

## Report by the Investment Manager

The net asset value of the fund increased by 1.30% during the quarter, by 2.30% for the six months ended June 30th 2007 and 5.19% over the last twelve months.

It has been a very tough quarter for markets with the yield on the benchmark US 10 year Treasury note increasing from 4.65% at the beginning of April to 5.15 % in early July at the time of writing. This increase of 50 basis points and it has had a significant impact on bond prices everywhere. Surprisingly, Caribbean sovereign bonds have maintained better than expected. The strong labour market and high energy prices are factors which will have the Federal Reserve concerned about inflation and therefore the potential for a cut in the interest rates later this year is looking less and less likely. This makes the medium term outlook for bonds to be flat or unfavourable.

In the local market, interest rates on treasury bills have edged downwards in recent months and it appears that liquidity is on the increase. This situation will hopefully result in a reduction of interest rates, which will assist in the recovery of local bond prices.

Our bond investment in the Cayman Islands matured and was repaid during the quarter and we have found a high yielding one year note to replace it. There has been no new regional corporate bond issues during the quarter. The rates on our US dollar one-year deposits in Jamaica have increased slightly to just over 7%. Given that five year regional US dollar bonds are still yielding less than this, we will continue with this strategy until prices become more attractive. The Fund has now been going for five years and the total return to date is 36.42%. This equates to an annual compound rate of return of 6.41%. While this is a bit below our original expectations, we believe that the fund has delivered on its objective of "providing the highest level of income consistent with the preservation and safety of capital".

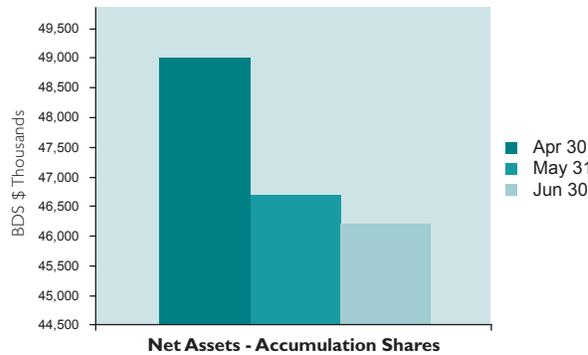
When The Fund started in June 2002, local T-Bill rates were 1.51% and savings deposits in commercial banks were earning 2.5%. These extremely low interest rates prevailed until 2005. Since then we have been faced with an inverted yield curve where short-term deposit rates are higher than long term rates. This is an extremely difficult environment for a bond fund such as this. Going forward we believe that we have weathered difficult market conditions including a real hurricane "Ivan" and we expect to see more higher yielding opportunities coming to the Fund. There is still 34% of the Fund sitting in deposits ready to purchase higher yielding bonds as they come available, which will boost the returns.

Investment Returns				
1.30%	2.30%	5.19%	12.82%	36.427%
3 months	6 months	12 months	2 Years	since inception Jun 02

### Movement In Fund Price

Date	Net asset value	
	Accumulation	Distribution
2006-06-30	1.2969	1.0192
2006-07-31	1.3019	1.0231
2006-08-31	1.3106	1.0300
2006-09-30	1.3151	1.0335
2006-10-31	1.3179	1.0021
2006-11-30	1.3299	1.0112
2006-12-31	1.3335	1.0139
2007-01-31	1.3388	1.0180
2007-02-28	1.3406	1.0193
2007-03-31	1.3467	1.0240
2007-04-30	1.3529	1.0046
2007-05-31	1.3599	1.0099
2007-06-30	1.3642	1.0130

### Movement In Net Assets



### Top 5 Holdings

Rank	Security	Currency	Coupon	Maturity	Yield *
(1)	BS&T Series 14 & 15	BDS\$	7.23%	2011-01-15	7.23%
(2)	Sagicor	US\$	7.50%	2016-12-05	7.60%
(3)	Simpson Finance	BDS\$	6.50%	2009-10-25	6.50%
(4)	Government of B'dos	BDS\$	8.50%	2018-12-31	8.50%
(5)	Government of B'dos	BDS\$	8.00%	2014-09-30	8.00%

\*This is the effective yield

## FORTRESS CARIBBEAN HIGH INTEREST FUND

### Fund Objective –

The Fund aims to achieve the highest level of income compatible with the preservation of capital by investing in medium to high grade debt securities issued by corporate and government entities with a short to medium term maturity profile principally in the Caribbean

### Fund Details

Minimum Investment	\$500
for subsequent investments	\$100
or monthly savings plan	\$100
NAV - Accumulation	\$1.3642
NAV - Distribution	\$1.0130

### Net Assets -

Accumulation	\$46,217,402
Distribution	\$5,147,987
	\$51,365,389

### Expenses

### Manager

0.75 % per annum of net assets of Fund

### Custodian and Administrator

0.20% on the first \$ 30M in net assets  
0.175% on the next \$ 50M in net assets  
0.15% -amounts over \$ 80M in net assets

### Initial Charges

none

### Redemption Charges

2% for funds held less than 6 months up to 1% for funds held less 6 months to 2 years.

Nil - After 2 years

### Manager & Administrator

Fortress Fund Managers Ltd

### Directors

Fortress High Interest Fund  
Geoffrey Cave, Chairman  
David Bynoe  
Sir Fred Gollop  
Ken Emery  
Anthony King  
John Williams  
Roger Cave, Investment Manager

### Custodian

FirstCaribbean International Bank  
Trust and Asset Management Division  
Broad Street  
Bridgetown

### Independent Auditors

PricewaterhouseCoopers

### Attorney-at-Law

Sir Henry deB. Forde, Q.C.  
Juris Chambers

Important information about this fund is contained in our prospectus which we encourage you to read before making an investment. The indicated returns are net of all fees and expenses. The returns are historical and are not necessarily indicative of future performance. Investors should be aware that this is a fixed income fund and as such there are risks involved where the value of the Fund's shares may go down as well as up.

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