

# Fortress

## Annual Report 2009

**CARIBBEAN HIGH INTEREST FUND**



# Fortress

Caribbean  
High Interest  
Fund Ltd  
2009

# Directors and Administrators

## DIRECTORS

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

## SECRETARY

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

## REGISTERED OFFICE

1st Floor, Carlisle House  
Hincks Street  
Bridgetown  
Barbados

## ATTORNEYS-AT-LAW

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

## INDEPENDENT AUDITORS

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

## CUSTODIAN

FirstCaribbean International Bank  
Wealth Management Division  
Broad Street  
Bridgetown  
Barbados

## INVESTMENT MANAGER & ADMINISTRATOR

Fortress Fund Managers Ltd.  
1st Floor Carlisle House  
Hincks Street  
Bridgetown  
Barbados

Tel: (246) 431 2198  
Fax: (246) 431 0514  
Internet: [www.fortressfund.com](http://www.fortressfund.com)  
Email: [invest@fortressfund.com](mailto:invest@fortressfund.com)

# Investment Objectives & Fund Details

Fortress Caribbean High Interest Fund ("the Fund") is an open end investment company which was incorporated on May 9th, 2002 under the provisions of the Mutual Funds Act of Barbados. The company maintains its registered office at 1st Floor, Carlisle House, Hincks Street, Bridgetown, Barbados. The principal activity of the Fund is investment holdings in domestic, regional and international fixed income markets.

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

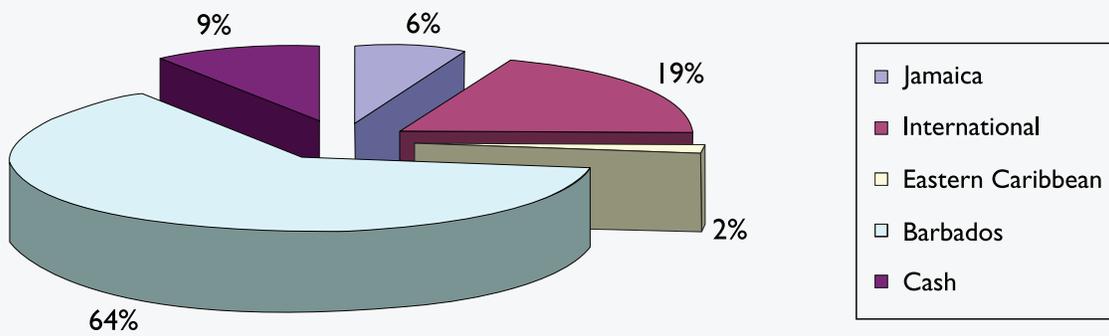
The Fund issues two classes of shares to the public – Accumulation shares and Distribution shares. Holders of the distribution shares will receive dividends every six months.

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	
NET ASSET VALUE PER SHARE	ACCUMULATION	DISTRIBUTION
NET ASSET VALUE	\$1.5531 \$72,482,030	\$1.0091 \$5,537,152
MANAGEMENT EXPENSES:		
Management & Administration fees:	0.75% per annum on net assets	
Custodian fee:	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 < 6 months Up to 1% on amounts placed < 2 years Nil on Funds placed > 2 years	
INVESTMENT MANAGER & ADMINISTRATOR:	Fortress Fund Managers Ltd	
CUSTODIAN:	FirstCaribbean International Bank Limited Wealth Management	
FUND VALUATIONS:	Weekly on Fridays	
NAV QUOTATIONS:	Internet: <a href="http://www.fortressfund.com">www.fortressfund.com</a> Local Barbados newspapers	

# Investment Performance

During the year ended September 30th, 2009, the increase in the value of the Fortress Caribbean High Interest Fund shares was 2.91%.

