

PRINCIPLES



A Quarterly Newsletter published by Christian Brothers Investment Services, Inc.

Q4 2008

Responsibility for the Credit Crisis

More than enough to go around

by Frank D. Haines, Chief Investment Officer



Frank D. Haines

My earlier articles on the credit crisis have focused on its causes and its impact on CBIS' investment programs. But lurking behind the complexities of distressed securities, leveraged financial institutions, failing investment funds, and an encyclopedia of financial jargon, there is a more elemental human factor at work. And that is a profound shirking of responsibility — by both individuals and institutions — that resulted in the failed strategies and flagrant speculations that produced the situation we find ourselves in today.

Once the immediate crisis has passed, Congress and government regulators will undoubtedly seek scapegoats within the financial industry. And it is clear that there is plenty of blame to spread around. While deregulation, regulatory failure, and greed by both Wall Street and speculating home buyers, are often cited as causes of today's financial problems, these discussions are often infused with the partisan rhetoric of an election year. Let me offer CBIS' view of some of the agents responsible for the current financial fiasco.

Government Actions

The Federal government bears substantial responsibility for some of the most significant contributions to our current problems and for a breakdown in oversight when some of these condi-

tions could have been mitigated. Congress deserves primary blame for the failure of Fannie Mae and Freddie Mac for several reasons. Beginning in 1992, Congress and the Federal government's Department of Housing and Urban Development (HUD) set rising targets for Agency purchase of lower credit quality loans for both packaging/securitization and for retention in their own portfolios. The collapse in

“The Federal government bears substantial responsibility for some of the most significant contributions to our current problems . . . ”

the value of Agencies' direct holdings of lower-quality mortgages precipitated the bailout by the U.S. Treasury Department. The Agencies' bundling and resale of low-quality mortgages also supported the nationwide growth of subprime mortgage issuance by feeding Wall Street's voracious appetite for collateralized debt obligations (CDOs) and comparable securities, whose rising default rates and collapsing market values have earned them the “toxic” epithet.

Regulatory Failures

These problems were once preventable. Several times during the past decade, the Agencies' precarious size, slender

capital base and operations were questioned by its regulator (OFHEO), by the Bush Administration and by individual senators — but due to the Agencies' strong influence through lobbying and political contributions, these problems were never addressed. The many failures here by those with regulatory power and oversight responsibility certainly add a note of irony to the current calls for more regulation and oversight in the future. A more subtle, but nonetheless meaningful, contribution to the present situation is our convoluted corporate tax system, which favors debt over equity capital through the favorable tax treatment of interest expense. This supported the stock buybacks, leveraged buy-outs and enhanced corporate debt loads of recent years.

The Fed's Easy Money

The Federal Reserve can also be faulted for its decade-long reign of easy money that began in response to the Asian cur-

(continued on page 2)

In This Issue

Responsibility for the Credit Crisis ..	1
Security Brief	3
Becoming a Catholic Fiduciary	4
SRI Progress at Cisco Systems	6
PCG Receives Innovation Award ...	6
CBIS Launches CBIS Global	7
Frequently Asked Questions	7
Announcements	8

Responsibility for the Credit Crisis (cont.)

rency crisis in 1997, and that persisted through numerous successive shocks to the global financial system — including the collapse of the highly leveraged Long Term Capital Management hedge fund, the Russian debt default, the Y2K transition, and the 2000 to 2002 recession and bear market. Throughout it all, the Fed believed that easy money could solve most economic problems, and thought it better to risk inflation than deflation. Inflation, however, appeared in the form of virulent asset bubbles rather than rising producer and consumer prices, which were held in check by the competitive pressures unleashed by globalization and low-cost labor. Due to its control over short-term rates, the Fed’s easy money policy was a primary catalyst for the leverage, carry trades and asset inflation that embraced risk and drove markets to unsustainable heights.

The SEC and the Uptick Rule

The SEC, as primary overseer of the public financial markets, certainly fueled the current crisis by its decision in 2004 to allow investment banks to more than double their leverage, and most likely exacerbated recent volatility by rescinding the short sellers’ “uptick rule” in July of 2007. The rule prohibited a short sale when a stock’s last price move was negative, preventing short selling from reinforcing a price plunge.

