

Helping your  
investments  
to grow



# FORTRESS

## Caribbean Quarterly Report

September 2006



### FORTRESS CARIBBEAN PENSION FUND

#### Investment Objectives-

##### Aggressive Accumulator Share

To achieve high capital appreciation over the long term

##### Conservative Consolidator Share

To achieve medium capital appreciation over the medium term

##### Capital Secure Share

To achieve highest possible return compatible with preservation of capital in the short term

#### Manager & Administrator

Fortress Fund Managers Ltd

#### Directors

Geoffrey Cave, Chairman  
David Bynoe  
Sir Fred Gollop  
Ken Emery  
Anthony King  
Rene Delmas  
Desmond Kinch  
Roger Cave, Investment Manager

#### Custodian

FirstCaribbean International Bank  
Trust & 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 part of an equity fund and as such there are risks involved where the value of the Fund's shares may go down as well as up.

### FORTRESS CARIBBEAN PENSION FUND

## Report by the Investment Manager

The Pension Fund is restricted to approved group pension plans and is now providing pension investment and administration services to 57 companies and approximately 2,100 employees.

Total assets under management have increased to \$45.9 million, with over 80% of assets invested in the Aggressive Accumulator Share.

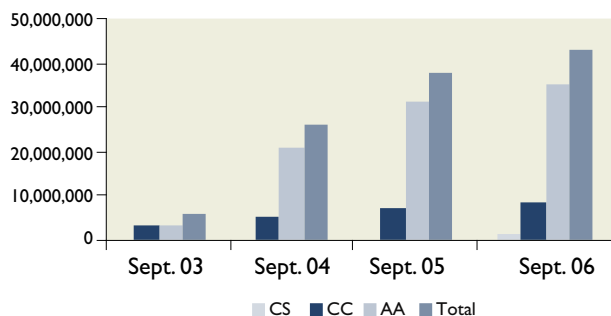
The Fund has produced some very competitive returns to date, with the popular Aggressive Accumulator Share achieving an average annual compound return of 12.3% since inception.

However, as pointed out in previous reports, we are now experiencing a reduction in returns for the AA and CC shares, which we expect will continue for the short term.

We are pleased to report that plan members can now view their pension accounts through our web-site. In addition, members now have access to our very powerful interactive Pension Projector Tool. This tool allows users to project what their pension (private plus their NIS pension) is likely to be under certain user-defined assumptions. Thus, members can constantly monitor their pension objectives which allows them to take any necessary corrective measures sooner rather than when it is just too late.

Defined Benefit Pension Plans can also invest some or all of their pension fund with the Fortress Caribbean Pension Fund.

#### Asset Growth



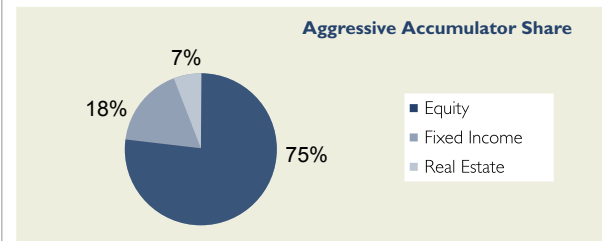
#### Returns as at 30th September 2006

|          | Inception | 3months | 6months | 1year | 2years | Since inception |
|----------|-----------|---------|---------|-------|--------|-----------------|
| AA Share | May-02    | 0.4%    | 0.7%    | 3.7%  | 19.1%  | 65.1%           |
| CC Share | May-02    | 0.5%    | 1.2%    | 4.2%  | 16.7%  | 52.8%           |
| CS Share | Apr-03    | 0.9%    | 2.5%    | 5.3%  | 12.0%  | 19.6%           |

### ASSET ALLOCATION

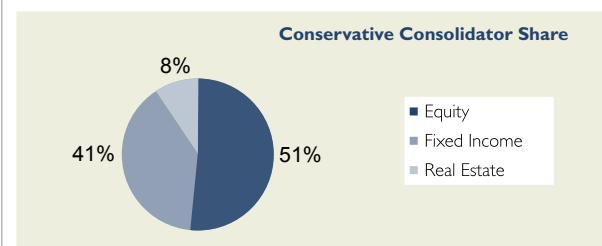
#### Aggressive Accumulator Share

Suited for employees with a long time to retirement who want to maximise their returns over the long term.



