gamble
Covidien Ltd.	Royal Dutch Shell A ADRF
DJ Wilshire REIT ETF	Sector SPDR Energy Select
Danaher Corporation	Sector SPDR Tech Select
Discover Financial Services	Staples Inc.
Disney (Walt) Company	T. Rowe Price Small Cap Value Fund
Dodge & Cox International Stock Fund	Travelers Company, Inc.
Dreyfus Short Intermediate Government Fund	Tyco Electronics Ltd.
Excelsior Value and Restructuring Fund	Tyco International Ltd. New
Fidelity Contra Fund	Unitedhealth Group Inc.
Fidelity Equity Income Fund	Vanguard Short-Term Investment Grade Fund
Gamestop Corporation	Washington Mutual Inc.
General Electric Company	
Harris Corporation	
iShares MSCI Emerging Market Fund	

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 that concern socially responsible investing offered by, for example, the Calvert Group, KLD Research & Analytics, Institutional Shareholder Services, SRI World Group,

the Domini 400 Social Index, 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.