



CATHOLIC INVESTMENT TRUST OF WASHINGTON

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)



KPMG LLP
1676 International Drive
McLean, VA 22102

Independent Auditors' Report

The Board of Trustees
Catholic Investment Trust of Washington:

We have audited the accompanying financial statements of the Catholic Investment Trust of Washington, which comprise the statement of net assets, including the schedule of investments as of June 30, 2014 and 2013, and the related statement of operations and statement of changes in net assets for the years ended June 30, 2014 and 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Catholic Investment Trust of Washington as of June 30, 2014 and 2013, and the results of its operations, and changes in its net assets for the years ended June 30, 2014 and 2013, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

November 25, 2014

CATHOLIC INVESTMENT TRUST OF WASHINGTON

Statements of Net Assets

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets:		
Investments, at fair value (note 2)	\$ 392,153,475	347,827,821
Prepaid expenses	12,470	21,545
Total assets	<u>392,165,945</u>	<u>347,849,366</u>
Liabilities:		
Fund manager fees payable	356,323	424,569
Administration fees payable to an affiliate (note 4)	—	190,372
Other fees payable (note 4)	75,340	111,526
Total liabilities	<u>431,663</u>	<u>726,467</u>
Net assets	<u>\$ 391,734,282</u>	<u>347,122,899</u>

See accompanying notes to financial statements.

CATHOLIC INVESTMENT TRUST OF WASHINGTON

Statements of Operations

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Investment income:		
Dividend and interest	\$ 6,783,943	7,225,693
Expenses:		
Trustee and investment management fees	2,047,804	1,822,736
Administration fees to an affiliate (note 4)	305,000	500,000
Other administrative fees	657,880	357,067
Total expenses	<u>3,010,684</u>	<u>2,679,803</u>
Net investment income	<u>3,773,259</u>	<u>4,545,890</u>
Net realized gain on investments	36,555,058	7,396,556
Net unrealized gain on investments	17,296,094	26,260,527
Net realized and unrealized gain on investments	<u>53,851,152</u>	<u>33,657,083</u>
Net increase in net assets resulting from operations	<u>\$ 57,624,411</u>	<u>38,202,973</u>

See accompanying notes to financial statements.

CATHOLIC INVESTMENT TRUST OF WASHINGTON

Statements of Changes in Net Assets

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Increase in net assets from operations:		
Net investment income	\$ 3,773,259	4,545,890
Net realized gain on investments	36,555,058	7,396,556
Net change in unrealized gain on investments	17,296,094	26,260,527
Net increase in net assets from operations	<u>57,624,411</u>	<u>38,202,973</u>
Increase (decrease) in capital account:		
Capital contributions	231,549	14,546,146
Capital withdrawals	(13,244,577)	—
Net capital (withdrawals) contributions	<u>(13,013,028)</u>	<u>14,546,146</u>
Net increase in net assets	44,611,383	52,749,119
Net assets, beginning of year	<u>347,122,899</u>	<u>294,373,780</u>
Net assets, end of year	<u>\$ 391,734,282</u>	<u>347,122,899</u>

See accompanying notes to financial statements.

CATHOLIC INVESTMENT TRUST OF WASHINGTON

Schedule of Investments

June 30, 2014

<u>Investments</u>	<u>Fair value as a percent of net assets</u>	<u>Cost</u>	<u>Fair value</u>
U.S. government agencies	1.83%	\$ 7,070,069	7,171,934
U.S. treasury obligations	1.90	7,414,580	7,458,043
Domestic and foreign common stocks	50.85	158,656,297	199,405,811
Corporate and foreign bonds	3.41	13,427,399	13,353,438
Fixed income funds	7.39	29,512,053	28,967,492
Municipal obligations	0.12	411,661	460,113
Money market funds	3.45	13,535,851	13,536,045
Balanced and closed end mutual funds	14.58	55,675,227	57,173,305
Master limited partnerships	0.03	107,175	124,159
Real estate investment trusts	0.33	1,045,469	1,305,499
Certificate of deposits	0.68	2,644,497	2,675,254
Hedge funds	13.85	52,480,000	54,294,695
Private equity funds	0.56	2,350,382	2,215,090
U.S. property income and growth fund	1.02	3,676,688	4,012,597
	<u>100.00%</u>	<u>\$ 348,007,348</u>	<u>392,153,475</u>

See accompanying notes to financial statements.

