# Fortress FUND MANAGERS

Your Future. Our Business.

Dear fellow investors,

The Olympic Games remind us all of the amazing effect that disciplined effort can have over time. The gymnasts didn't learn how to do double flips on a balance beam overnight. There was practice, day in, day out - failure sometimes - and a clear focus on the objective. Saving for the future is similar in many ways (though admittedly much less interesting to watch on television). There is no substitute for having a plan for what you'd like to accomplish, and then putting the structure in place to stick to it – in good times, and bad. As the saying goes, "Hope is not a strategy".

From an investment perspective, what we do every day at Fortress is also part of a consistent strategy - to position in the best securities we can find, at the best prices. Over time, this has always yielded results - and it will continue to in the future because market prices always eventually reflect underlying value. Even in difficult times, companies in our portfolios are creating value by earning profits quarter after quarter. As prices remain stuck, as they have recently, the value builds and builds until gradually (or suddenly, we don't know) prices at some point start to improve.

Such inevitable periods of lower returns shouldn't change what each of us does individually to save for the future. Living comfortably in retirement, and investing successfully, depends on setting goals and sticking with the strategy to achieve them. As another saying goes, "If you don't know where you're going, you might not get there".

Ms. Yvette Thornhill knows where she's going. She is the winner of our first RRSP draw for 2012, and is not only on her way to a more comfortable retirement, but also on her way to a free Carnival cruise. She was entered to win simply by making a contribution to her Fortress RRSP before June 30th. Contributions to a Fortress RRSP earn a tax allowance of up to $10,000 per year, and an automatic monthly savings plan can make saving easy. Do you have one yet?

The third annual Fortress Investment Forum is coming again at its usual time in mid-November. The next quarterly letter will have details, as will our website. We are working on what will hopefully be a very interesting and informative event. We do hope you will plan to join us.

Thank you very much for investing with us.

Sincerely,
*Fortress Fund Managers*

## OF INTEREST THIS QUARTER:

### THE CARIBBEAN GROWTH FUND

declined 2.6% in the quarter as international and Caribbean markets reacted to economic growth concerns.

### THE CARIBBEAN HIGH INTEREST FUND

returned -0.5% in the quarter. Its portfolio continues to be positioned very conservatively reflecting risks in Caribbean bonds.

### THE GLOBAL VALUE FUND

declined 7.0% in the quarter as global equity markets grappled with the European banking crisis and a slowing world economy.

## GET A LITTLE EVERYDAY GENIUS ON YOUR SIDE


The physicist Albert Einstein reportedly called compound interest the "eighth wonder of the world". The compounding of interest – or any investment return – is a powerful force over time. It is something we should all have working in our favour as much as possible.

**THE FORTRESS BUILDER™ SLIDE CALCULATOR** is a simple new tool that clearly shows the link between what you do today and how much you'll have in the future, and the power of this "eighth wonder". It's a great way to plan for the future, or to teach loved ones about the value of consistent saving and investing.

The Fortress Builder™ is available to Fortress clients. Call us on 431-2198, email info@fortressfund.com or come visit us at Carlisle House to receive yours.

# Caribbean Growth Fund

Fortress FUND MANAGERS

## HIGHLIGHTS:

- *The Fund declined 2.6% for the quarter ended June 30, 2012.*
- *Economic growth concerns led to weakness in Caribbean and global stock markets.*

The Fund declined 2.6% during the second quarter of 2012 as equity markets in the Caribbean and around the world lost ground. The net asset value (NAV) finished June 30th at $4.4660 per share. Net assets of the Fund were $324 million, up $1 million so far in 2012. The Fund's annual compound rate of return since inception in 1996 is now 10.1% per year.

After a positive start to the year, the Fund suffered in the second quarter along with stock markets around the world. Investors have continued to be concerned about the ongoing banking and government fiscal crises in Europe. European stocks and the value of the euro both dropped during the quarter in spite of more rounds of support announced by the European Union. A number of countries in Europe are now in austerity-induced recessions. This weakness spilled over to Asia, where concerns mounted that Chinese economic growth would be dragged lower. Some analysts are predicting that another recession is already underway in the US. Weaker economic growth tends to mean lower corporate profits, and that can be bad news for stock prices.

