

Fortress Caribbean High Interest Fund  
annual report  
2005





commitment to growth; commitment to you

Fortress Caribbean High Interest Fund  
annual report  
2005

# Directors & Administration



## DIRECTORS

Mr. Geoffrey Cave – Chairman  
Mr. David Bynoe  
Mr. Ken Emery  
Sir Fred Gollop  
Mr. Anthony King  
Mr. Roger Cave – Investment Manager

## INDEPENDENT AUDITORS

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

## SECRETARY

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

## CUSTODIAN

FirstCaribbean International Bank  
Trustee Branch  
Broad Street  
Bridgetown  
Barbados

## REGISTERED OFFICE

1st Floor, Carlisle House  
Hincks Street  
Bridgetown  
Barbados

## INVESTMENT MANAGER & ADMINISTRATOR

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

## ATTORNEY AT LAW

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

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

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.

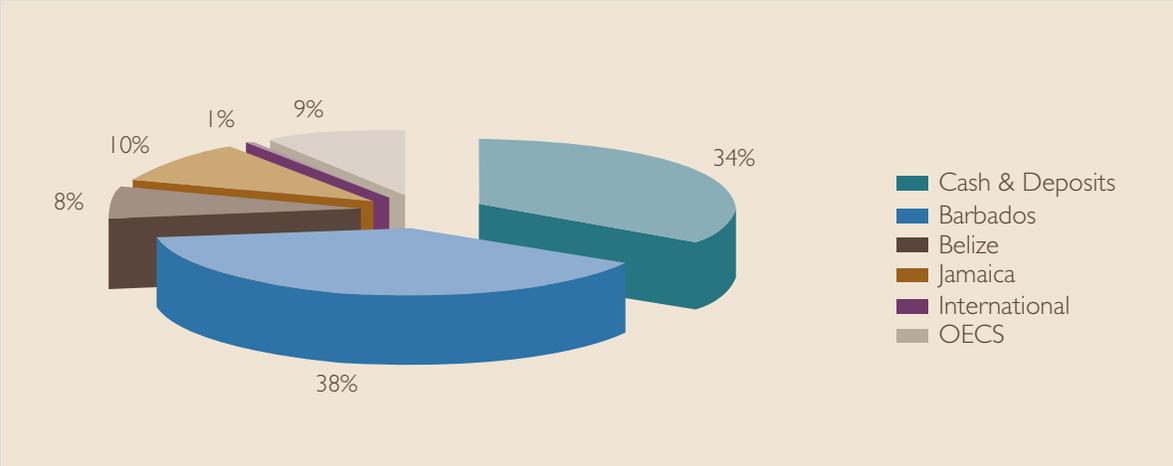
FUND NAME:	Fortress Caribbean High Interest Fund
LAUNCH DATE:	May 17, 2002
LAUNCH PRICE:	\$1.00 per share
MINIMUM INVESTMENT:	\$500.00 \$100.00 for subsequent investments \$100.00 for monthly savings plan
NET ASSET VALUE PER SHARE:	
Accumulation:	\$1.2299
Distribution:	\$1.0239
NET ASSETS:	
Accumulation:	\$34,426,508
Distribution:	\$5,762,256
MANAGEMENT EXPENSES:	
Management & Administration fees:	0.75%
Custodian fee:	0.20% on the first \$30 million in net assets 0.175% on the next \$50 million in net assets 0.15% on amounts over \$80 million in net assets
INITIAL CHARGES:	Nil
REDEMPTION CHARGES:	Up to 2% on amount placed < 6 months Up to 1% on amounts placed < 2 years Nil on Funds placed > 2 years
INVESTMENT MANAGER & ADMINISTRATOR:	Fortress Fund Managers Limited
CUSTODIAN:	FirstCaribbean International Bank - Trustee Branch
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, 2005, the increase in the value of the Fortress Caribbean High Interest Fund shares was 6.3%.

## INVESTMENT PORTFOLIO:





## Directors' Report

The Fortress Caribbean High Interest Fund had a tough year in 2005 with the return to shareholders being 6.41% for the Distribution shares and 6.27% for the Accumulation shares. These returns were made possible through a refund of investment management fees in an effort to protect shareholders returns following the losses on the restructuring of the Grenada Bond. The returns to shareholders were comparable with the 6.5% achieved in the prior year.