CATHOLIC INVESTMENT TRUST OF WASHINGTON

Schedule of Investments

June 30, 2013

Investments	Fair value as a percent of net assets	Cost	Fair value
U.S. government agencies	4.10%	\$ 14,502,010	14,245,916
U.S. Treasury obligations	1.28	4,636,600	4,466,633
Domestic and foreign common stocks	64.31	195,675,185	223,699,787
Corporate and foreign bonds	5.83	20,773,079	20,280,189
Fixed income funds	12.61	45,353,798	43,874,505
Municipal obligations	0.12	411,661	402,680
Money market funds	4.02	13,973,735	13,973,735
Balanced and closed end mutual funds	2.92	6,477,619	10,154,786
Master limited partnerships	0.28	910,166	971,258
Real estate investment trusts	0.26	851,397	896,956
Certificate of deposits	0.77	2,650,897	2,674,047
Hedge funds	2.35	7,480,000	8,172,681
Private equity fund	0.10	470,004	369,208
U.S. property income and growth fund	1.05	3,585,306	3,645,440
	<u>100.00%</u>	<u>\$ 317,751,457</u>	<u>347,827,821</u>

See accompanying notes to financial statements.

CATHOLIC INVESTMENT TRUST OF WASHINGTON

Notes to Financial Statements

June 30, 2014 and 2013

(1) Summary of Significant Accounting Policies

(a) Organization

The Catholic Investment Trust of Washington (CITW or Trust) was established pursuant to the Trust agreement effective March 29, 2012 to assist Grantors in the investment of long-term assets. The Grantors are related-party entities of the Archdiocese of Washington and include the following: The Roman Catholic Archbishop of Washington, a Corporation Sole, Forward in Faith, Inc., Catholic Education Foundation of the Archdiocese of Washington, Archdiocese of Washington Priests' Retirement Benefit Trust, and the Archdiocese of Washington Pension Trust. The Grantors transferred their long-term investment to the Trust pursuant to the Trust agreement, effective April 2, 2012.

CITW is governed by an independent board of trustees. Trustees serving on the board of the Trust are board members who serve at each of the Grantors. The accounting for CITW is performed under a services agreement with the Central Pastoral Administration of the Archdiocese of Washington. Participation in the Trust is voluntary for its Grantors. CITW follows an Investment Policy Statement. CITW is not registered with the SEC as an investment company. The investments of the Trust are managed by independent investment managers and the securities are held by a custodian. The investments of CITW comprise three portfolios: Traditional, Semi-liquid, and Illiquid. The investment objective of each portfolio, consistent with the Investment Policy Statement approved by CITW's board of trustees, is long-term total return that net of fees exceeds the aggregate Portfolio benchmark's total return with less risk.

On May 29, 2014, CITW entered into a limited partnership agreement with Cambridge Associates Resources, LLC, as General Partner, to form CITW Fund, LP. Although CITW Fund, LP was established at June 30, 2014, no assets of CITW were transferred to CITW Fund, LP until July 2014 at which time 100% of the assets of CITW were transferred. Under the limited partnership agreement, Cambridge has discretionary authority over all investment management decisions. The Trustees maintain responsibility for the Investment Policy Statement, which provides the types and ranges of acceptable investments, sets limits on leverage and other exposures and requires compliance with socially responsible investment guidelines.

(b) Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles on the accrual basis of accounting.

(c) Investments

Investments are carried at fair value, which is determined using quoted market prices or, with respect to investments without quoted market prices, at estimated fair values provided by external investments managers. CITW management reviews and evaluates the fair values provided by the external investments managers and believes that the valuation methods and assumptions used in determining their estimated fair value are reasonable. Due to inherent uncertainties of these investments, these values may differ from the fair values that would have been reported had a ready market for such investments existed. Investment money market funds include cash and cash equivalents held by long-term investment managers for reinvestment.

CATHOLIC INVESTMENT TRUST OF WASHINGTON

Notes to Financial Statements

June 30, 2014 and 2013

(d) *Income Taxes*

CITW is considered a partnership for federal income tax purposes. As a pass-through entity, CITW does not have any federal or state income tax obligations. Instead, the partners (Grantors) are responsible for income taxes on their proportionate share of taxable income.

