

Covering the Globe in an Efficient Way

For some investors, global diversification means buying a couple of foreign stocks, but for David Basten, it means leaving no market segment or geography uncovered. With the ambitious goal to provide a complete and efficient portfolio, the company runs five separate funds that, when combined, provide a balanced whole. One of those five funds, the Capital Income Fund, invests in dividend or interest paying securities of all sizes and locations

Q: What is your investment philosophy and guiding principles in money management?

A: We established the fund in 1988 with the idea to build a total market advantage fund, which focuses on equity and income investments. Our goal was to find the most efficient exposure to undervalued sectors of the global market.

This is a global fund, designed to incorporate large, medium, and small-cap domestic and international holdings, and its primary prerequisite is that the securities pay out dividends or interest. Those securities include dividend-paying common stocks, convertible securities, long or short-term bonds, other fixed-income securities, and exchange traded funds or ETFs.

I believe that the name 'Efficient Frontier Capital Income Fund' depicts quite well the actual goal of the fund. It is an asset allocation fund, but an extremely diversified one. It enters the realm of Efficient Frontier because we have holdings in practically every area of the global market. The Capital Income Fund is one our five funds that focus on different areas of the global market, such as value, growth, multiple index, and income. Together, those funds provide direct access to modern portfolio theory, through a Master Allocation Portfolio.

Q: Could you explain your understanding of the modern portfolio theory? What are you trying to capture through that strategy?

A: We focus on the complete diversification of the market and on providing a balanced whole portfolio service. That means that we provide diversification in each category of global investing. All five of our funds are globally invested. When we put them together, we have a truly super diversified portfolio, without leaving out any major portion of the marketplace. The only markets that we avoid are the ones that aren't free, such as the Venezuela market, for example. We believe that our Master Portfolios provide the greatest diversification in the industry, without compromising performance.

More importantly, investors have simple access to this diversified product, and can invest as little as \$500 or as much as a couple of million dollars. Our goal is to provide the most efficient portfolio available, and we are excited about the future with this product.

Q: What characteristics do you look for when selecting the companies?

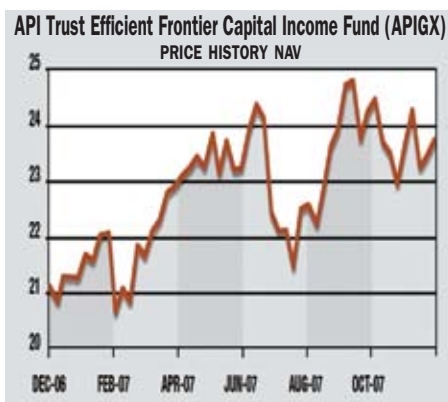
A: Over the years, we have structured different proprietary search models, designed to capture multiple quantitative results. Currently, we are running about twenty research models that are built to give us quantitative



DAVID D. BASTEN is President and Chief Investment Officer of Yorktown Management and Research Company. He heads the team that manages the Efficient Frontier Funds of American Pension Investors Trust. He has been lead portfolio manager since 1985.



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insights into different opportunities worldwide. Some of them are looking for undervalued fundamentals; some of them are looking for undervalued growth; and some focus on mid caps, buybacks, or high return on equity. But it is the combination of the twenty models that you get with our products.

When adding securities to the portfolio, our goal is to pick the areas of the market that seem most attractive. We don't focus on just one particular quantitative result, but on many quantitative results. We avoid overweighting markets, sectors, or securities. While many money managers like to use overweighting to beat their benchmarks, we have found that this strategy can lead to fatal mistakes in a portfolio.

We focus on the long-term earnings of companies because we want to keep our holdings for years. Our goal is to find good, long-term dividend and interest investments that are able to weather storms through all market cycles. Of course, the turnover may be erratic because the markets are erratic. For example, back in 2001 the fund was aggressively buying areas of the international technology market because the securities

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were so cheap, and we were able to reap the benefits in 2003 and 2004.