In last years report I wrote;

*"Investors are well aware that we are in an extremely low interest rate cycle by historical standards and hence yields on even long maturity investments are in the 4% to 6% range, well below the levels of what you would generally expect to see. In trying to protect the yields for existing shareholders, we have had to restrict new investment in the Fund because of a lack of bond issues at attractive interest rates. We regret that both existing and new shareholders have not been able to fully participate in the Fund but we believe that interest rates have begun to rise again and therefore we can expect to soon find higher yield issues coming available in 2005 which will give us some capacity to take in new investment"*

Well, we have to be very thankful that we had adopted this cautious approach, because short term interest rates in Barbados have changed so dramatically in such a short period of time that we could have found ourselves with some very unattractive investments had we been

more aggressive during the last two years. Local Treasury bill rates have risen from 0.35% in June of 2004 to 6.3% at the end of December 2005, an increase of 600% in just 18 months. Rates on savings accounts have gone from 2.25% to 4.75% during that last year and one commercial bank is even offering 6% on one year deposits.

As in cricket, it is often the balls that you don't play at, that make the difference in keeping your wicket and we can say that we left many opportunities outside the off stump in the last two years even though the rates were acceptable on a relative basis, the absolute returns were below our hurdle rates. We have since re-opened the Fund to new investment, as we are again finding some quality corporate issues with yields which are now much more attractive.

Subsequent to the end of the year, the restructuring of the Grenada bond was accepted by the commercial creditors, although not supported by us, on very unfavourable terms to the lenders. The restructured bond equates to a net present value of the future cash flows of fifty-seven cents in the dollar. While these losses would normally be borne by the fund shareholders, as this is part of the normal investment risk, the Directors took the decision to refund the management fees for 2005 so as to reduce the impact of some of the losses. This is clearly not something we want to set as a precedent, but we believe this action was warranted at this time in the long term interest of the Fund.

Going forward, we have taken a very serious view of this development and we will be adjusting our portfolio very much more towards corporate bond issues which usually carry independent trustees and hard security. The experiences of hurricane Ivan in 2004 were followed by Emily, Katrina and Rita in 2005 which had devastating effects on all of the places that were hit. The event risk of such disasters on small Caribbean economies is significant and seriously impacts the ability to service growing national liabilities.

On the positive side we are again seeing more attractive opportunities and we look forward to growing the Fund slowly in the coming years with the revised strategy mentioned above. Liquidity has become much tighter again and the market is moving more in favour of lenders than borrowers which should be good for a Fund such as this.

In closing, we thank you, our shareholders, for your continued support and we look forward to a better year in 2006.

Geoffrey Cave  
Chairman

# Investment Manager's Report



The Fortress Caribbean High Interest Fund yielded an investment return for shareholders of 6.27% for the year ended September 30th 2005. The net asset value (NAV) of the "Accumulation Shares" was \$1.2299 and the net asset value (NAV) of "Distribution Shares" was \$1.0239. The dividend paid on March 31st 2005 was \$0.0402 per share. This equates to a total dividend for the year of \$0.0641 a return of 6.41% for the Distribution shareholders.

The Fund remained closed to new subscriptions for most of 2005, both to protect the yield and due to a lack of new bond issues at attractive rates. Short-term interest rates in Barbados, the region and generally around the world began the year at very low levels by historical standards but were increased steadily in the US and more so in Barbados. The federal reserve in the US hiked rates 13 times since June 2004 raising the short term rates from a low of 1% to 4.25%. This has still had very little impact on long term interest rates such that we have a flat to inverted yield curve. We took a position to hedge against these rising rates by shorting the 10 year bond when yields were at 4%. This has proven to be a successful trade and the position remains in place as expectations are that the Fed will continue to tighten to closer to the 5% range. A strong economy and increasing costs due to high energy prices must impact inflation expectations and by extension interest rates. In addition, the deficits in the US are being funded by foreign investment and any shift in this policy from Asian Central Banks could have a significant impact on the US dollar and the US may be forced to raise interest rates to continue to attract foreign capital.

Locally, interest rates increased dramatically with plenty of new issuance from the Government at progressively high rates. The local debt position

has deteriorated and Barbados has recently been cautioned by the international rating agencies with a negative outlook. On the positive side, the country was able to raise a very successful 30 year bond on the international capital market at a very attractive rate of 6.625%.