## GEOGRAPHICAL DISTRIBUTION OF ASSETS:





The Fortress Caribbean High Interest Fund had a lower return than usual in 2009, gaining 2.91% for the year ended September 30th, 2009. This comes on the heels of an unusually strong year in 2008, in which the Fund generated an 8.47% return to shareholders. During 2009, the net asset value (NAV) of the Accumulation shares increased to \$1.5531 and the NAV of the Distribution shares was \$1.0091. Dividends paid to holders of the Distribution shares totalled \$0.0711 per share.

Since inception in 2002, the Fund has generated an average compounded rate of return of 6.18% per year.

We wrote this time last year that 2009 was likely to be difficult for bond markets, with particular pressure on the least creditworthy government and corporate issuers. As it turned out, the year was that – and a lot more. At the worst points of the credit crisis that began with the collapse of Lehman Brothers in September, 2008 – and continued to include the demise of AIG, Fannie Mae, Merrill Lynch and General Motors – investors and savers alike worried that even bank deposits wouldn't be safe. Large, international banks refused to lend to each other for fear of getting caught in the next unpredictable bankruptcy. Even money market funds saw investors pull their money out as market turmoil impaired their ability to hold their NAVs constant as had always been the case. Commercial paper and corporate bond markets largely stopped functioning.

Eventually, governments around the world were forced to step in and guarantee the value of deposits in their banking systems to break the logjam. This was gradually successful in many places. Countries with large, poorly constituted banking systems and relatively small populations, though, felt immense pressure and continue to do so. Iceland's currency collapsed and led it to seek aid from the International Monetary Fund.

In that environment, high quality government debt became king. US government 2 year yields fell from 2.4% in August 2008 to less than 1% by the same time in 2009. 90-day Treasury bills, which are considered the safest of the safe, fell from 1.7% to 0.1% over the same period as major central banks around the world dropped their overnight rates effectively to zero.

The objective of the Caribbean High Interest Fund is to earn the highest possible rate of return, consistent with capital preservation. Through a good part of 2009, the high level of uncertainty surrounding the financial system led us to focus strongly on the capital preservation side of that objective. We believe this caution was necessary and appropriate in the circumstances. Unfortunately, it contributed to an unusually low income return to shareholders for the year.

Overall, four factors led to the lower than normal return in the Fund in 2009:

- (1) Relatively large amounts kept in short, liquid, but low-yielding investments to maintain reserves in the event of further financial market turmoil, and to fund investor redemptions if they occurred. With US\$ deposit rates approaching zero, this had a real impact on overall return.
- (2) Reductions in the carrying value of some investments for which the timing of repayment became less certain. We have chosen to be conservative by taking accounting provisions against these positions.
- (3) Fewer long-term regional government bond holdings, and a corresponding drop in the contribution from their relatively higher yields until other investments could be made at similar yields.
- (4) The timing of increases in bond prices a year ago resulted in a 2008 yearly return of over 8% and therefore left a high bar for comparisons with the Fund's September 2008 NAV.

In March 2009, CL Spirits breached the covenants on a bond issue held by the Fund that is secured by shares in Lascelles and the company's fixed and floating assets. The security behind the issue, if made available as legally required, should cover repayment to bondholders when the bonds mature in January, 2010. We are working with the trustee, our legal counsel and other bondholders on the matter.

During the year, we also became increasingly concerned about the credit and liquidity risks involved with owning long-term bonds issued by Caribbean governments. It seems likely the economic and credit stresses in the region are not yet over, in spite of dramatic recoveries in global equities and many areas of developed credit markets. Government of Barbados debt was downgraded again in October, and other countries in the region are feeling even greater pain. Assistance from the IMF and other international organisations is coming, but this does not necessarily help the positions of existing debt holders. A restructuring, where a cash-strapped government is forced to reduce the amount it pays to bondholders, can have a swift and dramatic effect on the value of that country's debt. We saw that first hand with the Government of Grenada bonds which went from par to 55 cents on the dollar after their restructuring.

