



# CBIS25

## Turning Twenty-Five

Christian Brothers Investment Services, Inc. 2006 Annual Report

Investing in ideals that  
impact society today,  
and in the future.





## Turning Twenty-Five

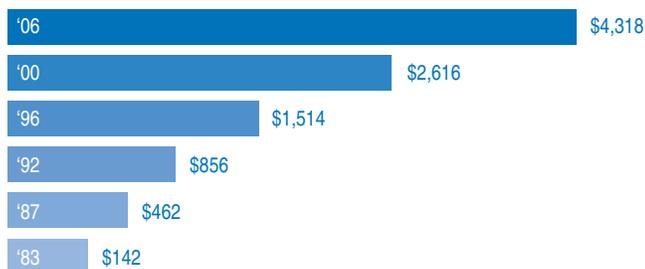
A Message to our Participants

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2006 marked the twenty-fifth anniversary of CBIS' founding. Today, early in 2007, it seems hard to believe that a quarter-century has passed since Brothers Louis DeThomasis and Joel Damien proposed the seemingly far-fetched vision that launched CBIS in 1981 — the creation of an investment advisory firm that could compete with mainstream financial institutions, integrate Catholic social teachings into the investment process and enable participants to fund and extend their missions through the socially responsible management of their investments.

The past twenty-five years have proven the power of that vision beyond any doubt. CBIS now manages over \$4 billion for more than 1,000 Catholic organizations across the U.S. and overseas. Our diverse group of institutional funds and separate accounts can be combined to build portfolios that meet the investment objectives of Catholic organizations large and small. And we continue to enhance our services to keep pace with the evolution of the investment industry and the maturation of our participants' financial needs. December 30, 2006 marked the one-year anniversary of the launch of the CUIT Market Neutral Fund, our first alternative investment program. And in response to a prolonged period of difficult market conditions for small-cap active management, we restructured our small-cap equity program, launching the CUIT Small-Capitalization Equity Index Fund on December 29, 2006. The new Fund offers style-neutral exposure to this important segment of the equity market with a lower fee structure than that of the previous actively managed fund.

CBIS Assets Under Management (in millions)



Alongside the evolution of our investment expertise, over the past quarter-century we have also established ourselves as a global leader in Catholic socially responsible investment policy. We achieved notable progress last year in our dialogues with some of the world's leading companies, including Sears, Wal-Mart, Coca-Cola, BP, Occidental Petroleum, Citigroup and JP Morgan Chase. We were sought out as speakers and experts by organizations around the globe and presented at conferences in New York, California, Paris and Prague, to name a few.

Today, as we celebrate twenty-five years of integrating faith and finance, CBIS extends its heartfelt thanks and appreciation to our participants. Your shared belief in our vision and the confidence you have placed in us have driven our success.

### REFLECTING ON OUR MILESTONES

In our personal lives, milestones such as birthdays and anniversaries give occasion for celebration, but they also inspire quiet reflection, self-analysis and contemplation of the larger motivations and goals that empower our lives and our spirits. This has certainly been the case for us, in relation to the mission and evolution of CBIS during its twenty-fifth year.

The firm's growth from the seed of an idea to the reality of a \$4 billion investment manager is impressive. But its founding vision was more qualitative than quantitative, and not one easily benchmarked by numbers and dollars alone. Looking back on the past quarter-century, can those of us who have made CBIS the center of our professional lives say that we have carried on and evolved that original vision? Has CBIS, as an institution, distinguished itself from the many other financial services firms that compete for participants' investment management business? Have our active ownership initiatives succeeded in fostering corporate behavioral change and social justice? In short, has our collective work, as CBIS employees and participants, really made a difference in this complex and challenging world?

In 1986, CBIS co-filed its first two shareholder resolutions, partnering with Interfaith Center on Corporate Responsibility (ICCR) colleagues against militarism at GE and in favor of divestment from South Africa at IBM. The subsequent end to apartheid resulted in part from the willingness of religious investors, working with other socially conscious shareholders, to stand up and demand that U.S. corporations cease their enabling complicity in South Africa's systemic assault on human dignity. In the late 1980s, we used dialogues and shareholder resolutions to promote adoption of the MacBride Principles by American companies doing business in Northern Ireland, and thereby helped break down religious and sexual discrimination in that troubled nation's workplace. In the early 1990s, CBIS participated in the formation of the Coalition for Justice in the Maquiladoras, a group of religious and lay institutional investors opposed to use

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by American companies of low-cost Mexican factories that relied on sweatshop labor and lax environmental standards for their competitive advantage. This work set a strong foundation for our many subsequent successes helping multinational companies craft vendor standards and human rights policies for their global operations and supply chains. Also in the early 1990s, we joined with other institutional investors in the formation of the CERES Principles, a 10-point list of environmental operating guidelines that has emerged as a standard for corporate environmental

the past few years, dozens of leading multinational companies have incorporated our ideas into corporate strategy in the areas of human rights, vendor standards, environmental policies, workforce and board diversity, responsible global finance and corporate governance.

Of course, it is through finance that we have the power to express our faith in the marketplace, and the growth of our ability to meet the investment needs of Catholic institutions is an equally

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## AS CATHOLICS, AS INDIVIDUALS OF CONSCIENCE AND AS RESPONSIBLE STEWARDS SEEKING OPTIMAL LONG-TERM PORTFOLIO RETURNS, WE VIEW THE PAST QUARTER-CENTURY WITH A SENSE OF ACCOMPLISHMENT.

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responsibility programs at multinational corporations the world over. There were many other campaigns during the 1980s and 1990s, too numerous to mention here. Not all were successful, but all were marked by hard work and the hope for success.

In those early years we often encountered indifference, and sometimes even hostility, from companies we sought to engage. We were usually shunned by other institutional shareholders, who considered us impudent for bringing social justice and environmental considerations into the debate over corporate strategy. But eventually, things began to change.

