

2012 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 investments 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, and 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.

Fortress Fund Managers Limited
First Floor, Carlisle House
Hincks Street
Bridgetown
Barbados
BB11144
Tel (246) 431 2198
Fax (246) 431 0514
invest@fortressfund.com
www.fortressfund.com



Your Future. Our Business.

2012

Fortress Caribbean High Interest Fund Limited
2012

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 – 09/30/2012	\$1.7294	\$1.0013
NET ASSETS – 09/30/2012	\$104,727,256	\$6,177,000

MANAGEMENT EXPENSES:

Management fees: 0.75% per annum on the net assets
Custodian & Administration: 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

Directors & Administrators

DIRECTORS

Senator 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

INDEPENDENT AUDITORS

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

SECRETARY

Corporate Services Limited
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

REGISTERED OFFICE

First Floor, Carlisle House
Hincks Street
Bridgetown
Barbados

INVESTMENT MANAGER & ADMINISTRATOR

Fortress Fund Managers Limited
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

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 5.4% 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, 2012, the Fund generated a return of 2.5%, with the Accumulation shares rising to \$1.7294 and the Distribution shares rising to \$1.0013 after paying a dividend of \$0.0228 during the year.

The Fund's return in 2012 was again below its historic average, as interest rates globally remained at extremely low levels, and moved lower still. Weak creditworthiness in Caribbean government bonds also led us to continue sacrificing some yield by favouring short-term treasury bills over longer term debt. The Fund's short term investments, largely in 90-day Barbados government treasury bills and bank deposits of similar term, yielded approximately 3.5% during the year.

Investment Performance as of 9/30/12

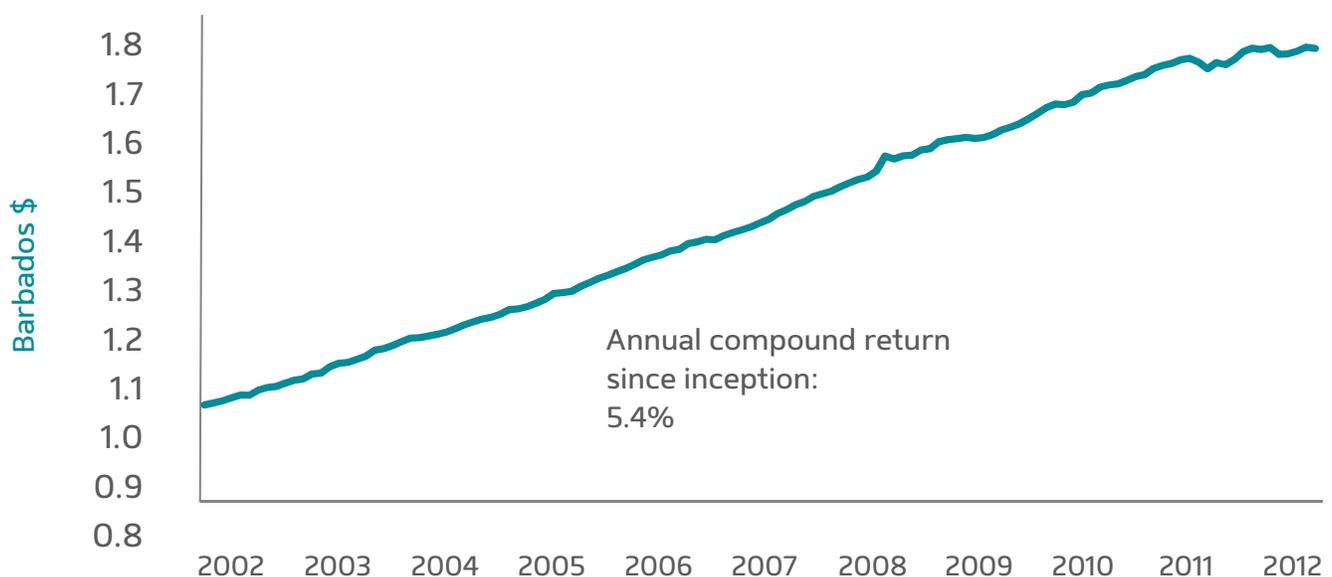
	3 mo.	1 year	3 year	5 year	Inception
Caribbean High Interest Fund (Accumulation shares)	0.6%	2.5%	3.6%	4.4%	5.4%

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

Central bankers around the world remained concerned about the European financial crisis and its potential to lead to further economic weakness in Europe, the US and Asia. As a result they kept very low interest rates in place, and expanded policies aimed at supporting prices of risky assets such as stocks and lower grade bonds. This promise of long term, low cost money lent significant support to financial markets, and helped remedy the liquidity crunch that engulfed markets in the fall of 2011.

