



ANNUAL
REPORT
2014

FORTRESS CARIBBEAN HIGH INTEREST FUND

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

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

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

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



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FORTRESS CARIBBEAN HIGH INTEREST FUND

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 – 09/30/2014	\$1.8367	\$1.0121
NET ASSETS – 09/30/2014	\$106,698,457	\$5,643,629

MANAGEMENT EXPENSES:

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

INITIAL CHARGES: Nil

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

INVESTMENT MANAGER & ADMINISTRATOR: Fortress Fund Managers Limited

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

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

Directors & Administrators

DIRECTORS

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

COMPANY SECRETARY

Hanna M. Chrysostom
Broad Street
Bridgetown
St. Michael
Barbados

AUDIT COMMITTEE

David Simpson
C. David Bynoe
John Howard

CORPORATE GOVERNANCE AND NOMINATION COMMITTEE

C. David Bynoe
Sir Fred Gollop K.A., Q.C.
Kenneth Emery

REGISTERED OFFICE

First Floor, Carlisle House
Hincks Street
Bridgetown
Barbados

ATTORNEY AT LAW

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

INDEPENDENT AUDITORS

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

CUSTODIAN

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

INVESTMENT MANAGER & ADMINISTRATOR

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

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

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

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



Investment Performance

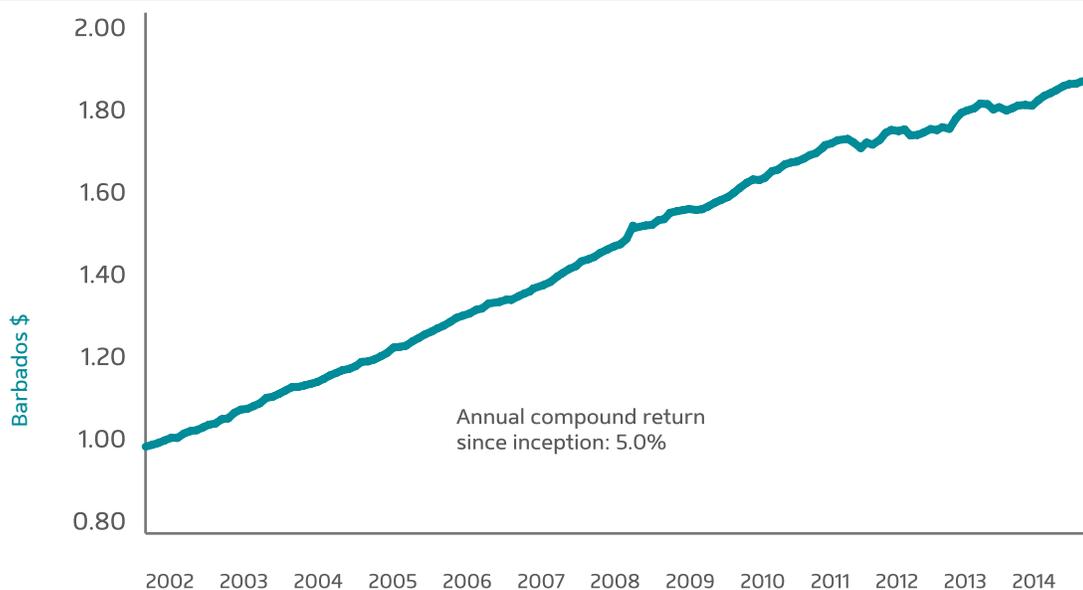
The Caribbean High Interest Fund has generated a compound annual rate of return of 5.0% per year (with all income re-invested) since inception in 2002. Over this period, its diversified mix of Caribbean and global fixed income assets led to relatively steady performance in a range of market conditions. For the year ended September 30, 2014, the Fund generated a return of 3.2%, with the Accumulation shares rising to \$1.8367 and the Distribution shares finishing at \$1.0121 after paying dividends totaling \$0.0202 per share during the year. Returns continue to be lower than normal as the Fund's portfolio is focused squarely on capital preservation amidst the ongoing Caribbean government debt crisis.

Investment Performance as of 9/30/14

	1 year	3 year	5 year	10 year	Inception
Caribbean High Interest Fund (Accumulation shares)	3.2%	2.9%	3.4%	4.7%	5.0%

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

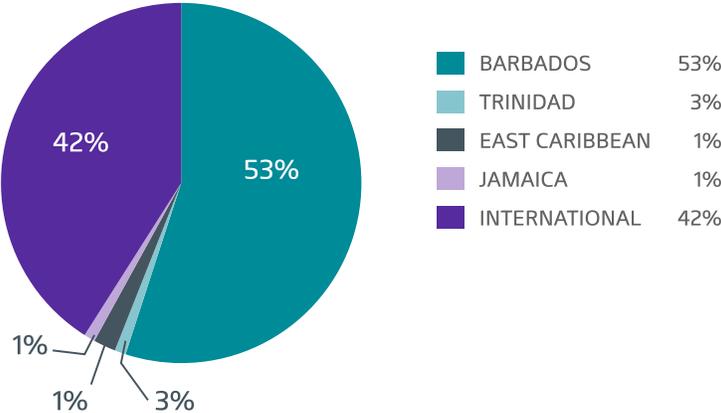
Caribbean High Interest Fund Net Asset Value Since Inception