In the Caribbean, we continue to struggle with the remnants of the last recession and for that reason prices may not feel the negative effects from a renewed bout of global economic weakness quite so acutely. Regional equity markets have not enjoyed anything like the 100% rally seen since early 2009 in major international markets, at least in part because earnings at Caribbean companies have not yet seen a broad recovery. We believe many stocks are fairly valued in this environment, anticipating more challenging conditions ahead.

During the quarter, the Fund's largest regional holdings had mixed results. Neal & Massy gained 2%, while Grace Kennedy and Sagicor were unchanged or showed small losses. The Jamaican dollar weakened 1.4%, which reduced the value of the Fund's Jamaica holdings (9% of total). The Fund's international allocations showed declines of 2-8%, with the exception of the Fortress Equity Income strategy which was up 4.2%.

The expectations for a global economic slowdown and the persistent problems in Europe have drawn international developed and emerging markets stocks down to levels where they look to us to have quite favourable long term return prospects – in absolute terms and relative to most of the US market. During the quarter the Fund switched out of some of its US equity holdings and cash, and invested in international equities in Europe, Canada and Japan. In the Caribbean, we recently sold our position in ANSA McAl at a 30% profit, as the market valuation climbed above our measure of fair value.

The Fund finished the quarter with cash of approximately $30 million (9% of assets), available to take advantage of opportunities as they arise.

## FUND OBJECTIVE

Capital growth over the long term. The Fund uses a value approach to invest primarily in Caribbean and international equities.

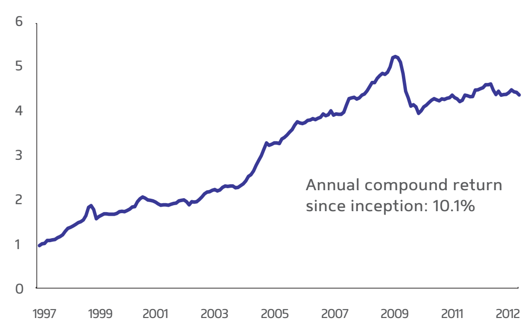
| | |
|---|---|
| Minimum Investment | $100 |
| Net Asset Value per Share | $4.4660 |
| Fund Net Assets | $324,105,337 |
| Fund Inception | Dec 9, 1996 |

## INVESTMENT RETURNS

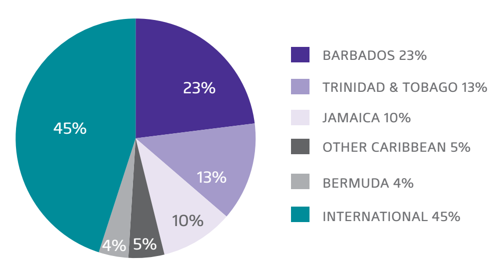
| | 3 Mo | 1 Yr | 3 Yrs | 5 Yrs | Incept. |
|---|---|---|---|---|---|
| **Fund** | **-2.6%** | **-5.0%** | **1.8%** | **-0.1%** | **10.1%** |
| Jamaica (US$) | -3.0% | -1.2% | 3.9% | -4.9% | 5.3% |
| Trinidad | 0.8% | 7.6% | 8.9% | 2.0% | 12.0% |
| Barbados | -1.9% | -4.0% | -1.8% | -2.6% | 6.2% |
| MSCI World Index | -4.9% | -4.4% | 11.6% | -2.4% | 4.9% |

*periods longer than 1 year are annual compound returns

## NAV SINCE INCEPTION TO JUNE 30TH, 2012




## GEOGRAPHICAL DISTRIBUTION OF PORTFOLIO




## TOP 5 HOLDINGS

| *Holding* | *Country/Region* |
|---|---|
| 1. Neal & Massy Holdings Ltd. | Trinidad |
| 2. OAM European Value Fund | Europe |
| 3. Fortress Global Value Fund | Global |
| 4. GraceKennedy Ltd. | Jamaica |
| 5. Fortress Equity Income Strategy | US |

### EXPENSES

*Manager:* 1.75% per annum of net assets
*Custodian:*
0.0875% on first $30M in net assets
0.075% on amounts over $30M in net assets
*Administrator:*
0.10% on the first $30M in net assets
0.0875% on amounts over $30M in net assets
*Redemption Charge:* none
*Initial Charges:* 2%

### MANAGER & ADMINISTRATOR

Fortress Fund Managers Ltd.