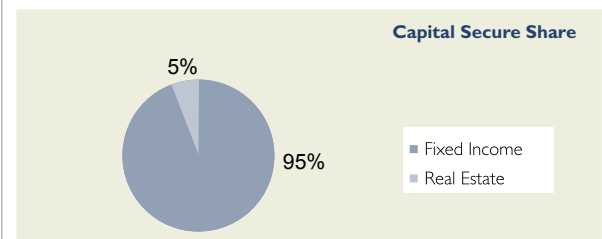
#### Conservative Consolidator Share

Suited for those employees who still want to grow their account over the medium term, but not as aggressively as the AA share.



#### Capital Secure Share

Suited for those employees who are on the verge of retirement and need to secure their capital just prior to purchasing an annuity with their account.



Fortress Caribbean Quarterly is published by:  
Fortress Fund Managers Limited,  
1st Floor, Carlisle House, Hincks Street,  
Bridgetown, Barbados. Tel: (1 246) 431 2198.  
Toll Free: 800 450 6461 (USA & Canada only)  
E-mail: invest@fortressfund.com  
www.fortressfund.com

**FORTRESS CARIBBEAN GROWTH FUND**

**Report by the Investment Manager**

**Fund Objective – Growth**

Capital appreciation of assets over the long term, principally through investment in shares of both quoted and unquoted companies located or that have their principal activities in the Caribbean.

**Recommended for:**

- Investors seeking investment exposure in the Caribbean;
- Investors seeking capital growth and appreciation over the long term

**Fund Details**

|                            |               |
|----------------------------|---------------|
| Minimum Investment         | \$100         |
| for subsequent investments | \$100         |
| for monthly savings plan   | \$50          |
| Net Asset Value Per Share  | \$4.02        |
| Net Assets                 | \$178,606,094 |

**Expenses**

**Manager & Administrator**

1.75 % per annum of net assets of Fund

**Fund Custodian**

0.175 % per annum of net assets of Fund

**Initial Charges**

2 % initial charge

**Redemption Charge**

None

**Manager & Administrator**

Fortress Fund Managers Ltd.

**Directors**

Geoffrey Cave, Chairman  
David Bynoe  
Sir Fred Gollop  
Ken Emery  
Anthony King  
Roger Cave, Investment Manager

**Custodian**

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The Fortress Caribbean Growth Fund was flat (up 0.5%) during the quarter ended September 30th. The Fund is up 2.8% for the twelve months ended September 30th 2006. The total assets are unchanged at \$178.6m as the fund remained closed during the quarter.

Caribbean stock markets continued their dismal performance during the quarter although there was a small recovery in the Jamaican market during the month of September. Over the last twelve months the Trinidad market was down 20%, the Jamaican market was down 17% and the Barbados market was off 4%. Trading volumes are also down significantly and with interest rates rising in Trinidad & Barbados, investors have not yet started to come back into the regional stock markets. The Fund has found excellent value in rolling over funds in short term deposits with yields in excess of 6% as we patiently move these funds back into shares at much better prices.

During the quarter we reduced our investment in Bank of Butterfield on which we have realized substantial gains and reinvested the proceeds in a 'Rights Issue' by BF&M and to a lesser extent, Bermuda Commercial Bank. Both of these companies were purchased at attractive values. We continue to add to our holdings in RBTT, Neal & Massy and Sagico, all of which declined further during the quarter.

Our international investments recovered well during the last quarter as the Federal Reserve paused in hiking interest rates. The Dow has recently passed its previous high, reached back in January 2000, taking nearly seven years to do so, an indication of how long it can take for markets to recover when a correction takes place. It is very clear that the correction of the housing market in the US is well underway and only time will tell the extent of its impact on consumer spending and by extension, future growth in the world's largest economy.

The Asian economies remain extremely strong and we are confident that our portfolio holdings and the related exposures to their currencies are a sound hedge for our regional investments.