The need to mitigate this risk led us to make some changes to the Fund's positioning during the year. First, we significantly reduced the Fund's exposure to long-term regional government bonds. This required selling approximately \$10 million of Government of Barbados bonds, a move which was completed in late September. The Fund has now become a regular buyer of Government of Barbados Treasury bills, drawn by the relative stability of such short-term (less than 90 days) obligations of the government. Second, we began searching for more diverse sources of consistent returns. We made an initial allocation to a specialist manager for approximately 2% of the Fund to invest in structured mortgage credit, a somewhat stigmatised area of the market where expected returns are still greater than 10% per year. We expect to make similar allocations to managers in other areas that can add value to the Fund, up to a total of approximately 25% of the Fund. Third, and finally, we focused on liquidity. The Fund has multiple sources of liquid assets to fund new investments or shareholder redemptions as required. We also shortened the average term of the portfolio. This reduces potential losses from rising interest rates, if they occur, and adds to overall liquidity and stability since shorter bonds fluctuate less in price.

With the exception of the Government of Grenada bond which is already being carried at a hugely reduced value on the Fund's books, the Fund has little exposure to long-term Caribbean government debt. We believe this makes the Fund uniquely diversified and attractive relative to other regional bond funds.

In addition, in June we allocated approximately 6% of the Fund's assets to a new Fortress "Equity Income" strategy. This uses a portfolio of high quality US stocks to generate a consistent, bond-like return targeting 8-10% per year. From initiation in June to September 30 it gained 5.4%, making a welcome contribution to the overall return of the Fund that we expect will continue in the future, though possibly at a slower pace.

Looking forward, the average yield of the Fund's holdings is now expected to be 5.5%, with an average term to maturity of only 3 years. The portfolio is increasingly diversified and liquid. We continue to see a number of risks in the future that will require diligent, active management of the Fund. Unfortunately, we cannot guarantee that the Fund will avoid all problems that come up, especially if they are regional. But we do believe the structure and processes at work in the Fund set it up well to achieve a very attractive rate of return in the future, with far less risk than regional debt alone could offer.

We thank you, our shareholders, for investing with us and hope to report to you this time next year on an uneventful, and successful, 2010.



Roger Cave  
Investment Director CA, CFA

# Financial Statements

The background of the page is an abstract composition of several overlapping, curved bands in various shades of teal, green, and blue. The bands sweep across the page from the top right towards the bottom left, creating a sense of dynamic movement and depth. The colors transition from darker blues and greens on the left to lighter, more vibrant teals and greens on the right.

## INDEPENDENT AUDITORS' REPORT

### To the Shareholders and Board of Directors of Fortress Caribbean High Interest Fund Limited

We have audited the accompanying financial statements of **Fortress Caribbean High Interest Fund Limited** which comprise the balance sheet as of September 30, 2009 and the statement of income, statement of changes in equity, statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### *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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditors' 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 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 auditors' 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 auditors consider 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 accompanying financial statements present fairly, in all material respects, the financial position of **Fortress Caribbean High Interest Fund Limited** as of September 30, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants  
December 17, 2009  
Bridgetown, Barbados

Fortress Caribbean High Interest Fund Limited  
 Balance Sheet  
 As of September 30, 2009  
 (Expressed in Barbados dollars)

	Notes	2009 \$	2008 \$
<b>Assets</b>			
Investments	5	63,814,075	73,724,461
Due from brokers		6,408,037	1,340,763
Accounts receivable		1,500,608	291,719
Cash and cash equivalents	6	6,365,595	2,722,733
<b>Total assets</b>		<b>78,088,315</b>	78,079,676
<b>Liabilities</b>			
Securities sold short	7	-	1,031,936
Accounts payable and accrued expenses		68,133	97,598
<b>Liabilities (excluding net assets attributable to holders of redeemable mutual fund shares)</b>		<b>68,133</b>	1,129,534
<b>Net assets attributable to holders of redeemable mutual fund shares:</b>			
<b>Accumulation shares</b>	9	<b>72,482,030</b>	71,440,656
<b>Distribution shares</b>	9	<b>5,537,152</b>	5,508,486
<b>Total liabilities</b>		<b>78,087,315</b>	78,078,676
<b>Share capital</b>	10	<b>1,000</b>	1,000
<b>Liabilities and shareholder funds</b>		<b>78,088,315</b>	78,079,676
<b>Net asset value per Accumulation share</b>		<b>1.55</b>	1.51
<b>Net asset value per Distribution share</b>		<b>1.01</b>	1.05