Treasury’s Ad-Hoc Responses

And finally, the Treasury Department’s ad-hoc response to the unfolding bank crises appeared to have the unintended consequence of both undermining confidence in remaining banks and confusing the potential private investors who could be a major part of the solution to the crisis. Consider, for example, that the sovereign wealth funds who invested in Citigroup and the private equity groups who provided capital to Washington Mutual saw their sizeable investments devalued by subsequent Treasury policies.

Corporate America’s Short-Term Focus

Corporate America, as well as its overseas counterparts, also deserves a share of the blame. Corporate managements were often driven by a short-term focus on stock performance — augmented by pressures from Wall Street analysts and by their own boards of directors. Any company who risked incurring near-term costs to achieve longer-term objectives risked compromising immediate profitability relative to competitors. And as their stock price lagged, the CEO’s job was put at risk. Is it any wonder that CEOs generally sacrificed long-term strategy for immediate job security and high compensation driven by stock options?

For banks, the goal of smoothed

“The Fed’s easy money policy was a primary catalyst for the leverage, carry trades and asset inflation that embraced risk and drove markets to unsustainable heights.”

earnings was best-achieved by steady fee income, which translated into selling off larger quantities of carelessly extended loans instead of retaining more carefully underwritten loans.

Even business schools played a part in changing corporate behavior, encouraging management to increase financial leverage to better reward shareholders, under the dubious theory that high credit ratings and low financial leverage indicated inefficient deployment of the firm’s capital.

Institutional Investors

Institutional investors abandoned responsibility in a number of ways. The well-worn but valid clichés of investing, formed over the hard experience of decades, were all too often ignored. Rather than scale back return

objectives — and often with their advisers’ consent — institutional investors sought higher-returning strategies to supplement traditional equity and bond exposures. High-quality bonds were abandoned for “core plus” strategies, complex structured products offering higher yields, or synthetic bond exposures using derivatives, swaps and portable alpha overlays. The ongoing tumult associated with the unwinding of derivative counterparty arrangements, coupled with the risk surrounding the severe shocks impacting these relatively untested securities, made such choices questionable at best. Institutions were also advised to lower interest costs by borrowing long-term while paying lower, short-term rates — an opportunity available through auction rate securities. Ignored was the banking adage to match the maturities of assets and liabilities. That adage proved its worth when the auction rate securities market froze, and with it, institutions’ access to their money. Finally, the investments in opaque and complex strategies or securities based on an investment-grade rating and referral by an enthusiastic colleague were simply abrogations of fiduciary duty.

Individual Irresponsibility

Individuals made irresponsible decisions as well. However, given the major role the U.S. government plays in the economy and financial markets, Americans can be partially forgiven for assuming that politicians’ and regulators’ assurances were valid. Homeowners used home equity loans to pay for growing consumption, often under the belief they could re-finance at better terms, and with little thought that under the terms of payment their refinanced mortgages wouldn’t be fully paid until well into old age.

At the urging of 24-hour-a-day financial news networks, Americans became speculators rather than investors, hoping to make a bundle quickly rather than follow the slow, laborious process of working until

retirement at age 65. There was little thought of saving for a rainy day, as the national savings rate eroded to near zero during the past two decades. And nearly every player in the mortgage business — appraisers, realtors, mortgage brokers and bankers — waived underwriting criteria, ignored inflated values, or caved into pressure to accept such practices, to keep the money rolling in.

The motivation cited for much of this behavior is sheer greed. And that is a credible explanation at all levels of this crisis. Yet greed has many aspects beyond “money-grubbing” cynicism. Many individuals and executives undoubtedly felt discomfort at participating in this frantic contest, but it also permitted them a quick route to financial security for themselves and their families. While they certainly weren’t altruistic, neither were they simply self-centered.

One Pencil at a Time

My first job was at a small-town bank run by a president who prided himself on having survived the depression of the 1930s with his business and depositors intact. One of the traditions that survived those years required that employees turn in their pencil stubs before being issued a new pencil. Also, incoming letters had to be reused on their reverse side for carbon copies of new letters. How quaint that seems now. But it is also quite instructive.