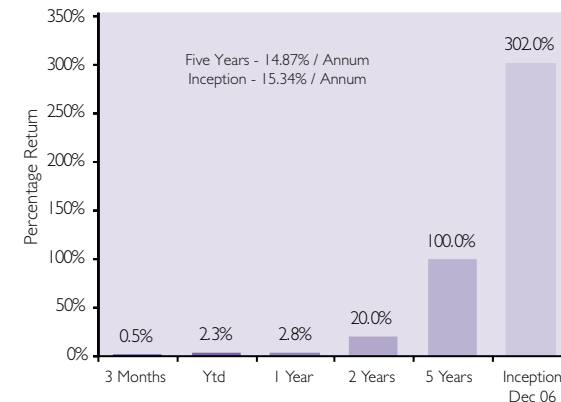
The Directors took the decision to re-open the fund to new subscriptions from the beginning of October. While the Fund still has higher cash balances than we would like, we are earning high yields on the short-term deposits and we believe that we must be nearing the bottom of the correction of regional stock markets. It may take a few years for our markets to fully recover and we expect that we will see increased redemptions as investor patience will wane in favour of high yielding fixed income securities and funds. The outlook in the short-term is for much of the same but the prospects for the fund over the medium to long term are now much improved.

| Investment Returns |          |        |         |                         |
|--------------------|----------|--------|---------|-------------------------|
| 0.5%               | 0.8%     | 2.8%   | 20%     | 302%                    |
| 3 Months           | 6 Months | 1 Year | 2 Years | Since Inception 9.12.96 |

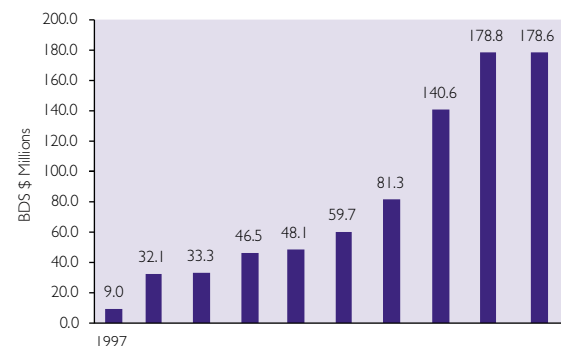
**Movement In Fund Price and Total Assets**

| Date      | Net assets    | Net Asset Value |
|-----------|---------------|-----------------|
| 30-Sep-05 | \$178,981,376 | \$3.91          |
| 28-Oct-05 | \$178,985,022 | \$3.92          |
| 30-Nov-05 | \$177,093,874 | \$3.89          |
| 30-Dec-05 | \$178,191,548 | \$3.93          |
| 27-Jan-06 | \$178,807,462 | \$3.95          |
| 24-Feb-06 | \$181,858,227 | \$4.03          |
| 31-Mar-06 | \$179,602,803 | \$3.99          |
| 30-Apr-06 | \$180,202,490 | \$4.01          |
| 31-May-06 | \$183,625,488 | \$4.09          |
| 30-Jun-06 | \$178,804,175 | \$4.00          |
| 28-Jul-06 | \$178,804,175 | \$4.03          |
| 31-Aug-06 | \$179,858,198 | \$4.02          |
| 29-Sep-06 | \$178,606,094 | \$4.02          |