### CUSTODIAN

CIBC First Caribbean International Bank®
Wealth Management Division

### AUDITORS

PricewaterhouseCoopers

### ATTORNEY-AT-LAW

Sir Henry deB. Forde, K.A., Q.C.
Juris Chambers

### DIRECTORS

Geoffrey Cave, Chairman
David Bynoe
Sir Fred Gollop
Ken Emery
John Williams
Roger Cave, Investment Director

Please see our **Fund Prospectus** for further important information

# Caribbean High Interest Fund

Fortress FUND MANAGERS

## HIGHLIGHTS:

- *The Fund declined 0.5% during the quarter ended June 30, 2012.*
- *The Fund's portfolio continues to be very liquid and conservatively positioned reflecting risks of Caribbean bond issuers.*

The Fund posted a decline of 0.5% for the second quarter of 2012, after gaining 1.2% in the first quarter. The net asset value (NAV) of the Fund's accumulation shares finished June 30th at $1.7183 per share. The distribution shares finished at $0.9949 per share after paying a dividend in early April of $0.0228 per share. Net assets of the Fund were $109 million, up $1 million so far in 2012. The Fund's annual compound rate of return since inception in 2002 is now 5.5% per year.

Our reports over the last two years have repeatedly highlighted our concerns about the increasing risks in sovereign bonds due to persistent weakness in the global recovery and rising government debt levels in many countries around the world, especially in the Caribbean. Unfortunately, nothing has changed on this front.

In the Caribbean, economic conditions continue to be extremely difficult for most of the tourism based islands and while there has been some improvement in the government deficits, it is on the back of higher taxes, higher inflation, higher unemployment in the private sector and much more fragile and weaker economies. Loan losses and business failures are growing across the Caribbean (excluding Trinidad) and our concerns over the sustainability of regional government debt have only increased in recent months. The default of St. Kitts and Nevis earlier in the year offered an extreme example of what the risks are, with bondholders now looking at losses of up to 85% of their original investments in "safe" government bonds.

Recent commentaries from investment firms in and out of the region express similar concerns. A quote from a recent report by Trinidad brokerage Bourse Securities is representative: *"With a credit event looming over both Jamaica and Barbados, sovereign debt instruments of these countries may not be suited for the risk-averse investor who is not willing to be subjected to unfavourable price movements".*

Against this backdrop, we believe the only prudent path is to focus the Fund's investment strategy on preservation of capital - at a reduced level of return in the short term. The Fund's maturity profile remains very short and is heavily concentrated in highly liquid Treasury Bills yielding just under 3.5%. The Fund's international portfolio is mixed between some higher yielding longer term individual investments and bond funds which are invested in global bond markets. On average, these yield approximately 6.5%. During the quarter, some of these international investments experienced declines in price which we expect will be temporary. This led to the small decline in the Fund's NAV.

Overall, the Fund remains as diversified and liquid as possible, with 40% invested internationally and a sizeable portion of the Barbados dollar investments in deposits, T-bills and other investments with terms less than one year. The average term to maturity of the portfolio is now 2.7 years and the average yield to maturity is 4.8%.

### FUND OBJECTIVE

Income and capital preservation over the medium term. The Fund actively invests in a diversified portfolio of primarily Caribbean and international debt securities.