The first generation that follows

parents who have survived a catastrophe, such as war or depression, generally learn the lessons well. It’s the next generation that tends to dismiss those lessons as irrelevant, due to subsequent prosperity and technological and societal advances. In that light, it is understandable that risk-taking, leverage and new but toxic financial products were embraced by the grandchildren of the Depression generation, who reached their business prime during the past two decades. And depending on the eventual depth and

“When the dust settles, the government will likely be much more involved as a regulator and overseer of the financial markets.”

resolution of the current crisis, the lessons being learned today may indeed shape the financial conduct of a new generation.

When the Dust Settles

When the dust settles, the government will likely be much more involved as a regulator and overseer of the financial markets. This will be reassuring if it enforces greater responsibility at the corporate and individual level.

Investment strategies are likely to be more transparent, with more reasonable return assumptions. Risk will be more accurately priced in the form of wider credit spreads and lower equity P/E ratios. Investment product innovations will hopefully incorporate less reliance on back-testing and colorful charts and graphs, and focus more on logical, compelling fundamentals. Complexity will be less prized. And investors will demand that producers of securitized products retain direct exposure to the collateral — i.e., “have some skin in the game.”

The ebb and flow of capital between public and private markets is about to swing toward more private companies. Taking companies private will be very compelling, based on current low company valuations and as a means of escaping the greater regulation and government oversight that will result from the current financial crisis. This will also allow a renewed focus on longer-term corporate objectives, where management can work out of the spotlight of securities analysts, the pressures of quarterly earnings reports, and the restrained liquidity of public capital markets. There is a considerable amount of private equity capital available to support this process, from private equity partnerships to sovereign wealth funds. All in all, this will promote a private sector outlook that encompasses a higher degree of individual and corporate responsibility. ■

Security Brief: Phishing and Vishing

With the economy in recession and the credit crisis making financial institutions wary of extending loans, millions of Americans are strapped for cash and struggling with monthly mortgage and credit card debt payments.

Criminals are employing telecommunications and internet technology to take advantage of these vulnerable individuals. Two common forms of fraud are **Vishing** and **Phishing**. And they can catch even those with spotless credit.

Vishing is a high-tech form of the long-familiar telemarketing scam. The phone rings and a computerized voice informs you of an offer to lower your interest rate on credit cards or other consumer debt. It then says to press “1” for more information. A live “customer service rep” comes on the line and asks about your banking relationships, credit card numbers and personal information to permit “authorization”. Before you know it, you have been scammed.

Phishing is an email technique designed to accomplish the same thing. Phishers send a trick email that presents an offer (such as lowering your interest rate) or a warning (the need to verify account information for security purposes) that links to a fake web site.

You can protect yourself from vishers and phishers by never responding to these offers. Investigate such opportunities by initiating the process yourself, at the website of the company in question.

Becoming a Catholic Fiduciary

A new CBIS white paper presents a Catholic perspective on fiduciary responsibility.

An important ongoing goal for CBIS is to help participants introduce their fiduciary colleagues to the rich tradition of Catholic teaching that guides our approach to portfolio stewardship. Our new white paper “Becoming a Catholic Fiduciary” reviews the nature and history of fiduciary responsibility, the Catholic thought that inspires our vision of socially responsible investing, and the techniques we use to unify faith with finance in the management of institutional assets.

We hope this publication serves as a useful guide and source of ideas when participants and their financial colleagues discuss the reasons for a Catholic socially responsible approach to institutional asset management. We began a serialized, edited version of the publication in Q2 PRINCIPLES and complete it below. For a PDF version of the entire white paper and an interactive executive summary please visit www.cbisonline.com/fiduciary.

Part III A Catholic Approach to Fiduciary Duty

THE CATHOLIC CHURCH HAS BEEN a consistent supporter of investment in a market economy and praises the market based-system for allowing people to make choices and fulfill their human potential, yet it also recognizes the potential for abuse, exploitation and the violation of basic human rights when economic life is lived separately from spiritual life. In order to establish the essential unity of these facets of life, the Church offers a rich tradition of teaching that begins with Pope Leo XIII and “Rerum Novarum” and includes subsequent papal teaching, the documents of Vatican II (particularly the four constitutions that are the hermeneutical key to the other documents) and the contemporary writings of the Bishops of the United States. Noting this heritage, the United States Conference of Catholic Bishops (USCCB) in their statement “A Century of Social Teaching” remind us that:

“Our faith calls for us to work for justice; to serve those in need; to pursue peace; and to defend the life, dignity, and rights of all our sisters and brothers. This is the call of Jesus, the challenge of the prophets, and the living tradition of the Church.”