We have maintained our cautious approach with very high levels of cash and deposits (34% of the portfolio) being rolled over on short-term deposits. The short-term rates have increased significantly in the last year with local treasury bill rates now over 6.3%. We expect to invest these funds over the coming year in longer term corporate bond issues at more attractive rates.

The restructuring of the Grenada bond was at a level much lower than we had expected. While the principal was maintained which was good and the maturity was extended which was expected, we did not expect such a drastic haircut on the coupon rates, driving the present value of the new bond below sixty cents in the dollar. This is a development which is fully in the short-term interest of Grenada as a devastated and struggling borrower. The long term repercussions of such treatment to creditors will certainly be felt going forward and we have certainly reviewed our strategy as it relates to regional sovereigns which have a very real hurricane risk.

During the year we added \$3m to the portfolio in a new Barbados 2025 bond with a coupon of 7.25%. We also made three asset backed loans for property transactions, two of which were syndicated loans with other investors both with solid security and rates above 7.5% with one being 15%. Subsequent to the year-end we sold one of the Belize Bonds at par where we had a put option in place. The other bond is now yielding 12.07% and expectations

are that Belize may consider some form of "friendly" restructuring where maturities may be extended but the bond values remain in tact. We have recently added a new Courts Bond to the portfolio and are evaluating two new corporate issues in Jamaica in US\$ terms.

The total fund assets have grown to BDS\$40.1 million up from \$32.5 million at the end of 2004. We believe the cautious approach during the low interest rate cycle has served the Fund well, we are of the view that many existing credits in the region are still fully valued and represent little upside potential with plenty downside risk if there is a shock in emerging markets or if rates increase rapidly in the US. We will continue to be patient in selecting quality corporates, steadily building a diversified portfolio with hopefully higher returns.

The capital market infrastructure for fixed income securities in the region is still very young and emerging and the secondary market trading is yet to really come on stream. We hope that more lenders will force issuers to use the new rating agency – CariCris to ensure better pricing of risk for us bond investors.

We appreciate the investors' patience as we try to meet our objective of "achieving the highest level of income, consistent with the preservation of your capital"

Roger Cave  
Investment Manager

February 2, 2006

## **Auditors' Report**

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

We have audited the accompanying balance sheet of **Fortress Caribbean High Interest Fund Limited** as of September 30, 2005 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as of September 30, 2005 and the results of its operations, changes in shareholders' equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



## **Chartered Accountants**

Antigua	Charles W. A. Walwyn Robert J. Wilkinson
Barbados	J. Andrew Marryshow Philip St. E. Atkinson R. Michael Bynoe Ashley R. Clarke Gloria R. Eduardo Wayne I. Fields Maurice A. Franklin Marcus A. Hatch Stephen A. Jardine Lindell F. Nurse Brian D. Robinson Christopher S. Sambrano R. Charles D. Tibbits Ann M. Wallace-Flock Michelle J. White Ying
Grenada	Philip St. E. Atkinson (resident in Barbados)
St. Lucia	Anthony D. Atkinson Richard N. C. Peterkin

## General Information



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 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.

# financials

precision and performance



# Fortress Caribbean High Interest Fund Limited

## Balance Sheet

As of September 30, 2005

(Expressed in Barbados dollars)

	Notes	2005 \$	2004 \$
<b>Assets</b>			
Cash and bank balances		433,117	2,564,053
Accrued interest		661,884	434,570
Accounts receivable		9,692	633,647
Available-for-sale securities	5	39,462,625	29,579,715
Due from brokers		986,956	-
<b>Total assets</b>		<b>41,554,274</b>	<b>33,211,985</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses		385,240	663,845
Securities sold short	6	979,270	-
Total liabilities		1,364,510	663,845
<b>Total assets less liabilities</b>		<b>40,189,764</b>	<b>32,548,140</b>
<b>Issued capital and reserves</b>			
<b>Accumulation shares</b> - share capital	8	<b>29,290,653</b>	23,339,858
Retained earnings		5,135,855	3,257,099
<b>Total shareholders' funds - Accumulation</b>		<b>34,426,508</b>	26,596,957
<b>Distribution shares</b> - share capital	8	<b>5,762,256</b>	5,950,183
Retained earnings		-	-
<b>Total shareholders' funds - Distribution</b>		<b>5,762,256</b>	5,950,183
<b>Common shares</b>	8	<b>1,000</b>	1,000
<b>Total shareholders' funds</b>		<b>40,189,764</b>	<b>32,548,140</b>
<b>Net asset value per Accumulation share</b>		<b>1.23</b>	1.16
<b>Net asset value per Distribution share</b>		<b>1.02</b>	1.03

