

2013 Annual Report
Fortress Caribbean High Interest Fund



Fortress Fund Managers is a Barbados-based investment manager. We have been providing top-ranked returns, open communication and accessible service to our clients since 1996.

We offer a range of funds and investment products to meet the needs of individuals and institutions. In each case, our main goal is to achieve consistent long-term returns for our clients. We do this by applying sound, disciplined processes to our investments in equities, fixed income and real estate. We offer products with global reach, as well as those that focus primarily on the Caribbean region.

Please feel free to contact us to learn more about this Fund, or any of our products.

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First Floor, Carlisle House
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Barbados
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2013

Fortress Caribbean High Interest Fund Limited
2013

Investment Objectives & Fund Details

The Fund's primary objective is income and capital preservation over the medium term. The Fund actively invests in a diversified portfolio of primarily Caribbean and international debt securities.

The Fund issues two classes of shares – "Accumulation" and "Distribution". Holders of the Distribution shares receive dividends every six months. Holders of the Accumulation shares are not paid dividends, but receive their entire return via the Fund's increase in Net Asset Value. Pre-tax returns to holders of the two share classes are identical.

FUND NAME:	Fortress Caribbean High Interest Fund
LAUNCH DATE:	May 17, 2002
LAUNCH PRICE:	\$1.00 per share
MINIMUM INVESTMENT:	\$500.00 \$100.00 for subsequent investments \$100.00 for monthly savings plan

	ACCUMULATION	DISTRIBUTION
NET ASSET VALUE PER SHARE – 09/30/2013	\$1.7798	\$1.0006
NET ASSETS – 09/30/2013	\$114,577,291	\$5,748,199

MANAGEMENT EXPENSES:

<i>Management fees:</i>	0.75% per annum on the net assets
<i>Custodian & Administration:</i>	0.20% per annum on the first \$30 million in net assets 0.175% per annum on the next \$50 million in net assets and 0.15% per annum on amounts over \$80 million in net assets

INITIAL CHARGES: Nil

REDEMPTION CHARGES: Up to 2% on amounts placed less than 6 months
Up to 1% on amounts placed less than 2 years
Nil on amounts placed greater than 2 years

INVESTMENT MANAGER & ADMINISTRATOR: Fortress Fund Managers Limited

CUSTODIAN: CIBC FirstCaribbean International Bank (Barbados) Limited
Wealth Management Division

FUND VALUATIONS: Weekly on Fridays
NAV QUOTATIONS: Internet: www.fortressfund.com
Local Barbados newspapers
Bloomberg: FORCAHI BA

Directors & Administrators

DIRECTORS

Geoffrey Cave, C.B.E., B.C.H., L.L.D. (Hon) - Chairman
C. David Bynoe
Kenneth Emery
Sir Fred Gollop K.A., Q.C.
John Williams
Roger Cave - Investment Director

SECRETARY

Corporate Services Limited
The Financial Services Centre
Bishop's Court Hill
St. Michael
Barbados

REGISTERED OFFICE

First Floor, Carlisle House
Hincks Street
Bridgetown
Barbados

ATTORNEY AT LAW

Sir Henry deB. Forde, K.A., Q.C.
Juris Chambers
Fidelity House Wildey Business Park
St. Michael

INDEPENDENT AUDITORS

PricewaterhouseCoopers SRL
The Financial Services Centre
Bishop's Court Hill
St. Michael
Barbados

CUSTODIAN

CIBC FirstCaribbean International Bank
(Barbados) Limited
Wealth Management Division
Rendezvous
Christ Church
Barbados

INVESTMENT MANAGER & ADMINISTRATOR

Fortress Fund Managers Limited
First Floor, Carlisle House
Hincks Street
Bridgetown
Barbados

Tel: (246) 431 2198
Fax: (246) 431 0514
Internet: www.fortressfund.com
Email: invest@fortressfund.com

Fortress Caribbean High Interest Fund Limited ("the Fund") is an open-ended mutual fund company and was incorporated on May 9, 2002 under the provisions of the Mutual Funds Act of Barbados. The Fund maintains its registered office at First Floor, Carlisle House, Hincks Street, Bridgetown, Barbados. The principal activity of the Fund is investment in domestic, regional and international fixed income markets with the aim of achieving the highest level of return consistent with capital preservation.

Important information about this Fund is contained in its prospectus, which we encourage you to read before making an investment. The indicated returns in this document are net of all fees and expenses. Returns are historical and are not necessarily indicative of future performance. Investors should be aware that there are risks involved where the value of the Fund's shares may go down as well as up. A copy of the prospectus may be obtained from the offices of Fortress Fund Managers, or downloaded at www.fortressfund.com



Investment Performance

The Caribbean High Interest Fund has generated a compound annual rate of return of 5.2% per year (with all income re-invested) since inception in 2002. Over this period, its diversified mix of Caribbean and global fixed income assets led to relatively steady performance in a range of market conditions. For the year ended September 30, 2013, the Fund generated a return of 2.9%, with the Accumulation shares rising to \$1.7798 and the Distribution shares finishing at \$1.0006 after paying dividends totaling \$0.0312 per share during the year.

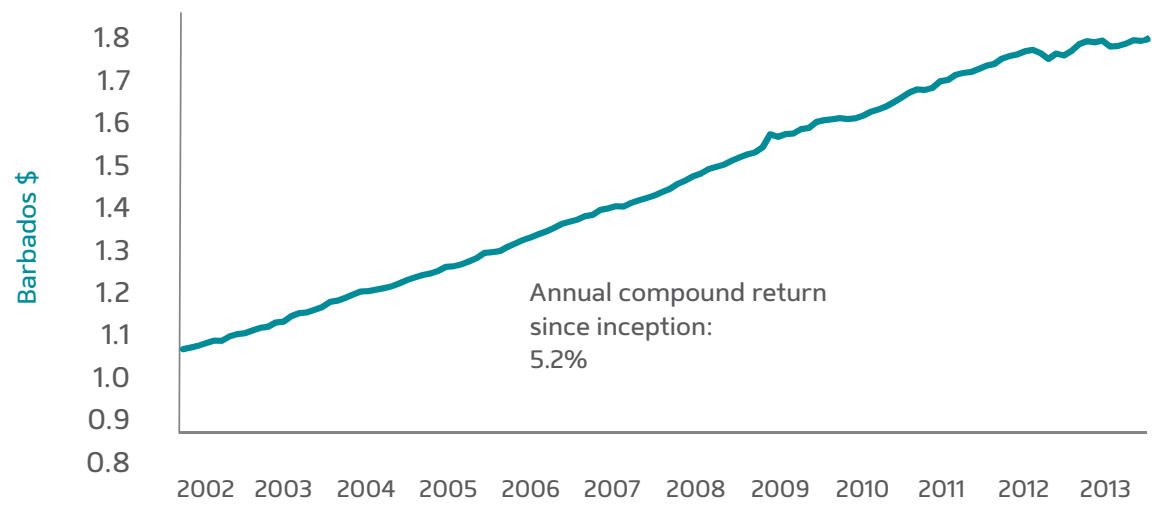
Global bonds had a rare year of negative returns in 2013 as the U.S. Fed hinted it may begin reducing its huge monetary stimulus in response to a stronger economy. Defaults and restructurings by Caribbean governments made investing in this region something of a minefield. Against this negative backdrop, the Fund held its value and generated a positive return for the year. Holdings in U.S. and international bonds were flat or down slightly during the year. Our investments in specialised strategies and funds, meanwhile, contributed strong returns, while high quality Barbados corporate bonds generated returns around 5%, and substantial holdings in wholesale short term Barbados dollar deposits and treasury bills yielded 3% while offering relative safety and liquidity.

