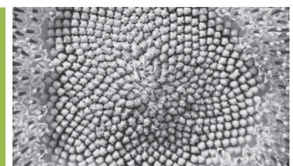
ACTIVE MANAGEMENT

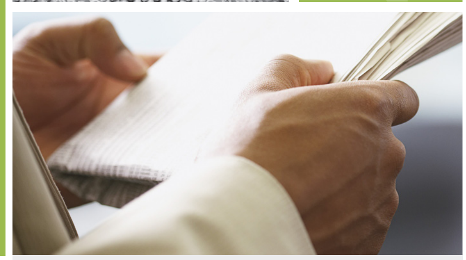
The Case for Multi-Manager Funds

NOVEMBER 2015

CBIS combines two or three managers in most actively managed funds to enhance performance and diversification relative to a single-manager structure. We believe this approach offers valuable benefits to Catholic institutions of all sizes who are seeking highly competitive risk adjusted returns in a manner consistent with the ethical and social teachings of the Catholic Church.



Catholic Responsible Investing



Since the firm's founding in 1981, CBIS has sought, when asset levels and strategies permit, to combine two or more sub-advisers in our actively managed funds. A multi-manager structure further diversifies fund-level holdings, investment styles and sub-adviser-specific business risk relative to a single-manager approach without sacrificing long-term return. By combining sub-advisers with unique and complementary styles, we seek to achieve the average of their excess returns but with reduced tracking error relative to the benchmark.

BENEFITS OF A MULTI-MANAGER STRUCTURE

The benefits offered by CBIS' use of multi-managers in a fund relate primarily to risk control and enhanced diversification at the fund-level, while seeking not to sacrifice long-term performance. We believe these benefits are attractive for larger institutions as well as smaller ones. They include:

- **Style Diversification** — pairing two or more managers with distinct and clearly differentiated styles diversifies the source of value-add relative to a single manager's style. When one manager is out of favor, the other(s) may be in favor.
- **Portfolio Diversification** — Fund holdings are diversified across a larger group of securities and can gain exposure to a larger potential

Summary

- The benefits of a multi-manager approach include enhanced style diversification, portfolio diversification, business risk diversification and access to institutional managers that may not be otherwise available.
- A multi-manager structure is beneficial when managers run high conviction portfolios with relatively high tracking error, but low correlations – a combination can help capture excess return while potentially reducing volatility.
- Careful analysis of managers coupled with CBIS' expertise in Catholic Responsible Investing^{SM} makes our role in manager selection and fund construction attractive to Catholic institutions and their consultants.

range of company characteristics (such as market capitalization) independent of style considerations. This enhances portfolio diversification and creates a potentially larger opportunity set for value-add relative to a single manager's portfolio.

- **Business Risk Diversification** — Any manager selection decision comes with firm-specific business risk. Sub-advisers can lose focus on their investment process in favor of asset growth; they can lose key people; they can experience dissension and internal conflict; they can experience a change in ownership structure that impairs incentives and misaligns their interests with those of their investors. A multi-manager structure diversifies these risks.
- **Access** — For smaller organizations in particular, our multi-manager structure can offer access to sub-advisers who are closed to new business or whose fees and/or minimums may be too high for some to make a direct investment.

POTENTIAL CONCERNS

A few a points of concern have been directed at our multi-manager approach.

- **Higher Fees?** — Some institutions believe multi-manager funds come with inherently higher fees. This perception may derive from an association with hedge fund of funds, where there are two sources of relatively high fees — the underlying managers and the fund manager. Given the size of CBIS Funds and our business relations with sub-advisers, we don't believe our approach results in higher fees relative to comparable single-manager funds. But this is one area where facts are objective and easily measured; our fees are fully disclosed and can be compared against those of single-manager competitors.
- **Closet Indexing?** — Combining two or three separate portfolios naturally raises the concern that a fund is simply a closet index fund. As with fees, the facts are easy to observe. The analysis of fund holdings along with metrics such as active share and a fund's periodic and compound risk and return history will support or refute this concern.