Approved by the Board of Directors on February 2, 2006

 Director

 Director



# Fortress Caribbean High Interest Fund Limited

## Statement of Changes in Shareholders' Equity

As of September 30, 2005

(Expressed in Barbados dollars)

	Share Capital \$	Retained Earnings \$	Total \$
<b>Balance as at September 30, 2003</b>	<b>23,780,205</b>	<b>1,714,806</b>	<b>25,495,011</b>
Issue of shares	15,310,659	-	15,310,659
Redemption of shares	(9,799,823)	-	(9,799,823)
Dividends	-	(387,588)	(387,588)
Net income for the year	-	1,929,881	1,929,881
<b>Balance as at September 30, 2004</b>	<b>29,291,041</b>	<b>3,257,099</b>	<b>32,548,140</b>
Issue of shares	20,184,197	-	20,184,197
Redemption of shares	(14,421,329)	-	(14,421,329)
Dividends	-	(366,040)	(366,040)
Net income for the year	-	2,244,796	2,244,796
<b>Balance as at September 30, 2005</b>	<b>35,053,909</b>	<b>5,135,855</b>	<b>40,189,764</b>

# Fortress Caribbean High Interest Fund Limited

## Statement of Income

As of September 30, 2005

(Expressed in Barbados dollars)

	Notes	2005 \$	2004 \$
<b>Revenue</b>			
Interest income		<b>1,934,389</b>	1,892,359
Amortisation of discounts		<b>874,530</b>	704,585
Other fees		<b>3,000</b>	-
<b>Total investment income</b>		<b>2,811,919</b>	2,596,944
<b>Expenditure</b>			
Net loss on available-for-sale securities	7	<b>343,189</b>	269,098
Administrator's fees		<b>71,222</b>	63,171
Interest		<b>54,630</b>	3,121
Audit fees		<b>53,433</b>	23,344
Other fees		<b>39,291</b>	71,219
Management fees	4	<b>5,358</b>	236,893
Bank charges		-	217
<b>Operating expenditure</b>		<b>567,123</b>	667,063
<b>Net profit on ordinary activities</b>		<b>2,244,796</b>	1,929,881



# Fortress Caribbean High Interest Fund Limited

## Statement of Cash Flows

As of September 30, 2005

(Expressed in Barbados dollars)

	2005 \$	2004 \$
<b>Cash flows from operating activities</b>		
Net profit on ordinary activities	2,244,796	1,929,881
Adjustment for:		
Amortisation	(874,530)	(704,585)
Net loss on available-for-sale securities	343,189	269,098
<b>Operating profit before working capital changes</b>	<b>1,713,455</b>	1,494,394
Net decrease/(increase) in accrued interest	(227,314)	(118,597)
Net increase in accounts receivable	623,955	(351,869)
Increase in due from brokers	(986,956)	-
Net (decrease)/increase in accounts payable and accrued expenses	(278,605)	620,250
<b>Net cash from operating activities</b>	<b>844,535</b>	1,644,178
<b>Cash flows used in investing activities</b>		
Purchase of available-for-sale securities	(18,317,597)	(9,736,280)
Sale of available-for-sale securities	8,966,028	8,321,163
Acquisition of securities sold short	979,270	-
<b>Net cash used in investing activities</b>	<b>(8,372,299)</b>	(1,415,117)
<b>Cash flows from financing activities</b>		
Issue of Mutual Fund shares	20,184,197	15,310,659
Redemption of Mutual Fund shares	(14,421,329)	(9,799,823)
Repayment of loan	-	(2,630,452)
Dividends declared	(366,040)	(387,588)
<b>Net cash from financing activities</b>	<b>5,396,828</b>	2,492,796
<b>Net increase(decrease) in cash and cash equivalents</b>	<b>(2,130,936)</b>	2,721,857
<b>Cash and cash equivalents - beginning of year</b>	<b>2,564,053</b>	(157,804)
<b>Cash and cash equivalents - end of year</b>	<b>433,117</b>	2,564,053

# Fortress Caribbean High Interest Fund Limited

## Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

### I. INCORPORATION AND PRINCIPAL ACTIVITY

The company 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 company maintains its registered office at 1st Floor, Carlisle House, Hincks Street, Bridgetown, Barbados.