Angered by the loss of shareholder value to the corporate scandals of the early years of this decade, and swayed by a growing recognition of the injustices that can accompany economic globalization, mainstream institutional investors began to give our ideas increasing attention and support. And many company managements became more receptive, too. Each of these groups slowly came to realize what we had believed from the start — that ethical leadership at companies protects hard-won brand reputations, strengthens corporate identities, improves business processes, enhances employee morale and promotes fair and just economic development, thereby supporting sales, profitability and long-term investment performance. In fact, over

important aspect of our history. As our first participants grew more comfortable investing in the capital markets, they also began seeking investment exposures across the risk-reward spectrum. In 1990, the launch of the CUIT Growth Fund represented an evolution from what had been our value-oriented approach. And the introduction during the 1990s of our intermediate-duration bond program and our small-cap, value, core and international equity programs ensured that any CBIS participant could structure a fully diversified, socially responsible investment portfolio. Organizational changes were also underway during the 1990s that strengthened the firm. In 1998, we began to utilize two to three managers with complementary investment styles in the majority of our funds, in order to provide style diversification within the asset class. Over the past few years, we have enhanced our information technology infrastructure, and we have strengthened our vendor network by diversifying our providers of custodial services and other back-office functions, selecting those we consider to be best-in-class.

### THE EVOLUTION OF OUR VISION

During our twenty-five year history, CBIS and other advocates for corporate social responsibility have made a remarkable evolution from gadflies, to nuisances, to curiosities, to global institutional investors who influence the conduct of companies

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around the world. We reflect on all this when we consider whether we have fulfilled the early vision for CBIS, whether we have differentiated ourselves from other investment service providers, whether collectively, we have successfully used our influence as shareholders to promote social justice and a better world. We are inclined to believe that we have. As Catholics, as individuals of conscience and as responsible stewards seeking optimal long-term portfolio returns, we view the past quarter-century with a sense of accomplishment. And we can think of no better way to celebrate turning twenty-five than to rededicate ourselves to the ideals that inspired CBIS' founding.

#### LOOKING TO THE FUTURE

CBIS is a creation of the De La Salle Christian Brothers and education has been a true passion of our executive leadership from the beginning. During 2007, we will broaden and strengthen our efforts to educate a new generation of fiduciaries at Catholic institutions about the value of socially responsible investing. Many of these professionals have strong financial, legal or business backgrounds, but little awareness of how responsible stewardship and active ownership can promote social justice and support long-term portfolio return. While personal finance magazines often view long-term as anything over one year, institutional life spans are measured in decades and institutional portfolios are true long-term holdings. Irresponsible business practices not only harm individuals, communities and, ultimately, company shareholders, but also simply shift costs from one area of an institution's portfolio to another. They can reduce portfolio return for diversified investors, even when individual companies benefit in the short term.

Despite the many successes of recent years, we see plenty of opportunities and challenges on the horizon. Globalization offers the chance to develop new markets, lift living standards through trade and enhance social justice in emerging market nations, while supporting the long-term revenue and earnings growth that leads to superior investment returns by portfolio companies. But globalization also creates the risks of environmental abuse, unfair labor practices, human rights violations and other perils that endanger the achievement of the just and prosperous global future that we all desire. And there is an ongoing need to keep companies

accountable to the spirit of corporate social responsibility by monitoring how they integrate their announced plans into concrete actions. It is crucial that we do our best to ensure that their commitments do not fall victim to bureaucratic style over measurable substance. Our faith and our long-term investment success both demand that we remain vigilant.

Our message, drawn from twenty-five years of investment experience, is clear. Catholic institutions have a vested interest in promoting a just and sustainable global economy through active ownership. Integrating Catholic social teachings into the investment process is not in opposition to fiduciary responsibility, but directly supportive of it.

#### LEADING BY EXAMPLE

Offering leadership by example to the Catholic institutional community, creating and administering investment programs that achieve participants' financial goals, and doing so in a manner that reflects the social teachings of the Church — these guiding principles have defined CBIS for the past twenty-five years. Those of us at CBIS today are working hard to ensure that they will continue to define us for the next twenty-five years, and that our future will prove to be as inspiring and as successful as our past.



A handwritten signature in black ink that reads "Raoul L. Carroll".

Raoul L. Carroll  
*Chairman of the Board*



A handwritten signature in black ink that reads "Michael W. O'Hern, FSC".

Michael W. O'Hern, FSC  
*President and Chief Executive Officer*

Our future will be inspired  
by the guiding principles  
that have defined us for  
twenty-five years.



Using our influence  
as shareholders for  
the common good.





## Socially Responsible Investing

### A Review of the Year

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In recent years, a growing number of companies have come to view CBIS and our SRI partners as allies in the development of social and environmental strategies that defend and support shareholder value, rather than simply as critics of company management. This change of perspective represents a form of success for the SRI movement as a whole and a gratifying evolution of our multi-decade effort to harmonize the conduct of business with the social values we share as Catholic investors and world citizens concerned for the future of our increasingly interconnected globe. And while it does not guarantee rapid progress or easy victory in our engagements, it has given us an increasingly good chance to be heard, and for our ideas to be taken seriously and implemented by many of the world's largest and most influential corporations.

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We began 2006 with two principal goals for our SRI program: to make as much progress as we could across the range of our active ownership initiatives and to expand our influence as a leader in Catholic institutional SRI. We believe we achieved success in both areas. In 2006, CBIS engaged 36 companies on issues including human rights and vendor standards, global warming, environmental justice, diversity in the workplace, fairness in global finance, violence in the media and access to medicines. Several key initiatives made notable progress last year, and we hope all participants feel satisfaction at seeing their power as shareholders used to transform corporate strategies in support of social justice and enhanced shareholder value.

regarding its policy for engagement with local communities when siting new stores. Lowe's and Cash America have so far refused to meet with us. However, if we remain patient and persistent, we believe we can create opportunities to work productively with both companies.