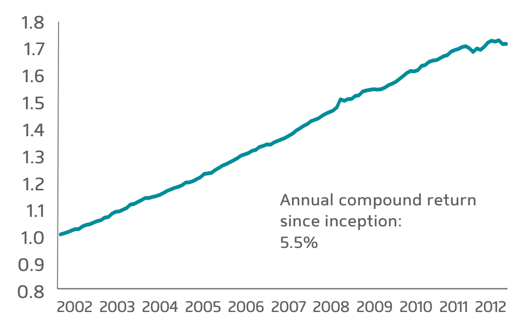
| | |
|---|---|
| *Minimum Investment* | $500 |
| *Net Asset Value per share* | $1.7183/$0.9949 |
| *Fund Net Assets* | $109,303,619 |
| *Fund Inception* | May 17, 2002 |

### INVESTMENT RETURNS

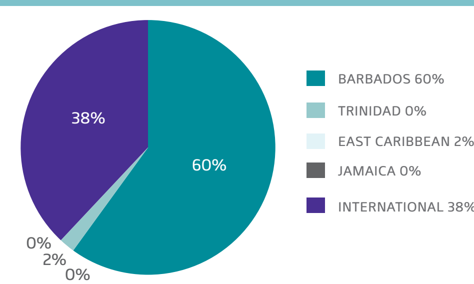
| 3 Months | 1 Year | 3 Years | 5 Years | Inception |
|---|---|---|---|---|
| **-0.5%** | **0.7%** | **3.5%** | **4.7%** | **5.5%** |

*periods longer than 1 year are annual compound returns

### NAV SINCE INCEPTION TO JUNE 30TH, 2012




### GEOGRAPHICAL DISTRIBUTION OF PORTFOLIO




### TOP 5 HOLDINGS

| *Holding* | *Country* |
|---|---|
| 1. CIBC FirstCaribbean deposits | Barbados |
| 2. Government of Barbados T-Bills | Barbados |
| 3. Fortress Equity Income Strategy | US |
| 4. University of West Indies Bond 9/29/2027 | Barbados |
| 5. Franklin Templeton Global Bond Fund | Global |

**EXPENSES**
*Manager:* 0.75% per annum
*Custodian & Administrator:*
0.20% on first $30M in net assets
0.175% on next $50M in net assets
0.15% on amounts over $80M in net assets
*Redemption Charge:*
2% for funds held less than 6 months
Up to 1% for funds held less than 6 months - 2 years
Nil after 2 years
*Initial Charges:* none

**CUSTODIAN**
CIBC First Caribbean International Bank®
Wealth Management Division

**AUDITORS**
PricewaterhouseCoopers

**ATTORNEY-AT-LAW**
Sir Henry deB. Forde, K.A., Q.C.
Juris Chambers

**MANAGER & ADMINISTRATOR**
Fortress Fund Managers Ltd.

**DIRECTORS**
Geoffrey Cave, Chairman
David Bynoe
Sir Fred Gollop
Ken Emery
John Williams
Roger Cave, Investment Director

Please see our **Fund Prospectus** for further important information

# Global Value Fund (US$)

Fortress FUND MANAGERS

## HIGHLIGHTS:

- *The Fund declined 7.0% for the quarter ended June 15, 2012.*
- *Global markets are again grappling with an economic slowdown and significant banking crisis at the same time.*

The Fund declined 7.0% during the quarter ended June 15, 2012, the same result as the MSCI World Index which fell on concerns about global economic growth and the continuing European banking crisis. The net asset value finished on June 15th at $0.9021.

In spite of round after round of support for struggling European banks and governments, investors continued to pressure European stocks and the euro currency relative to the US dollar. The euro declined in value by 5% during the quarter, which made equity returns even worse when expressed in US dollar terms. It remains to be seen what set of solutions will bring stability to the European situation. For the time being, the banking system is functioning on life support and a number of European countries are in recession.

The long-awaited slowdown in the Chinese economy seems to be occurring at the same time, and a number of analysts are now also predicting that a recession is underway in the US, too. This does not mean that economic activity will fall off a cliff the way it did back in the 2008/2009 crisis, but it is safe to say that some form of global slowdown is upon us. All things being equal, this will tend to put downward pressure on stocks, and it has already done so.