Approved by the Board of Directors on December 17, 2009

 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, 2009  
(Expressed in Barbados dollars)

	Number of shares		Net assets attributable to holders of redeemable mutual fund shares	
	Accumulation	Distribution	Accumulation \$	Distribution \$
<b>Balance as at September 30, 2007</b>	<b>32,787,282</b>	<b>4,570,536</b>	<b>45,620,675</b>	<b>4,726,008</b>
Issue of shares	34,882,422	1,394,340	50,367,581	1,413,423
Redemption of shares	(20,333,171)	(723,854)	(29,133,045)	(739,688)
Dividends paid	-	-	-	(339,757)
Net income for the year	-	-	4,585,445	448,500
<b>Balance as at September 30, 2008</b>	<b>47,336,533</b>	<b>5,241,022</b>	<b>71,440,656</b>	<b>5,508,486</b>
Issue of shares	16,260,163	639,884	24,755,150	643,078
Redemption of shares	(16,927,999)	(393,940)	(26,035,902)	(395,821)
Dividends paid	-	-	-	(377,922)
Net income for the year	-	-	2,322,126	159,331
<b>Balance as at September 30, 2009</b>	<b>46,668,697</b>	<b>5,486,966</b>	<b>72,482,030</b>	<b>5,537,152</b>

Fortress Caribbean High Interest Fund Limited  
Statement of Income  
For the year ended September 30, 2009  
(Expressed in Barbados dollars)

	Notes	2009 \$	2008 \$
<b>Revenue</b>			
Interest income		<b>3,195,051</b>	3,475,154
Amortisation of discounts		<b>628,516</b>	609,731
Net fair value (losses)/gains on investments	<b>5</b>	<b>(166,326)</b>	1,635,398
Dividend income		<b>291</b>	36,766
<b>Total investment income</b>		<b>3,657,532</b>	5,757,049
<b>Expenditure</b>			
Management fees	<b>8</b>	<b>635,747</b>	438,068
Administrator and custodian fees	<b>8</b>	<b>154,569</b>	109,778
Audit fees		<b>39,830</b>	44,097
Interest expense	<b>7</b>	<b>55,546</b>	41,460
Other operating expenses		<b>290,383</b>	89,701
<b>Operating expenditure</b>		<b>1,176,075</b>	723,104
<b>Net income on ordinary activities</b>		<b>2,481,457</b>	5,033,945
<b>Net income on ordinary activities allocated to:</b>			
Holders of redeemable mutual fund distribution shares		<b>159,331</b>	448,500
Holders of redeemable mutual fund accumulation shares		<b>2,322,126</b>	4,585,445
<b>Net income on ordinary activities</b>		<b>2,481,457</b>	5,033,945

Fortress Caribbean High Interest Fund Limited  
**Statement of Cash Flows**  
For the year ended September 30, 2009  
(Expressed in Barbados dollars)