As Catholics we approach this work mindful of the Incarnation — that God is present in the world, and it is good — and we are comfortable with the Gospel taking us into the world of investing because it is a part of that Creation that God makes Holy. As

Catholic fiduciaries, we have the opportunity not only to use our assets to support the mission of the Church but to invest them in ways that further promote that mission. By employing the principles and strategies of ethical stewardship, we make our investment activity itself a tool of mission, not merely a supporter of it. Pope Paul VI explored this theme in “Ecclesiam Suam”:

“The Catholic Church has been a consistent supporter of investment in a market economy . . . yet it also recognizes the potential for abuse, exploitation and the violation of basic human rights when economic life is lived separately from spiritual life.”

“We share with the whole of the human race a common nature, a common life, with all its gifts and all its problems. We are ready to play our part in this primary, universal society, to acknowledge the insistent demands of its fundamental needs, and to applaud the new and often sublime expressions of its genius. But there are moral values of the utmost importance that we have to offer it. These are of advantage to everyone. We root them firmly in the consciences of men. Wherever

men are striving to understand themselves and the world, we are able to communicate with them.”

In “Sollicitudo Rei Socialis” Pope John Paul II further tells us:

“The teaching and spreading of her social doctrine are part of the Church’s evangelizing mission. Since it is a doctrine aimed at guiding people’s behavior, it consequently gives rise to a commitment to justice, according to each individual’s role, vocation and circumstances.”

And in “Centesimus Annus” the Pope reminds us that:

“The new evangelization which the modern world urgently needs, and which I have emphasized many times, must include among its essential elements a proclamation of the Church’s social doctrine.”

The “Pastoral Constitution on the Church in the Modern World,” *Gaudium Et Spes*, provides an ecclesiological foundation for the Church’s social ministry. The vision that emerges from that pivotal document, and indeed from the Second Vatican Council, is a socially engaged one. The Church’s defense of the human person, advocacy for the poor and calls for justice are central to a community of faith properly engaging society in a discussion based on its values and beliefs.

Throughout its writings, the Church makes clear that justice is an essential aspect of all our economic activities,

including stewardship of Church resources. As stewards, we invest resources to achieve a return that supports the ministries of the Church. But we must also do this in ways that are consonant with the other dimensions of the Church's mission.

Foundational Concepts for Catholic Economic Life

The Church gives shape to this relationship between its larger mission and economic life through the following five primary concepts and their definitions.¹

1. The Common Good

We define the common good as “the sum total of social conditions that allow people, either as groups or as individuals, to reach their fulfillment more fully and more easily.” Societies serve their members through a commitment to the common good, and the common good can only be attained through the collective effort of all. Every individual in society is responsible for pursuing the common good.

2. The Purpose of Material Goods²

Human beings need material goods to survive, grow, communicate and participate in community life. Achieving the common good requires that we have access to sufficient material goods to reach our full human potential — as individuals and as a collective community. The primary purpose of an economic system is to enable the achievement of this goal. However, property and trade rights are subordinate to the fundamental rights of each individual to necessary goods and services. And owners of capital must use their resources not only to enrich themselves but also to serve the common good. Businesses should be organized around the principle of creating benefits for society at large.

3. Participation in Society

Individuals promote the common good through participation in the social, political, economic and cultural life of the community to which they belong.

4. Solidarity

While human beings have intrinsic dignity as individuals they are also inherently social and interdependent on others. Each of us is indebted to society as a whole for our ability to seek our own potential. Nothing we achieve is possible without the knowledge, cultural legacy and material possessions that humanity has produced. This principle commits each person to work for the common good and to serve, rather than exploit, other people. Solidarity is not a “vague feeling of compassion,” but rather an embrace of the interdependence that all people share.

“Our Catholic approach to fiduciary duty is strengthened by its overlap with that of the broader SRI community, of which we form an integral part.”

5. The Dignity of Work

Work serves a dual purpose: to create products and services of value and to provide workers with the opportunity to partially achieve their human potential through creative labor. Work that serves the first purpose but ignores the second violates the dignity of the worker, because the work has become more important than the individual. Business leaders must take into account not only the profit motive, but also the well-being of employees.