Portfolio Positioning

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

Geographic Distribution of Portfolio



Top 5 Holdings

Holding	Country/Region	Sector	Weight
Sagicor 6.5% Preference Shares	Barbados	Financial	5.2%
Legg Mason Asian Opportunities Debt Fund	International	Various	4.9%
Franklin Templeton Global Bond Fund	Global	Various	4.9%
GEL 4.75% 30 Nov 2015	Barbados	Conglomerate	4.7%
Pimco GLB Investment Grade	International	Various	4.2%

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

As of September 30th, the average term to maturity of the Fund’s holdings was relatively short at 2.9 years. The average gross yield of the portfolio’s holdings was 4.2%. Approximately 42% of the portfolio is invested outside the Caribbean region in U.S. dollars and other currencies.



| Directors' Report



Directors' Report

The Fund returned 3.2% in the year ended September 30, 2014, up slightly from the 2.9% return registered in 2013. The Net Asset Value of the Accumulation shares rose from \$1.7798 to \$1.8367, while the Distribution shares went from \$1.0006 to \$1.0121, after paying dividends totaling \$0.0202 per share. During the year, total assets declined from \$120 million to \$112 million as the result of an asset allocation shift by the Fortress Caribbean Pension Fund. The compound annual rate of return for the Fund since inception in 2002 is now 5.0% per year.

This was a year of “two worlds” in the bond market and among the types of securities in which the Fund can invest. On the one hand, most global interest rates remained very low – too low to generate meaningful returns – and some moved lower still in response to central bank stimulus. U.S. government 5-year bond yields rose slightly from 1.4% to 1.8%, while German government 5-year yields dropped from 0.8% to 0.1%, and some European government bond yields even dropped into negative territory. This means that investors are paying the government to borrow their money from them. Trinidad also saw its bond yields remain low, with government 5-year bonds yielding 1.8%.

Economically stressed countries in the Caribbean, meanwhile, occupy a very different part of the “two worlds”. This part of the world saw bond yields rise or remain at elevated levels during the year because of concerns over creditworthiness. We believe the ongoing difficulties with Caribbean government debt continue to argue for a very cautious stance on the Fund’s investments in this area. During the year, Grenada moved closer to another restructuring of its debt (the second in 10 years), and Barbados government bonds were downgraded two notches to BB- by Standard & Poor’s. Barbados U.S. dollar bonds maturing in 2022 saw their prices collapse 10% in late 2013, as the news of the downgrade spread, and recovered to approximately unchanged by September 30. Yields on these bonds are now 7.7%, making them one of the highest yielding in the Caribbean region.

We continue to believe that the market prices of many Caribbean government bonds do not reflect the substantial short and long term risks embedded in them. Stressed governments can typically hurt bondholders by lowering coupons, extending maturities, or cutting the principal amount to be repaid. Sometimes, as in the case of St. Kitts recently, they can do all three. This helps the government debt burden become sustainable, but it can result in substantial and permanent losses for investors.

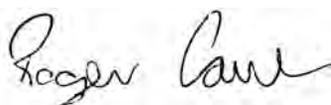
Jamaican government bonds were a bright spot in the Caribbean over the past year. There, after two rounds of bond restructurings, and with some significant progress on an IMF-supported adjustment programme, investors have been bidding up the prices of the government’s bonds and driving down their yields. In July, the government came with a very successful U.S. \$500 million bond issue that was five times oversubscribed, and has subsequently seen its yield trade down to 6.6% from its original 7.6%.

We have responded to this “two worlds” scenario in the bond market by diversifying the Fund’s portfolio broadly among issuers and geography, and by limiting exposure to bonds whose yields do not compensate us for the risks of owning them. This means carrying very little exposure to Caribbean government bonds because of unacceptably high credit risks. In global markets, it means limited exposure to low-grade corporate bonds, whose yields have been compressed to very tight levels by historical standards. It means making use of specialist funds and strategies to generate income with limited volatility. It means keeping the average term to maturity of investments relatively short to protect against rising rates. Unfortunately, in the Barbados dollar segment of the portfolio at the moment, it also means carrying more cash in the form of short term bank deposits than we would normally like, until satisfactory investments can be identified.

During the year, the portfolio’s holdings in Barbados corporate bonds continued to throw off an acceptable yield in the range of 6%. Investments in individual U.S. dollar corporate bonds, meanwhile, yielded approximately 5%, and our selection of specialist funds investing in global bonds and credit, returned between 4%-5%, bouncing back from weakness in late 2013. After a very strong year in 2013, the Fortress Income Builder funds were on balance flat for the year. Late in the year, we made two new investments in Barbados dollars to corporations with good collateral to pledge against their borrowings. The terms are reasonable, with yields in the 5-6% range.

Looking forward, the gross average yield to maturity of the Fund’s portfolio is currently just over 4%, and it remains very much in capital preservation mode. Our concerns this time last year about low prevailing interest rates in developed markets globally, and very high credit risks in some Caribbean government bonds, remain firmly in place. In this world of “two worlds” we will continue to position the Fund to earn an acceptable rate of return, while preserving capital against the very real risks currently facing bond investors, especially in the Caribbean.

Thank you very much for investing with us, and we look forward to reporting on a positive year ahead.