	2009 \$	2008 \$
<b>Cash flows from operating activities</b>		
Net income on ordinary activities	2,481,457	5,033,945
Adjustment for:		
Amortisation of discounts	(628,516)	(609,731)
Net fair value losses/(gains) on investments	166,326	(1,635,398)
Interest income	(3,195,051)	(3,475,154)
Dividend income	(291)	(36,766)
<b>Operating loss before working capital changes</b>	<b>(1,176,075)</b>	<b>(723,104)</b>
Increase in accounts receivable	(1,635,762)	(59,639)
Increase in due from brokers	(5,067,274)	(107,762)
Decrease in accounts payable and accrued expenses	(29,465)	(59,727)
Purchase of investments	(148,661,974)	(61,264,609)
Proceeds on sale of investments	157,568,951	40,090,851
<b>Cash generated from/(used in) operations</b>	<b>998,401</b>	<b>(22,123,990)</b>
Interest received	4,055,587	3,102,924
Dividends received	291	36,766
<b>Cash generated from/(used in) operating activities</b>	<b>5,054,279</b>	<b>(18,984,300)</b>
<b>Cash flows from financing activities</b>		
Issue of Mutual Fund shares	25,398,228	51,781,004
Redemption of Mutual Fund shares	(26,431,723)	(29,872,733)
Dividends paid	(377,922)	(339,757)
<b>Cash (used in)/generated from financing activities</b>	<b>(1,411,417)</b>	<b>21,568,514</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,642,862</b>	<b>2,584,214</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>2,722,733</b>	<b>138,519</b>
<b>Cash and cash equivalents - end of year</b>	<b>6,365,595</b>	<b>2,722,733</b>

## 1. INCORPORATION AND PRINCIPAL ACTIVITY

Fortress Caribbean High Interest Fund Limited (the Fund) was incorporated in Barbados on May 9th, 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.

## 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, interpretations and amendments to published standards in 2009*

*New standards, amendments to published standards and interpretations issued but not yet effective.*

The application of the amendments and interpretations listed below are not yet effective but are not expected to result in substantial changes to the Fund's accounting policies:

- IFRS 7 'Financial instruments - Disclosures' (amendment) (effective from 1 January 2009);
- IAS 1 (revised), 'Presentation of financial statements' (effective from 1 January 2009);
- IFRS 2 (amendment), Share - Based Payment (effective from 1 January 2009);
- IFRS 7 (amendment) as the provisions of IAS 1 (revised) will result in certain changes in presentation of the Fund's financial statements;
- IAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009);
- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009);
- IAS 38 (amendment), 'Intangible Assets' (effective from 1 July 2009);
- IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale', (effective from 1 January 2010);
- IAS 1 (amendment), 'Presentation of financial statements', (effective from 1 January 2010);
- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions' (effective from 1 January 2010).

### 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 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 income as part of the fair value gain and loss.

### C. INVESTMENT INCOME

Interest income is recognised in the statement of 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.

### 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 have 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### D. INVESTMENTS

#### (a) Classification (continued)

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.

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 income as they arise.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective interest method less provision for

impairment. A loan or receivable is considered impaired when management determines that it is probable that all amounts due according to the original contract terms will not be collected. This determination is made after considering the payment history of the borrower, the discounted value of collateral and guarantees and the financial condition and viability of the borrower.

### E. CASH AND CASH EQUIVALENTS

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

### F. EXPENSES

Expenses are accounted for on an accrual basis. Expenses are charged to the statement of income except for expenses incurred on the acquisition of an investment, which are included in the cost of that investment. Expenses arising on the disposal of investments are deducted from the disposal proceeds.

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

### G. DUE FROM AND DUE TO BROKERS

Amounts due from and to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered by the balance sheet 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 balance sheet date if the holders exercise the right to put the shares back to the Fund. Redeemable shares are issued and redeemed at the holder's option at prices based on the Fund's net asset value per share at the time of issue or redemption. The Fund's net asset value per redeemable mutual fund share is calculated by dividing the net assets attributable to those shares by the number of outstanding redeemable shares. In accordance with the provisions of the Fund's regulations, investment positions are valued based on the procedures described in note 2D for the purpose of determining the net asset value per share for subscriptions and redemptions.