Investment Performance as of 9/30/13

	3 mo.	1 year	3 year	5 year	Inception
Caribbean High Interest Fund (Accumulation shares)	0.2%	2.9%	2.5%	3.4%	5.2%

** periods longer than 1 year are annual compound returns*

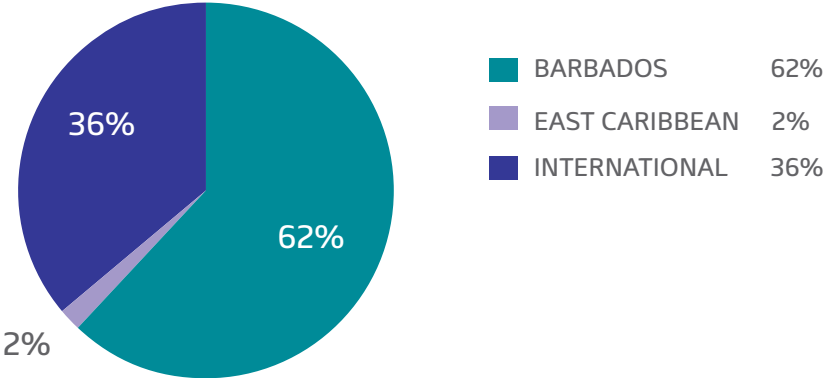
Caribbean High Interest Fund Net Asset Value Since Inception



Portfolio Positioning

The Fund’s portfolio continues to be widely diversified among a number of different regional and international investments. These include Barbados dollar bank deposits, treasury bills, corporate bonds, U.S. dollar government and corporate bonds, and specialised funds investing globally in income-producing assets. The portfolio is constructed to maximise return from diversified sources, while limiting overall risk and maintaining a high level of liquidity.

Geographic Distribution of Portfolio



Top 5 Holdings

Holding	Country/Region	Sector	Weight
Government of Barbados T-Bills	Barbados	Government	24.6%
Fortress Income Builder U.S. Fund	U.S.	Various	6.1%
PIMCO Global Inv. Grade Credit Fund	Global	Various	6.4%
University of West Indies Bond 9/29/2027	Barbados	Government	4.5%
Sagicor 6.5% Preferred Shares	Barbados	Financial	4.4%

We remain squarely in defence mode, focusing on capital preservation even at the expense of some current income. We strongly believe this is an environment where return *of* capital is as important as return *on* capital. The Fund is well diversified, with approximately 40 individual holdings in Barbados and globally, and investments in funds which themselves have positions spread across hundreds of other individual investments. We continue to have only very limited exposure to Caribbean government bonds.

During the year, we responded to rising bond yields in global markets by marginally increasing the average term to maturity of the portfolio. As of September 30th, the average term to maturity of the Fund’s holdings was approximately 2.7 years, up from 2.2 years last year, but still very short. The average yield of the portfolio’s holdings was 4.7%. Approximately 38% of the portfolio is invested outside the Caribbean region in U.S. dollars and other currencies.



| Directors' Report



Directors' Report

The Fund returned 2.9% in the year ended September 30, 2013, up slightly from the 2.5% return registered in 2012. The Net Asset Value of the Accumulation shares rose from \$1.7294 to \$1.7798, while the Distribution shares went from \$1.0013 to \$1.0006, after paying dividends totalling \$0.0312 per share. During the year, total assets rose from \$111 million to \$120 million. The compound annual rate of return for the Fund since inception in 2002 is now 5.2% per year.

In spite of a rare year of negative returns in global bond markets in 2013, and a minefield of restructurings and losses in Caribbean government bonds, the Fund held its value well and generated a positive return for the year.

The Fund's objective is to achieve the highest level of income consistent with safety and capital preservation. In recent years, these objectives have become more and more challenging to achieve simultaneously. Global interest rates in developed markets remain at or near historic lows, keeping pressure on returns and raising the risk of capital loss if rates rise. The dramatic bond market selloff in the summer gave a taste of how this risk can feel for investors who are not careful. The additional yield to be gained by owning corporate bonds is also small, reducing the compensation for taking corporate credit risk. Closer to home, Caribbean government debt continues to come under pressure, with restructurings this year in Jamaica, Belize and Grenada. On paper, yields are attractive in some cases. But the risk of permanent capital loss in the event of further restructurings is potentially significant, and we believe, not worth taking to any significant degree.

In this environment, we continue to manage the Fund with a primary focus on capital preservation. The average term to maturity is short, limiting any impact from rising interest rates. The portfolio is also diversified across issuers, term and, where possible, geography and currency. This cautious approach has recently resulted in returns that have been well below the Fund's historic average. When we compare the risks being asked of investors in many areas to earn incremental yield, though, we are not impressed. As a result we are focused squarely on capital preservation, while still positioning to earn a reasonable rate of return for investors.

While global rates are still low by historic standards, they are meaningfully higher now than they were this time last year. This has naturally raised the expected return to many of the Fund's holdings and inched the average yield of its portfolio up to 4.7%.

MARKET ENVIRONMENT

The majority of the Fund's assets are invested in Barbados due to currency controls, which means that the bond market and economy in Barbados, and the Caribbean generally, are hugely important to the Fund. We have been concerned since 2009 about the declining creditworthiness of Caribbean governments, and have commented on it in previous reports. Unfortunately, developments over the last year have continued to be negative, and have shown the huge risks that lurk under the surface of seemingly "safe" investments like government bonds. The Fund continues to have only very limited exposure to Caribbean government bonds.

As the bond rating agency Moody's stated in a May report, "At its core, the Caribbean's debt crisis is the result of a combination of poor fiscal discipline and unproductive investment that failed to significantly raise potential growth rates." These are structural problems that cannot be fixed overnight, and the stresses are real.