Roger Cave CA, CFA
Investment Director

Financial Statements



INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of
Fortress Caribbean High Interest Fund Limited**

Report on the Financial Statements

We have audited the accompanying financial statements of **Fortress Caribbean High Interest Fund Limited**, which comprise the statement of financial position as at September 30, 2014 and the statements of comprehensive income, changes in net assets attributable to holders of redeemable mutual funds shares and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Fortress Caribbean High Interest Fund Limited** as at September 30, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SKL

December 12, 2014
Bridgetown, Barbados

Fortress Caribbean High Interest Fund Limited

Statement of Financial Position

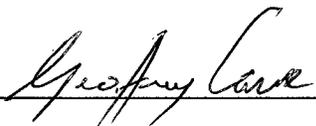
As of September 30, 2014

(expressed in Barbados dollars)

	2014	2013
	\$	\$
Assets		
Investments (note 5)	79,126,788	107,546,144
Accounts receivable	3,530,590	54,426
Cash and cash equivalents (note 6)	29,724,839	12,778,704
Total assets	112,382,217	120,379,274
Liabilities		
Accounts payable and accrued expenses	39,131	49,100
Due to brokers (note 7)	—	3,684
Liabilities (excluding net assets attributable to holders of redeemable mutual fund shares)	39,131	52,784
Net assets attributable to holders of redeemable mutual fund shares:		
Accumulation shares (note 10)	106,698,457	114,577,291
Distribution shares (note 10)	5,643,629	5,748,199
	112,342,086	120,325,490
Total liabilities	112,381,217	120,378,274
Share capital (note 11)	1,000	1,000
Liabilities and shareholder funds	112,382,217	120,379,274
Net asset value per accumulation share	1.84	1.78
Net asset value per distribution share	1.01	1.00

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

Approved by the Board of Directors on December 12, 2014



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, 2014

(expressed in Barbados dollars)

	Number of shares		Net assets attributable to holders of redeemable mutual fund shares	
	Accumulation	Distribution	Accumulation \$	Distribution \$
Balance - September 30, 2012	60,558,239	6,168,684	104,727,256	6,177,000
Issue of shares	8,573,757	175,500	15,108,182	178,316
Redemption of shares	(4,755,992)	(599,157)	(8,414,445)	(607,512)
Dividends paid	–	–	–	(184,024)
Total comprehensive income for the year	–	–	3,156,298	184,419
Balance - September 30, 2013	64,376,004	5,745,027	114,577,291	5,748,199
Issue of shares	6,439,049	34,816	11,640,804	34,896
Redemption of shares	(12,724,071)	(203,477)	(23,124,064)	(203,893)
Dividends paid	–	–	–	(113,684)
Total comprehensive income for the year	–	–	3,604,426	178,111
Balance - September 30, 2014	58,090,982	5,576,366	106,698,457	5,643,629

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, 2014

(expressed in Barbados dollars)

	2014	2013
	\$	\$
Cash flows from operating activities		
Total comprehensive income	3,782,537	3,340,717
Adjustments for:		
Amortisation of premium/(discounts)	4,678	(39,649)
Net fair value gains on investments	(1,385,814)	(814,403)
Interest income	(3,160,677)	(3,324,788)
Dividend income	(416,926)	(330,798)
Operating loss before working capital changes	(1,176,202)	(1,168,921)
(Increase)/decrease in accounts receivable	(3,467,175)	12,689
(Decrease)/increase in due to brokers	(3,684)	3,684
Decrease in accounts payable and accrued expenses	(9,969)	(22,545)
Purchase of investments	(75,168,349)	(203,123,067)
Proceeds on the sale of investments	104,692,263	191,801,337
Cash generated from/ (used in) operations	24,866,884	(12,496,823)
Interest received	3,437,255	3,257,124
Dividends received	407,937	330,798
Cash generated from/ (used in) operating activities	28,712,076	(8,908,901)
Cash flows from financing activities		
Issue of mutual fund shares	11,675,700	15,286,498
Redemption of mutual fund shares	(23,327,957)	(9,021,957)
Dividends paid	(113,684)	(184,024)
Cash (used in)/generated from financing activities	(11,765,941)	6,080,517
Net increase/ (decrease) in cash and cash equivalents	16,946,135	(2,828,384)
Cash and cash equivalents - beginning of year	12,778,704	15,607,088
Cash and cash equivalents - end of year	29,724,839	12,778,704

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

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(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).

The Fund is an open ended fund and offers its shares to a broad group of investors.

These financial statements were authorised for issue by the Board of Directors on December 12, 2014.

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”) and IFRS Interpretations Committee (IFRS IC) promulgated by the International Accounting Standards Board (IASB), applicable to companies reporting under 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. The areas involving a higher degree of judgement on complexity, or areas where assumptions and estimates are significant to the financial assets are disclosed in note 3.

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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

a) Basis of preparation...continued

New and amended standards adopted by the Fund

The following standards have been adopted by the Fund for the first time for the financial year beginning on or after 1 January 2013:

- IFRS 13, 'Fair value measurement' – The standard improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. If an asset or a liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread. On adoption of the standard, the Fund has maintained the use of bid and ask prices for its listed financial assets and liabilities in accordance with IAS 39. The adoption of this standard only impacts the format and extent of disclosures presented in the financial statements.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Fund except the following set out below:

- 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, 2018. 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 2018.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

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) 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

i) 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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

c) Investments...continued

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

ii) *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.

Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed as incurred in the statement of comprehensive income. They include the bid-ask spread, fees and commissions paid to agents, advisers, brokers and dealers. 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.