#### PROGRESS WITH KEY INITIATIVES

Human rights are a key focus of our active ownership program, and CBIS has helped many corporations adopt global human rights policies and vendor standards. Our multi-year engagement with retailer Sears reached a new milestone of progress last summer when the company created a set of guidelines that

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## WE TAILOR OUR APPROACH TO MEET THE TWIN GOALS OF CONSISTENCY WITH PARTICIPANTS' CATHOLIC RELIGIOUS VALUES AND SOCIAL CONCERNS AND THE IMPERATIVE TO PRODUCE COMPETITIVE INVESTMENT RETURNS.

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#### NEW DIALOGUES

We initiated five new dialogues in 2006, covering three issue areas: violent video games, predatory lending and environmental justice. As the leader of three of these dialogues, CBIS organized the dialogue group, served as the primary contact for company management and delegated tasks among participating shareholders.

Capitalizing on last year's successful engagement with Best Buy that resulted in substantially improved in-store policies for prohibiting minors from purchasing violent video games, we joined a dialogue with retailer Target Corporation seeking the same result. We are leading a shareholder group seeking a dialogue with Sony, maker of PlayStation (a popular video game console), on its ethical standards for video game development. Engaging Sony expands our work on this issue from retailers to game developers.

We are also leading a group seeking a dialogue with Cash America International, a provider of payday and pawnshop loans and short-term cash advances in low-income communities, on the issue of predatory lending. And we are leading a group seeking dialogue with big-box retailer Lowe's Home Improvement

will help vendors improve working conditions at the factories that make products sold at Sears and Kmart stores. Sears' new guidelines raise the minimum age of workers, limit the hours worked, and add stricter and more specific language to prevent human rights abuses. CBIS and our dialogue partners provided advice and direction throughout the policy development process.

After four years of engagement, we helped Coca-Cola take several key steps toward the creation of a truly credible global human rights policy — one that supports shareholder value and encourages the positive societal change that is an important goal of CBIS active ownership initiatives. We withdrew our plan to file a human rights-related resolution earlier this year after the company agreed to incorporate independent monitoring and local community dialogue in its new policy and to apply the policy to its bottlers. The company began policy compliance training and monitoring during 2006. In 2007, we will continue to work with Coca-Cola to ensure that the policy is rigorously implemented.

Our Interfaith Center on Corporate Responsibility (ICCR) filing group withdrew our resolution asking Wal-Mart to end workplace

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discrimination and hire a diverse workforce after the company agreed to release, for the first time in its history, the data it files each year with the Equal Employment Opportunity Commission (EEO-1 report). This marked a historic moment in ICCR's thirteen-year-long campaign to encourage Wal-Mart to disclose metrics that track how women and people of color advance within the company. The release of this information from the largest publicly traded company in the U.S., with the largest workforce among all U.S. companies, raises the bar for all large companies.

We had planned to file the same resolution at ExxonMobil that we have filed for the past two years, asking the company to disclose the scientific data that justifies its skepticism that human activity is a cause of global warming. We withdrew the resolution after the company released a report that acknowledged, clearly and for the first time, that human activities are at least partly responsible for the observed rise in the atmospheric concentration of greenhouse gases in recent decades. Moreover, ExxonMobil appears to have done some thoughtful analysis of potential solutions to global warming and it has reduced its funding of fringe groups who deny the consensus science on climate change. Though our shareholder group and the company remain far apart on many issues, we are more optimistic about this dialogue than we have been in the past.

#### INFLUENCING CORPORATE CONDUCT

- BP is now working with CBIS and other concerned shareholders to develop guidelines for community engagement in its worldwide operations.
- After refusing to engage in dialogue for many years, the Executive Committee of Merck's board met with CBIS and other ICCR shareholders and began a series of productive discussions on the issue of access to medicines by low-income Americans.
- CBIS successfully partnered with the U.K.-based Ecumenical Council on Corporate Responsibility to file a shareholder resolution at Royal Dutch Shell that asked the company to develop an environmental justice and human rights policy. The resolution received over 6% of the vote at the annual meeting. This represents a further step in our efforts to engage with non-U.S. companies and partner with non-U.S. religious organizations.

- Occidental Petroleum has begun to implement an ambitious human rights policy, developed in cooperation with ICCR and CBIS, throughout its global operations. The policy establishes Occidental as a leader among extractive industry companies in protecting human rights.
- We continue to make progress with Citigroup and JP Morgan Chase in strengthening each company's efforts to incorporate social criteria into financing activities in the developing world.
- Our resolution to separate the positions of CEO and Chairman at Time Warner received a strong 16.5% of the vote at the company's 2006 annual meeting, enabling us to file the resolution again next year, if need be.

#### RECOGNITION BY COMPANIES

Our value as advisors to company managements was also evident in the mention we received in three corporate citizenship reports published last year: in the 2005 Ford Motor Company Citizenship Report for our work on the Report's review committee, in Citigroup's 2005 Citizenship Report for our advice on environmental and social issues in the banking sector and in Best Buy's 2005 CSR report for our help in promoting better policies for prohibiting the sale of mature-rated video games to children.

#### THOUGHT LEADERSHIP

CBIS shares the De La Salle commitment to education. Our collaboration with the broader SRI community on strategy development and our effort to promote SRI within the Catholic institutional community are important aspects of our mission as an organization. Following are some of the external presentations by CBIS' SRI staff during 2006:

- "Social Action Tools," presented to the Lasallian Social Justice Institute, Las Cruces, NM, July 11 and 12, 2006
- "Faith Influenced Perspectives on Socially Responsible Investing and Corporate Governance," presented to the John F. Henning Institute Conference, St. Mary's College, Moraga, CA, November 4, 2006

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- “Introduction to the Bench Marks (Principles for Global Corporate Responsibility: Bench Marks for Measuring Business Performance),” presented to the Workshop on Churches, Civil Society, Multinational Companies and Corporate Responsibility in Central and Eastern Europe, Prague, Czech Republic, October 21, 2006 (Sponsored by the Ecumenical Council on Corporate Responsibility, U.K.)
  - “The Responsible Catholic Fiduciary,” presented to the Triple Bottom Line Conference, Paris, France, November 10, 2006 (Sponsored by the International Interfaith Investor Group, Netherlands)

And we co-authored, with our ICCR colleagues, a published report titled *Retailers and Violent Video Games: Progress Made but Disclosure Needed* that tracks progress by major retailers — including Circuit City, Kmart, Sears, Toys “R” Us, GameStop and Wal-Mart, along with dialogue partners Target and Best Buy — at prohibiting sales of violent video games to minors. The report offers all retailers specific, actionable recommendations for improving their policies and implementing best practices in this key area of concern to participants.