Many of the Fund's holdings benefited from this strength in "risky" assets. Our specialised US funds and strategies mostly contributed double digit percentage gains during the year. Our Barbados corporate bonds performed well, continuing to throw off yields of over 5%. Unfortunately, writedowns related to two individual US\$ bond positions led to losses that significantly reduced the Fund's overall gains.

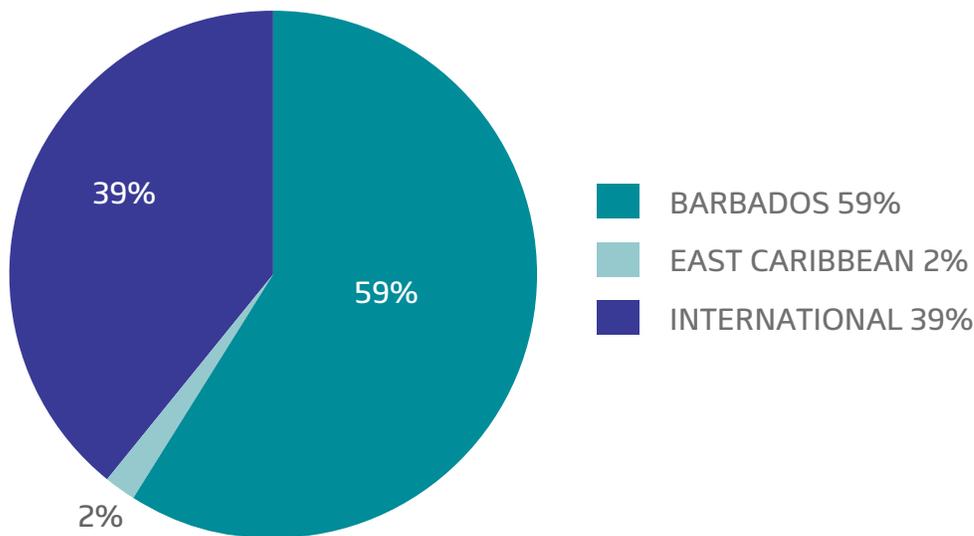
Caribbean High Interest Fund Net Asset Value Since Inception



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, US dollar government and corporate bonds, and specialised funds investing globally in income-producing assets. The portfolio is constructed to maximise return diversified from 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	Financial	26.7%
CIBC FirstCaribbean deposits	Barbados	Financial	16.4%
Fortress US Equity Income Strategy	US	Various	6.0%
Franklin Templeton Global Bond Fund	Global	Various	5.5%
University of West Indies Bond	Barbados	Government	5.3%

The portfolio is still in “defense” mode, as we remain very concerned about the poor and declining creditworthiness of Caribbean government bonds generally. Restructuring in St. Kitts & Nevis, and late or missed coupon payments in Belize and Grenada remind us that just because a bond is issued by a government doesn’t mean it is without credit risk. The portfolio’s large weight in short term treasury bills and bank deposits at relatively low yields is counterbalanced by allocations to higher yielding global bonds, funds and income producing strategies.

As of September 30th, the average term to maturity of the Fund’s holdings was approximately 2.2 years, and the average yield was 4.6%. Approximately 40% of the portfolio is invested outside the Caribbean region in US dollars and other currencies.

For a complete listing of the Fund’s holdings at September 30, 2012, please see the accompanying financial statements.



| Directors' Report

Directors' Report



“The Fund returned 2.5% in the year ended September 30, 2012...”

The Fund returned 2.5% in the year ended September 30, 2012. The Net Asset Value of the Accumulation shares rose from \$1.6878 to \$1.7294, while the Distribution shares went from \$0.9994 to \$1.0013, after paying a dividend of \$0.0228. During the year, total assets were unchanged at \$111 million. The compound annual rate of return for the Fund since inception in 2002 is now 5.4% per year.

The Fund's return this year was again below its historic average. This reflects three factors: the historically low prevailing interest rates in global markets; our very conservative positioning with respect to Caribbean government debt; and some losses incurred on individual bond holdings during the year.