Paradoxically, a certain amount of economic weakness could be constructive for stock markets because it could keep monetary stimulus in place longer than would otherwise have been the case. Very low interest rates in "safe" countries are forcing money into some parts of the equity markets and into emerging markets debt. In addition, the economic slowdown in China (still growing, but at a slower pace) is likely to bring some stimulus back from the Chinese government. Beijing has been leaning hard against a property bubble for some time – a 180 degree shift to more accommodation could help underlying economic growth as well as asset prices.

During the quarter, most of the Fund's allocations declined in value. The most notable was the Sprott Offshore Fund, which fell 26% for the quarter due to falling gold mining shares. The Fund has a 4% allocation to the Sprott fund. The OAM European and Asian funds declined 8% and 4% respectively. The Fortress US and International Equity strategies lost 2% and 4%, while the Fortress Equity Income Strategy gained 4% for the quarter. The Third Avenue Value Fund, another large allocation, was down 2%.

There will be pitfalls in the coming months as investors try to determine what the right price is for assets in a stagnant or recessionary global economy. It is worth noting, though, that many emerging and European markets have been in bear markets since early 2011 and are already priced with what we think is a meaningful amount of room to absorb bad news. The Fund has cash to invest on further market weakness, especially in international and emerging markets.

### FUND OBJECTIVE

Capital growth over the long term. The Fund uses a value approach to invest primarily in global equities and allocate to specialist managers.

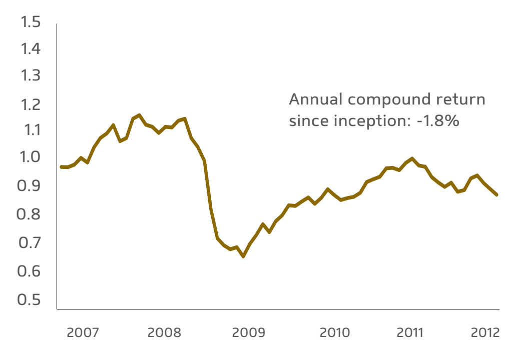
| | |
|---|---|
| *Minimum Subscription* | US$ 5,000 |
| *Net Asset Value per Share* | US$0.9021 |
| *Fund Net Assets* | US$14,998,925 |
| *Fund Inception* | Nov 30, 2006 |

### INVESTMENT RETURNS

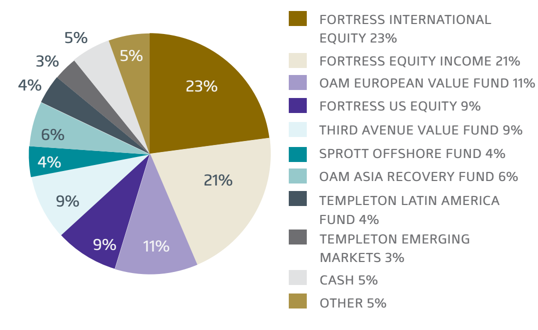
| | 3 Mo | 1 Yr | 3 Yrs | 5 Yrs | Incept. |
|---|---|---|---|---|---|
| **Fund** | **-7.0%** | **-10.3%** | **4.2%** | **-4.2%** | **-1.8%** |
| MSCI World Index | -7.0% | -3.1% | 10.6% | -3.0% | -0.4% |

*periods longer than 1 year are annual compound returns

### NAV SINCE INCEPTION TO JUNE 15TH, 2012




### MANAGER / STRATEGY ALLOCATIONS




*Important information about our funds is contained in the applicable prospectus, which we encourage you to read before making an investment. The indicated returns 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 funds' shares may go down as well as up.

**EXPENSES**
*Manager:* 0.90% per annum of net assets
*Sales Charge:* 2% for subscriptions through agents

**INVESTMENT MANAGER**
Fortress Fund Managers Ltd.

**CUSTODIAN**
CIBC First Caribbean International Bank®
Wealth Management Division

**AUDITORS**
PricewaterhouseCoopers

**LEGAL COUNSEL**
Appleby Hunter Baihache

**ADMINISTRATOR**
ATU Fund Administrators (BVI) Limited

**DIRECTORS**
Geoffrey Cave, Chairman
David Bynoe
Sir Fred Gollop
Ken Emery
Desmond Kinch
Roger Cave, Investment Director

Please see our **Fund Prospectus** for further important information

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