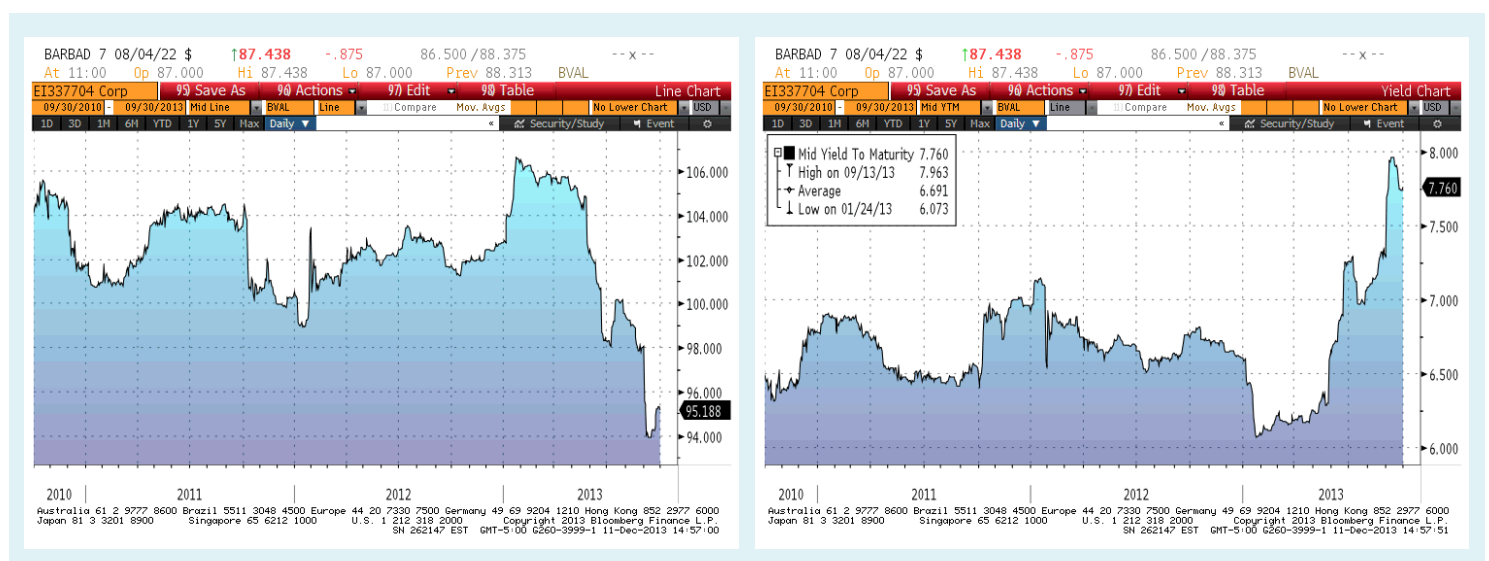
“The Fund returned 2.9% in the year ended September 30, 2013, up slightly from the 2.5% return registered in 2012...”

In March, the recently elected Government of Grenada defaulted on the country’s outstanding bond issues in U.S. and E.C. dollars. This was the second restructuring on the same bonds in the last nine years, and showed how hard it is for an economy with limited economic growth to dig its way out from under a heavy layer of debt taken on when times were “good”. The first restructuring did not alter the amount of principal outstanding on the bonds, but it did significantly lower the coupons and extend the maturities on them. Coupons were dropped to 1% for the first three years, and were scheduled to inch up gradually over subsequent years. This year, payments had been scheduled to rise to 6%. Not surprisingly for a country with debt/GDP of nearly 100%, Grenada could not bear this increased expense and it defaulted on interest payments. Bonds which had been quoted at 50 cents on the dollar in the market promptly fell to 25 cents. We still hold a very small position in the Grenada EC\$ dollar issue, and this decline reduced the Fund’s return by approximately 0.4%.

Jamaica restructured its debt in February, for the second time in three years. Unlike its other recent restructuring in late 2009, the government this time did not leave US\$ issues unscathed but reduced the coupons and extended terms on some local currency and US\$ bonds. Coupons of 12.5% and 6.75% were reduced to 7.25% and 5.25% respectively. Jamaica has opted to work its way through a gradual restructuring process, attacking bonds selectively, often as they are scheduled to mature, and doing so as part of a plan with the International Monetary Fund (IMF) that also includes spending cuts and other reforms that may be beneficial in the long term. Interest payments still eat up a significant portion of the Jamaican government’s budget, but the situation seems to be improving slowly.

Belize also restructured its bonds in March of this year, offering investors new bonds with lower coupons and longer maturities in exchange for their existing issues. Everywhere we turn in the region, there seems to be a fresh reminder of how important it is for governments to borrow only sparingly and, as Moody’s highlighted, to do so only for productive investments. The story of borrowing simply to finance current expenses is a short one, with an unhappy ending.

Prices of bonds issued by the Government of Barbados also came under pressure during the year, with prices inching lower as investors demand higher and higher yields. Yields on Government of Barbados 10-year US\$ bonds rose from 6.6% to 7.7%, resulting in a price decline of approximately 6%. The graphs below show the change in price and yield for these bonds over the last three years.



Source: Bloomberg Finance LP



Even at higher prevailing yields, there was some difficulty in securing a US\$ loan during the year to finance the country's current account deficit. With tax revenues declining and spending continuing unchanged, deficits are growing, and more and more of government spending is going to pay interest on outstanding debt. In recent weeks this has resulted in a two-notch downgrade to BB- by Standard & Poor's and a further increase in 10-year yields to over 9%. At these levels, the market is pricing Barbados debt similarly to that of Jamaica, which carries a three-notch lower rating of B-, following its recent sojourn into default status. The risks here are real, and the market is acknowledging that fact, causing pain to bond investors along the way.

Approximately 38% of the Fund's assets are invested outside Barbados in U.S. dollars and other global currencies. Since 2008, the U.S. Federal Reserve (Fed) has kept short term interest rates at zero to support the post-crisis economic recovery. In 2013, the Fed added even more support through quantitative easing ("QE"), the creation of money by purchasing a combination of U.S. treasury and mortgage bonds to the tune of US\$85 billion per month.

With the U.S. economy on the mend, though, policymakers began to feel pressure to wind down these extraordinary QE policies. There was talk of an "exit strategy". In May, the Fed tested the waters and suggested it could soon begin tapering the amount of its regular monthly purchases of bonds. The bond market ran scared: ten-year treasury yields shot up from 1.6% to nearly 3% over the course of several weeks. In the "real" economy, new mortgage applications nearly vanished. By September, the Fed had moved away from suggesting that tapering was imminent, and QE has since continued apace, with long term rates now stable but higher.

