



Your Future. Our Business.

Dear fellow investors,

There has been no shortage of grim economic news in the Caribbean in recent weeks, and sadly none of it is surprising. Over the past few years, we have all witnessed a slow motion train wreck as some governments, businesses and individuals seemed to assume that economic prosperity would return on its own. Unfortunately, it has not – nor, do we believe, will it without some help.

The economic problems in front of us are serious, and they affect us all as citizens and as investors. From our point of view as investors, analysing and speaking with companies in Barbados and around the region, we are seeing on a daily basis the significant headwinds faced by companies as they grapple with overtaxed customers, stagnant revenues and borrowers unable to pay. There is still money to be made in such a difficult environment, and some companies are managing admirably in spite of everything, but it is nowhere what it could be in more “normal” times.

If we waited for everything to be perfect before making an investment, we would never make one. It’s worth pointing out that even today, there are still reasonable investments to make, and we are making them. In the Caribbean and around the world, our investment process remains the same as it has for the last 16 years: we think about risk first, and try to invest consistently in good companies, trading at good prices. This will not change. You can read more about our outlook and positioning in the accompanying fund commentaries.

On the Barbados front, we very much hope that the steps being taken by the Government of Barbados will set the country on a more sustainable financial path, and pave the way for a revival of profitable economic activity. At the very least, we are encouraged that the very serious structural, fiscal and economic problems we face are now being acknowledged and discussed openly. Progress from here will not be easy, but it will benefit us all if we get it right.

Sincerely,  
Fortress Fund Managers

## OF INTEREST THIS QUARTER:

### THE CARIBBEAN GROWTH FUND

declined 3.4% for the quarter. Regional markets were mixed while international markets saw modest gains.

### THE CARIBBEAN HIGH INTEREST FUND

returned -0.1% for the quarter. Global bond markets saw a dramatic selloff on Fed comments, and stresses in Caribbean government debt intensified.

### THE CARIBBEAN PENSION FUND

shares had a negative quarter, declining between 0.4% and 2.7% for the quarter. Shares with greater allocations to stocks declined most.

## TIME & MONEY

*According to Albert Einstein, compound interest is the 8th Wonder of the World. And we could add a ninth: **regular savings.** The two together - especially over a long period of time - are a powerful combination.*

For example, regular savings of \$10,000 per year placed in the Fortress Caribbean Growth Fund since inception in 1996 would now be worth approximately \$281,000. That’s \$165,000 of original savings, and the rest in compounded earnings... Not bad for setting aside just over \$800 a month for your future.





# Caribbean Growth Fund

## HIGHLIGHTS:

- *The Fund declined 3.4% for the second quarter of 2013 and is up 3.2% over the last year.*
- *International stocks generally showed small gains, while Caribbean stocks were mixed.*

The Fund declined 3.4% during the second quarter of 2013, and is up 3.2% over the past year. The net asset value (NAV) finished June 30th at \$4.6098 per share. Net assets of the Fund were \$332 million, up \$8 million from this time last year. The Fund's annual compound rate of return since inception in 1996 is now 9.7% per year.

We continue to encounter a difficult environment for investing in Caribbean markets, with weak company and share price performance in Barbados and Jamaica, and better operating performance but quite expensive share prices in Trinidad. With the notable exception of Trinidad, Caribbean markets have not enjoyed any of the strong returns that global markets have seen so far in 2013, and in recent years since the global financial crisis. The Fund's diversified investments in global markets have contributed much needed positive returns to offset the losses experienced in local markets during this difficult period for the region.

Corporate profits are holding their own in Trinidad, but share prices already seem to reflect a lot of good news and are especially high in some of the larger cap companies like West Indian Tobacco and Ansa McAl. The Jamaican market has some more appealing valuations, but the recent government debt restructuring programme and currency weakness (JMD now \$101 to USD \$1) could significantly affect results, even from current depressed prices. In Barbados, we continue to see downward pressure on company profits, and share prices are languishing as a result. Soon to be announced Government spending cuts could put further pressure on earnings in the near term.