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.

iii) *Fair value estimation*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date. The quoted market price used for financial assets held by the Fund is the current bid price; the quoted market price for financial liabilities is the current asking price. If a significant movement in fair value occurs subsequent to the close of trading on the year end date, valuation techniques will be applied to determine the fair value. A significant event is any event that occurs after the last market price for a security, close of market or close of the foreign exchange, but before the Fund's valuation time that materially affects the integrity of the closing prices for any security, instrument, currency or securities affected by that event so that they cannot be considered 'readily available' market quotations.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

c) Investments...continued

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

iv) *Transfers between levels of the fair value hierarchy*

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period.

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.

d) 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 fair value.

e) Investment income

Interest income

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

Dividend income

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

f) Expenses

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

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

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

g) Due from and due to brokers

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

h) Redeemable shares/net asset value

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

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

i) Distributions payable to holders of redeemable mutual fund shares

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

j) Taxation

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

Fortress Caribbean High Interest Fund Limited

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3 Critical accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below.

The 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 relate to the valuation of unquoted investments and the determination of impairment provisions. The fair value of such securities not quoted in an active market may be determined by the Fund using reputable pricing sources (such as pricing agencies) or indicative prices.

The Fund would exercise judgement and estimates on the quantity and quality of pricing sources used. The determination of what constitutes 'observable' requires significant judgement by the Fund. The Fund considers observable data to be 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. Management policies surrounding these estimates and assumptions are disclosed in note 4.

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. There are no changes in the risk management policies from the prior year.

The management of these risks is carried out by the investment manager under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments and the investment of excess liquidity.

Market risk

i) Price risk

The Fund is exposed to market price risk arising primarily from the changes in equity prices. To manage this risk the Fund holds a diversified portfolio of investments in accordance with its investment policy. A summary of the overall statement of financial position market exposures at September 30, 2014 is disclosed in note 5.

At September 30, 2014, 62% (2013- 61%) of financial assets at fair value through profit or loss, comprise of investments in other funds that have been fair valued in accordance with the policies set out in note 2c. Since the shares of the other funds are not publicly traded, redemption can only be made by the Fund on

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

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4 Financial risk management

Market risk...continued

i) Price risk...continued

the redemption dates and subject to the required notice periods specified in the offering documents of each of the other funds. The rights of the Fund to request redemption of its investments in other funds may vary in frequency from daily to monthly redemptions. As a result, the carrying values of the other funds may not be indicative of the prevailing values ultimately realised on redemption. In addition, the Fund may be materially affected by the actions of other investors who have invested in funds in which the Fund has invested.

The Fund's holding in a third party investee fund, as a percentage of the investee fund's total net asset value, will vary from time to time dependent on the volume of subscriptions and redemptions at the investee fund level. It is possible that the Fund may, at any point in time, hold a majority of an investee fund's total units in issue.

Sensitivity

The effects of a change in equity prices as at September 30, 2014 of the Fund's financial assets at fair value through profit or loss are set out below. The analysis is based on the assumption that the equity indexes increase/decrease by 5-10% with all other variables held constant.

	Carrying Value 2014 \$	Effective change at September 2014	Impact on income \$
Listed on Caribbean stock exchange and markets	6,493,239	9%	584,392
Listed on US stock exchanges and markets	5,060,591	5%	253,030
Unlisted securities	38,410,978	10%	3,841,098
	49,964,808		4,678,520

	Carrying Value 2013 \$	Effective change at September 2013	Impact on income \$
Listed on Caribbean stock exchange and markets	5,248,950	9%	472,406
Listed on US stock exchanges and markets	4,441,071	5%	222,054
Unlisted securities	39,500,397	10%	3,950,040
	49,190,418		4,644,500

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

4 Financial risk management...continued

Market risk...continued

ii) Cash flows and fair value interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flow. The Fund holds fixed interest securities that expose the Fund to fair value interest rate risk. The Fund's significant interest-bearing financial assets earn interest at fixed rates and therefore the cash flows of the Fund are not affected by fluctuations in the prevailing levels of market interest rates. The Fund therefore has no significant interest rate risk on its cash flows.

The effective interest rates on cash and cash equivalents and investments are disclosed in note 6 and note 5 respectively. All of the other financial assets and liabilities of the Fund are non-interest bearing. The Fund would be impacted by movement in the market interest rates on the maturity of short term fixed rate instruments which would have to be reinvested at different rates of return.

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 2014 \$	Effect on net assets 2013 \$
Change in interest rate:		
-2%	1,454,872	1,869,071
2%	(1,221,315)	(1,462,231)

The Fund has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Fund invests and impact on the valuation of certain over-the-counter derivative products that use interest rates as an input in their valuation model.

Therefore, the above sensitivity analysis may not fully indicate the total effect on the Fund's net assets attributable to holders of redeemable shares of future movements in interest rates.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

4 Financial risk management...continued

Market risk...continued

iii) Foreign exchange risk

The Fund holds financial assets denominated in currencies other than the Barbados dollar, the functional currency of the Fund. Consequently, except where assets and liabilities are denominated in currencies fixed to the Barbados dollar, the Fund is exposed to currency risk. The Fund's policy is not to enter into any hedging transactions to mitigate currency risk.