FASB Accounting Standards Codification (ASC) 740-10, *Income Taxes – Overall*, requires that management evaluate tax positions taken by CITW and recognize a tax liability (or asset) if CITW June 30, 2014 and 2013 has taken an uncertain tax position that more likely than not would not be sustained upon examination by the Internal Revenue Service. CITW has analyzed the tax positions taken and has concluded that as of June 30, 2014 and 2013, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

(e) *Unit Issues, Redemptions, and Distributions*

CITW determines the net asset value (NAV) of the Traditional portfolio monthly and the Semi-liquid and Illiquid portfolios quarterly. Units are issued and redeemed based on the computed net value. Net investment earnings are determined and posted to the Grantors' accounts on the respective valuation dates.

(f) *Concentration of Risk*

CITW invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets.

(g) *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires CITW to make certain estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) *Reclassifications*

Certain prior year amounts have been reclassified to conform to the current year presentation.

CATHOLIC INVESTMENT TRUST OF WASHINGTON

Notes to Financial Statements

June 30, 2014 and 2013

(2) Investments

Fair Value Measurements

Fair value is the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The three-level fair value hierarchy that describes the inputs that are used to measure assets is as follows:

Level 1 – Unadjusted quoted market prices for identical assets or liabilities in active markets.

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets
- Quoted prices for identical or similar assets in nonactive markets
- Inputs other than quoted prices that are observable for the asset/liability
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

CITW uses quoted values and other data provided by a nationally recognized independent pricing service (pricing service) as inputs into its process for determining fair value of its investments. The pricing service obtains market quotations and actual transaction prices for securities that have quoted prices in active markets. For securities that do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities based upon its proprietary pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing.

CITW's equity securities (Domestic and Foreign Common Stocks), including mutual funds, trade on a major exchange. Accordingly, such equity securities are disclosed in Level 1. Securities with fixed maturities (Corporate and Foreign Bonds, Municipal Obligations, Fixed Income Funds, and U.S. government Agencies) other than U.S. Treasury securities generally do not trade on a daily basis. The fair value estimates of such fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturity investments as provided by the pricing service are disclosed in Level 2 of the hierarchy. The estimated values of U.S. Treasury securities are disclosed in Level 1 as the values are based on unadjusted market prices.

CITW invests in several institutional money market funds whose underlying assets are fixed income instruments. These funds do not usually have daily purchases and redemptions. The fair value estimates of such institutional mutual funds are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such funds as provided by the pricing service are included in the amount disclosed in Level 2.

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June 30, 2014 and 2013

CITW invests in a Master Limited Partnership that is actively traded on the New York Stock Exchange and is classified as Level 1. CITW also invests in Real Estate Investment Trusts, which are actively traded on domestic and foreign exchanges and are, therefore, classified as Level 1. CITW also invests in Certificates of Deposit (CDs), which are held by FDIC insured banks and range in maturity up to six years. The CDs are classified as Level 2.

CITW invests in hedge funds, private equity funds, and a property income and growth fund located in the United States that do not have observable inputs and that cannot be corroborated by observable market data and are classified as Level 3.

The following is a summary of the fair value measurements of CITW's investments within the fair value hierarchy as of June 30:

	<u>2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. government agencies	\$ 7,171,934	—	7,171,934	—
U.S. treasury obligations	7,458,043	7,458,043	—	—
Domestic and foreign common stocks	199,405,811	199,405,811	—	—
Corporate and foreign bonds	13,353,438	—	13,353,438	—
Fixed income funds	28,967,492	—	28,967,492	—
Municipal obligations	460,113	—	460,113	—
Money market funds	13,536,045	—	13,536,045	—
Balanced and closed end mutual funds	57,173,305	57,173,305	—	—
Master limited partnerships	124,159	124,159	—	—
Real estate investment trusts	1,305,499	1,305,499	—	—
Certificate of deposits	2,675,254	—	2,675,254	—
Hedge funds	54,294,695	—	—	54,294,695
Private equity funds	2,215,090	—	—	2,215,090
U.S. property income and growth fund	4,012,597	—	—	4,012,597
	<u>\$ 392,153,475</u>	<u>265,466,817</u>	<u>66,164,276</u>	<u>60,522,382</u>