### 2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below:

#### A. BASIS OF PRESENTATION

The financial statements are prepared in accordance with International Financial Reporting Standards. The financial statements are prepared in accordance with the historical cost convention as modified by the fair valuation of available-for-sale securities.

#### B. USE OF ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

#### C. FOREIGN CURRENCY TRANSLATION

Assets and liabilities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Transactions arising during the period involving foreign currencies are translated and recorded at the rates of exchange prevailing on the dates of the transactions. Differences arising from fluctuations in exchange rates are included in the Income Statement.

#### D. INVESTMENT INCOME

Interest income is recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method. Interest income relates to coupons earned on fixed income investments.

#### E. AVAILABLE-FOR-SALE SECURITIES

The Fund's investments have been classified as available-for-sale in accordance with International Accounting Standard 39 (IAS 39), Financial Instruments: Recognition and Measurement.

All available-for-sale securities are initially recognised at cost and are subsequently carried at fair value based on quoted bid prices where available. In the absence of quoted bid prices, the quoted offer price is used. In the absence of a quoted price on a recognised stock exchange, the security is valued at amortised cost, which is considered to be a close approximation of the fair value.

Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in the income statement as they arise. Average cost is used to compute realised and unrealised gains on investments.

All purchases and sales of available-for-sale securities are recognized at trade date, which is the date on which the Fund commits to purchase or sell the asset.

#### F. SECURITIES SOLD SHORT

This liability represents an obligation to deliver securities the Fund has sold which were not owned at the time of sale. These securities are carried at current market value and include unrealised gains and losses. Realised and unrealised gains and losses are included in income for the year.

#### G. CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to insignificant changes in value.

#### H. EXPENSES

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



# Fortress Caribbean High Interest Fund Limited

## Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

### I. NET ASSET VALUE PER REDEEMABLE MUTUAL FUND SHARE

The net asset value per each class of redeemable mutual fund share is calculated by dividing the net assets attributable to the individual class of share at the valuation date by the number of redeemable shares in issue of that class at the valuation date.

### J. TAXATION

The Fund is licensed as an authorised mutual fund under the Mutual Funds Act, 2002-22 of Barbados. 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. All of the profits of the Fund are designated to the Fund's Class "A" shareholders and consequently the Fund will not be subject to corporation tax.

### 3. USE OF FINANCIAL INSTRUMENTS

The objective of the Fund is 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 primarily in the Caribbean.

The Fund is exposed to market price risk, interest rate risk, credit risk, liquidity risk and currency risk from the financial instruments it holds. The risk management policies employed by the Fund to manage these risks are discussed below:

#### **Fair Value**

Available-for-sale securities are carried at their market value as disclosed in note 2E. The carrying value of the other financial assets and liabilities are considered reasonable estimates of their fair value.

#### **Market Price Risk**

The Fund's interest rate securities are susceptible to market price risk arising from uncertainties about future prices of the instruments.

The Fund's market price risk is managed through diversification of the investment portfolio. A summary of the overall balance sheet market exposures at September 30, 2005 is disclosed in note 5.

#### **Interest Rate Risk**

Differences between expected contractual repricing or maturity dates and changes in market interest rates may expose the fund to interest rate risk. The Fund's exposure to interest rate risk on its financial assets, is disclosed in note 5.

#### **Credit Risk**

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment entered into with the Fund.

All transactions in listed securities are settled / paid for upon delivery using approved brokers. The risk of default is considered minimal since delivery of securities sold is only made once the broker has delivered payment. On a purchase, payment is made once the securities have been received by the broker. If either party fails to meet their obligation, the trade will fail.

#### **Liquidity Risk**

The Fund is exposed to liquidity risk due to the relatively undeveloped nature of the secondary market for fixed income securities in the Caribbean.

#### **Currency Risk**

The Fund holds assets denominated in currencies other than Barbados dollars, the measurement currency of the Fund. Consequently, except where assets are denominated in United States dollars or Barbados dollars, the Fund is exposed to currency risk since the value of the securities denominated in other currencies will fluctuate due to changes in exchange rates. The Fund's policy is not to enter into any hedging transactions.