Some of the securities hardest hit by the Fed's tapering talk were nowhere near the U.S. Bonds and currencies in countries as diverse as India, Brazil and the Philippines saw their prices drop dramatically as capital was pulled back to the U.S. in anticipation of rising interest rates there. Brazil, for example, saw its 10-year local currency government bonds decline 23%, and its currency drop another 8%. Early in the year, low rated countries like the Philippines were raising billions of dollars in long term bonds at very low interest rates. Later in the year, this was no longer the case – rates have risen and market access has been reduced.

While this was a painful year for global bonds, the silver lining is that long term interest rates are now generally higher, in some cases marginally and in others quite substantially. We believe this has alleviated some of the distortions in the market and by definition increased expected returns and lowered the risk on bond portfolios for the future.

PORTFOLIO POSITIONING

We continue to position the portfolio to earn a reasonable rate of return while taking steps to preserve capital through diversification and security selection. The portfolio is a combination of short term investments, intermediate term bonds in Barbados dollars, U.S. dollars and other currencies, and specialised funds and strategies mostly in U.S. dollars. This combination creates a diversified portfolio to protect capital, and on average still positions the Fund to earn an acceptable yield over time.

For the Barbados dollar portion of the portfolio, we have been concentrating on short term, liquid investments such as government treasury bills and wholesale bank deposits. Treasury bills are distinct from long term bonds in that they do not decline in value as long term interest rates rise, and they are typically safeguarded in the event of a bond restructuring.

Directors' Report cont'd

High quality corporate bonds are another cornerstone of the Barbados dollar part of the portfolio. These usually have maturities from one year to seven years, yields in the range of 4%-8%, and are issued by companies with good assets to pledge, strong balance sheets, or ideally both. The weak economy continues to make it challenging to find bonds to invest in with appropriate security and interest rates, so this portion of the portfolio is not currently as large as we would like it to be. We continue to work to find good corporate bonds to buy, and are open for business to good quality borrowers.

Outside Barbados, the Fund's portfolio is diversified among intermediate term corporate and government bonds, and specialised funds and strategies. Together, these provide important diversification, liquidity, and return potential. One that we have used for a number of years now is the Fortress U.S. Equity Income Strategy, which is now held in a new fund called Fortress Income Builder U.S. Fund. The strategy is the same, and last year it generated a return of 10.9%. It uses a portfolio of high quality U.S. equities and related options to target a return of 8% per year with only bond-like volatility. Sources of return like this are especially useful in a year when global bond market returns were negative.

The table below summarises some of the key allocations and categories of investment within the Fund, as well as the approximate return on each over the past year. A full listing of the Fund's investments is contained in the accompanying financial statements.

Categories of Investment within the Fund

<i>Category/Strategy</i>	<i>1 Year Return</i>
Barbados T-bills and bank deposits	3.2%
Barbados corporate bonds	5.0%
US\$ and international bonds	(2.0%)
Fortress US Equity Income Strategy	10.9%
Specialized US\$ funds	5.0%
Cash	0- 2.5%

Full details of the portfolio, including the amount of each allocation, may be found in the accompanying financial statements.

OUTLOOK

As global interest rates remain low and potentially continue their move higher to more normal levels, and the crisis in Caribbean government debt continues, there are no easy choices for investors looking for a high return with low risk. We strongly believe the most important thing now is to resist the temptation to "chase" yield, taking on unacceptable risk for the sake of a small incremental return. There are currently very real and unacceptable risks in the bond market. Because of this we are still firmly in defence mode. Returns for the Fund will likely still be below average in the months ahead, although we suspect they will be higher in the year ahead than in the one just ended due to the higher starting yields in the portfolio.

We would like to thank all of our shareholders for investing with us. We will continue to work to keep your savings safe, and hope to be able to report on improved earnings in the months ahead.

A handwritten signature in black ink that reads "Roger Cave". The signature is written in a cursive style with a large initial 'R' and 'C'.

Roger Cave CA, CFA
Investment Director

Financial Statements



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Fortress Caribbean High Interest Fund Limited

We have audited the accompanying financial statements of Fortress Caribbean High Interest Fund Limited which comprise the statement of financial position as of September 30, 2013 and the statements of comprehensive income, changes in net assets attributable to holders of redeemable mutual fund shares and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and 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 auditor's 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 auditor considers 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 present fairly, in all material respects, the financial position of Fortress Caribbean High Interest Fund Limited as of September 30, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SP

December 20, 2013
Bridgetown, Barbados

Fortress Caribbean High Interest Fund Limited

Statement of Financial Position

As of September 30, 2013

(expressed in Barbados dollars)

	2013 \$	2012 \$
Assets		
Investments (note 5)	107,546,144	95,302,698
Accounts receivable	54,426	67,115
Cash and cash equivalents (note 6)	12,778,704	15,607,088
Total assets	120,379,274	110,976,901
Liabilities		
Accounts payable and accrued expenses	49,100	71,645
Due to brokers	3,684	-
Liabilities (excluding net assets attributable to holders of redeemable mutual fund shares)	52,784	71,645
Net assets attributable to holders of redeemable mutual fund shares:		
Accumulation shares (note 8)	114,577,291	104,727,256
Distribution shares (note 8)	5,748,199	6,177,000
	120,325,490	110,904,256
Total liabilities	120,378,274	110,975,901
Share capital (note 9)	1,000	1,000
Liabilities and shareholder funds	120,379,274	110,976,901
Net asset value per accumulation share	1.78	1.73
Net asset value per distribution share	1.00	1.00

The accompanying notes form an integral part of these financial statements.

Approved by the Board of Directors on December 20, 2013



Director



Director

Fortress Caribbean High Interest Fund Limited

Statement of Changes in Net Assets Attributable to Holders of Redeemable Mutual Fund Shares For the year ended September 30, 2013

(expressed in Barbados dollars)

	Number of shares		Net assets attributable to holders of redeemable mutual fund shares	
	Accumulation	Distribution	Accumulation \$	Distribution \$
Balance - September 30, 2011	61,971,101	6,171,875	104,592,398	6,168,462
Issue of shares	7,303,024	263,458	12,579,997	265,568
Redemption of shares	(8,715,886)	(266,649)	(14,951,666)	(267,868)
Dividends paid	–	–	–	(143,194)
Total comprehensive income for the year	–	–	2,506,527	154,032
Balance - September 30, 2012	60,558,239	6,168,684	104,727,256	6,177,000
Issue of shares	8,573,757	175,500	15,108,182	178,316
Redemption of shares	(4,755,992)	(599,157)	(8,414,445)	(607,512)
Dividends paid	–	–	–	(184,024)
Total comprehensive income for the year	–	–	3,156,298	184,419
Balance - September 30, 2013	64,376,004	5,745,027	114,577,291	5,748,199

The accompanying notes form an integral part of these financial statements.