In global markets, stocks responded negatively in June to U.S. Federal Reserve (Fed) Chairman Bernanke's suggestion that tapering of the Fed's huge "quantitative easing" stimulus could begin this year. The U.S. housing market has shown significant improvement recently - and the Fed is noting this - but from our analyses of individual companies around the world, we are finding more and more evidence of a general slowing in sales and earnings growth. Three years into the current economic and market recovery, it would not be surprising to encounter some headwinds in the near term. Some areas of the market are pricing in this risk - while others, we believe, have yet to do so and may be vulnerable. We would put some parts of the U.S. market in the latter category, and more cyclical sectors and markets in the former. With recent weakness in emerging markets, we are finding more and more value there. Many good companies are trading at low valuations, and we are gradually increasing the Fund's investments there as a result.

With the potential for a decline in global economic and profit growth, and still acute economic challenges in the Caribbean, we are being very selective in making new investments. The Fund is well diversified across regional and global markets, and has cash of approximately \$60 million (20% of assets) 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.

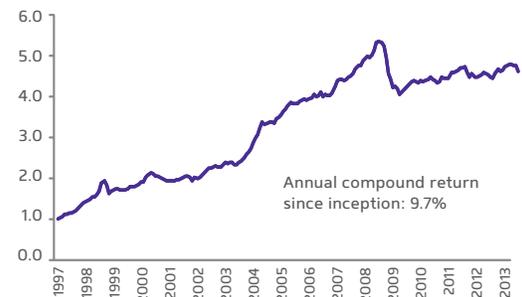
Minimum Investment	\$100
Net Asset Value per Share	\$4.6098
Fund Net Assets	\$331,972,142
Fund Inception	Dec 9, 1996

## INVESTMENT RETURNS

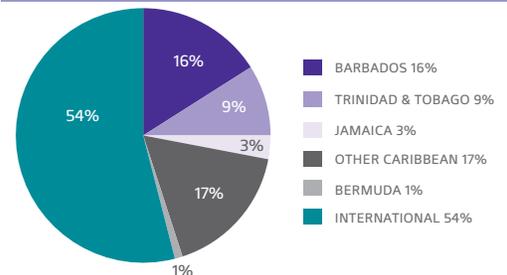
	3 Mo	1 Yr	3 Yrs	5 Yrs	Incept.
<b>Fortress</b>	<b>-3.4%</b>	<b>3.2%</b>	<b>1.8%</b>	<b>-2.9%</b>	<b>9.7%</b>
Jamaica	3.0%	-12.7%	-5.3%	-10.8%	3.9%
Trinidad	2.9%	10.4%	10.5%	-1.1%	12.0%
Barbados	-12.2%	-15.3%	-4.1%	-8.9%	4.8%
MSCI World Index	0.8%	19.3%	14.4%	3.3%	5.8%

\*periods longer than 1 year are annual compound returns

## NAV SINCE INCEPTION TO JUNE 30TH, 2013



## GEOGRAPHICAL DISTRIBUTION OF PORTFOLIO



## TOP 5 HOLDINGS

Holding	Country/Region
1. OAM European Value Fund	Europe
2. Fortress Global Value Fund	Global
3. Neal & Massy Holdings Ltd.	Trinidad
4. Fortress Emerging Markets Fund	Global
5. CS&C Joint Venture	Barbados

## 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

# Caribbean High Interest Fund



## HIGHLIGHTS:

- *The Fund declined 0.1% during the second quarter and has gained 3.4% over the last year.*
- *Stresses in Caribbean government debt are growing and becoming more widely acknowledged.*

The Fund declined 0.1% during the second quarter of 2013, and has generated a return of 3.4% over the last year. The net asset value (NAV) of the Fund's accumulation share finished June 30th at 1.7770 per share. The distribution share finished at \$0.9990 after paying a \$0.02 dividend during the quarter. Net assets of the Fund were \$120 million, up \$10 million from this time last year. The Fund's annual compound rate of return since inception in 2002 is now 5.3% per year.