# Fortress Caribbean High Interest Fund Limited

## Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

### 3. USE OF FINANCIAL INSTRUMENTS (continued)

The table below summarises the Fund's exposure to currency risks

As at September 30, 2005

	Regional \$	Non Regional \$	Total \$
<b>Assets</b>			
Cash and cash equivalents	433,117	-	433,117
Accounts receivable and accrued interest	671,576	-	671,576
Available-for-sale	38,262,625	1,200,000	39,462,625
Due from brokers	-	986,956	986,956
<b>Total assets</b>	<b>39,367,318</b>	<b>2,186,956</b>	<b>41,554,274</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	385,240	-	385,240
Securities sold short	-	979,270	979,270
<b>Total liabilities</b>	<b>385,240</b>	<b>979,270</b>	<b>1,364,510</b>
<b>Total assets less liabilities</b>	<b>38,982,078</b>	<b>1,207,686</b>	<b>40,189,764</b>

As at September 30, 2004

	Regional \$	Non Regional \$	Total \$
<b>Assets</b>			
Cash and cash equivalents	2,564,053	-	2,564,053
Accrued interest	434,570	-	434,570
Accounts receivable	633,647	-	633,647
Available-for-sale	28,014,488	1,565,227	29,579,715
<b>Total assets</b>	<b>31,646,758</b>	<b>1,565,227</b>	<b>33,211,985</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	663,845	-	663,845
<b>Total liabilities</b>	<b>663,845</b>	<b>-</b>	<b>663,845</b>
<b>Total assets less liabilities</b>	<b>30,982,913</b>	<b>1,565,227</b>	<b>32,548,140</b>



# Fortress Caribbean High Interest Fund Limited

## Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

#### 4. 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 and registrar services, Fortress Fund Managers Limited receives a weekly management fee based on the actual net asset value of the Fund, calculated weekly and payable in arrears, at the rate of 1.75% per annum.

For this financial year, the managers waived the management fee amounting to \$265,000 due to the performance of the Fund.

	<b>2005</b>	2004
	\$	\$
Management fee for the year	<b>5,358</b>	236,893

#### 5. AVAILABLE-FOR-SALE SECURITIES

	<b>Cost</b>	<b>Market Value</b>
	\$	\$
Due within one year	16,635,013	15,598,268
Due after one year but within five years	13,083,460	14,478,618
Due after 5 years	9,225,606	9,385,739
	<b>38,944,079</b>	<b>39,462,625</b>

# Fortress Caribbean High Interest Fund Limited

## Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

### 5. AVAILABLE-FOR-SALE SECURITIES (continued)

The detailed portfolio of available-for-sale securities is as follows:

Security	Maturity	Coupon	Cost \$	Market value \$	Holding %
<b>Barbados</b>					
Government of Barbados Bond	12/31/2012	8.00%	1,000	1,000	0.00%
Government of Barbados Bond	12/31/2006	7.00%	9,000	9,000	0.02%
Government of Barbados Bond	06/30/2025	7.25%	3,000,000	3,000,000	7.60%
Barbados Shipping & Trading Series 14	07/15/2010	7.15%	1,812,465	2,170,300	5.50%
Barbados Shipping & Trading Series 15	01/15/2011	7.30%	1,731,009	2,088,422	5.29%
Port St. Charles Development	09/23/2008	7.20%	2,000,000	2,000,000	5.07%
Simpson Finance Ltd	10/25/2009	6.50%	3,290,255	3,512,460	8.90%
Derricks Investments Limited	11/30/2008	7.50%	1,500,000	1,500,000	3.80%
Bowmel Properties Inc.	12/16/2014	7.75%	724,651	724,651	1.84%
			<b>14,068,380</b>	<b>15,005,833</b>	<b>38.02%</b>
<b>Belize</b>					
Government of Belize	08/15/2012	9.50%	1,366,890	1,169,500	2.96%
Central Bank of Belize	22/11/2007	9.25%	2,000,000	2,000,000	5.07%
			<b>3,366,890</b>	<b>3,169,500</b>	<b>8.03%</b>
<b>Jamaica</b>					
Government of Jamaica Bond	07/05/2009	10.50%	<b>3,919,536</b>	<b>3,923,310</b>	<b>9.95%</b>
<b>OECS</b>					
St. Kitts/Nevis Government Cert. - Series 12	01/24/2008	8.70%	885,381	1,176,092	2.98%
Government of Grenada	11/04/2013	9.75%	1,944,738	1,389,622	3.52%
St. Vincent & the Grenadines	11/05/2006	7.25%	801,401	840,515	2.13%
			<b>3,631,520</b>	<b>3,406,229</b>	<b>8.63%</b>
<b>International</b>					
Legends	07/01/2006	7.75%	<b>1,200,000</b>	<b>1,200,000</b>	<b>3.04%</b>
Deposits		6.25%-6.50%	<b>12,757,753</b>	<b>12,757,753</b>	<b>32.33%</b>
<b>Total Portfolio</b>			<b>38,944,079</b>	<b>39,462,625</b>	<b>100.00%</b>