#### PRINCIPLED PURCHASING AND PROXY VOTING

While our year-end reviews emphasize the progress of our active ownership initiatives, we encourage participants not to overlook the effort that goes into maintaining the Principled Purchasing program during the year. We tailor our approach to meet the twin goals of consistency with participants’ Catholic religious values and social concerns and the imperative to produce competitive investment returns. Therefore, we continuously evaluate our screening policy and our group of restricted companies. Keeping screens up-to-date and consistent with our policy is a key feature of our SRI program, as is the monitoring of manager trading to ensure that screened stocks are not accidentally purchased and held in our funds.

In 2006, CBIS voted proxies at over 1,250 U.S. and international corporations. All investors who own publicly traded shares have the right to vote their shares for or against resolutions that appear on the proxy ballot at annual shareholder meetings. CBIS’ comprehensive proxy voting guidelines govern how we vote across a wide range of environmental, social and governance issues. Investment managers generally vote in accordance with the

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**CBIS PLANS TO ENGAGE WITH 38 COMPANIES IN 2007. OUR OBJECTIVE AGAIN THIS YEAR IS TO MAINTAIN CONSISTENT FOCUS ON EXISTING PRIORITY ISSUES FOR CBIS PARTICIPANTS.**

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recommendation of company management, sometimes in direct opposition to what would be considered a socially responsible vote. As a result, many institutions unknowingly lend support to forms of corporate behavior that we and other SRI investors are working hard to change.

We continued our strong support for Partners for the Common Good (PCG) in 2006. PCG is a community development investment fund that promotes affordable housing, creates job opportunities in low-income and at-risk communities, and provides support for micro-loans and fair trade internationally. At year end 2006, the fund had 81 investing partners and \$9.4 million in capital commitments. PCG distributed \$3.35 million in loans to 14 organizations during the year.

CBIS plans to engage with 38 companies in 2007. Our objective again this year is to maintain consistent focus on existing priority issues for CBIS participants.

## 2006 Shareholder Resolution Vote Totals

Company	Resolution	Vote Total
Abbott Laboratories*	Provide medications for AIDS/Malaria/TB in Africa.	Withdrawn
Cisco	Report on disparity between highest and lowest paid workers.	11.2%
Coca-Cola*	Establish global human rights standards.	Not Filed
Dillard's*	Establish labor standards for contract suppliers.	Not Filed
DuPont*	Disclose impact of genetically modified organisms.	7.2%
ExxonMobil*	Disclose climate change data.	Withdrawn
Federated Department Stores*	Establish labor standards for contract suppliers.	Not Filed
Royal Dutch Shell	Establish environmental justice policy.	6.8%
Time Warner*	Separate Chair and CEO positions.	16.5%
Wal-Mart	Report on achievement of glass ceiling goals for women and minorities.	Withdrawn

Highlighted rows indicate that the resolution has been withdrawn.

\*CBIS is the primary filer.

## 2006 Corporate Dialogues

Company	Dialogue
ABN AMRO	Expand mortgage lending in low-income and minority communities.
Alcoa	Establish environmental and social policies for global operations.
American Electric Power	Establish policy for reducing greenhouse gas emissions.
Best Buy	Report on efforts to reduce children's access to violent video games.
BP	Develop cleaner energy, social guidelines for development projects.
Cash America**	Establish policies to prevent predatory lending.
Chevron	Develop strategy for carbon-constrained world.
Citigroup	Implement responsible lending standards for global project finance.
Costco	Establish environmental and social policies for store siting.
Eli Lilly	Provide medications for Malaria/TB in Africa.
Ford	Reduce carbon emissions from vehicle fleet.
GlaxoSmithKline	Provide access to AIDS medications in Africa.
JPMorgan Chase	Implement policies for responsible lending in emerging markets.
Lowe's**	Establish environmental and social policies for store siting.
McDonald's	Declassify board of directors.
Merck	Improve affordability and access to pharmaceuticals by the poor.
Newmont Mining	Establish human rights and environmental justice policies.
Occidental Petroleum	Implement human rights policies for global operations.
Schering-Plough	Expand access to pharmaceuticals in U.S. low-income communities.
Sears	Implement global code of conduct standards for contract suppliers.
Sony**	Establish policies for accurate violent video game ratings.
Target**	Report on efforts to reduce children's access to violent video games.
Tyco	Report on efforts to reduce toxic emissions.
VF Corp.	Establish fair labor standards for contract suppliers.
Wells Fargo	Report on efforts to reduce predatory lending.
Yum! Brands	Establish global human rights standards.

Highlighted rows indicate that CBIS is the engagement leader and strategy coordinator.

\*\*New in 2006.

Shareholder Resolution — A proposal placed on the proxy ballot and voted on by all shareholders at a company's annual meeting. Resolutions are non-binding, but high vote totals get management's attention and often spur action.

Corporate Dialogue — An ongoing communication between a group of shareholders and company management. The shareholders hope to convince management to take action on an issue of concern. A failed dialogue may result in the filing of a shareholder resolution.

Believing in the power  
of principled investing.