We continue to be very concerned about the declining creditworthiness of Caribbean government debt. Rating agency Standard & Poor's downgrade of Barbados government bonds during the summer bears out this concern. With significant underappreciated credit risks, we continue to sacrifice a measure of current income in return for greater safety of principal by placing a significant portion of the Fund's domestic holdings in highly liquid short term treasury bills and deposits.

The portfolio's exposure to adverse changes in bond prices is limited by its very short average term to maturity of just over 2 years. The average running yield on the Fund's holdings is approximately 4.6%, which is a good indication of the portfolio's medium term return potential.

The Fund's objective is to achieve the greatest level of income consistent with the preservation of capital. Sometimes, when risk is fairly priced into markets and prevailing interest rates are high, this means the Fund can generate healthy returns. Unfortunately, that is not the situation today. We continue to find some areas to add judicious amounts of exposure that earn an attractive rate of return. Overall, though, we remain squarely in capital preservation mode.

MARKET ENVIRONMENT

Interest rates in many countries around the world continue to be lower than anyone has ever seen them before. US 10-year Treasury bond yields finished the year on September 30th at 1.6%, down from 1.75% the previous year, and 2.5% the year before that. In some countries, such as Germany and Switzerland, high quality government bonds are actually trading at negative yields in some maturities. Investors are in these cases literally paying the government to hold their money for them. Prevailing interest rates today are often below the rate of inflation. This means bond

investors are earning a negative “real” return due to the very expansionary policies being pursued by the US Fed, European Central Bank, Bank of Japan, and others.

Inflation in Barbados has been especially high in recent years. It was at a 9.5% rate in 2011 and is running at a 7.8% rate so far in 2012. Inflation has now averaged 5% each year for the past 12 years, the cumulative effect of which has been to chop the value of a dollar almost exactly in half over that time.

Over the past year, the creditworthiness of regional Caribbean governments also continued to decline. In July, the rating agency Standard & Poor’s downgraded Barbados government long term debt to “BB+” from “BBB-”, below the investment grade threshold. S&P noted:

In our view, the economic fundamentals of Barbados continue to weaken, reflecting not only the external environment but also more pronounced competitiveness and other structural shortcomings; we believe that the fiscal stance remains weak, as seen in the rising debt burden, off-budget spending, and outstanding contingent liabilities.

This is not a pretty picture. And Barbados is certainly not unique. Early in 2012, St. Kitts & Nevis announced a plan to restructure (i.e. default on) their debt. Our analysis suggests that St Kitts bondholders could lose up to 85% of their original investments in securities previously considered “safe”. More recently, delayed coupon payments and talk of restructuring have affected bonds issued by Grenada and Belize.

The declining creditworthiness is at least partly a function of a continued difficult economic environment in the Caribbean. Tourism earnings have yet to recover to anything like the pre-crisis levels, and costs have risen and affected competitiveness. International business activity is flat or down. Unemployment rates are higher which is cutting into income tax revenues. At the same time, it is the rare government that has undertaken meaningful spending cuts. And now, after 3 years of global economic recovery, there is evidence that the US and other major economies are slowing again, and could slip back into some type of recession.

During the year, the US Fed continued and even expanded its Quantitative Easing (“QE”) policies, as did the Bank of England and the Bank of Japan. In response to a weaker economic outlook, the Fed also took the unusual step of extending its commitment to keep interest rates where they are for another three years, and to continue with QE until the employment situation improves. This promise (and threat) of lower rates, for much longer, kept waves of money washing around the world looking for bonds with any incremental yield.

One beneficiary of this pressure over the last year was global and emerging markets bonds, which also benefited from trading at bargain prices last autumn. This time last year, the panic surrounding the European debt crisis had pushed the prices of “risky” bonds much lower, and their yields correspondingly higher. Since then, the European Central Bank announced long term support for banks that alleviated their liquidity pressures and helped financial markets normalize. Bonds issued by countries like Mexico, Venezuela, South Korea, and Brazil have all rallied strongly.

The Fund has some investments in this area, both directly and via two externally managed funds, and they showed double digit percentage gains this year. As rates have now come down on some of these underlying investments, though, even marginal issuers have been enticed into the market to borrow cheap money. In recent months, there has been an almost daily procession of countries such as the Philippines, Turkey, Morocco and Peru, and companies based in these and other emerging markets countries, issuing billions and billions of dollars of bonds. While the support for the market still seems to be there, we can’t help but wonder how different this situation is from the one that led Greece to borrow too heavily, with now well-known consequences.