Fortress Caribbean High Interest Fund Limited

Statement of Comprehensive Income For the year ended September 30, 2013

(expressed in Barbados dollars)

	2013	2012
	\$	\$
Revenue		
Interest income	3,324,788	3,553,206
Net fair value gains/ (losses) on investments (note 5)	814,403	(118,144)
Amortisation of discounts	39,649	170,398
Dividend income	330,798	214,833
	<hr/>	<hr/>
Total investment income	4,509,638	3,820,293
	<hr/>	<hr/>
Expenditure		
Management fees (note 7)	838,721	824,159
Administrator and custodian fees (note 7)	204,285	192,407
Other operating expense	80,371	98,819
Audit fees	37,600	37,641
Trade fees	7,944	6,708
	<hr/>	<hr/>
Operating expenditure	1,168,921	1,159,734
	<hr/>	<hr/>
Total comprehensive income	3,340,717	2,660,559
	<hr/>	<hr/>
Net income on ordinary activities allocated to:		
Holders of redeemable mutual fund distribution shares	184,419	154,032
Holders of redeemable mutual fund accumulation shares	3,156,298	2,506,527
	<hr/>	<hr/>
Total comprehensive income	3,340,717	2,660,559
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The accompanying notes form an integral part of these financial statements.

Fortress Caribbean High Interest Fund Limited

Statement of Cash Flows

For the year ended September 30, 2013

(expressed in Barbados dollars)

	2013 \$	2012 \$
Cash flows from operating activities		
Total comprehensive income	3,340,717	2,660,559
Adjustments for:		
Amortisation of discounts	(39,649)	(170,398)
Net fair value losses on investments	(814,403)	118,144
Interest income	(3,324,788)	(3,553,206)
Dividend income	(330,798)	(214,833)
Operating loss before working capital changes	(1,168,921)	(1,159,734)
Decrease/(increase) in accounts receivable	12,689	(8,327)
Increase in due to brokers	3,684	633,787
Decrease in accounts payable and accrued expenses	(22,545)	(13,071)
Purchase of investments	(203,123,067)	(187,198,080)
Proceeds on the sale of investments	191,801,337	152,127,204
Cash used in operations	(12,496,823)	(35,618,221)
Interest received	3,257,124	3,688,182
Dividends received	330,798	214,833
Cash used in operating activities	(8,908,901)	(31,715,206)
Cash flows from financing activities		
Issue of mutual fund shares	15,286,498	12,845,565
Redemption of mutual fund shares	(9,021,957)	(15,219,534)
Dividends paid	(184,024)	(143,194)
Cash generated from/(used in) financing activities	6,080,517	(2,517,163)
Net decrease in cash and cash equivalents	(2,828,384)	(34,232,369)
Cash and cash equivalents - beginning of year	15,607,088	49,839,457
Cash and cash equivalents - end of year	12,778,704	15,607,088

The accompanying notes form an integral part of these financial statements.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

1 Incorporation and principal activity

Fortress Caribbean High Interest Fund Limited (“the Fund”) was incorporated in Barbados on May 9, 2002 under the Companies Act of Barbados and is licensed under the Mutual Funds Act 2002-22 of Barbados as an authorised mutual fund. The Fund maintains its registered office at 1st Floor, Carlisle House, Hincks Street, Bridgetown, Barbados. The Fund’s primary objective is income and capital preservation over the medium term. The Fund actively invests in a diversified portfolio of primarily Caribbean and international debt securities.

The Fund’s investment and administration activities are managed by Fortress Fund Managers Limited (the Investment Manager).

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

a) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of financial assets held at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund’s accounting policies. Although these estimates are based on management’s best knowledge of current events and conditions, actual results could differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Standards, amendments and interpretations effective in 2013

- Amendment to IAS 1, ‘Financial statement presentation’ regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. This amendment did not have any impact on the financial statements.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

a) Basis of preparation...continued

Standards, amendments and interpretations that are issued but not yet effective which may be relevant for the Fund's operations

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and is applicable from January 1, 2015. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Fund is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.
- IFRS 13, 'Fair value measurement', issued in May 2011. The standard explains how to measure fair value for financial reporting and introduces significantly enhanced disclosure about fair values. It does not address or change the requirements on when fair values should be used. IFRS 13 has been issued to provide a single source of guidance for all fair value measurements and to clarify the definition of fair value. The Fund is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

b) Foreign currency translation

Functional and presentation currency

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The financial statements are presented in Barbados dollars which is the Fund's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the statement of comprehensive income as part of the fair value gain and loss.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

c) Investment income

Interest income is recognised in the statement of comprehensive income for all interest bearing instruments on an accrual basis using the effective yield method. Interest income relates to interest earned on fixed income investments and short term deposits.

Dividend income is recognised when the Fund's right to receive payment is established.

d) Investments

The Fund classifies its investments into two categories:

- Financial assets at fair value through profit or loss
- Loans and receivables

Management determines the appropriate classification of these assets at initial recognition.

Financial assets at fair value through profit or loss

a) Classification

A significant component of the Fund's investments has been classified as financial assets at fair value through profit or loss in accordance with International Accounting Standards 39 (IAS 39), Financial Instruments: Recognition and Measurement.

Financial assets in the category at fair value through profit or loss have been so designated by management at inception since the assets form part of the managed portfolio whose performance is evaluated on a fair value basis in accordance with a documented investment strategy.

b) Recognition, derecognition and measurement

Regular-way purchases and sales of investments are recognised on the trade date, which is the date the Fund commits to purchase or sell the investments. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through the profit or loss are initially recognised at fair value and are subsequently carried at fair value. Fair value is determined based on current prices in an active market or through the use of valuation techniques. These can include the use of recent arm's length transactions, reference to other instruments that are substantially the same or discounted cash flow analysis which makes use of market inputs and rely as little on entity-specific inputs.

Investments in other investment funds are valued on the basis of the net asset value per share as determined by the administrators of those investment vehicles in accordance with industry practice.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

2 Summary of significant accounting policies...*continued*

d) Investments...*continued*

Financial assets at fair value through profit or loss...continued

b) *Recognition, derecognition and measurement...continued*

Gains or losses arising from changes in the fair value of investments classified as financial assets at fair value through profit or loss are recognised in the statement of comprehensive income as they arise. Average cost is used to compute realised and unrealised gains and losses on investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective interest method less provision for impairment. A loan or receivable is considered impaired when management determines that it is probable that all amounts due according to the original contract terms will not be collected. This determination is made after considering the payment history of the borrower, the discounted value of collateral and guarantees and the financial condition and viability of the borrower.

e) Cash and cash equivalents

Cash equivalents are short term, highly liquid investments, with original maturities of three months or less that are readily convertible to known amounts of cash, which are subject to insignificant changes in value.

f) Expenses

Expenses are accounted for on an accrual basis. Expenses are charged to the statement of comprehensive income.