## 2006 Investment Review

### A Review of the Year

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Stock markets worldwide produced strong gains in 2006, lifted by healthy global economic growth, abundant liquidity, declining energy costs and general investor optimism. The S&P 500 returned 15.8%; the U.S. market was led by value and small-cap issues until large-cap stocks assumed leadership in the year's second half. European equities benefited from strength in the euro and British pound, up 12% and 14%, respectively, against the U.S. dollar. The Japanese stock market was a laggard due to weak domestic consumption, although exporters benefited from the weak yen and provided solid gains. Emerging markets were strong performers, reflecting investors' propensity for risk-taking to augment returns.

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## OVERVIEW

The Federal Reserve concluded two years of interest rate hikes in mid-2006 and, despite yields rising about 0.3% for the year, bond market returns of over 4% were nearly double those of last year, supported in part by tightening of very thin credit spreads. The lowest-quality debt provided the strongest returns, mirroring the risk tolerance evidenced by strong capital flows into emerging markets.

The remarkable level of global buyouts and acquisitions reached a record \$3.8 trillion in 2006. Debt financing remains relatively inexpensive and large pools of private equity capital make it likely this will continue into 2007, supporting equity markets while negatively impacting bond markets through “event risk.” Investigations into options back-dating resulted in a number of CEO and CFO changes and the risk of earnings restatements among many innovative companies, representing one reason why growth stocks lagged for yet another year.

The year was a disappointing one for many active equity managers who focused on longer-term investment fundamentals. Many explanations have been offered for the trading patterns of 2006, from the growing impact of hedge funds, whose liquidity and leverage boosted volatile and speculative issues, to greater market breadth caused by increased indexation and use of exchange traded funds (ETFs). Whatever the reason, CBIS expects that the fundamental link between earnings and stock prices will eventually reassert itself as a driver of superior long-term returns.

In 2007, we will maintain our emphasis on sound, long-term fundamental analysis. Our sub-advisers do not buy pieces of paper, but take ownership stakes in companies that will provide earnings growth, job growth and U.S. economic growth for many years to come. We believe that leverage will unwind and that the financial markets will reassess speculative risk, and that CBIS participants will benefit from our focus on true investing.

## MANAGER CHANGES

On December 29, 2006, CBIS closed the CUIT Small-Capitalization Equity Fund and opened the new CUIT Small-Capitalization Equity Index Fund, which tracks the Russell 2000 Index. Given the changing small-cap investment landscape, CBIS decided that indexing is the best way to offer participants exposure to this asset class without the volatility that active management had produced. The management fee for the new Fund’s Class A shares is 0.50%, while the Class B fee is 0.35%, considerably below those of the previous Fund. RhumbLine Advisers is the sole manager of the new Fund. The firm has been very effective as manager of the CUIT Core Equity Index Fund for more than ten years, and is also experienced with Russell 2000 mandates.

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## FUND PERFORMANCE

<b>Total Assets Under Management</b> (in millions) 12/31/06	<b>\$4,317.9</b>
RCT - Fixed-Income	\$990.2
CUIT - Balanced & Equity	\$2,340.1
Individually Managed Portfolios	\$987.6

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## RCT FUNDS

RCT programs produced reasonably good results during 2006, a year in which the Federal Reserve paused its two-year policy of short-term interest rate hikes, interest rates rose by 30 to 40 basis points and the yield curve inverted further along the 2- to 30-year segment. Returns for all three RCT Funds were nearly identical, ranging from 4.28% to 4.43%. Shorter effective duration and the positive gains from credit spread tightening allowed all three RCT funds to perform close to or above their benchmarks, net of fees.

The [RCT Flex Cash Fund](#) maintained a short average maturity during 2006, shifting maturing commercial paper and asset-backed securities into certificates of deposit and repurchase agreements. The portfolio’s yield rose 0.8% during the year to 5.3%, as the Federal Reserve completed its series of interest rate hikes at mid-year. The Fund’s credit quality remained very high, as there was limited opportunity to add incremental

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yield while spreads for asset-backed, mortgage and credit instruments remained very tight. Either a slowdown in the economy or a reassessment of risk in the financial markets may offer more compelling opportunities among cash instruments as 2007 progresses.

The [RCT Short Bond Fund](#) provided participants with strong relative performance due to a 0.5% yield advantage over the benchmark and added value from tightening asset- and mortgage-backed spreads. A short effective duration relative to the benchmark also boosted results, as yields for two-year Treasuries rose by over 40 basis points during the year.

The [RCT Intermediate Diversified Bond Fund](#) provided a return in line with that of the Lehman Aggregate Index. Factors supporting performance included a shorter-than-benchmark effective duration as interest rates rose 0.3% for ten-year Treasuries, and spread tightening among corporate issues, particularly lower-quality issues. The Fund's yield curve positioning detracted from performance, as yields on five- to ten-year maturities declined relative to two-year issues during the year's second half. The mortgage portion of the portfolio provided supplemental yield, but an emphasis on more stable 15-year mortgage pools and limited exposure to commercial mortgage-backed securities underweighted the sector's strongest components, the 30-year fixed mortgage-backed and commercial mortgage-backed issues. The Fund is positioned defensively against increased volatility from current low levels and deterioration in the U.S. housing market from the sanguine outlook at year-end.

#### CUIT FUNDS

The majority of CUIT Funds had a difficult year in 2006 relative to their benchmarks, although their generally strong absolute returns reflected the favorable market environment of high earnings growth and robust profit margins in many global industries. Active managers across the investment industry generally underperformed in 2006, as only about one-third beat their benchmarks in a market that seemed to favor leveraged trading strategies over sound fundamental analysis.

The [CUIT Balanced Fund](#) outperformed its benchmark by 90 basis points, with its value-oriented equity portfolio enhancing return for the year. Stock selection was strong within the technology, consumer discretionary and healthcare sectors. A significant repositioning into media sector exposure during 2005 produced substantial gains in 2006, and moderate foreign exposure through American Depository Receipts (ADRs) also added value.