Directors' Report Cont.

As yields drop and risk gets systemically underpriced in emerging markets bonds, the outlook going forward in that area will change also. On further strength, we will likely be taking opportunities to reduce the Fund's exposure to these areas.

PORTFOLIO POSITIONING

The Fund is denominated in Barbados dollars, and due to currency controls has limited access to other currencies. As of September 30, just under 60% of total assets were invested in Barbados. Developments in government and corporate credit markets, and the currency markets in the Caribbean region are therefore very important to us. As noted above, we continue to believe that long term government bond yields do not compensate for the risks of owning the bonds in a time of severe economic and fiscal stress. One relatively secure area of the market to hold assets in such a time is in very short term, liquid securities. As of September 30, the Fund had approximately 38% of its portfolio invested in this type of security, primarily Government of Barbados treasury bills and short term bank deposits.

The advantage of having a large block of the portfolio in this area is that the Fund is largely insulated from adverse moves in long term bond prices. In addition, it has an easy source of ready cash for purchases if markets weaken. The disadvantage, and it is a big one, is that short term investments usually yield less than long term ones. Government of Barbados treasury bills yield approximately 3.5%, while longer term bonds can yield 6-7%. At the moment, we continue to position for safety at the expense of some current yield.

We continue to look for good quality Barbados corporate bonds to buy or loans to make, as these offer an opportunity to earn a reasonable rate of return while taking acceptable risks. One such loan was added in September, secured by real estate assets and yielding 8.25%. We are eager to make more loans to high quality corporations that are backed by good security.

Elsewhere in the Caribbean region, Jamaica bond yields are inching higher again as concern grows that the government is falling short of its IMF objectives relating to its last debt restructuring in 2010. Economic growth is very slow, and the impact of Hurricane Sandy has not helped. While we have had positions in Jamaican bonds in recent years, the Fund currently has no Jamaica exposure.

The Trinidad & Tobago bond market is awash with cash and bond yields have therefore remained very low. This has been the case even as economic performance has softened in recent months. In terms of the Caribbean markets, it is clearly the "least dirty shirt", with an investment grade A- credit rating. 10-year Government bond yields are now at 3.5% down from 6% this time last year. The Fund currently has no significant positions in Trinidad.

Approximately 39% of the portfolio is invested outside of the Caribbean region, in US dollars and other currencies. This increases the liquidity of the Fund's portfolio, adds to diversification by spreading holdings across a number of issuers and geographic regions, and over time contributes meaningful returns. We have for some time been using a "barbell" approach to the Fund's portfolio as it relates to credit and interest rate risk. A barbell has two main areas that are on opposite sides of the spectrum. For the Fund, this means that the substantial portion of the portfolio invested in very short term, liquid securities is complemented by positions in higher yielding securities, and specialised funds and strategies. Overall, this creates a more diversified portfolio to protect capital, and on average still positions the Fund to earn an acceptable yield over time.

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.

Categories of investment within the Fund	
<i>Category/Strategy</i>	<i>1 Year Return</i>
Barbados T-bills and bank deposits	3.4%
Barbados corporate bonds	5.0%
US\$ and international bonds	-7.5%
Fortress US Equity Income Strategy	10.6%
Specialized US\$ funds	10.0%
Cash	-2.5%

Some parts of the portfolio did very well over the last year. The Fortress US Equity Income strategy generated a return of 10.6%. The strategy uses a portfolio of high quality US equities and related options to target a return of 8% per year with only bond-like volatility. Our allocations to specialised US\$ bond funds, with investments in structured credit, and global and emerging markets bonds also did well, with double digit returns. The Fund carried cash of approximately 15%, which with very low rates on cash was a drag on performance.

Unfortunately, some parts of the portfolio did not do very well over the last year. Two positions in particular cost the Fund approximately 2% of its value, reducing the year's performance by that amount. The first was an investment in bonds issued by Banco Cruzeiro do Sul, a Brazilian bank. The bonds were due to mature in 2013. In June of this year, however, the Brazilian banking regulators seized control of the bank after it was found to be overstating its assets. In the end, management fraud was uncovered and the regulators announced the bank would be liquidated. Similar circumstances in Brazil had previously led the government to protect bondholders' capital. In this case, the government offered no such support and the bonds fell to 18 cents on the dollar.