It is clear that these five concepts speak not just to Catholics, but to individuals of conscience the world over — across “the whole human family” in the words of *Gaudium et Spes*. And indeed our Catholic approach to fiduciary duty is strengthened by its overlap with that of the broader SRI community, of which we form an integral part. The guiding principles articulated by

this larger community — which consists of both lay and other religious institutional investors — are nearly identical to ours:

- i. The economy exists to serve the person, not the other way around.
- ii. Owners of capital are stewards who must use their wealth to serve the common good as well as their own private interests.
- iii. Businesses do not exist solely for profit, but also to provide value to consumers, opportunities for workers and benefits for society at large. The corporation has a responsibility to the society in which it operates to consider its broad interests and respect the dignity of all its members.
- iv. The objective of responsible investment should be the promotion of a just and sustainable economy. A just economy distributes its costs and benefits broadly and fairly. A sustainable economy meets its current needs without harming the ability of future generations to meet their own needs. This mandate should be seen as complementary to the pursuit of private gains.
- v. We are called to speak our values in the marketplace.

While Catholic religious values and social teachings give us a strong conceptual foundation on which to base an ethical approach to Catholic fiduciary stewardship, the universality of these values attracts and creates a strong and diverse community of like-minded SRI investors. And our participation as an integral part of this community strengthens our influence and enhances our effectiveness as ethical stewards.■

1. This section is informed by *Highlights of Catholic Social Doctrine in relation to Faith Consistent Investing (FCI)*, Professor Alberto Rossetti, Libreria Editrice Vaticana, Vatican City, Reprinted 2005.

2. Also known as “The Universal Destination of Goods.”

Fiduciary Resources at the www.cbisonline.com

An important aspect of our mission is to help participants educate a new generation of fiduciaries about the value of socially responsible investing. A new section of the CBIS website (www.cbisonline.com/fiduciary) presents educational materials for those interested in learning more about becoming a Catholic fiduciary.

Progress at Cisco Systems with Executive Pay Dialogue

Resolution withdrawn after company agrees to step up effort with shareholders

We are pleased to report that our dialogue with global high-tech giant Cisco Systems (NASDAQ: CSCO) on the issue of excessive executive compensation has produced an agreement by Cisco to give shareholders more information and better transparency regarding its executive compensation policies. As a result of the agreement, we have withdrawn our “Say on Pay” shareholder resolution that asked Cisco to put its executive pay decisions up for an advisory vote by shareholders. The resolution was set to be voted on by shareholders at Cisco’s November 13, 2008 annual meeting.

CBIS along with other members of the Interfaith Center on Corporate Responsibility (ICCR) hold more than 1.2 million shares of Cisco stock and have been pressing the company for five years on the issue of executive pay. The same resolution won 48% of the vote at Cisco’s last annual meeting, in November 2007.

CBIS and many other SRI investors

believe that executive pay is often irresponsibly high, violating basic notions of fairness, distorting corporate strategy, and impeding the creation of long-term shareholder value. Financial success should be better-shared with employees at all levels of a company, and shareholders should have a stronger say in whether a company’s executive compensation package is sound and reasonable.

According to the agreement reached by Cisco’s board of directors and shareholders led by CBIS and a coalition of ICCR members (including Sisters of the Holy Names of Jesus and Mary, U.S.-Ontario Province; Walden Asset Management; Ethical Funds; and The Sisters of St. Francis of Philadelphia), the company has proposed a number of initiatives to give our shareholder group more input into pay policies. These initiatives include a conference call between shareholders and members of Cisco’s management (including the chairman of its compensation committee) to discuss shareholder input on

executive compensation and implementation of industry standards and practices governing pay transparency. Cisco has also agreed to include on proxy statements a Cisco compensation committee email address that shareholders can use to communicate directly with the committee.

“We are pleased with the progress we have made with Cisco, and believe the strong vote our resolution received in 2007 and our persistence on behalf of participants have opened up discussions and moved the issue of fair executive compensation forward,” said Julie Tanner, assistant director of socially responsible investing (SRI) at CBIS.

In the weeks ahead, we will speak with Cisco’s chair of the compensation committee about the potential for an annual referendum process. We hope the committee will agree to support the inclusion of our “Say on Pay” proposal on next year’s proxy ballot and report their decision to shareholders within nine months. ■

Partners for the Common Good Receives Innovation Award

PCG one of six groups honored by the Social Venture Network (SVN)

CBIS congratulates Partners for the Common Good (PCG) on being named one of six Social Venture Network (SVN) 2008 Innovation Award winners. SVN is one of the country’s leading networks of socially responsible entrepreneurs, investors and nonprofit leaders.