The [CUIT Market Neutral Fund](#) finished just slightly ahead of the Merrill Lynch 91-Day Treasury Bill, fulfilling the objective of hedging bond exposure by adding moderate value above the Lehman Aggregate Index return. The Fund experienced a negative third quarter, which reflected a volatile shift in market trading patterns related in part to the liquidation of the Amaranth hedge fund portfolio. The Fund demonstrated good complementarity of manager styles during its initial year, as the strategy of weighting the short-term factors moving stocks had an excellent year and offset the weaker results from the process emphasizing longer-term investment fundamentals.

The [CUIT Core Equity Index Fund](#) slightly trailed the S&P 500 Index in 2006. This was attributable to the impact of Principled Purchasing, as the primary exclusions among large pharmaceuticals and health management companies, defense contractors and tobacco shares were all strong performers. For tobacco and pharmaceutical shares in particular, 2006 marked a reprieve in the volume of lawsuits and costly settlements of previous years. Re-weighting among other names within the healthcare sector offset some of the impact, but for the first time since 1999, Principled Purchasing exclusions had a small negative influence on relative results.

The [CUIT Value Equity Fund](#) lagged its benchmark for the year for the first time since 2000. However, it ranked in the 53rd percentile among institutional value managers in a year in which 84% trailed the Russell 1000 Value Index. The portfolio had a slight underexposure to mega-cap stocks, which were strong performers. An emphasis on technology and healthcare issues due to their attractive valuations and good earnings prospects also hurt relative results, as cyclical sectors such as energy, utilities and basic

# CBIS Fund Performance as of December 31, 2006

Fund – Fixed-Income	3 Month	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date***
<b>RCT Flex Cash Fund***</b>	<b>1.15</b>	<b>4.28</b>	<b>2.48</b>	<b>1.85</b>	<b>3.25</b>	<b>4.53</b>	<b>Jan 85</b>
Lipper Government for MM Funds	1.14	4.26	2.43	1.77	3.28	*	
Merrill Lynch 91-Day TBill Index	1.26	4.82	3.06	2.43	*	*	
<b>RCT Short Bond Fund</b>	<b>1.19</b>	<b>4.37</b>	<b>2.51</b>	<b>3.23</b>	<b>4.88</b>	<b>6.42</b>	<b>Jan 85</b>
Merrill Lynch 1-3yr Treasury Index**	0.91	3.93	2.16	2.82	4.83	6.55	
<b>RCT Intermediate Diversified Bond Fund Class A</b>	<b>1.22</b>	<b>4.28</b>	<b>3.55</b>	<b>4.87</b>	<b>5.99</b>	<b>6.63</b>	<b>Jan 95</b>
Lehman Aggregate Index	1.24	4.33	3.70	5.06	6.24	6.99	
<b>RCT Intermediate Diversified Bond Fund Class B</b>	<b>1.17</b>	<b>4.43</b>	<b>3.68</b>	*	*	<b>3.84</b>	<b>Jan 03</b>
Lehman Aggregate Index	1.24	4.33	3.70	*	*	3.80	
<b>Fund – Alternative</b>							
<b>CUIT Market Neutral</b>	<b>1.55</b>	<b>4.90</b>	*	*	*	<b>4.90</b>	<b>Jan 06</b>
Merrill Lynch 91-Day T-Bill Index	1.26	4.82	*	*	*	4.82	
<b>Fund – Equity</b>							
<b>CUIT Balanced Fund</b>	<b>4.74</b>	<b>12.01</b>	<b>9.56</b>	<b>8.63</b>	<b>8.90</b>	<b>10.11</b>	<b>Dec 83</b>
60% S&P 40% LBAgg†	4.49	11.10	7.76	5.81	7.67	9.72	
<b>CUIT Value Equity Fund Class A</b>	<b>7.74</b>	<b>18.40</b>	<b>15.57</b>	<b>12.35</b>	<b>10.66</b>	<b>13.28</b>	<b>Jan 95</b>
Russell 1000 Value Index	8.00	22.24	15.09	10.86	11.00	13.92	
<b>CUIT Value Equity Fund Class B</b>	<b>7.82</b>	<b>18.79</b>	<b>15.97</b>	*	*	<b>20.16</b>	<b>Jan 03</b>
Russell 1000 Value Index	8.00	22.24	15.09	*	*	18.65	
<b>CUIT Core Equity Index Fund Class A</b>	<b>6.28</b>	<b>14.86</b>	<b>10.45</b>	<b>6.56</b>	<b>8.68</b>	<b>11.73</b>	<b>Jan 95</b>
Standard & Poor's 500 Index††	6.70	15.78	10.44	6.19	8.43	11.77	
<b>CUIT Core Equity Index Fund Class B</b>	<b>6.28</b>	<b>14.95</b>	<b>10.55</b>	<b>6.66</b>	*	<b>2.62</b>	<b>Mar 00</b>
Standard & Poor's 500 Index††	6.70	15.78	10.44	6.19	*	2.21	
<b>CUIT Growth Fund Class A</b>	<b>3.76</b>	<b>(1.08)</b>	<b>4.70</b>	<b>1.13</b>	<b>3.01</b>	<b>8.85</b>	<b>Jan 91</b>
Russell 1000 Growth Index‡	5.93	9.07	6.87	2.69	4.89	9.72	
<b>CUIT Growth Fund Class B</b>	<b>3.86</b>	<b>(0.76)</b>	<b>5.02</b>	*	*	<b>9.97</b>	<b>Jan 03</b>
Russell 1000 Growth Index‡	5.93	9.07	6.87	*	*	12.18	
<b>CUIT Small Cap Equity Fund Class A</b>	<b>6.80</b>	<b>10.49</b>	<b>8.41</b>	<b>5.80</b>	<b>7.82</b>	<b>9.60</b>	<b>Jan 95</b>
Russell 2000 Index	8.90	18.36	13.56	11.39	9.43	11.48	
<b>CUIT Small Cap Equity Fund Class B</b>	<b>6.90</b>	<b>10.88</b>	<b>8.80</b>	*	*	<b>16.49</b>	<b>Jan 03</b>
Russell 2000 Index	8.90	18.36	13.56	*	*	21.18	
<b>CUIT International Equity Fund Class A</b>	<b>8.95</b>	<b>25.70</b>	<b>14.55</b>	<b>10.89</b>	<b>8.62</b>	<b>9.68</b>	<b>Jan 95</b>
MSCI EAFE-Gross Index	10.40	26.85	20.40	15.43	8.06	8.20	
<b>CUIT International Equity Fund Class B</b>	<b>9.06</b>	<b>26.17</b>	<b>15.00</b>	<b>11.29</b>	*	<b>2.09</b>	<b>Mar 00</b>
MSCI EAFE-Gross Index	10.40	26.85	20.40	15.43	*	5.52	

\* Data not available.