The Fund also wrote down approximately \$600,000 remaining in an investment in the Laroc Trading Fund, a position that grew out of some long-standing deposits with Republic Bank in Cuba.

On the positive side, during the year, the Fund's \$3 million holding in CL Spirits 9.25% bonds was finally redeemed in full by the issuer, including significant amounts of accrued interest. These bonds were secured by shares in Lascelles DeMercado, which has in recent weeks been taken over by the large Italian drinks company Campari. While we were not necessarily pleased to see the takeover of another Caribbean company by a large international one, we were pleased that enough pressure was brought to bear to secure appropriate value for Lascelles' assets.

OUTLOOK

These are not easy times to generate income and preserve capital, the two objectives of the Fund. Truly low risk assets provide little or no income, and recent debt restructurings show how capital can be destroyed in higher risk investments that were not previously thought to be risky. The Fund's "barbell" approach of combining significant amounts of short-term government t-bills with diversified allocations spread across various corporate and global bonds is keeping risk down, while maintaining the yield at a reasonable level. The average yield of the portfolio's holdings is approximately 4.6%, a good guide to its medium term return potential.

Thank you to all our shareholders for investing with us. We will continue to work to safeguard your capital, 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, flowing style.

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, 2012 and the statements of changes in net assets attributable to holders of redeemable mutual fund shares, comprehensive income, 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.

PricewaterhouseCoopers SRL, The Financial Services Centre, Bishop's Court Hill, P.O. Box 111, St. Michael, BB14004, Barbados, West Indies

T: +246-626-6700, F: 246-436-1275, www.pwc.com/bb



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, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SEH

December 12, 2012
Bridgetown, Barbados

Fortress Caribbean High Interest Fund Limited

Statement of Financial Position

As of September 30, 2012

(expressed in Barbados dollars)

	2012 \$	2011 \$
Assets		
Investments (note 5)	95,302,698	60,316,784
Due from brokers	–	633,787
Accounts receivable	67,115	58,788
Cash and cash equivalents (note 7)	15,607,088	49,839,457
Total assets	110,976,901	110,848,816
Liabilities		
Accounts payable and accrued expenses	71,645	84,716
Derivative financial instruments (note 6)	–	2,240
Liabilities (excluding net assets attributable to holders of redeemable mutual fund shares)	71,645	86,956
Net assets attributable to holders of redeemable mutual fund shares:		
Accumulation shares (note 9)	104,727,256	104,592,398
Distribution shares (note 9)	6,177,000	6,168,462
	110,904,256	110,760,860
Total liabilities	110,975,901	110,847,816
Share capital (note 10)	1,000	1,000
Liabilities and shareholder funds	110,976,901	110,848,816
Net asset value per accumulation share	1.73	1.69
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 12, 2012



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, 2012

(expressed in Barbados dollars)

	Number of shares		Net assets attributable to holders of redeemable mutual fund shares	
	Accumulation	Distribution	Accumulation \$	Distribution \$
Balance - September 30, 2010	56,710,554	5,564,608	93,600,761	5,712,569
Issue of shares	16,737,637	1,174,764	28,067,801	1,184,232
Redemption of shares	(11,477,090)	(567,497)	(19,225,174)	(570,962)
Dividends paid	–	–	–	(289,705)
Total comprehensive income for the year	–	–	2,149,010	132,328
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

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, 2012

(expressed in Barbados dollars)

	2012	2011
	\$	\$
Cash flows from operating activities		
Total comprehensive income	2,660,559	2,281,338
Adjustments for:		
Amortisation of discounts	(170,398)	(56,879)
Net fair value losses on investments	118,144	425,138
Interest income	(3,553,206)	(3,815,133)
Dividend income	(214,833)	(211)
Operating loss before working capital changes	(1,159,734)	(1,165,747)
Increase in accounts receivable	(8,327)	(11,412)
Decrease/(increase) in due from brokers	633,787	(633,787)
(Decrease)/increase in accounts payable and accrued expenses	(13,071)	27,295
Purchase of investments	(187,198,080)	(161,976,210)
Proceeds on the sale of investments	152,127,204	184,290,468
Cash (used in)/generated from operations	(35,618,221)	20,530,607
Interest received	3,688,182	5,095,773
Dividends received	214,833	211
Cash (used in)/generated from operating activities	(31,715,206)	25,626,591
Cash flows from financing activities		
Issue of mutual fund shares	12,845,565	29,252,033
Redemption of mutual fund shares	(15,219,534)	(19,796,136)
Dividends paid	(143,194)	(289,705)
Cash (used in)/ generated from financing activities	(2,517,163)	9,166,192
Net (decrease)/increase in cash and cash equivalents	(34,232,369)	34,792,783
Cash and cash equivalents - beginning of year	49,839,457	15,046,674
Cash and cash equivalents - end of year	15,607,088	49,839,457