CATHOLIC INVESTMENT TRUST OF WASHINGTON

Notes to Financial Statements

June 30, 2014 and 2013

	<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. government agencies	\$ 14,245,916	—	14,245,916	—
U.S. treasury obligations	4,466,633	4,466,633	—	—
Domestic and foreign common stocks	223,699,787	223,699,787	—	—
Corporate and foreign bonds	20,280,189	—	20,280,189	—
Fixed income funds	43,874,505	—	43,874,505	—
Municipal obligations	402,680	—	402,680	—
Money market funds	13,973,735	—	13,973,735	—
Balanced and closed end mutual funds	10,154,786	10,154,786	—	—
Master limited partnerships	971,258	971,258	—	—
Real estate investment trusts	896,956	896,956	—	—
Certificate of deposits	2,674,047	—	2,674,047	—
Hedge funds	8,172,681	—	—	8,172,681
Private equity fund	369,208	—	—	369,208
U.S. property income and growth fund	3,645,440	—	—	3,645,440
	<u>\$ 347,827,821</u>	<u>240,189,420</u>	<u>95,451,072</u>	<u>12,187,329</u>

The following table is a rollforward of the Level 3 investments for the year ended June 30, 2014:

	<u>U.S. government property income and growth fund</u>	<u>Private equity funds</u>	<u>Hedge funds</u>	<u>Total</u>
Beginning balance	\$ 3,645,440	369,208	8,172,681	12,187,329
Total gains (losses) included in earnings	275,777	(41,809)	1,122,014	1,355,982
Purchases	91,380	1,887,691	45,000,000	46,979,071
Sales	—	—	—	—
Ending balance	<u>\$ 4,012,597</u>	<u>2,215,090</u>	<u>54,294,695</u>	<u>60,522,382</u>

CATHOLIC INVESTMENT TRUST OF WASHINGTON

Notes to Financial Statements

June 30, 2014 and 2013

The following table is a rollforward of the Level 3 investments for the year ended June 30, 2013:

	U.S. government property income and growth fund	Private equity fund	Hedge funds	Total
Beginning balance	\$ 3,758,890	194,377	7,000,000	10,953,267
Total gains included in earnings	211,921	—	692,681	904,602
Purchases	48,684	264,441	480,000	793,125
Sales	(374,055)	(89,610)	—	(463,665)
Ending balance	\$ 3,645,440	369,208	8,172,681	12,187,329

The fair value of other financial instruments, principally prepaid expenses and accounts payable, approximates their carrying value at June 30, 2014 and 2013 because of the short maturity of these items.

When investments were transferred by the Grantors to the Trust, they were conveyed at their carryover cost basis at the date of transfer. At date of transfer, April 2, 2012, the unrealized gains in the portfolio totaled \$25,175,183.

CITW used the NAV or its equivalent to determine the fair value of its underlying investments, which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. CITW has investments in mutual funds, which are reported as either equity funds or bond funds depending on the nature of the underlying assets in the funds. There are no restrictions on redemptions and/or purchase from the mutual funds.

There were no transfers and reclassifications of assets between Level 1, Level 2, or Level 3 as of June 30, 2014.

For investments in private equity funds, hedge funds, and U.S. property income and growth fund, the following table presents the nature and risk of these assets at June 30, 2014 and 2013:

	2014 Fair value	Unfunded commitments	Redemption	Redemption notice Period	Redemption restrictions as of June 30, 2014
Private equity funds (a)	\$ 2,215,090	10,592,241	NA	NA	NA
Hedge funds (b)	54,294,695	—	Quarterly	30 days	(d)
U.S. property income and growth fund (c)	4,012,597	415,446	NA	NA	NA
	\$ 60,522,382	11,007,687			

CATHOLIC INVESTMENT TRUST OF WASHINGTON

Notes to Financial Statements

June 30, 2014 and 2013

	2013	Unfunded		Redemption	Redemption	Redemption
	Fair value	commitments	Redemption	notice Period	restrictions	as of June 30,
					2013	
Private equity fund (a)	\$ 369,208	3,470,650	NA	NA	NA	NA
Hedge funds (b)	8,172,681	—	Quarterly	30 days	None	None
U.S. property income and growth fund (c)	<u>3,645,440</u>	<u>506,828</u>	NA	NA	NA	NA
	<u>\$ 12,187,329</u>	<u>3,977,478</u>				