\*\* Benchmark Index: ML 1-3 Yr. Treasury Index eff. 7/1/01; ML 1-5 Yr. G/C Index eff. 7/1/97; 50% Lehman Intermediate Govt Index/50% Lehman 1-3 Yr. Govt Index eff. 5/1/96.

† Benchmark Index: 60% S&P 500/ 40% LBAgg% eff. 1/2/03; 60% S&P 500/ 30% LBAgg/ 10% 91-Day T-Bill eff. 4/1/91; 60% LBAgg/40% S&P 500 in prior periods.

†† S&P 500 is a registered trademark of McGraw-Hill Companies, Inc. ("McGraw-Hill"). The CUIT Core Equity Index Fund is not sponsored, endorsed, sold or promoted by Standard & Poor's and Standard & Poor's makes no representation regarding the advisability of investing in the fund.

^ Benchmark Index: Russell 1000 Growth Index effective June 1, 2000; prior to this date, historical returns reflect Russell Mid-Cap Growth Index.

\*\*\* The RCT Flex Cash Fund changed its investment approach from overnight repurchase agreements, its approach since fund inception, to an actively managed MM portfolio effective 8/1/01.

\*\*\*Performance for Class B shares no longer includes performance of the Fund's Class A shares for periods prior to the issuance of Class B shares. Performance for each share class is shown from the inception of that share class.

Performance for periods of one year and longer are annualized. All fund performance (including that of comparative indices) is reported net of any fees and expenses, but inclusive of dividends and interest. Past performance is not indicative of future performance. The return and principal value of the Fund(s) will fluctuate, and upon redemption, shares in the Fund(s) may be worth less than their original cost. The RCT Flex Cash Fund is not guaranteed by the U.S. Government and there can be no assurance that a stable net asset value of \$1.00 can be maintained. The comparative indices represent unmanaged or average returns on various financial assets, which can be compared to the Funds' total returns for the purpose of measuring relative performance. Comparative index information is provided by Lipper Analytical Services, Inc. and Mellon Bank; information regarding composition of indexes may be obtained from provider or CBIS. CBIS offers pooled funds on behalf of two not-for-profit investment trusts, Religious Communities Trust (RCT) and Catholic United Investment Trust (CUIT). Offering Memoranda / Disclosure Statements, which contain further information, are available by calling either 800-592-8890 or 800-321-7194. Such information should be carefully considered prior to investing in the Funds.

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materials were the strongest value sectors. Both sub-advisers focus on longer-term, discounted fundamentals, which we believe will prove rewarding as the market environment shifts away from last year's trading patterns.

The **CUIT Growth Fund** fell substantially short of its benchmark in 2006, due in part to an emphasis on the traditional growth sectors of technology and healthcare and little exposure to the top-performing utilities and basic materials sectors, and their more cyclical earnings. However, stock selection in the Fund's relatively concentrated portfolio was the primary reason for underperformance. A number of technology, biotech and consumer discretionary issues that had produced strong returns in 2005 sold off during 2006, in several cases despite formidable

2000 in most years, it trailed by 3.2% in 2006. Another attribute of the Fund's small value strategy, an emphasis on stock buybacks coupled with discounted fundamentals, was also ineffective in 2006 despite its strong long-term record. As described above, the Fund was liquidated at the end of 2006 when CBIS launched the CUIT Small-Capitalization Equity Index Fund.

The **CUIT International Equity Fund** participated in the strong absolute returns from international equity markets in 2006. All of the primary themes within the Fund were beneficial: a focus on larger-cap issues, higher dividend yields, a valuation focus that avoided significant exposure to Japan and valuation analysis of enterprise value that targeted acquisition candidates. While emerging markets exposure was just 4.5% of the portfolio, stock

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## OUR SUB-ADVISERS DO NOT BUY PIECES OF PAPER, BUT TAKE OWNERSHIP STAKES IN COMPANIES THAT WILL PROVIDE EARNINGS GROWTH AND U.S. ECONOMIC GROWTH FOR MANY YEARS TO COME.

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revenue and earnings gains. The Fund's sub-advisers select companies primarily on the basis of expected strong future earnings growth. During the past year, the bottom third of the Russell 1000 Growth Index, ranked in terms of expected earnings growth, returned 15.7%, in contrast to the top third which returned only 3.7%. We believe that this very atypical result is unlikely to be sustained as 2007 progresses.

The **CUIT Small-Capitalization Equity Fund**, despite its restructuring in late 2005, substantially trailed the Russell 2000 benchmark during 2006, as the Fund's diversified fundamentals-based approach to small-cap core and value management proved ineffective. Last year was a difficult year for small-cap active managers in general, as 68% underperformed the Russell 2000 and 90% trailed the Russell 2000 Value index. One key attribute of the portfolio was a focus on higher-quality small-cap issues with a share price above \$5, low stock volatility and stable and improving earnings. The S&P 600 Index, a small-cap stock index, has similar characteristics, and despite outperforming the Russell

selection in Mexico and South Korea contributed favorably to results. While stock selection was quite positive, sector emphasis on healthcare and consumer staples, with an underweight in the cyclical utilities and materials sectors, detracted from results.