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

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2012

(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 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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2012

(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...continued

- 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 standard is not applicable until 1 January 2013, but is available for early adoption.

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.

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 coupons earned on fixed income investments and short term deposits.

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

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

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.

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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

d) Investments...continued

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) Derivative contracts

Open contracts held for trading purposes are included in the statement of financial position at fair value. Fair value is based generally on market prices or broker quotations.

The fair value of open contracts, which are comprised of call and put options, is included in investments where the fair value represents an asset of the Fund. Where the fair value of the options represents an obligation of the Fund, the fair value is included in derivative financial liabilities. Amounts are offset and the net amount reported in the statement of financial position if, and only if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously. This is not generally the case and the related assets and liabilities are presented gross in the statement of financial position. Gains and losses arising from the application of this policy are taken to the statement of comprehensive income.

f) 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.

g) 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.

h) 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, 2012

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

i) 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.

j) 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.

k) 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.

l) 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, 2012

(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.

Market risk

i) Price 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, 2012 is disclosed in note 5. Included in the statement of comprehensive income are unrealised gain of \$927,853 (2011 - losses \$589,384) 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 2012 \$	Effect on net assets 2011 \$
Change in interest rate:		
-2%	1,045,669	1,202,767
2%	(948,414)	(1,157,483)

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 \$2,796,479 (2011 - \$2,298,794).

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Barbados dollars)

4 Financial risk management...continued

Market risk...continued

ii) Interest rate risk

The Fund's significant interest-bearing financial assets earn interest at fixed rates and therefore the cash flow of the Fund is 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 are disclosed in note 7. 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.

	2012	2011
	\$	\$
Investments	84,503,474	48,121,842
Due from brokers	–	633,787
Accounts receivable	67,115	58,788
Cash and cash equivalents	15,607,088	49,839,457
Total financial assets	100,177,677	98,653,874

Credit risk from financial instruments is minimised 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. The Fund seeks to minimise 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, 2012

(expressed in Barbados dollars)

4 Financial risk management...continued

Credit risk...continued

The credit ratings of the Fund's significant investments where available are set out below:

	2012	2011
	\$	\$
Government of Barbados debt securities (BB+ by Standard & Poor's)	628,412	3,435,546
Government of Grenada (CCC+ by Standard & Poor's)	958,273	1,186,674

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

	2012	2011
	\$	\$
Cash and cash equivalents		
FirstCaribbean International Bank Limited (unquoted)	13,303,299	42,818,429
Government of Barbados debt securities (BB+ by Standard & Poor's)	—	5,951,028
	<u>13,303,299</u>	<u>48,769,457</u>

The Fund's exposure to credit risk related to accounts receivable is set out below in the following table:

	2012	2011
	\$	\$
Accounts receivable		
Impaired	—	—
Neither impaired or past due	—	58,788
	<u>—</u>	<u>58,788</u>
Total carrying amount	<u>—</u>	<u>58,788</u>

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2012

(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 9). 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, 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
At September 30, 2011		
Accounts payable and accrued expenses	64,416	20,300
Derivative financial instruments	–	2,240
Net assets attributable to holders of redeemable mutual fund shares	110,760,860	–
Total financial liabilities	110,825,276	22,540

Redeemable shares are redeemed on demand at the holder's option (note 9). 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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Barbados dollars)

4 Financial risk management ...continued

Capital risk management

The capital of the Fund is represented by the net assets attributable to holders of redeemable shares. The amount of net asset 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, 2012

(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, 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

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
September 30, 2011				
Financial assets at fair value through profit or loss				
Government backed securities	568,606	–	8,023,546	8,592,152
Corporate securities	5,342,783	–	–	5,342,783
Listed equity securities	12,194,942	–	–	12,194,942
Mutual funds	–	–	10,792,997	10,792,997
	18,106,331	–	18,816,543	36,922,874

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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation...continued

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.