When the Investment Manager formulates a view on the future direction of foreign exchange rates and the potential impact on the Fund, the Investment Manager factors that into its portfolio allocation decisions. While the Fund has direct exposure to foreign exchange rate changes on the price of non-Barbados dollar-denominated securities, it may also be indirectly affected by the impact of foreign exchange rate changes on the earnings of certain companies in which the Fund invests, even if those companies' securities are denominated in Barbados dollars. For that reason, the below sensitivity analysis may not necessarily indicate the total effect on the Fund's net assets attributable to holders of redeemable shares of future movements in foreign exchange rates.

Foreign currency risk arises as recognised monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates. IFRS 7 considers the foreign exchange exposure relating to non-monetary assets and liabilities to be a component of market price risk not foreign currency risk. However, management monitors the exposure on all foreign currency denominated assets and liabilities.

The table below summarises the Fund's assets and liabilities, monetary and non-monetary, which are denominated in a currency other than the Barbados dollar:

	BRL \$	EUR \$
September 30, 2014		
Financial assets		
Investments	618,104	137,865
Total financial assets	618,104	137,865
Total financial liabilities	—	—
Net position	618,104	137,865

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

4 Financial risk management...continued

Market risk...continued

iii) Foreign exchange risk...continued

	BRL	EUR
	\$	\$
September 30, 2013		
Financial assets		
Investments	669,855	150,442
Cash and cash equivalents	–	155,167
	<hr/>	<hr/>
Total financial assets	669,855	305,609
	<hr/>	<hr/>
Total financial liabilities	–	–
	<hr/>	<hr/>
Net position	669,855	305,609
	<hr/>	<hr/>

Sensitivity

The Fund is most exposed to currency risk in its operating currencies whose values have noticeably fluctuated against the Barbados dollar. These currencies include the Brazil Real (BRL) and the Euro (EUR).

The theoretical decrease in net assets had these currencies depreciated by 5% against the Barbados dollar with all other variables held constant is considered below:

	Effect of a 5% depreciation as of September 30, 2014	Effect of a 5% depreciation as of September 30, 2013
	\$	\$
Balances denominated in BRL	30,905	33,493
Balances denominated in EUR	6,893	15,280

A 5% appreciation in the currencies will have an equal and opposite effect to that disclosed above.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

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4 Financial risk management...continued

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.

	2014	2013
	\$	\$
Loans and receivables	29,161,980	58,355,726
Government backed debt securities	8,274,866	10,165,522
Corporate debt securities	2,808,489	2,692,275
Accounts receivable	3,530,590	54,426
Cash and cash equivalents	29,724,839	12,778,704
Total	73,500,764	84,046,653

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

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

	2014	2013
	\$	\$
US Treasury Notes (AA+ by Standard & Poor's)	3,664,280	3,147,009
Scotiabank Peru (Baa3 by Moody's)	1,171,440	1,061,700
GE Cap Corp 4.7% preference shares (AA+ by Standard & Poor's)	553,200	468,000
Grupo Elektra Bond (BBB- by Fitch)	525,548	506,953
Government of Grenada (SD by Standard & Poor's)	507,560	507,560
Ventas Realty LP 5.45% pref (BBB+ by Standard & Poor's)	385,120	344,960
Republic of Brazil (Baa2 by Moody's)	382,645	413,521
Government of Barbados debt securities (BB- by Standard & Poor's)	271,851	479,168
Solar Capital 6.75% pref (BBB- by Fitch)	240,000	228,900
Banco Santander Brasil SA (BBB- by Standard & Poor's)	235,459	256,334
Lexmark Intl Inc (BBB- by Standard & Poor's)	226,917	227,163
Government of Jamaica (B- by Standard & Poor's)	137,865	150,442
Government of Barbados Treasury bills (BB- by Standard & Poor's)	-	29,561,410
	8,301,885	37,353,120

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

4 Financial risk management...continued

Credit risk...continued

The Fund's holding in the Government of Grenada Bond has been rated as default by Standard & Poor's. The Government of Grenada has halted debt service on its bonds and is currently in the process of debt restructuring. The Fund carries this holding at fair value through profit and loss. The fair value as at September 30, 2014 reflects the default status and the effect of the restructuring of the debt.

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

	2014	2013
	\$	\$
Cash and cash equivalents		
CIBC FirstCaribbean International Bank Limited	22,020,763	11,649,683
Morgan Stanley & Co (A by Standard & Poor's)	3,921,458	155,133
	<hr/> 25,942,221	<hr/> 11,804,816
Loans and receivables		
Simpson Finance Limited	3,049,500	3,034,375
Loans and receivables	21,486,086	14,517,132
Government of Barbados Treasury bills	–	29,561,410
	<hr/> 24,535,586	<hr/> 47,112,917
Other receivables	3,461,366	–
	<hr/> 53,939,173	<hr/> 58,917,733
Total	<hr/> 53,939,173	<hr/> 58,917,733

None of the Fund's loans and receivables and accounts receivables are impaired. \$3,461,366 (2013- nil) of the receivables are past due but not impaired.