In addition to the management fees and administration expenses, the Fund is responsible for the payment of all direct expenses relating to its operations such as audit, legal and professional fees.

g) Due from and due to brokers

Amounts due from and to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered by the statement of financial position date respectively.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

h) Redeemable shares/net asset value

The Fund issues redeemable shares which are redeemable at the holder's option and are classified as financial liabilities. Redeemable shares can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's net asset value. The redeemable shares are carried at the redemption amount that is payable at the statement of financial position date if the holders exercise the right to put the shares back to the Fund.

Redeemable shares are issued and redeemed at the holder's option at prices based on the Fund's net asset value per share at the time of issue or redemption. The Fund's net asset value per redeemable mutual fund share is calculated by dividing the net assets attributable to those shares by the number of outstanding redeemable shares. In accordance with the provisions of the Fund's regulations, investment positions are valued based on the procedures described in note 2d for the purpose of determining the net asset value per share for subscriptions and redemptions.

i) Distributions payable to holders of redeemable mutual fund shares

The Fund issues two classes of redeemable mutual fund shares - accumulation and distribution. Holders of distribution receive all income earned in the Fund with respect to these shares in the form of a dividend every six months. Holders of accumulation shares are not paid dividends and all income earned in the Fund with respect of these shares, including interest, dividends and capital gains is automatically reinvested and this income is reflected in the quoted net asset value of these shares.

j) Taxation

The Fund is licensed as an authorised mutual fund under the Mutual Funds Act, 2002-22 of Barbados. The Directors have resolved that all of the net income of the Fund is attributable to the Fund's redeemable mutual fund shareholders. In calculating the assessable income of the Fund for tax purposes, the Act provides for a deduction of up to a 100% of the income that is designated to be the income of the Fund shareholders.

k) Transaction costs

Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include the bid-ask spread, fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the statement of comprehensive income as an expense.

3 Critical accounting estimates and assumptions

Estimates and assumptions that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year, include the valuation of unquoted investments where valuation techniques need to be utilised and the determination of impairment provisions. Management policies surrounding these estimates and assumptions are disclosed in note 4.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

4 Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (which includes price risk, interest rate risk and currency risk), credit risk and liquidity risk.

The Fund's overall risk management programme seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise the potential adverse effect on the Fund's financial performance.

The risk management policies employed by the Fund to manage these risks are discussed below.

i) *Fair value interest rate risk*

The Fund is exposed to market price risk arising from the changes in the fair value of its financial assets and liabilities. Changes in the market price of the Fund's financial assets are driven significantly by changes in the interest rate of similar instruments within the market. To manage this risk the Fund holds a diversified portfolio of investments in accordance with its investment policy. A summary of the overall balance sheet market exposures at September 30, 2013 is disclosed in note 5. Included in the statement of comprehensive income are unrealised losses of \$49,521 (2012 – gains \$927,853) as a result of a movement in the market value of the financial assets classified as fair value through the profit or loss. These movements in market value have arisen mainly as a result of changes in the prevailing market interest rates. The fair value of financial assets classified as loans and receivables is disclosed in note 5.

Sensitivity

The following table indicates the sensitivity to the fair value of the Fund's long term fixed rate financial assets at fair value through profit or loss, to a reasonable possible change in interest rates with all other variables being constant.

	Effect on net assets 2013 \$	Effect on net assets 2012 \$
Change in interest rate:		
-2%	1,869,071	1,045,669
2%	(1,462,231)	(948,414)

The effect on net income of an across the board 10% change in the fair value of the Fund's equity and mutual fund investments would amount to \$3,633,262 (2012 - \$2,796,479).

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

4 Financial risk management...continued

Market risk

ii) Cashflow interest rate risk

The Fund's significant interest-bearing financial assets earn interest at fixed rates and therefore the cash flows of the Fund are not affected by fluctuations in the prevailing levels of market interest rates. The Fund therefore has no significant interest rate risk on its cash flows. The effective interest rates on cash and cash equivalents and investments are disclosed in note 6 and note 5 respectively. All of the other financial assets and liabilities of the Fund are non-interest bearing. The Fund would be impacted by movement in the market interest rates on the maturity of short term fixed rate instruments which would have to be reinvested at different rates of return.

iii) Currency risk

The Fund holds financial assets denominated mainly in currencies fixed to the Barbados dollar, the functional currency of the Fund. Consequently, the Fund is exposed to minimal currency risk.

Credit risk

Credit risk is the risk that an issuer or counterparty to a financial instrument will be unable or unwilling to meet a commitment thereby causing a financial loss to the Fund.

The maximum exposure to the Fund to credit risk is set out in the following table.

	2013	2012
	\$	\$
Investments	71,213,523	67,337,905
Accounts receivable	54,426	67,115
Cash and cash equivalents	12,778,704	15,607,088
Total	84,046,653	83,012,108

Credit risk from financial instruments is managed through holding a diversified portfolio of investments and purchasing securities after careful assessment of the borrower and placing deposits with financial institutions with a strong capital base and other corporations. The Fund seeks to manage credit risk by holding investments with strong credit ratings and low risk of default.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

4 Financial risk management...continued

Credit risk...continued

The credit ratings of the Fund's rated investments are set out below:

	2013	2012
	\$	\$
Government of Barbados Treasury bills (BB- by Standard & Poor's)	29,561,410	29,789,039
Scotiabank Peru (Baa3 by Moody's)	1,061,700	-
US Treasury Notes (AA by Standard & Poor's)	3,147,009	
Government of Grenada (D by Standard & Poor's)	507,560	958,273
Grupo Elektra Bond (BB- by Fitch)	506,953	508,663
Government of Barbados debt securities (BB- by Standard & Poor's)	479,168	628,412
Republic of Brazil (Baa2 by Moody's)	413,521	588,614
Ventas Realty LP 5.45% pref (BBB by Standard & Poor's)	344,960	-
Banco Santander Brasil SA (BBB by Standard & Poor's)	256,334	-
Solar Capital 6.75% pref (BBB- by Fitch)	228,900	-
Lexmark Intl Inc (BBB- by Standard & Poor's)	227,163	-
Government of Jamaica (B- by Standard & Poor's)	150,442	-
	<u>36,885,120</u>	<u>32,473,001</u>

The Fund's exposure to individual counterparty credit risk on its cash and cash equivalents and loans and receivables exceeding 2.5% of total Fund net assets are set out below:

	2013	2012
	\$	\$
Cash and cash equivalents		
CIBC FirstCaribbean International Bank Limited (unquoted)	<u>11,649,683</u>	13,303,299
Loans and receivables		
Simpson Finance	3,034,375	-
Government of Barbados Treasury bills	29,561,410	29,789,039
Deposits	<u>14,517,132</u>	14,185,126
	<u>47,112,917</u>	43,974,165
Total	<u>58,762,600</u>	57,277,464

None of the Fund's loans and receivables and accounts receivables are impaired or past due but not impaired.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

4 Financial risk management...continued

Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to weekly cash redemptions of Class "A" Redeemable Mutual Fund Shares (note 8). The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amount, as the impact of discounting is not significant.