### I. SECURITIES SOLD SHORT

This liability represents an obligation to deliver securities the Fund has sold which were not owned at the time of the sale and is carried at fair market value. Gains and losses arising from changes in the fair value are included in the statement of income as they arise.

### 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.

### 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 2D.

### 4. FINANCIAL RISK MANAGEMENT

#### Financial risk factors

The Fund's activities expose it to a variety of financial risks: market risk (which includes market price risk, interest rate risk and currency risk), credit risk and liquidity risk on the financial instruments it holds. The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise 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, 2009 is disclosed in note 5. Included in the statement of income are unrealised gains of \$99,378 (2008 - \$1,503,083) 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. There have been no significant changes as a result of movements in the credit rating of these instruments.

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.

Change in interest rate:	2009 Effect on net assets \$	2008 Effect on net assets \$
-2%	2,277,892	3,596,182
2%	(2,250,223)	(2,916,367)

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 \$726,559 (2008 - \$15,179).

##### (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 6. 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 Barbados dollars or currencies fixed to the Barbados dollar, the functional currency of the Fund. Consequently, the Fund is exposed to minimal currency risk.

#### 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.

	2009 \$	2008 \$
Investments	56,548,490	73,572,672
Due from brokers	6,408,037	1,340,763
Accounts receivable	1,500,608	291,719
Cash and cash equivalents	6,365,595	2,722,733
<b>Total financial assets</b>	<b>70,822,730</b>	<b>77,927,887</b>

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

	2009 \$	2008 \$
Government of Barbados debt securities (BBB+ by Standard & Poor's)	10,709,490	10,325,705
Government of Grenada (B- by Oppenheimer)	753,444	1,098,585
Sagicor Finance Ltd (BBB- by Standard & Poor's)	-	4,086,490

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:

	2009 \$	2008 \$
<b>Cash and cash equivalents</b>		
National Commercial Bank (CCC+ by Standard and Poor's)	4,009,370	-
Deutsche Bank AG (A+ by Standard and Poor's)	-	2,011,494
	<b>4,009,370</b>	<b>2,011,494</b>

#### 4. FINANCIAL RISK MANAGEMENT (continued)

##### Credit risk (continued)

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

	2009 \$	2008 \$
<b>Accounts receivable</b>		
Impaired	1,442,757	-
Neither impaired or past due	57,851	291,719
Total carrying amount	1,500,608	291,719

The impaired amount relates to the principal and interest due from maturing deposits issued by the Republic Bank of Havana. While the Fund believes that it will be able to collect all proceeds and interest due, it is being conservative and has recorded a provision against this balance of \$680,160 because of delays in the timing of the repayments being made. None of the other financial assets of the Fund are impaired.

##### Liquidity risk

The Fund is exposed to daily cash redemptions of Class "A" Redeemable Mutual Fund Shares (note 2H). 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.

##### At September 30, 2009

	Less than 1 month \$	1-3 months \$
Accounts payable and accrued expenses	11,333	56,800
Net assets attributable to holders of redeemable mutual fund shares	78,019,182	-
<b>Total financial liabilities</b>	<b>78,030,515</b>	<b>56,800</b>

##### At September 30, 2008

	Less than 1 month \$	1-3 months \$	Over 1 year \$
Securities sold short	-	-	1,031,936
Accounts payable and accrued expenses	35,248	62,350	-
Net assets attributable to holders of redeemable mutual fund shares	76,949,142	-	-
<b>Total financial liabilities</b>	<b>76,984,390</b>	<b>62,350</b>	<b>1,031,936</b>

Redeemable shares are redeemed on demand at the holder's option (note 2H). 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.