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 10). 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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

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4 Financial risk management ...continued

Liquidity risk...continued

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, 2014		
Accounts payable and accrued expenses	1,531	37,600
Net assets attributable to holders of redeemable mutual fund shares	112,342,086	—
Total financial liabilities	112,343,617	37,600

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

Redeemable shares are redeemed at the holder's option (note 10). 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, 2014

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4 Financial risk management ...continued

Liquidity risk...continued

At September 30, 2014, 62% (2013- 61%) of financial assets at fair value through profit or loss, comprise of investments in other funds that have been fair valued in accordance with the policies set out in note 2c. Since the shares of the other funds are not publicly traded, redemption can only be made by the Fund on the redemption dates and subject to the required notice periods specified in the offering documents of each of the other funds. The rights of the Fund to request redemption of its investments in other funds may vary in frequency from daily to monthly redemptions. As a result, the carrying values of the other funds may not be indicative of the prevailing values ultimately realised on redemption. In addition, the Fund may be materially affected by the actions of other investors who have invested in funds in which the Fund has invested.

The Fund manages its liquidity risk by investing in securities that it expects to be able to easily liquidate. The following table illustrates the expected liquidity of assets held.

	Less than 1 week \$	1 week- 1 month \$	1 - 3 months \$	Over 3 months \$
September 30, 2014				
Total assets	56,213,672	14,994,907	10,684,301	30,489,337
September 30, 2013				
Total assets	37,690,355	12,547,537	33,200,961	36,940,421

Capital risk management

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

Fair value estimation

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the year end date. The quoted market price used for financial assets held by the Fund is the current bid price; the quoted market price for financial liabilities is the current asking price. If a significant movement in fair value occurs subsequent to the close of trading on the year end date, valuation techniques will be applied to determine the fair value.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation...continued

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The Fund is required 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.

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, 2014				
Financial assets at fair value through profit or loss				
Government backed securities	4,184,790	—	4,090,076	8,274,866
Corporate securities	2,808,489	—	—	2,808,489
Listed equity securities	1,995,604	5,893,946	—	7,889,550
Mutual funds	—	23,588,009	—	23,588,009
Hedge funds	—	7,403,894	—	7,403,894
	8,988,883	36,885,849	4,090,076	49,964,808

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

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4 Financial risk management ...continued

Fair value estimation...continued

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
September 30, 2013				
Financial assets at fair value through profit or loss				
Government backed securities	3,710,972	–	6,454,550	10,165,522
Corporate securities	2,692,275	–	–	2,692,275
Listed equity securities	1,294,062	5,248,950	–	6,543,012
Mutual funds	12,930,346	13,369,807	–	26,300,153
Hedge funds	–	3,489,456	–	3,489,456
	20,627,655	22,108,213	6,454,550	49,190,418

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

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

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

Level 3 valuations are reviewed on a weekly basis by the Fund's investment committee who report to the Board of Directors. The committee considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques generally recognised as standard within the industry.

The fair value of these mutual funds in this category is determined by the administrators of these investments in accordance with industry practice.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

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4 Financial risk management ...continued

Fair value estimation...continued

The following table presents the transfers between levels.

	Level 1 \$	Level 2 \$
September 30, 2014		
Financial assets at fair value through profit or loss:		
Mutual funds	(9,930,828)	9,930,828
	<u>(9,930,828)</u>	<u>9,930,828</u>

The mutual funds transferred out of Level 1 relate to a securities whose valuation inputs no longer met the requirements for Level 1 classification. The valuation inputs for this security were not therefore based solely on quoted market prices and resulted in the reclassification to Level 2.

Transfers between levels of the fair value hierarchy, for the purpose of preparing the above table, are deemed to have occurred at the beginning of the reporting period.

There were no transfers between levels for the year ended September 30, 2013.

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

	Government backed securities \$	Total \$
September 30, 2014		
Opening balance	6,454,550	6,454,550
Purchases	3,513	3,513
Sales	(1,991,893)	(1,991,893)
Gains(losses) recognised in statement of comprehensive income	(376,094)	(376,094)
	<u>4,090,076</u>	<u>4,090,076</u>
Closing balance		
Change in unrealised gains or losses for Level 3 assets held at year end and included in other net changes in fair value on financial assets at fair value through profit or loss	(374,493)	(374,493)

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation...continued

	Government backed securities \$	Total \$
September 30, 2013		
Opening balance	7,300,052	7,300,052
Purchases	16,191	16,191
Sales	(534,837)	(534,837)
Losses recognised in statement of comprehensive income	(326,856)	(326,856)
Closing balance	6,454,550	6,454,550
Change in unrealised gains or losses for Level 3 assets held at year end and included in other net changes in fair value on financial assets at fair value through profit or loss	(326,856)	(326,856)

The below table provides information about fair value measurements using significant unobservable inputs (Level 3).

Description	Fair value at September 30,2014	Valuation technique	Unobservable inputs	Relationship of unobservable inputs to fair value
Government backed securities	\$4,090,076	Third party valuation of bond prices	Market yields Linear interpolation	The higher the market yield the higher the fair value

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation...continued

Assets and liabilities not carried at fair value but for which fair value is disclosed

The following table analyses within the fair value hierarchy the Fund's assets and liabilities (by class) not measured at fair value at September 30, 2014 but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
September 30, 2014				
Assets				
Loans and receivables	–	–	29,161,980	29,161,980
Accounts receivable	–	3,530,590	–	3,530,590
Cash and cash equivalents	29,724,839	–	–	29,724,839
Total	29,724,839	3,530,590	29,161,980	62,417,409
Liabilities				
Accounts payable and accrued expenses	–	39,131	–	39,131
Net assets attributable to holders of redeemable mutual fund shares	–	112,342,086	–	112,342,086
Total	–	112,381,217	–	112,381,217

The assets and liabilities included in the above table are carried at amortised cost; their carrying values are a reasonable approximation of fair value.