The Fund is exposed to liquidity risk due to the relatively undeveloped nature of the secondary market for fixed income securities in the Caribbean. The maturity profile of the Fund's significant financial assets is disclosed in note 5.

	Less than 1 month \$	1 - 3 months \$
At September 30, 2013		
Accounts payable and accrued expenses	10,000	39,100
Due to brokers	3,684	—
Net assets attributable to holders of redeemable mutual fund shares	120,325,490	—
Total financial liabilities	120,339,174	39,100
	Less than 1 month \$	1 - 3 months \$
At September 30, 2012		
Accounts payable and accrued expenses	32,545	39,100
Net assets attributable to holders of redeemable mutual fund shares	110,904,256	—
Total financial liabilities	110,936,801	39,100

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

4 Financial risk management ...continued

Liquidity risk...continued

Redeemable shares are redeemed at the holder's option (note 8). In the event of unusual circumstances, should redemption requests representing more than 20% of the Fund's assets be received within 30 consecutive days, the directors of the Fund reserve the right to suspend redemptions and to hold a special meeting of the Fund shareholders to determine the future of the Fund, including the liquidation of the Fund's assets.

Capital risk management

The capital of the Fund is represented by the net assets attributable to holders of redeemable shares. The amount of net assets attributable to holders of redeemable shares can change significantly on a weekly basis as the Fund is subject to weekly subscriptions and redemptions at the discretion of shareholders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for shareholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

Fair value estimation

The Fund adopted the amendment to IFRS 7, effective October 1, 2009. This requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgment by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation...continued

The following tables analyse within the fair value hierarchy the Fund's financial assets measured at fair value:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
September 30, 2013				
Financial assets at fair value through profit or loss				
Government backed securities	3,710,972	–	6,454,550	10,165,522
Corporate securities	2,692,275	–	–	2,692,275
Listed equity securities	1,294,062	5,248,950	–	6,543,012
Mutual funds	12,930,346	8,349,670	8,509,593	29,789,609
	20,627,655	13,598,620	14,964,143	49,190,418

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
September 30, 2012				
Financial assets at fair value through profit or loss				
Government backed securities	1,692,233	–	7,300,052	8,992,285
Corporate securities	2,923,437	–	–	2,923,437
Listed equity securities	12,011,552	4,186,000	–	16,197,552
Mutual funds	–	–	11,767,241	11,767,241
	16,627,222	4,186,000	19,067,293	39,880,515

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities, corporate securities and traded government debt securities. The Fund does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently, are unquoted or are determined by a third party. Level 3 instruments include government issued debt and unlisted mutual funds. As observable prices are not available for these securities, the Fund has used valuation techniques to derive the fair value.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation...continued

There were no transfers between levels for the year ended September 30, 2013 (2012-nil).

The following table presents the movement in level 3 instruments by class of financial instrument:

	Government backed securities \$	Mutual Funds \$	Total \$
September 30, 2013			
Opening balance	7,300,052	11,767,241	19,067,293
Purchases	16,191	–	16,191
Sales	(534,837)	(2,979,793)	(3,514,630)
Losses recognised in statement of comprehensive income	(326,856)	(277,855)	(604,711)
Closing balance	6,454,550	8,509,593	14,964,143
	Government backed securities \$	Mutual Funds \$	Total \$
September 30, 2012			
Opening balance	8,023,546	10,792,997	18,816,543
Purchases	920,000	–	920,000
Sales	(1,099,446)	–	(1,099,446)
(Losses)/gains recognised in statement of comprehensive income	(544,048)	1,607,022	1,062,974
Impairment loss	–	(632,778)	(632,778)
Closing balance	7,300,052	11,767,241	19,067,293

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

5 Investments

The classification of the Fund's investments is detailed below:

	2013 \$	2012 \$
Financial assets at fair value through profit or loss		
- government backed securities	10,165,522	8,992,285
- corporate securities	2,692,275	2,923,437
- listed equity securities	6,543,012	16,197,552
- mutual funds	29,789,609	11,767,241
Total financial assets designated as fair value through profit or loss	49,190,418	39,880,515
Loans and receivables	58,355,726	55,422,183
Total investments	107,546,144	95,302,698
Gains/(losses) recognised in relation to financial assets at fair value through profit or loss:		
- unrealised (losses)/gains	(49,521)	927,853
- realised gains/(losses)	863,924	(413,219)
- impairment charge	-	(632,778)
Net gains/(losses) in fair value through profit or loss	814,403	(118,144)

The fair value of the Fund's investments is disclosed below:

	2013		2012	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Financial assets at fair value through profit or loss	49,190,418	49,190,418	39,880,515	39,880,515
Loans and receivables	58,355,726	58,377,145	55,422,183	55,370,866
	107,546,144	107,567,563	95,302,698	95,251,381

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

5 Investments ...continued

The maturity profile of the Fund's investments is disclosed below:

	Carrying value 2013 \$	Carrying value 2012 \$
Due within one year	51,524,829	44,414,759
Due after one year but within five years	5,098,249	12,458,898
Due after 5 years	14,590,445	10,464,248
No stated maturity	36,332,621	27,964,793
	<u>107,546,144</u>	<u>95,302,698</u>

The detailed portfolio of investments is as follows:

Security	Rate	Maturity	2013		2012	
			Cost \$	Market value \$	Cost \$	Market value \$
Financial assets at fair value through profit or loss:						
Barbados						
UWI Cave Hill Bond	9.03%	2027-09-27	5,088,224	5,467,822	5,451,669	5,713,367
Sagicor Financial Corporation- preference shares			5,145,940	5,248,950	4,025,960	4,186,000
Sagicor Finance Ltd	7.50%	2016-05-12	636,000	640,125	–	–
Government of Barbados	5.25%	2013-12-31	199,507	204,205	197,552	203,365
Government of Barbados	6.63%	2020-09-30	186,978	196,185	185,104	197,285
Government of Barbados	5.88%	2014-10-31	75,000	78,778	75,000	76,986
Government of Barbados	7.50%	2012-12-31	–	–	147,000	149,756
Government of Barbados	8.00%	2012-12-31	–	–	1,000	1,020
			<u>11,331,649</u>	<u>11,836,065</u>	<u>10,083,285</u>	<u>10,527,779</u>
OECS						
Government of Grenada	4.50%	2025-09-15	<u>2,042,969</u>	<u>507,560</u>	<u>2,042,969</u>	<u>958,273</u>
Jamaica						
Government of Jamaica	10.50%	2014-10-27	<u>132,801</u>	<u>150,442</u>	–	–