# Fortress Caribbean High Interest Fund Limited

## Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

### 6. SECURITIES SOLD SHORT

	2005	2004
	\$	\$
<b>I Shares</b>		
Cost of I shares	1,001,493	-
Less unrealised gain	(22,223)	-
<b>Carrying value</b>	<b>979,270</b>	<b>-</b>

### 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2005	2004
	\$	\$
<b>Designated as fair value through profit or loss</b>		
- bonds and deposits	38,262,625	20,215,916
- international investments	1,200,000	9,363,799
<b>Total financial assets designated as fair value through profit or loss</b>	<b>39,462,625</b>	<b>29,579,715</b>
<b>Government bonds:</b>		
- Regional	38,262,625	28,014,488
<b>International investments:</b>		
- non regional	1,200,000	1,565,227
<b>Total financial assets designated as fair value through profit or loss</b>	<b>39,462,625</b>	<b>29,579,715</b>
<b>Gains/(losses) recognised in relation to financial assets at fair value through profit or loss:</b>		
- unrealised loss	488,239	269,098
- realised gain	(145,050)	-
<b>Net loss</b>	<b>343,189</b>	<b>269,098</b>

# Fortress Caribbean High Interest Fund Limited

## Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

### 8. SHARE CAPITAL

	No. of shares	\$
<b>Common Shares</b>		
<b>Authorised and Issued</b>		
A maximum number of Common Shares	1,000	1,000
<b>Redeemable Accumulation Shares Authorised</b>		
An unlimited number of "Redeemable Accumulation Shares"		
<b>Issued</b>		
Balance - beginning of year	22,981,891	23,339,858
Issued during the year	16,815,592	19,915,592
Redeemed during the year	(11,806,867)	(13,964,797)
<b>Accumulation Shares – end of year</b>	<b>27,990,616</b>	<b>29,290,653</b>
<b>Redeemable Distribution Shares Authorised</b>		
An unlimited number of "Redeemable Distribution Shares"		
<b>Issued</b>		
Balance – beginning of year	5,794,342	5,950,183
Issued during the year	278,534	268,605
Redeemed during the year	(445,030)	(456,532)
<b>Distribution shares – end of year</b>	<b>5,627,846</b>	<b>5,762,256</b>
<b>Total Share Capital</b>	<b>33,619,462</b>	<b>35,053,909</b>

#### Common Shares

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.

#### 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.



# Fortress Caribbean High Interest Fund Limited

## Notes to the Financial Statements

As of September 30, 2005

(Expressed in Barbados dollars)

### **8. SHARE CAPITAL(continued)**

#### **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**

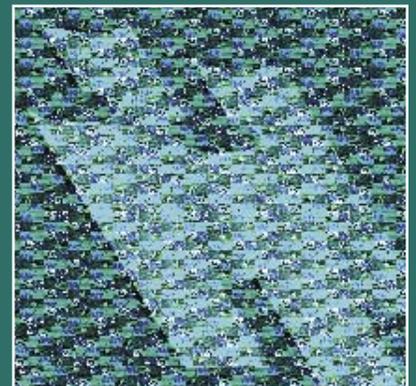
This class of shares will not pay dividends but will retain all of its income accruing to the benefit of the net asset value of the shareholders of this class.

# Notes

# Notes

# Notes





## Fortress Caribbean High Interest Fund Limited

1st Floor, Carlisle House, Hincks Street, Bridgetown,

Tel (246) 431 2198 | Fax (246) 431 0514 | Call Toll Free: 1 800 450 6461

Email: [invest@fortressfund.com](mailto:invest@fortressfund.com)

[www.fortressfund.com](http://www.fortressfund.com)