- (a) The fund's objective is to assemble a diversified portfolio of private equity investments that will produce superior, risk-adjusted long-term private equity returns. The fair values of these investments have been estimated using the NAV of CITW's ownership interest in partners' capital. These investments can never be redeemed with the fund. Instead, the nature of the investments in this class is that distributions are received through liquidation of the underlying assets of the fund.
- (b) The funds comprising the hedge funds seek to achieve positive risk adjusted capital appreciation over the long-term through an investment program that utilizes a broad range of leveraged investment and trading strategies and that is socially responsible with respect to the funds. To obtain the fair value of the hedge funds, CITW uses the period-end NAV statement provided by the investment manager. The NAV reported by the fund manager is used as a practical expedient to estimate the fair value of CITW's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2014 and 2013, CITW had no plans or intentions to sell its investment at amounts different from NAV.
- (c) The fund intends to aggregate a diversified portfolio of modern, Class A, institutional quality, income-producing office assets that are leased to U.S. government tenants. The general partner estimates the values of its investments using Level 3 inputs based upon factors such as operating performance, financial condition, and economic and market events. Fair value of the real estate investments is determined by the general partner at each annual reporting date and reflects the price that an underlying property would bring in a competitive open market (exit price). CITW may not sell, transfer or pledge their interest or withdraw from the Fund except with the consent of the general partner.
- (d) Hedge funds liquidity at June 30, 2014: 67% of the portfolio can be liquidated within one year. 25% can be liquidated between one year and two years; 8% can be liquidated between two and three years. Once the hedge fund portfolio is complete, the liquidity profile will improve as initial manager lock-ups expire.

CATHOLIC INVESTMENT TRUST OF WASHINGTON

Notes to Financial Statements

June 30, 2014 and 2013

(3) Fees Payable and Expenses

CITW has entered into arrangements with various service providers as follows: investment advisor until December 31, 2013, Asset Strategy Consultants; outsourced chief investment officer, beginning January 1, 2014, Cambridge Associates LLC; custodian, M&T Bank; administrative services provider, Central Pastoral Administration of the Archdiocese of Washington (CPA); and provider of Catholic values screening and proxy services, Institutional Shareholder Services. In addition, the investments are held by investment managers under management agreements.

Fees payable at June 30, 2014 and 2013 are related to investment manager, administrative, legal, and other fees. All amounts are expected to be disbursed in less than one year.

(4) Related-Party Transactions

All Grantors of the Trust are affiliates of the Archdiocese of Washington. At June 30, 2014 and 2013, there were five Grantors to the Trust. Each Grantor had a member of its governance board or other representative serving as a trustee. At June 30, 2014, one Grantor held approximately 54% of the Trust, the other Grantors held approximately 18%, 16%, 7%, and 5%, respectively. At June 30, 2013, one Grantor held approximately 52% of the Trust, the other Grantors held approximately 19%, 18%, 7%, and 5%, respectively.

The Trust pays an administrative service fee to CPA of 20 basis points of the average CITW investment balance, capped at \$305,000 and \$500,000 per year for the years ended June 30, 2014 and 2013, respectively, for administration, record keeping, and other services. At June 30, 2014 and 2013, approximately \$0 and \$190,372 were payable to CPA and were included in administration fees payable to an affiliate.

Prior to January 2014, CPA paid certain expenses on behalf of CITW. At June 30, 2014 and 2013, approximately \$0 and \$28,198 were payable to CPA as reimbursement of CITW expenses and were included in other fees payable.

(5) Subsequent Events

CITW LP hired a new custodian for the portfolio, Bank of New York (BNY), starting July 1, 2014.

CITW entered into an agreement with Carmel Partners Investment Fund V, L.P. in May 2014 for a total commitment of \$3,000,000. The first capital call, \$83,261, occurred on August 11, 2014.

In preparing these financial statements, CITW has evaluated events and transactions for potential recognition or disclosure through November 25, 2014, the date that the financial statements were available to be issued. There were no other events or transactions that were discovered during the evaluation that required accrual or further disclosure.