**Fund Performance**



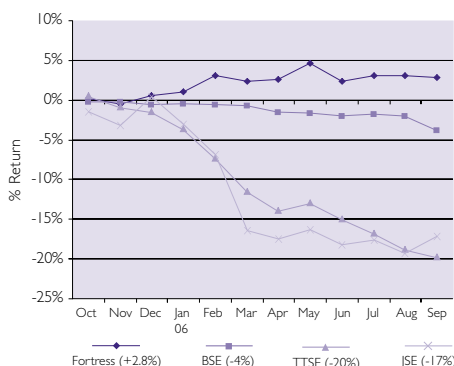
**Growth In Assets**



**Top 10 Holdings**

| Rank | Company                      | Country  | Sector         |
|------|------------------------------|----------|----------------|
| (1)  | OAM                          | Cayman   | Mutual Fund    |
| (2)  | Bank of NT Butterfield       | Bermuda  | Banking        |
| (3)  | Bermuda Fire & Marine        | Bermuda  | Insurance      |
| (4)  | CG Portfolio Fund Ltd.       | UK       | Mutual Fund    |
| (5)  | Goddard Enterprises Ltd.     | Barbados | Conglomerate   |
| (6)  | RBTT Financial Holdings Ltd. | Trinidad | Banking        |
| (7)  | CS & C Joint Venture         | Barbados | Property       |
| (8)  | Sagico Financial Corporation | Barbados | Life Insurance |
| (9)  | Carerras Group               | Jamaica  | Tobacco        |
| (10) | Neal & Massy Holdings        | Trinidad | Conglomerate   |

**1 Year Returns - Fortress vs Caribbean Markets**



## Report by the Investment Manager

The net asset value of the Fund rose by 1.41 % during the quarter. The Fund is up 5.17 % year-to-date and up 6.93 % for the year ended September 30th 2006.

During the last quarter the Federal Reserve in the US paused on hiking interest rates and as a result, bond and equity markets rallied strongly on the expectation that the tightening of monetary policy was now over and the next step would be a cut in interest rates towards the end of the year or early in 2007.

The structure of the Fund's portfolio has not produced any substantial returns as a result of the drop in longer term treasury rates. In fact we have maintained our short position where we gave up most of our unrealized gains on this trade in the last quarter.

We are now in a period of uncertainty where equity and bond markets are reacting swiftly on every new piece of economic data. The key issues surround the level of inflation, the slowing of the housing market and its impact on consumer spending and by extension the future growth in the US economy and the rest of the world. At the moment the capital markets are suggesting a soft landing in the US economy and a continuation of the 'goldilocks' scenario of full employment, steady economic growth in the US and elsewhere, low inflation, lower interest rates and solid corporate profit growth. The recent drop in energy prices, the resilience of the US consumer despite the correction in the housing market, the current low level of long-term interest rates and strong performances from US and emerging economies in Asia and elsewhere, suggest the equity and bond markets may just be right.

We are not fully convinced and if the above scenario is wrong and underlying inflation is actually higher than reported, the impact on bond prices from a sudden spike in the level of inflation and by extension - interest rates - would be severe, and even more so for emerging market bonds. Caribbean bond prices are fully valued in our view and have little left to go on the upside but could fall significantly on the downside. We therefore continue to maintain our cautious approach - rolling over short-term deposits in the 6% range with little sacrifice on comparative longer term yields.

During the quarter we acquired two new corporate bonds - a municipal bond backed by a solid local insurance company and an electricity company in the Dominican Republic. We sold one of our Government of Jamaica bonds at an attractive price.

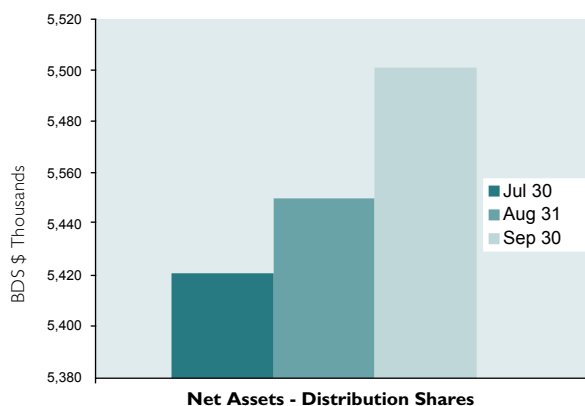
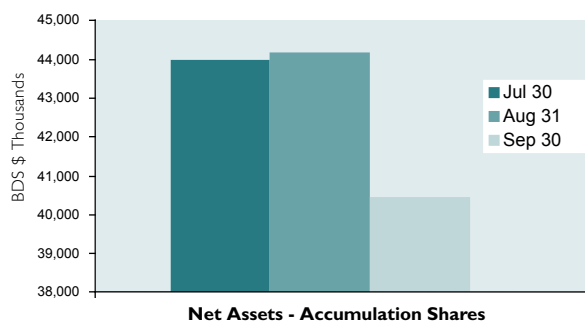
We remain focused on quality regional corporate issues. The recent restructuring of Belize debt is further evidence of the risks surrounding regional sovereign debt. We expect another solid year for the Fund with returns consistent with prior years.