## 5. INVESTMENTS

	2009	2008
	\$	\$
<b>Financial assets at fair value through profit or loss:</b>		
- Government backed securities	<b>12,343,052</b>	17,422,251
- Corporate securities	<b>3,802,693</b>	6,002,286
- Listed equity securities	<b>5,274,362</b>	151,789
- Mutual funds	<b>1,991,223</b>	-
<b>Total financial assets designated as fair value through profit or loss</b>	<b>23,411,330</b>	23,576,326
<b>Loans and receivables</b>	<b>40,402,745</b>	50,148,135
<b>Total investments</b>	<b>63,814,075</b>	73,724,461
<b>(Losses)/gains recognised in relation to financial assets at fair value through profit or loss:</b>		
- unrealised gains	<b>99,378</b>	1,503,083
- realised gains	<b>414,456</b>	132,315
- impairment charge	<b>(680,160)</b>	-
<b>Net fair value (losses)/gains</b>	<b>(166,326)</b>	1,635,398

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

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	\$	\$	\$	\$
Financial assets at fair value through profit or loss	<b>23,411,330</b>	<b>23,411,330</b>	23,576,326	23,576,326
Loans and receivables	<b>40,402,745</b>	<b>40,096,832</b>	50,148,135	50,139,622
	<b>63,814,075</b>	<b>63,508,162</b>	73,724,461	73,715,948

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

	2009	2008
	Carrying Value	Carrying Value
	\$	\$
Due within one year	<b>28,484,488</b>	33,756,604
Due after one year but within five years	<b>16,093,941</b>	19,714,342
Due after 5 years	<b>11,970,061</b>	20,101,726
No stated maturity	<b>7,265,585</b>	151,789
	<b>63,814,075</b>	73,724,461

## 5. INVESTMENTS (continued)

The detailed portfolio of investments is as follows:

Security	Rate	Maturity	2009		2008	
			Cost \$	Market Value \$	Cost \$	Market Value \$
<b>Financial assets at fair value through profit or loss:</b>						
<b>Barbados</b>						
UWI Cave Hill Bond	9.03%	2027-09-27	5,654,915	6,560,850	5,176,889	5,997,961
Government of Barbados	8.00%	2014-09-30	2,000,000	2,280,000	3,000,000	3,436,200
Government of Barbados	5.25%	2013-12-31	191,668	202,505	-	-
Government of Barbados	7.50%	2012-12-31	147,000	161,678	147,000	162,251
Government of Barbados	7.50%	2009-12-31	106,000	107,988	106,000	112,864
Government of Barbados	7.00%	2009-12-31	15,000	15,263	15,000	15,861
Cable and Wireless Barbados Limited	-	-	2,161	3,668	91,044	151,789
Government of Barbados	8.00%	2012-12-31	1,000	1,116	1,000	1,124
Sagicor Finance Ltd	-	-	-	-	3,972,000	4,086,490
Government of Barbados	-	-	-	-	3,000,000	3,478,050
Government of Barbados	-	-	-	-	2,000,000	2,015,050
Government of Barbados	-	-	-	-	1,000,000	1,087,975
Government of Barbados	-	-	-	-	16,000	16,330
			<b>8,117,744</b>	<b>9,333,068</b>	<b>18,524,933</b>	<b>20,561,945</b>
<b>Eastern Caribbean</b>						
Government of Grenada	2.50 %	2011-09-15	2,042,969	753,444	2,042,969	1,098,585
			<b>2,042,969</b>	<b>753,444</b>	<b>2,042,969</b>	<b>1,098,585</b>
<b>International</b>						
Fortress Equity Income	-	-	4,999,940	5,270,694	-	-
US Treasury Inflation Index TIP	2.00%	2016-01-15	1,993,635	2,260,208	-	-
ChapelGate Credit Opportunity Fund Ltd	-	-	2,000,000	1,991,223	-	-
Deutsche Bank AG London Piano	3.89%	2012-09-28	2,000,000	1,725,600	2,000,000	1,915,796
Banco Cruz Bond	8.00%	2012-09-17	1,184,669	1,221,733	-	-
MS Inflation Linked Note	1.20%	2011-02-01	867,002	855,360	-	-
			<b>13,045,246</b>	<b>13,324,818</b>	<b>2,000,000</b>	<b>1,915,796</b>
<b>Total financial assets at fair value through profit or loss</b>			<b>23,205,959</b>	<b>23,411,330</b>	<b>22,567,902</b>	<b>23,576,326</b>