We try to avoid the sectors and the businesses with poor fundamental characteristics and with strong competition. Currently, the auto sector and the homebuilders would be examples of such sectors we are avoiding.

Q: Within your global approach, how important are the economic, demographic, and currency views?

A: We do an extensive research of the global marketplace for the areas that show good gross domestic products, strong currencies, favorable political environments, liquidity in the marketplace, and low inflation. Of course, each market is dynamically changing, so we have to be able to adjust as the markets and global economies move. Overall, we look to be in the areas where we feel like we have the best long-term possibilities.

Q: Let's suggest that Germany, UK, and Brazil fit your basic criteria. How would you decide on your asset allocation?

A: We don't overweight any market, so if we like all the three markets, we would have positions in all of them. Actually, we do have positions in those three markets. Once we evaluate each of the markets based on their individual merits, we may overweight some of them in our value fund, in our growth fund, or in our capital income fund, depending on where we see the best opportunity in that marketplace. However, the allocation will even out through the five funds, and in the final result, there would be no overweight in any market. The five funds will come together as a complete and balanced portfolio.

The Capital Income Fund has a natural tilt towards more mature markets because they provide greater income than the developing or the emerging markets. We also have more large-cap stocks as individual holdings, such as JP Morgan, Kraft, and Philippine Telephone, which is an emerging company that's paying dividends. The bottom line is that we make every effort to spread the portfolio amongst small, medium and large domestic and international securities.

Q: Could you give us some examples of specific holdings that illustrate your idea generation and research process?

A: We start with a global review and day-to-day pricing to make sure that we understand the direction of the markets. Once we locate a market that has positive characteristics, we apply our quantitative programs to evaluate the securities from a bottom-up standpoint. We look for price-to-book ratios, growth ratios, free cash flows, yields, debt, and other technical and fundamental indicators. The market capitalization is also very important to us. We analyze the larger companies first, and then we work down through the markets to the small-cap companies.

Since our primary goal is to find diversified holdings, once we find an individual security like Philippine Telephone, we won't go back to the Philippines to look for a second holding. Instead, we would move in a completely different direction, maybe to the other side of the globe. That could be Southern Copper Peru, which is a recent addition to the fund that provides exposure to a completely different market and income. The company is a very strong player in its market and we believe that the stock provides many years of productive investment opportunity.

Then we may move to France and look at the opportunities in the European marketplace. We would identify the opportunities based on our quantitative results, but we'll be looking at a different set of quantitative results. Most importantly, everything we do on an individual security basis is reinforced with our indexing strategy. That means that we match each individual security with an index strategy that correlates.

Q: What is the primary benchmark index that you use?

A: Our primary benchmark is the Dow Jones World. That is not the most common index in today's marketplace, mainly because it is extremely diversified, and that makes it a difficult benchmark to correlate to for any of us.

However, I would like to emphasize that the Capital Income Fund is not simply an index fund that tracks the Dow Jones World Index. We create a lot of value for our shareholders through a portfolio that correlates to what we consider the best index. We have found

that it is a very challenging benchmark, but we mark very close to it through each annual cycle and don't mind the challenge.

Q: MSCI and S&P also provide global indexes. What is so unique about the Dow Jones World Index? Why have you selected it?

A: The Dow Jones World carries through the large, medium, and small-cap global and domestic theme that we have. I believe that it best corresponds to the way our fund is structured with thousands and thousands of individual securities. The other indexes are equally good, but we believe that the country-by-country exposure and performance is the best way to show the modern portfolio theory.

Q: How many stocks do you hold on average and how do you approach the portfolio construction process?

A: We typically have 30 to 50 positions that may represent thousands of underlying securities, and the portfolio is divided between domestic and international securities. Since half of our holdings are ETFs, we run an extremely diversified fund with more securities than any other fund in our peer group. We don't view an ETF as just one security, but as a vehicle for adding more value through further diversification. With our goal being global diversification, I could say that our portfolios will always have room for one more good security.