Caribbean governments and companies continue to struggle with weak economies and reduced profitability. The difficulties in Jamaica are well-known, and they have recently become more widely acknowledged in Barbados, too. The Barbados economy weakened in the first quarter, as the Central Bank report released in April revealed that GDP growth had turned negative, at -0.4%, unemployment was rising, and government tax receipts were declining. The Ministry of Finance, as well as the Central Bank and Prime Minister, have acknowledged that there is a severe economic issue being faced in the country which would require government to cut \$400 million from its annual expenses in order to restore long term financial sustainability. The good news is that the problem is at least finally being acknowledged. The bad news is that a painful set of measures will be coming in the near term that will affect Barbadians' standard of living.

We have significant room to invest in long term Caribbean government bonds, but only when we see the right combination of pricing and creditworthiness develop. In the meantime, a large portion of the Fund's portfolio remains invested in short-term treasury bills and deposits.

We recently invested \$3 million in a well-secured bond issued by a major Barbados company. Unfortunately, high quality bond issues like these are few and far between these days. This means we can rarely put as much money to work as we would like, and that the interest rates on good bonds are typically lower than we would like. Both are affecting the Fund's return in the medium term.

Some of the Fund's global investments declined during the quarter, as bond markets around the world sold off dramatically on Fed Chairman Bernanke's suggestion that "quantitative easing" could soon end. The result of this selloff is that global interest rates are now meaningfully higher than they were this time last quarter, and expected returns have also therefore increased. Unfortunately, though, in spite of lower bond prices, interest rates remain near historic lows. A U.S. 10-year treasury bond at 2.5% is better than the recent low of 1.6%, but it's still well below many investors' expectations for a good return – and it's not above the rate of inflation.

The Fund's exposure to rising interest rates is still low. The average term to maturity of the portfolio is very short at 2.6 years. We expect to increase this gradually as interest rates rise, and the risk/reward prospects improve for taking on long term interest rate risk. The average yield to maturity of the portfolio's underlying investments is 4.5%.

## 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.

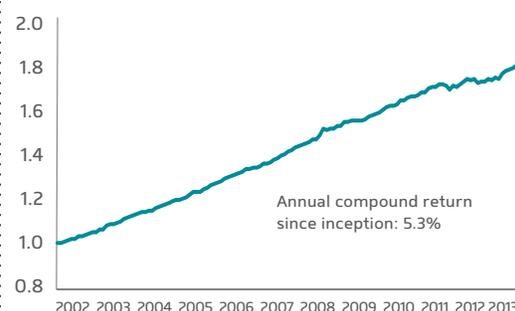
<i>Minimum Investment</i>	\$500
<i>Net Asset Value per share</i>	\$1.7770 / \$0.9990
<i>Fund Net Assets</i>	\$119,796,917
<i>Fund Inception</i>	May 17, 2002

## INVESTMENT RETURNS

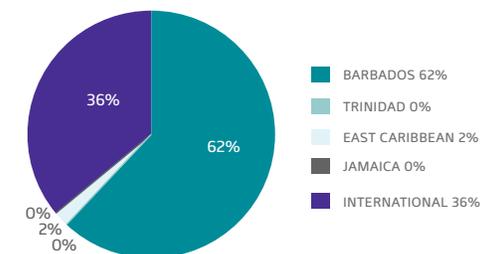
3 Months	1 Year	3 Years	5 Years	Inception
<b>-0.1%</b>	<b>3.4%</b>	<b>3.1%</b>	<b>4.0%</b>	<b>5.3%</b>

\*periods longer than 1 year are annual compound returns

## NAV SINCE INCEPTION TO JUNE 30TH, 2013



## GEOGRAPHICAL DISTRIBUTION OF PORTFOLIO



## TOP 5 HOLDINGS

<i>Holding</i>	<i>Country</i>
1. Government of Barbados T-Bills	Barbados
2. Fortress Income Builder US Fund	US
3. PIMCO Global Inv. Grade Credit Fund	Global
4. University of West Indies Bond 9/29/2027	Barbados
5. Sagcor 6.5% Preferred Shares	Barbados

## 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



# Pension Fund

## HIGHLIGHTS:

- All classes of the Pension Fund declined in the second quarter of 2013, reflecting a period of weakness in equities especially in June. Returns by class of share are shown in the table to the right.