There were no transfers between levels for the year ended September 30, 2012 (2011-nil).

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

	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
September 30, 2011			
Opening balance	8,396,288	6,482,616	14,878,904
Purchases	682,620	9,976,830	10,659,450
Sales	–	(5,730,442)	(5,730,442)
(Losses)/gains recognised in statement of comprehensive income	(1,055,362)	245,024	(810,338)
Impairment loss	–	(181,031)	(181,031)
Closing balance	8,023,546	10,792,997	18,816,543

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Barbados dollars)

5 Investments

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

	2012	2011
	\$	\$
Financial assets at fair value through profit or loss		
Debt securities		
- government backed securities	8,992,285	8,592,152
- corporate securities	2,923,437	5,342,783
- listed equity securities	16,197,552	12,194,942
- mutual funds	11,767,241	10,792,997
	<hr/>	<hr/>
Total financial assets designated as fair value through profit or loss	39,880,515	36,922,874
Loans and receivables	55,422,183	23,393,910
	<hr/>	<hr/>
Total investments	95,302,698	60,316,784
	<hr/>	<hr/>
Gains/(losses) recognised in relation to financial assets at fair value through profit or loss:		
- unrealised gain/ (loss)	927,853	(589,384)
- realised (loss)/gain	(413,219)	345,277
- impairment charge	(632,778)	(181,031)
	<hr/>	<hr/>
Net loss in fair value through profit or loss	(118,144)	(425,138)
	<hr/>	<hr/>

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

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Financial assets at fair value through profit or loss	39,880,515	39,880,515	36,922,874	36,922,874
Loans and receivables	55,422,183	55,370,866	23,393,910	23,204,624
	<hr/>	<hr/>	<hr/>	<hr/>
	95,302,698	95,251,381	60,316,784	60,127,498
	<hr/>	<hr/>	<hr/>	<hr/>

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Barbados dollars)

5 Investments ...continued

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

	Carrying value 2012 \$	Carrying value 2011 \$
Due within one year	44,414,759	19,666,330
Due after one year but within five years	12,458,898	8,192,502
Due after 5 years	10,464,248	9,470,013
No stated maturity	27,964,793	22,987,939
	<u>95,302,698</u>	<u>60,316,784</u>

The detailed portfolio of investments is as follows:

Security	Rate	Maturity	2012		2011	
			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	5,451,669	5,713,367	5,815,114	6,396,064
Sagicor Financial Corporation-preference shares			4,025,960	4,186,000	4,000,000	4,000,000
Government of Barbados	5.25%	2013-12-31	197,552	203,365	193,636	205,365
Government of Barbados	6.63%	2020-09-30	185,104	197,285	–	–
Government of Barbados	7.50%	2012-12-31	147,000	149,756	147,000	156,224
Government of Barbados	5.88%	2014-10-31	75,000	76,986	75,000	78,149
Government of Barbados	8.00%	2012-12-31	1,000	1,020	1,000	1,070
			<u>10,083,285</u>	<u>10,527,779</u>	<u>10,231,750</u>	<u>10,836,872</u>
OECS						
Government of Grenada	4.50%	2025-09-15	<u>2,042,969</u>	<u>958,273</u>	<u>2,042,969</u>	<u>1,186,674</u>

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Barbados dollars)

5 Investments ...continued

Security	Rate	Maturity	2012		2011	
			Cost \$	Market Value \$	Cost \$	Market Value \$
Financial assets at fair value through profit or loss:						
International						
Fortress Equity Income Strategy			4,999,940	6,613,224	4,999,940	5,955,634
Franklin Templeton Global Bond Fund			5,500,000	6,049,808	5,500,000	5,348,767
ChapelGate Credit Opportunity Fund Ltd			4,000,000	5,717,433	4,000,000	4,811,452
Western Asset Asian Opportunities Fund			5,000,000	5,398,328	2,000,000	1,967,008
Hellenic Republic Bond		2023-02-24	1,057,189	1,103,619	–	–
Banco Cruzeiro	7.00%	2013-07-08	2,896,528	684,803	2,892,005	2,758,303
American International Group Inc	4.25%	2014-09-15	631,620	632,738	596,739	587,146
Merrill Lynch & Co Inc.- (Bank of America)	5.00%	2014-02-03	623,682	628,599	611,559	604,875
Republic of Brazil	8.50%	2024-01-05	578,607	588,614	–	–
Elektra Bond	7.25%	2018-08-06	503,125	508,663	–	–
Petroleos de Venezuela	8.50%	2017-11-02	450,690	468,634	730,195	690,889
Cemex SAB	9.00%	2018-01-11	–	–	1,029,530	701,570
Republic of Italy	3.13%	2015-01-26	–	–	578,070	568,606
Laroc Trading Fund B.V.			–	–	522,538	632,778
Proshare UltraShort Lehman			–	–	403,200	272,300
			26,241,381	28,394,463	23,863,776	24,899,328
Total financial assets at fair value through profit or loss			38,367,635	39,880,515	36,138,495	36,922,874