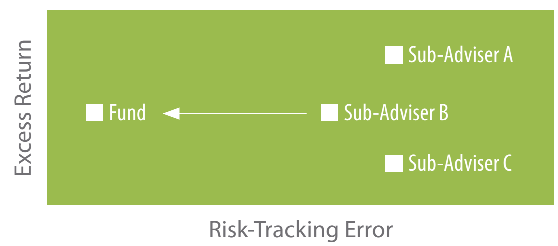
THE IDEALIZED MULTI-MANAGER COMBINATION

Table I illustrates an idealized vision of the risk reduction benefits a multi-manager approach can produce. Here there are three underlying managers with:

- differentiated, complementary styles;
- high conviction portfolios;
- attractive long term excess return; and
- relatively high tracking error (a necessary consequence of their high conviction approach).

I. IDEALIZED MULTI-MANAGER COMBINATION

Captures excess return at sub-adviser level, but with significant risk reduction at fund level



If the managers' returns have a sufficiently low correlation, their combination results in fund-level performance that captures the average of excess returns but with reduced risk. Of course, this ideal is not consistently evident over all potential time periods in real world analysis. Sub-advisers experience periods of underperformance, sometimes to a significant degree for high-conviction managers. In the case of quantitative managers, there are times when their models don't perceive compelling alpha-generating opportunities and tracking error can decline. But over a full market cycle, Table II, on the following page, illustrates an important quantitative dimension of our rationale for a multi-manager structure.

II. CBIS FUNDS — CORRELATION OF EXCESS RETURNS: (Trailing Periods as of September 30, 2015)

3-yr. / 5-yr.	D	J	R
D	1.00	-0.23 / -0.52	0.28 / 0.68
J	—	1.00	-0.40 / -0.43
R	—	—	1.00

CUIT Intermediate Divers. Bond (Dodge/Jennison/Reams) *Barclays Capital Aggregate benchmark*

3-yr. / 5-yr.	AJO	D&C
AJO	1.00	0.24 / 0.32
D&C	—	1.00

CUIT Value Equity (AJO/Dodge & Cox) *Russell 1000 Value benchmark*

3-yr. / 5-yr.	LAC	Well
LAC	1.00	0.53 / 0.15
Well	—	1.00

CUIT Growth Equity (LA Capital/Wellington) *Russell 1000 Growth benchmark*

3-yr. / 5-yr.	C	P	W
C	1.00	0.28 / 0.17	-0.19 / -0.17
P	—	1.00	0.18 / 0.05
W	—	—	1.00

CUIT International Equity (Causeway/Principal/WCM) *MSCI EAFE benchmark*

QUANTITATIVE EVIDENCE FOR CBIS FUNDS

Quantitative proof of success for a multi-manager approach will not show up clearly in fund-level risk and return history alone. Metrics such as compound annualized returns, periodic quarterly or annual returns, and absolute volatility result more from the performance of the fund's style segment and underlying manager portfolios than from the manager combination. Moreover, our expectations for these metrics are formed in the fund construction process. They influence initial manager selection and the assigned risk/return objectives. A multi-manager structure is not a magic bullet that guarantees outperformance or superior peer ranks.

We look instead for quantitative proof of the benefit of a multi-manager approach in the correlation of the periodic benchmark-relative returns produced by the managers within a fund. If sub-advisers have styles that are complementary and suited for combining in a fund, the proof should appear as a low correlation of periodic excess return. Correlation measures the degree to which separate return streams move in synch with each other. The correlation coefficient ranges from +1 (which implies perfectly synchronized return pairs that rise and fall together) to -1 (which implies perfectly synchronized return pairs that move inversely to each other). Given the mathematics that determine the volatility of excess return, any correlation below +1 offers a mathematically measurable reduction in volatility, but we generally look for correlations below about 0.5 as evidence of practical significance.

Table II presents correlations of quarterly returns over the trailing three- and five-year periods shown for four CBIS multi-manager Funds. The data generally support our thesis that we are in fact combining managers with distinct and complementary styles. The **CUIT Growth Fund** and **CUIT Value Equity Fund** show three- and five-year correlations near or below 0.5; the **CUIT International Equity Fund** shows correlations well below 0.5.