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These represent contractual amounts due to the Fund. Their carrying values are a reasonable approximation of fair value

Margin accounts, cash and cash equivalents include cash in hand, deposits held with banks and other short-term investments in an active market.

Amounts due from brokers and other receivables include the contractual amounts for settlement of trades and other obligations due to the Fund. Amounts due to brokers and accruals represent the contractual amounts and obligations due by the Fund for settlement of trades and expenses.

The puttable value of redeemable shares is calculated based on the net difference between total assets and all other liabilities of the Fund in accordance with the Fund's offering memorandum. These shares are not traded on an active market. A demand feature is attached to these shares, as they are redeemable at the holders' option

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

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4 Financial risk management ...continued

Fair value estimation...continued

Assets and liabilities not carried at fair value but for which fair value is disclosed...continued

and can be put back to the Fund at any dealing date for cash equal to a proportionate share of the Fund's net asset value attributable to the share class (Note 2h). The fair value is based on the amount payable on demand, discounted from the first date that the amount could be required to be paid. The impact of discounting in this instance is not material. As such, Level 2 is deemed to be the most appropriate categorisation for net assets attributable to holders of redeemable shares.

5 Investments

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

	2014	2013
	\$	\$
Financial assets at fair value through profit or loss		
- government backed securities	8,274,866	10,165,522
- corporate securities	2,808,489	2,692,275
- listed equity securities	7,889,550	6,543,012
- mutual funds	23,588,009	26,300,153
- hedge funds	7,403,894	3,489,456
Total financial assets designated as fair value through profit or loss	49,964,808	49,190,418
Loans and receivables	29,161,980	58,355,726
Total investments	79,126,788	107,546,144
Gains/(losses) recognised in relation to financial assets at fair value through profit or loss:		
- unrealised gains/(losses)	1,321,358	(49,521)
- realised gains	64,456	863,924
Net gains in fair value through profit or loss	1,385,814	814,403

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

5 Investments ...continued

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

	2014		2013	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Financial assets at fair value through profit or loss	49,964,808	49,964,808	49,190,418	49,190,418
Loans and receivables	29,161,980	29,158,409	58,355,726	58,377,145
	79,126,788	79,123,217	107,546,144	107,567,563

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

	Carrying value 2014 \$	Carrying value 2013 \$
Due within one year	10,106,776	51,524,829
Due after one year but within five years	12,183,039	5,098,249
Due after 5 years	17,955,520	14,590,445
No stated maturity	38,881,453	36,332,621
	79,126,788	107,546,144

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

5 Investments...continued

The detailed portfolio of investments is as follows:

Security	Rate	Maturity	2014		2013	
			Cost \$	Market value \$	Cost \$	Market value \$
Financial assets at fair value through profit or loss:						
Barbados						
Sagicor Financial Corporation- preference shares			5,145,940	5,648,870	5,145,940	5,248,950
UWI Cave Hill Bond	9.03%	2027-09-27	3,307,347	3,310,665	5,088,224	5,467,822
Sagicor Finance Ltd	7.50%	2016-05-12	636,000	649,125	636,000	640,125
Fortress Caribbean Property Fund SCC Ltd- Value Fund			296,026	245,076	–	–
Government of Barbados	6.63%	2020-09-30	188,852	194,520	186,978	196,185
Government of Barbados	5.88%	2014-10-31	75,000	77,331	75,000	78,778
Government of Barbados	5.25%	2013-12-31	–	–	199,507	204,205
			9,649,165	10,125,587	11,331,649	11,836,065
OECS						
Government of Grenada	4.50%	2025-09-15	2,042,969	507,560	2,042,969	507,560
Jamaica						
Government of Jamaica	10.50%	2014-10-27	131,079	137,865	132,801	150,442
Trinidad						
Clico Investment Fund			597,577	599,293	–	–

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

5 Investments...continued

Security	Rate	Maturity	2014		2013	
			Cost \$	Market Value \$	Cost \$	Market Value \$
Financial assets at fair value through profit or loss:						
International						
Western Asset Asian Opportunities Fund			5,000,000	5,374,899	5,000,000	5,190,154
Franklin Templeton Global Bond Fund			4,427,525	5,293,378	4,427,525	5,020,137
PIMCO GLB Inv Grade Inst Fund			4,398,440	4,555,929	7,980,000	7,740,192
Fortress Income Builder US Fund			3,971,799	4,199,411	7,029,897	7,298,587
Fortress Income Builder Int'l Fund			4,200,000	4,164,392	1,000,000	1,051,083
ChapelGate Credit Opportunity Fund Ltd			2,092,683	3,811,091	2,092,683	3,489,456
Permal Fixed Income Holdings Fund			3,500,000	3,592,803	—	—
US Treasury Note	2.00%	2020-07-31	2,680,670	2,709,893	2,174,536	2,213,560
Scotiabank Peru	4.50%	2022-12-12	1,140,724	1,171,440	1,133,516	1,061,700
US Treasury Note	1.75%	2023-05-15	983,801	954,387	981,923	933,449
GE Cap Corp 4.70% Pref			600,000	553,200	600,000	468,000
Grupo Elektra Bond	7.25%	2018-08-06	488,862	525,548	485,989	506,953
Ventas Realty LP 5.45% pref			400,000	385,120	400,000	344,960
Republic of Brazil	8.50%	2024-01-05	540,382	382,645	540,370	413,521
Solar Capital 6.75% pref			250,000	240,000	250,000	228,900
Banco Santander Brasil SA	8.00%	2016-03-18	308,713	235,459	309,806	256,334
Lexmark Intl Inc	6.65%	2018-06-01	218,472	226,917	223,504	227,163
Solar Capital Ltd			255,861	217,991	255,861	252,202
			35,457,932	38,594,503	34,885,610	36,696,351
Total financial assets at fair value through profit or loss			47,878,722	49,964,808	48,393,029	49,190,418