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

5 Investments...continued

Security	Rate	Maturity	2013		2012	
			Cost \$	Market Value \$	Cost \$	Market Value \$
Financial assets at fair value through profit or loss:						
International						
PIMCO GLB Inv Grade Inst Fund			7,980,000	7,740,192	–	–
Fortress Income Builder US Fund			7,029,897	7,298,587	–	–
Western Asset Asian Opportunities Fund			5,000,000	5,190,154	5,000,000	5,398,328
Franklin Templeton Global Bond Fund			4,427,525	5,020,137	5,500,000	6,049,808
ChapelGate Credit Opportunity Fund Ltd			2,092,683	3,489,456	4,000,000	5,717,433
US Treasury Note	2.00%	2020-07-31	2,174,536	2,213,560	–	–
Scotiabank Peru	4.50%	2022-12-12	1,133,516	1,061,700	–	–
Fortress Income Builder Int'l Fund			1,000,000	1,051,083	–	–
US Treasury Note	1.75%	2023-05-15	981,923	933,449	–	–
Grupo Elektra Bond	7.25%	2018-08-06	485,989	506,953	503,125	508,663
GE Cap Corp 4.70% Pref Republic of Brazil	8.50%	2024-01-05	540,370	413,521	578,607	588,614
Ventas Realty LP 5.45% pref			400,000	344,960	–	–
Banco Santander Brasil SA	8.00%	2016-03-18	309,806	256,334	–	–
Solar Capital Ltd			255,861	252,202	–	–
Solar Capital 6.75% pref			250,000	228,900	–	–
Lexmark Intl Inc	6.65%	2018-06-01	223,504	227,163	–	–
Fortress Equity Income Strategy			–	–	4,999,940	6,613,224
Hellenic Republic Bond	2.00%	2023-02-24	–	–	1,057,189	1,103,619
Banco Cruzeiro	7.00%	2013-07-08	–	–	2,896,528	684,803
American International Group Inc	4.25%	2014-09-15	–	–	631,620	632,738
Merrill Lynch & Co Inc.- (Bank of America)	5.00%	2014-02-03	–	–	623,682	628,599
Petroleos de Venezuela	8.50%	2017-11-02	–	–	450,690	468,634
			34,885,610	36,696,351	26,241,381	28,394,463
Total financial assets at fair value through profit or loss			48,393,029	49,190,418	38,367,635	39,880,515

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

5 Investments ...continued

Security	Rate	Maturity	2013		2012	
			Cost \$	Amortised cost/ carrying value \$	Cost \$	Amortised cost/ carrying value \$
Loans and receivables:						
Barbados						
Simpson Finance	5.50%	2021-06-15	3,000,000	3,034,375	–	–
Fortress Caribbean Property Fund	7.50%	2014-07-31	2,020,000	2,046,092	2,020,000	2,046,092
Fortress Caribbean Property Fund	7.25%	2013-07-31	–	–	40,542	40,499
			5,020,000	5,080,467	2,060,542	2,086,591
Trinidad						
Maruenergy Trinidad LLC	7.02%	2016-02-01	1,034,405	1,056,695	–	–
St Maarten Telecom Holdings Co.	8.25%	2020-01-19	970,000	986,450	1,000,000	1,016,958
Agostini's Limited	8.00%	2022-01-19	283,580	283,383	306,060	306,656
			2,287,985	2,326,528	1,306,060	1,323,614
OECS						
Property Holdings	8.00%	2017-12-21	450,000	458,551	550,000	560,452
Other						
Treasury bills	3.14%	2013-11-22	29,478,781	29,561,410	29,639,490	29,789,039
	-3.32%	-2014-03-07				
Deposits	3.90%	2013-10-28	20,548,722	20,928,770	21,422,961	21,662,487
	- 8.25%	-2014-12-31				
			50,027,503	50,490,180	51,062,451	51,451,526
Total loans and receivables			57,785,488	58,355,726	54,979,053	55,422,183
Total investments			106,178,517	107,546,144	93,346,688	95,302,698

The effective yield on loans and receivable is 4.66% (2012 – 4.43%).

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

6 Cash and cash equivalents

Cash and cash equivalents of \$12,778,704 (2012 - \$15,607,088) are placed with leading regional commercial banks. The effective yield on interest bearing cash and cash equivalents is 0.51% (2012 – 0.14%).

7 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Fortress Fund Managers Limited serves as manager and registrar of the Fund. As a result of providing investment advisory, management, registrar and administrator services, Fortress Fund Managers Limited receives a weekly management and administration fee based on the actual net asset value of the Fund, calculated weekly and payable in arrears. Management fees for the financial year amounted to \$883,926 (2012 - \$824,159).

Management fees of \$45,205 (2012- nil) were refunded by Fortress Fund Advisory Limited (a subsidiary of Fortress Fund Managers Limited) being 1% of the net asset values of Fortress Income Builder US Fund and Fortress Income Builder Intl Fund shares held by the Fund during the year. This is to avoid double charging of management fees on assets invested in related Funds which have the same Manager.

The administrator fees amounted to \$102,143 (2012 - \$96,204) for the year.

Directors fees of \$12,000 (2012- \$12,000) were paid during the year.

The Fund holds 35,149 (2012-nil) shares valued at \$7,298,587 (2012-nil) in the Fortress Income Builder US Fund SPC.

The Fund holds 5,017 (2012-nil) shares valued at \$1,051,083 (2012-nil) in the Fortress Income Builder International Fund SPC.

Included in the loans and receivable is \$2,046,092 (2012-\$2,060,542) due from Fortress Caribbean Property Fund Limited. The loan bears interest at a rate of 6% per annum. This is an unsecured short term loan, repayable on July 31, 2014.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2013

(expressed in Barbados dollars)

8 Redeemable mutual fund shares

Each class of Fund shares is entitled to share in the net income and net capital gains of the Fund. Fund shareholders shall not be entitled to vote at meetings of shareholders of the Fund save and except as permitted under the Companies Act CAP 308 and of the following:

- i) Disposal of substantially all of the Assets of the Fund, other than the course of ordinary business.
- ii) Any change or abrogation of the rights attached to the shares or any variation affecting the rights attached to the Fund shares.
- iii) Any proposed amalgamation of the Fund with another company or any amalgamation of the Fund with another Mutual Fund.
- iv) Any proposed liquidation or dissolution of the Fund.

Redeemable Distribution Shares

This class of shares will distribute substantially all of its income accruing to the investors in the form of dividends, which are paid semi-annually.

Redeemable Accumulation Shares

This class of shares will not pay dividends but will retain all of its income accruing to the benefit of the net asset value of the shareholders of this class.

9 Share capital

The 1,000 common shares held by the Fund Manager, carry full voting rights, but do not share in the profits of the Fund. On winding up of the Fund, these shares would be repaid at par.



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