## 5. INVESTMENTS (continued)

Security	Rate	Maturity	2009		2008	
			Cost \$	Amortised Cost/ Carrying Value \$	Cost \$	Amortised Cost/ Carrying Value \$
<b>Loans and receivables:</b>						
<b>Barbados</b>						
Simpson Finance Ltd	6.50%	2009-10-25	3,290,255	4,492,030	3,290,255	4,248,473
Barbados Shipping & Trading Series 14	7.15%	2010-07-25	1,812,465	2,833,604	1,812,465	2,668,685
Barbados Shipping & Trading Series 15	7.30%	2011-01-15	1,731,009	2,750,758	1,731,008	2,586,063
Fortress Caribbean Property Fund	7.50%	2014-07-31	2,020,000	2,046,092	-	-
			<b>8,853,729</b>	<b>12,122,484</b>	<b>6,833,728</b>	<b>9,503,221</b>
<b>Jamaica</b>						
CL Spirits Ltd (US\$)	9.25%	2009-12-22	3,000,000	3,070,705	3,000,000	3,053,219
Margaritaville (US\$)	9.10%	2012-05-31	746,667	746,853	1,026,667	1,026,923
Jamaica Public Service (US\$)	11.00%	2010-12-16	500,000	511,816	-	-
Jamaica Public Service (US\$)	8.50%	2009-03-27	-	-	1,000,000	1,018,656
			<b>4,246,667</b>	<b>4,329,374</b>	<b>5,026,667</b>	<b>5,098,798</b>
<b>Eastern Caribbean</b>						
Property Holdings	8.00%	2017-12-21	850,000	869,003	950,000	971,238
Antigua Barbuda Airport Authority	9.00%	2009-09-01	-	-	2,000,000	2,001,973
			<b>850,000</b>	<b>869,003</b>	<b>2,950,000</b>	<b>2,973,211</b>
<b>Other</b>						
Deposits	3.49% - 7.00%	2009-11-27 - 2011-12-01	22,868,700	23,081,884	31,478,982	32,572,905
<b>Total loans and receivables</b>			<b>36,819,096</b>	<b>40,402,745</b>	<b>46,289,377</b>	<b>50,148,135</b>
<b>Total investments</b>			<b>60,025,055</b>	<b>63,814,075</b>	<b>68,857,279</b>	<b>73,724,461</b>

The effective yield on loans and receivables is 6.37% (2008-7.36%).

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of \$6,365,595 (2008 - \$2,722,733) are placed with leading regional commercial banks. The effective yield on cash and cash equivalents is 4.86% (2008 - 4.71%).

## 7. SECURITY SOLD SHORT

The detailed portfolio of investments is as follows:

	2009	2008
	\$	\$
I Shares		
Cost of I shares	-	1,001,493
Less unrealised loss	-	30,443
<b>Carrying value</b>	<b>-</b>	<b>1,031,936</b>

During the year interest expense related to this security share amounted to \$55,546 (2008 - \$41,460).

## 8. RELATED PARTIES

Parties are considered to be related if one party directly or indirectly controls or is under common control with 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 \$635,747 (2008 - \$438,068).

The administrator fees amounted to \$77,285 (2008 - \$54,889) for the year.

Directors fees of \$12,000 (2008 - \$13,500) were paid during the year.

## 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

1st Floor, Carlisle House, Hincks Street, Bridgetown, St. Michael, Barbados  
Tel: 246-431-2198 • Fax: 246-431-0514 • Call Toll Free 1-800-450-6461 (US & Canada only)  
invest@fortressfund.com • www.fortressfund.com