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

5 Investments ...continued

Security	Rate	Maturity	2014		2013	
			Cost \$	Amortised cost/ carrying value \$	Cost \$	Amortised cost/ carrying value \$
Loans and receivables:						
Barbados						
Simpson Finance	5.50%	2021-06-15	3,000,000	3,049,500	3,000,000	3,034,375
Fortress Caribbean Property Fund	7.50%	2014-07-31	–	–	2,020,000	2,046,092
			3,000,000	3,049,500	5,020,000	5,080,467
Jamaica						
NCCM FR	6.00%	2017-12-21	1,000,000	1,002,034	–	–
Trinidad						
Maruenergy Trinidad LLC	7.02%	2016-02-01	1,019,701	1,056,695	1,034,405	1,056,695
St Maarten Telecom Holdings Co.	8.25%	2020-01-19	895,000	910,178	970,000	986,450
Agostini's Limited	8.00%	2022-01-19	259,247	261,033	283,580	283,383
			2,173,948	2,227,906	2,287,985	2,326,528
OECS						
Property Holdings	8.00%	2017-12-21	350,000	356,651	450,000	458,551
Other						
Loans receivable	3.90%	2014-12-31	22,305,787	22,525,889	20,548,722	20,928,770
	- 8.25%	-2019-01-22				
Treasury bills	3.14%	2013-11-22	–	–	29,478,781	29,561,410
	-3.32%	-2014-03-07				
			22,305,787	22,525,889	50,027,503	50,490,180
Total loans and receivables			28,829,735	29,161,980	57,785,488	58,355,726
Total investments			75,708,457	79,126,788	106,178,517	107,546,144

The effective yield on loans and receivable is 5.00% (2013 – 4.66%).

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

6 Cash and cash equivalents

Cash and cash equivalents of \$28,815,214 (2013 - \$11,869,252) are placed with leading regional commercial banks. The effective yield on interest bearing cash and cash equivalents is 1.79% (2013 – 0.51%).

7 Due to brokers

Due to brokers represents security purchases and sales transactions contracted for but not yet delivered at the end of the year.

Due to brokers

	2014	2013
	\$	\$
Purchases awaiting settlement	—	3,684

This amount represents funds due to brokers on the purchase of investments, which have not been paid at the year end.

8 Interest income

	2014	2013
	\$	\$
Loans and receivables	2,170,805	2,634,792
Debt securities at fair value through profit or loss	699,910	529,530
Cash and cash equivalents	289,962	160,466
	<u>3,160,677</u>	<u>3,324,788</u>

9 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 \$890,057 (2013 - \$883,926).

Management fees of \$84,952 (2013- \$45,205) were refunded by Fortress Fund Advisory Limited (a subsidiary of Fortress Fund Managers Limited) being 1% of the net asset values of Fortress Income Builder US Fund and Fortress Income Builder Intl Fund shares held by the Fund during the year. This is to avoid double charging of management fees on assets invested in related Funds which have the same Manager.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

9 Related parties...continued

The administrator fees amounted to \$102,756 (2013 - \$102,143) for the year.

Custodian fees of \$102,756 (2013 - \$102,143) were paid to CIBC FirstCaribbean International Bank (Barbados) Limited for which there is shared directorship.

The Fund holds 532,775 (2013-nil) shares valued at \$245,076 (2013-nil) in the Fortress Caribbean Property Fund Limited SCC- Value Fund.

The Fund holds 19,859 (2013-35,149) shares valued at \$4,199,411 (2013-\$7,298,587) in the Fortress Income Builder US Fund SPC.

The Fund holds 20,430 (2013-5,017) shares valued at \$4,164,392 (2013-\$1,051,083) in the Fortress Income Builder International Fund SPC.

Included in the loans and receivable is \$6,396,260 (2013-\$2,046,092) due from Fortress Caribbean Property Fund SCC Limited- Value Fund. The loans bears interest at a rate of 6% per annum. This is an unsecured short term loan, repayable on July 31, 2015.

Directors fees of \$14,000 (2012- \$12,000) were paid during the year. Directors' interest (including beneficial interests) in class "A" redeemable mutual fund shares are as follows:

	Number of shares at start of year	Number of shares redeemed in the year	Number of shares at year end
Shareholder			
Directors	243,420	(231,951)	11,469

Related party interests in participating redeemable mutual fund shares are as follows:

	Number of shares	
	2014	2013
Fortress Caribbean Pension Fund Limited	33,351,002	36,771,760
Fortress Caribbean Property Fund Limited SCC- Development Fund	509,914	—

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2014

(expressed in Barbados dollars)

10 Redeemable mutual fund shares

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

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

Redeemable Distribution Shares

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

Redeemable Accumulation Shares

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

11 Share capital

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



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