A panel of 15 SVN judges — including venture capitalists, socially responsible CEOs, academic and nonprofit leaders — selected 12 finalists from the many applications that were submitted. A final round of judging produced six winners, including PCG.

SVN’s Innovation Awards support emerging socially responsible business and nonprofit leaders by providing access to people and resources that can support the growth and success of their

enterprises. CBIS created PCG in 1989 as a collaborative vehicle for religious institutions to help the poor and empower the marginalized. We continue to sponsor PCG and are proud to see its good work recognized.

Partners for the Common Good (PCG), based in Washington, D.C. and led by CEO Jeannine Jacokes, is now creating the first wholesale loan participation network to serve low-income communities. By providing capital access to borrowers often shut out of the economic mainstream, PCG helps create business opportunities for individuals and areas poorly served by traditional financial intermediaries. PCG’s borrowers build and renovate affordable housing, revitalize neighborhoods, build healthy communities and facili-

tate entrepreneurship. PCG helps remedy the significant gap that exists between borrowers that need capital and socially-motivated investors who want to make the world a better place.

Since 1987, SVN has supported the growth of such initiatives as socially responsible investing, organics, fair trade, sustainable consumer products, local economies, and green building. Notable SVN members include Ben Cohen of Ben & Jerry’s, Gary Hirshberg of Stonyfield Farm, Van Jones of Green for All/Ella Baker Center for Human Rights, Eileen Fisher of Eileen Fisher Inc., Priya Haji of World of Good, Julius Walls, Jr. of Greyston Bakery, Amy Domini of Domini Social Investments, Tom Szaky of TerraCycle, and Gary Erickson of Clif Bar Inc. ■

CBIS Launches Euro- and Dollar-based Global Funds

New Dublin, Ireland-based venture expands Catholic SRI to global markets

CBIS recently launched a new entity — CBIS Global Funds PLC — created to bring Catholic socially responsible investing to the European Union and beyond.

Many Catholic organizations based outside the U.S. have expressed a strong interest in integrating their values into the management of their investments. Dublin, Ireland-based CBIS Global enables these organizations to invest according to their principles, while still accessing the institutional investment expertise necessary to fund their missions.

CBIS Global's five funds offer diversified global equity and fixed-income exposure and the same Catholic SRI program — including Principled Purchasing (stock screens), shareholder advocacy and proxy voting — used in CBIS' ten domestic funds.

Euro-Denominated Funds

■ The **Global Bond Fund** (*euro-denominated*), managed by Rogge Global

Partners, seeks to provide sustainable income with modest capital appreciation by investing primarily in investment-grade sovereign, supranational, corporate and mortgage debt securities.

■ The **European Equity Fund** (*euro-denominated*), managed by AXA Rosenberg Investment Management, seeks capital appreciation by investing in European equities with market capitalization greater than (euro) 65 million.

■ The **Global Equity Fund** (*euro-denominated*) is managed by Martin Currie Investment Management. Martin Currie utilizes a fundamental, bottom-up assessment of growth and value equities to create a global core portfolio. The Fund emphasizes medium- to large-capitalization companies in major developed markets.

Dollar-Denominated Funds

CBIS Global's two dollar-denominated Funds are the same as those offered through CBIS to domestic participants.

■ The **U.S. Core Equity Fund** (*U.S. dollar-denominated*) is managed by RhumbLine Advisors and tracks the performance of the S&P 500 by investing in the same equity securities except for those screened by CBIS' Principled Purchasing Criteria.

■ The **International Equity Fund** (*U.S. dollar-denominated*), managed by Causeway Capital and Principal Global Investors, seeks long-term capital appreciation by investing primarily in common stocks of companies in developed nations, with market capitalizations greater than \$1.0 billion.

Please contact your Investment Advisor if you would like more information about CBIS Global Funds.

Note: This article is for informational purposes only and does not constitute an offer to sell any investment. The funds are not available for sale in all jurisdictions. Where available for sale, an offer will only be made through the prospectus for the funds, and the funds may only be sold in compliance with all applicable country and local laws and regulations.