In the case of the **CUIT Intermediate Diversified Bond Fund**, there is a reasonably high five-year correlation between Dodge & Cox and Reams, since each tends to take on corporate credit risk and has done so successfully over the period of analysis. However, the complementary nature of the Fund's third manager, Jennison Associates, is well documented by the negative correlations with the other two managers.

We should note that the CUIT International Fund correlations are based on excess return versus the MSCI EAFE Index. This was the Fund's benchmark over most of the indicated trailing three-year and five-year periods. On June 1, 2015, CBIS changed the benchmark from the all-developed market MSCI EAFE Index to the MSCI All Country World Index (ACWI) ex-U.S. Index. The new benchmark offers broader geographical exposure to a larger universe of companies, including up to 30% exposure to global emerging markets. A third manager, WCM Investment Management, was added to the Fund in September 2015. The WCM correlation data reflects that of their composite portfolio performance, not their CBIS portfolio.

Despite these recent changes in the Fund's benchmark and sub-adviser group, we think the correlation data illustrates the inherent complementary nature of the three managers. Correlations based on the Fund's new benchmark are similar to those shown in the correlation charts on the previous page.

To be sure, the parings do not consistently neutralize the ups and downs of high tracking error managers, nor do they assure outperformance or superior peer ranks over any particular time period. The correlation data simply offers mathematical evidence that our manager selection and combination decisions have produced what we believe are measurable benefits.

CBIS MULTI-MANAGER FUNDS AND CONSULTANTS

We seek to construct and manage funds that provide superior risk-adjusted returns in their style category while incorporating CBIS' Catholic Responsible Investing (CRI) program as an overlay on the investment process. Our careful analysis of managers to ensure they can implement their strategies while incorporating Catholic screens and our multi-manager approach to fund construction are important aspects for Catholic organizations to consider. We conduct a thorough evaluation of managers before they are hired as sub-advisers, and then follow a disciplined monitoring program to review their performance and their adherence to our approach. We believe our multi-manager structure has contributed to our success delivering competitive risk-adjusted returns in a manner consistent with the ethical and social teachings of the Catholic Church.

CBIS MULTI-MANAGER FUNDS

	CUIT OPPORTUNISTIC BOND	CUIT INTERMEDIATE DIVERSIFIED BOND	CUIT VALUE	CUIT GROWTH	CUIT INTERNATIONAL
MANAGER (% ASSETS)	Longfellow (50%) Reams (50%)	Dodge & Cox (35%) Jennison (40%) Reams (25%)	AJO (50%) Dodge & Cox (50%)	LA Capital (50%) Wellington (50%)	Causeway (40%) Principal Global (30%) WCM (30%)
BENCHMARK	Barclays 1-5 Year Government Credit Index	Barclays Capital Aggregate Index	Russell 1000 Value	Russell 1000 Growth	MSCI All Country World ex U.S.
STYLE COMPLEMENTARITY	■ Longfellow — Fundamental, bottom-up approach seeks to capitalize on bond market inefficiencies; merger/ arbitrage strategy seeks supplemental return ■ Reams — Employs both macroeconomic and bottom-up strategies to uncover value and react opportunistically to valuation discrepancies and volatility opportunities; emphasizes long-term value and total return	■ Jennison — Active trading through issue selection and yield curve positioning, high-quality bias, duration neutral ■ Dodge & Cox — Issue selection in search of yield advantage, low turnover, takes some duration risk ■ Reams — Seeks long-term value and total return by capturing opportunities produced by bond market volatility, takes moderate duration risk	■ AJO — Quant process emphasizes factor-based valuation and sector neutrality ■ Dodge & Cox — Fundamental deep value process with 3- to 5-year horizon	■ LA Capital — Quant process emphasizes factor-based valuation and sector neutrality ■ Wellington — Fundamental stock selection based on proprietary growth, value and quality criteria	■ Causeway — Value-oriented, fundamental research (quant approach for EM) ■ Principal — Growth-oriented, integrated quantitative and qualitative process ■ WCM — Concentrated, low-turnover portfolio focused on growth companies with sustainable competitive advantage

All CBIS institutional Funds are managed in accordance with CBIS' industry-leading Catholic Responsible Investing℠ approach.