### INDIVIDUALLY MANAGED PORTFOLIOS

At year-end 2006, CBIS administered 47 individually managed portfolios (IMPs) with total assets of \$988 million, a modest increase from the prior year. Fixed-income mandates accounted for 57% of the total by market value, equity portfolios accounted for 27% and balanced portfolios made up the remaining 16%.

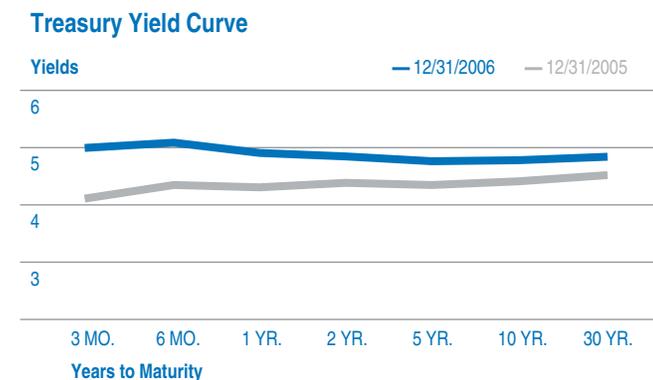
**Dodge & Cox** manages over 72% of CBIS' IMP assets. Fixed-income accounts returned from 4% to 5.5%, net of fees, depending on specific participant guidelines and cash flows. These results compared quite favorably with the Lehman Aggregate Index's 4.33% return for the year. Dodge's strategy of maintaining

relatively short duration proved effective as interest rates rose by 25 to 30 basis points during the year. An overweight in lower-rated corporate bonds and mortgage-backed issues with relatively stable cash flows garnered additional return, as credit and mortgage spreads tightened further in 2006.

Dodge & Cox posted strong absolute returns in its equity portfolios ranging from 18.6% to 19.2%. Dodge's results compared quite favorably against the S&P 500, which returned 15.78% in 2006, although they moderately lagged the Russell 1000 Value Index, which rose 22.24%. Dodge's relatively higher exposure to growth sectors such as technology, healthcare and media, due to their compelling relative valuation and earnings

Jennison Associates managed five separate bond portfolios at year-end, and produced returns for the year that ranged from 3.41% to 3.93%, net of fees, trailing the Lehman Aggregate's 4.33% return. Jennison minimized exposure to maturities of approximately five to 20 years, which will face the sharpest price declines when the current yield curve inversion corrects. This didn't occur in 2006, as 5- and 10-year Treasuries continued to yield less than 2-year Treasury notes. Jennison has profited from aberrations in yield curve shapes in the past, most recently during 2005, and its strategy should again produce positive results. The firm viewed credit and mortgage spreads as far too tight in 2006. It was consequently underweight in both sectors and focused on higher-quality issues. This strategy will provide strong defensive characteristics when yield spreads widen to more normal historical levels.

RhumbLine Advisers manages four indexed portfolios benchmarked against the S&P 500. Results for the year ranged from 15.0% to 15.32%, lagging the benchmark's 15.78% return due to Principled Purchasing exclusions. This was the first year since 1999 that Principled Purchasing had a net negative effect on our indexed IMPs. Each of the principal industries affected — pharmaceuticals and health management companies, aerospace and defense contractors and tobacco firms — produced strong results during 2006. Ongoing defense expenditures and particularly strong aircraft orders supported defense firms, while tobacco stocks demonstrated solid earnings growth and faced fewer negative outcomes in litigation. Pharmaceutical stocks, having faced years of concerns over lean product pipelines, generic competition and costly overhead, demonstrated beneficial cost-cutting and a resultant share price resurgence. Re-weighting and reallocation from restricted securities to remaining issues helped offset some, but not all, of the negative impact of the restrictions.



growth prospects, dampened results. Nonetheless, Dodge's emphasis on value and longer-term earnings growth should reward participants as global economic growth slows in 2007 and investors refocus on fundamentals.

Dodge & Cox produced returns for its balanced portfolios ranging from 9.5% to 14.8%, net of fees, compared to the 11.10% return produced by a 60% S&P 500 Index/ 40% Lehman Aggregate portfolio. Strong equity and bond results each contributed to this success during 2006.

CBIS and our SRI partners  
are allies in the development  
of social and environmental  
strategies that defend and  
support shareholder value.



# Diversity

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CBIS asks that portfolio companies hire a diverse workforce and disclose workforce demographic data on an annual basis. We hold ourselves to these same standards. Each year, we report on our commitment to diversity in our annual report to participants. The CBIS diversity policy is defined by the following premises:

- We value each person for his or her unique contribution to our service.
- We value the different backgrounds and perspectives that we each bring.
- We work to allow each person to develop his or her potential.
- We work to integrate our collective talent for the benefit of our participants.

We also favor investment managers who meet our diversity criteria. Each prospective CBIS sub-adviser is asked to detail its organizational structure, including the number of women and racial minorities on its executive team and in senior management positions. We also ask about each firm’s anti-discrimination policies and the specific actions undertaken to meet its diversity commitment. Finally, we ask for data that outlines the composition of its workforce, just as we provide here. All this information is carefully evaluated during the manager selection process.

CBIS employed a total of 54 individuals at year-end 2006. The tables on the right compare our workforce demographics to those of the securities industry in general. While we are a relatively small firm by securities industry standards, we believe the data confirms our commitment to diversity and supports the perception by our employees, participants and SRI industry partners that CBIS is dedicated to building and maintaining a diverse workforce.

## 2006 CBIS Diversity

%	Male	Female	White	Black	Hispanic	Asian
All	44	56	73	19	4	4
Officers	86	14	71	29	0	0
Supervisors	82	18	91	0	9	0
Professionals	33	67	78	16	0	6
Office & Clerical Workers	17	83	61	27	6	6

## 2003 EEO-1 Aggregate Report - Security & Commodity Brokers

%	Male	Female	White	Black	Hispanic	Asian
All	59	41	77	8	5	10
Officials & Managers	67	33	86	4	3	7
Professionals	61	39	75	7	5	13
Office & Clerical Workers	33	67	68	17	9	6

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