Frequently Asked Questions

Each quarter, PRINCIPLES presents answers to questions relating to CBIS funds, our market view, the SRI program and other topics of interest to participants. Please send your questions to the publisher, Michael VanDam: mvandam@cbisonline.com. Indicate "FAQ" in the subject line.

Given the well-publicized problems at some money market funds, including the freezing of investors' access to their capital, what is the status of CBIS fund liquidity?

All RCT and CUIT funds continue to provide daily access to capital. The two vehicles designed for liquidity and principal stability — the **RCT Flex Cash** and **Short Bond Funds** — have considerable liquidity in the form of short-dated Treasury and Agency paper, collateralized overnight repurchase agreements, and our custodian's cash vehicle (invested entirely in Government securities).

Given the cash market developments in the third quarter, particularly relating to credit risk and illiquidity, the Flex Cash Fund reinvested maturing paper into liquid instruments, further favoring principal preservation over yield aug-

mentation. This strategy will continue until there is a clear resolution of the instability and uncertainty in the financial markets.

CBIS often mentions its focus on "high quality" holdings. Has this helped since the market turmoil began?

Although CBIS offers a variety of equity and bond programs, the current downturn has caused almost all assets to decline sharply. Other than cash, there truly hasn't been anywhere to hide.

We are disappointed that our focus on strong companies and credits did not help relative performance in the especially volatile third quarter. Fundamentals were apparently overwhelmed by aggressive selling and precipitous deleveraging, and this seemed to dispropor-

tionately impact high quality names which offered the most liquidity (i.e., they could be easily sold to raise cash whereas other more speculative issues could not, except at fire-sale prices).

Nevertheless, we believe the strongest companies will best weather the difficulties of coming quarters and eventually reward patient investors with sizeable gains as market conditions return to a more normal state.

Under the current difficult market conditions, one or more names in any diversified stock or bond portfolio may not survive, demonstrating just how severe this economic correction may be. This is why we employ multiple managers in the majority of our funds, and the sub-advisers themselves diversify, in order to minimize this risk.



CBIS

90 Park Avenue
29th Floor
New York, NY
10016-1301

PRSR STD
U.S. POSTAGE
PAID
NEW YORK, N.Y.
PERMIT # 757

Announcements

Holiday Office Closings

CBIS offices will be closed Thursday, November 27 for Thanksgiving; Thursday, December 25 for Christmas; and Thursday, January 1 for New Year's Day.

Save the Date for the Rome and Ireland Gatherings

CBIS will host the annual Rome Gathering for European participants on Thursday, February 26, 2009 and visit Dublin, Ireland on Tuesday, March 3. Watch for more information soon.

Shareholder Advocacy Directory

For the most recent updates on all Active Ownership initiatives, visit the Shareholder Advocacy Directory on our website, www.cbisonline.com. It is listed in the *Socially Responsible Investing* section's drop-down menu, located on the home-page banner.

Your CBIS Investment Advisor is ready to assist you.

New York

90 Park Avenue, 29th floor
New York, NY 10016-1301
Tel: 800-592-8890
212-490-0800
Fax: 212-490-6092

Chicago

1200 Jorie Boulevard, Suite 210
Oak Brook, IL 60523-2262
Tel: (800) 321-7194
(630) 571-2182
Fax: (630) 571-2723

San Francisco

One Embarcadero Center, Suite 500
San Francisco, CA 94111-3403
Tel: (800) 754-8177
(415) 623-2080
Fax: (415) 623-2070

PRINCIPLES is published quarterly by Christian Brothers Investment Services, Inc. CBIS manages and administers the Religious Communities Trust (RCT) and the Catholic United Investment Trust (CUIT). RCT and CUIT are separately organized investment trusts with independent boards of trustees. This newsletter is neither an offer to sell securities nor a solicitation of an offer to buy securities. The offering and sale of securities is made exclusively through CBIS Financial Services, Inc., a wholly-owned subsidiary of CBIS. Past performance is no guarantee of future results. For further information about the services and investment programs offered by Christian Brothers Investment Services, call 1-800-592-8890.



© 2008 Christian Brothers Investment Services, Inc. All rights reserved.
Printed on 100% Recycled Fiber Paper Stock
30% Post Consumer Waste Recyclable