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Barbados dollars)

5 Investments ...continued

Security	Rate	Maturity	2012		2011	
			Cost \$	Amortised cost/ carrying value \$	Cost \$	Amortised cost/ carrying value \$
Loans and receivables:						
Barbados						
Fortress Caribbean Property Fund	7.50%	2014-07-31	2,020,000	2,046,092	2,020,000	2,046,090
Fortress Caribbean Property Fund	7.25%	2013-07-31	40,542	40,499	–	–
			2,060,542	2,086,591	2,020,000	2,046,090
Jamaica						
CL Spirits Ltd. (US\$)	9.25%	2012-01-23	–	–	3,000,000	3,090,986
Margaritaville (US\$)	9.10%	2012-05-31	–	–	186,666	188,284
			–	–	3,186,666	3,279,270
Trinidad						
St Maarten Telecom Holdings Co.	8.25%	2020-01-19	1,000,000	1,016,958	1,000,000	1,016,958
Agostini's Limited	8.00%	2022-01-19	306,060	306,656	–	–
			1,306,060	1,323,614	1,000,000	1,016,958
OECS						
Property Holdings	8.00%	2017-12-21	550,000	560,452	650,000	664,532
Other						
Deposits	3.45%	2012-10-05				
	- 8.25%	-2014-09-30	51,062,451	51,451,526	16,123,479	16,387,060
Total loans and receivables			54,979,053	55,422,183	22,980,145	23,393,910
Total investments			93,346,688	95,302,698	59,118,640	60,316,784

The effective yield on loans and receivable is 4.43% (2011 - 6.86%).

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Barbados dollars)

6 Derivative financial instruments

The Fund uses put and call options primarily to reduce the market risk from its portfolio of equity investments as conditions warrant. An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (in the case of a “call” option) or sell (in the case of a “put” option) a specified amount of an underlying security at a specified price on or before the expiry date of the option. The seller receives a premium from the purchaser in return for this right. The market values of these options change primarily in response to changes in values of the underlying assets.

Options which the Fund may enter into are generally all exchange-traded, with pricing for valuation purposes readily available from the exchange(s). Options are shown in the financial statements on a gross basis.

Purchased options represent assets of the Fund; written options are liabilities. This is true even if the options correspond to, or are intended to hedge, other underlying assets held in the Fund’s portfolio.

As at September 30, 2012, the Fund held no purchased options contracts.

At September 30, 2012 the Fund held no written option contracts (2011-\$2,240). The notional amount underlying options written is nil (2011- \$392,000). These numbers are most meaningfully considered in the context of the total market value and offsetting exposures within the Fund’s portfolio.

7 Cash and cash equivalents

Cash and cash equivalents of \$ 15,607,088 (2011 - \$49,839,457) are placed with leading regional commercial banks. The effective yield on interest bearing cash and cash equivalents is 0.14% (2011 – 2.54%).

8 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 \$824,159 (2011 - \$801,190).

The administrator fees amounted to \$96,204 (2011 - \$93,869) for the year.

Directors fees of \$12,000 (2011 - \$12,000) were paid during the year.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2012

(expressed in Barbados dollars)

9 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 the Assets of the Fund
- 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.

10 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, the shares would be repaid at par.



FORTRESS FUND MANAGERS LIMITED
FIRST FLOOR, CARLISLE HOUSE, HINCKS STREET, BRIDGETOWN, BB11144, BARBADOS
TEL: (246) 431-2198 FAX: (246) 431-0514 • invest@fortressfund.com • www.fortressfund.com