I believe that we are probably the only fund with that strategy in place. It took a lot of work back in the early 90's to make this happen and, in the meantime, we have learned a lot about how to structure the portfolios to gain long-term advantage. Regardless of their style, all our funds employ the same strategy of global diversification and being up-to-date with trends in the economy. We were pioneers in combining active and passive investing and utilizing multiple indexes across the 30 mature markets.

Q: What are the most important elements of your buying and selling discipline?

A: The buying and selling discipline is based on the fundamentals. For us, the deteriorating fundamentals in some cases can represent a buying opportunity, and in other cases, can provide a straightforward reason

to sell. A company may be undervalued because it is only going through a cycle, which would trigger our buying interest, or because it is lagging relative to its peers, which would trigger a sell decision.


For the Capital Income Fund, the elimination of the dividend will automatically result in a decision to sell. Negative returns relative to the marketplace will also provoke serious consideration. If we see deterioration that we cannot explain, we will certainly adjust the portfolio. On our buy side, we look for strong currency and economic growth scenarios, and we try to spread as far as we can around the globe.

Q: What are the main risks that you perceive and how do you mitigate them?

A: Our risk control has three main components – diversification, cost, and tax effectiveness (we tax manage all five funds). We aim to mitigate the risk of each individual security as much as possible, and that's a key part of our investment philosophy.

Every year we include more assets in the funds and I believe that the diversification improves our performance and reduces the risk for the investors. We'll continue to look for new opportunities beyond the ETFs, but right now we cover thousands of ADRs that are attractive as individual securities.

A unique feature of this fund is that we are inclusive of a much greater number of securities, indexing, ADR, and fixed-income strategies than most of the managers in our industry. We combine them as portfolios, and all those portfolios are available to individual and institutional investors alike.

Finally, I would like to point out the long-term experience, knowledge gathering, and continuity in money management. My family has been in this business even before the Great Depression and I represent the fourth generation of money management. The point is that we are deeply rooted well connected, and have passed strategies, experience, and knowledge through the generations. That long-term experience has led us to the current portfolio management and structure. I believe that this is an important differentiator of the company, and the experience helps to better control the risks. 

API Trust Efficient Frontier Capital Income Fund

Symbol	APIGX (D Shares)
Website	www.apitrust.com
Address	Yorktown Management and Research Company 2303 Yorktown Avenue Lynchburg, VA 24501
Tel. No.	800-544-6060
Inception	02/22/1991

PORTFOLIO

Total Net Assets*	\$8.8
Avg Mkt Cap (\$ Weighted)*	\$7,600
Average Price/Earnings Ratio	6.52x
Average Price/Book Ratio	0.96x
Turnover Ratio	100%

INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	\$500
Min Subsequent Investment	\$100
Min Initial IRA Investment	N/A

RISK (AGAINST S&P 500 DAILY REINV IX - 3 YEARS)

Alpha	-0.01
Beta	1.29
R-Squared	0.83
Ann. Std Deviation	11.00
Sharpe Ratio	0.81

RETURNS VS. S&P 500 DAILY REINV IX INDEX

	APIGX	Index
1 Year (Cum.)	14.20%	7.72%
3 Year (Ann.)	13.13%	10.09%
5 Year (Ann.)	15.37%	11.63%
10 Year (Ann.)	6.53%	6.16%
15 Year (Ann.)	9.28%	10.64%

FEES AND EXPENSES

Max Sales Charge - Front	5.75%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	0.00%
Total Expense Ratio	1.43%

PORTFOLIO MANAGER

David D. Basten	1991
David M. Basten	2001

*millions

Data through: 11/30/2007

Source: Company Documents; Lipper

Ticker staff searches for mutual funds for their consistency in performance and durability of investment style.

Our interview covers investment philosophy and strategy, research process, portfolio construction and risk control for funds. Through an interview we uncover long-term strategies and processes that help to generate long-term returns.

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