| Investment Returns |          |        |         |                        |
|--------------------|----------|--------|---------|------------------------|
| 1.41%              | 3.35%    | 6.93%  | 13.75%  | 31.51%                 |
| 3 Months           | 6 Months | 1 Year | 2 Years | Since Inception Jun-02 |

### Movement In Fund Price

| Date       | Accumulation | Net asset value | Distribution |
|------------|--------------|-----------------|--------------|
| 2005-09-30 |              | 1.2299          | 1.0239       |
| 2005-10-29 |              | 1.2326          | 1.0027       |
| 2005-11-25 |              | 1.2386          | 1.0071       |
| 2005-12-30 |              | 1.2504          | 1.0167       |
| 2006-01-27 |              | 1.2590          | 1.0237       |
| 2006-02-24 |              | 1.2653          | 1.0287       |
| 2006-03-31 |              | 1.2725          | 1.0346       |
| 2006-04-30 |              | 1.2790          | 1.0051       |
| 2006-05-31 |              | 1.2875          | 1.0118       |
| 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       |

### Movement In Net Assets



### Top 5 Holdings

| Rank | Security            | Currency | Coupon | Maturity   | Yield * |
|------|---------------------|----------|--------|------------|---------|
| (1)  | BS&T Series 14 & 15 | BDS\$    | 7.20%  | 2011-01-15 | 6.50%   |
| (2)  | Sagicor             | US\$     | 7.50%  | 2016-12-05 | 7.60%   |
| (3)  | Simpson Finance     | BDS\$    | 6.50%  | 2009-10-25 | 7.25%   |
| (4)  | Govt of Jamaica     | US\$     | 8.13%  | 2009-07-05 | 7.25%   |
| (5)  | Govt of Barbados    | BDS\$    | 7.25%  | 2025-06-30 | 7.25%   |

\*This is the effective yield

### 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         | \$1.3151 |
| NAV - Distribution         | \$1.0335 |

### Net Assets -

|              |              |
|--------------|--------------|
| Accumulation | \$41,359,116 |
| Distribution | \$5,498,273  |

### Expenses

### Manager & Administrator

0.75 % per annum of net assets of Fund

### Custodian

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 than 6 months to 2 years.

Nil - After 2 years

### Manager & Administrator

Fortress Fund Managers Ltd.

### Directors

Geoffrey Cave, Chairman  
David Bynoe  
Sir Fred Gollop  
Ken Emery  
Anthony King  
Roger Cave, Investment Manager

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## Performance Really Matters.....in the long term

| Returns are net of all expenses and charges  | Inception Date |                          | Year to Date | 1 Year | 2 Years | 3 Years | Since Inception |
|--|----------------|--------------------------|--------------|--------|---------|---------|-----------------|
|                                       | Dec. 96        |                          | 2.3%         | 2.9%   | 19.7%   | 55.3%   | 302.0%          |
|                                       | Aug. 99        | NAV performance*         | 5.6%         | 10.6%  | 21.5%   | 28.8%   | 67.0%           |
|  |                | Share price performance* | 5.9%         | (2.5)% | 15.0%   | 27.7%   | 76.0%           |
|                                       | June 02        |                          | 5.2%         | 6.9%   | 13.8%   | 21.0%   | 31.5%           |
| <br>AA Share<br>CC Share<br>CS Share | May 02         |                          | 2.4%         | 3.7%   | 19.1%   | 47.7%   | 65.1%           |
|  | May 02         |                          | 2.6%         | 4.2%   | 16.7%   | 37.5%   | 52.8%           |
|  | Apr 03         |                          | 3.6%         | 5.3%   | 12.0%   | 18.1%   | 19.6%           |

All returns at 30th September 2006.

•Returns are cumulative and inclusive of dividends



This is the newest member to the range of funds we currently manage. This fund is a US\$ denominated fund domiciled and regulated in the BVI by the Financial Services Commission. The Fund offers investors the opportunity to achieve diversification into the international markets through a value-based investment approach.