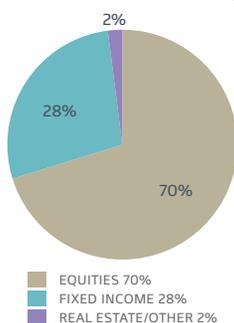
If you are approaching retirement - or just want to plan well ahead - it may be worth spending a few minutes to get familiar with your options for converting your accumulated group pension or RRSP savings into an income stream in retirement. Barbados law currently requires that we all purchase an annuity with our pension savings at retirement. Historically, this has meant we purchase a "fixed rate" annuity from an insurance company, surrendering our pool of pension or RRSP savings in return for a fixed monthly payment for the rest of our lives. This has the very important benefit of generating a constant amount of income each month that will not change, which can be very useful for budgeting necessities. Unfortunately it doesn't fit everyone's entire needs. It has the disadvantage of "locking in" a low implied interest rate forever, and of making our future livelihood entirely dependent on the long term creditworthiness of one insurance company. It also does not typically allow for any "unused" assets remaining after our death to pass along to beneficiaries.

Fortress has recently introduced a new type of account that addresses some of these issues, one that allows everyone to include a new, more flexible, component in the retirement income mix. It is called an Income Drawdown Policy. Especially for retirees with substantial pension or RRSP assets, this new type of annuity allows all or some of the pre-retirement assets to remain invested in the Fortress funds, and to be used to fund "draw down" payments that are adjusted as the value of the portfolio moves up or down over the years. At death, any remaining assets in the pool may be left to beneficiaries. The disadvantage here is less certainty relative to a "fixed rate" annuity, but the advantage is a huge increase in flexibility, transparency and portability - one that may be able to play a role in your overall retirement income planning when the time comes.

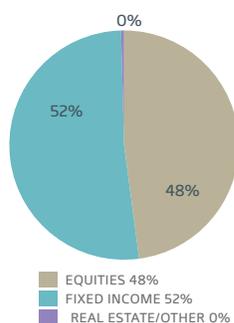
If you would like to learn more about your retirement income options, please call us any time, or visit us at [www.fortressfund.com](http://www.fortressfund.com).

Investors in the Pension Fund typically select from three different classes of share, based on personal circumstances and risk tolerance. These classes differ in how their assets are spread across the major asset classes of equities, bonds, and real estate and other assets. The graphs below show how each of the classes (AA, CC, CS) is allocated currently. The reports on the Caribbean Growth Fund and Caribbean High Interest Fund on pages 2 and 3 of this quarterly report give you a direct look into the performance, positioning and outlook for the major underlying investments in the Pension Fund.

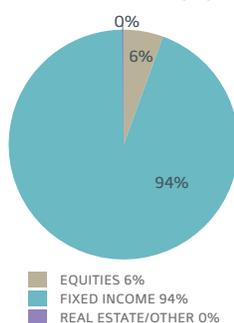
### AGGRESSIVE ACCUMULATOR (AA)



### CONSERVATIVE CONSOLIDATOR (CC)



### CAPITAL SECURE (CS)



## EXPENSES

**Manager:** 0.50% per annum of net assets at the Fund level. Fees from the underlying Fortress funds in which the Fund invests are capped at between 0.25% and 0.50% per annum of net assets, depending on the fund.  
**Custodian:** \$7,500 per year paid by the Fund as whole.  
**Administrator:** No charge at the Fund level.  
**Sales Charge:** None  
**Redemption Charge:** none

## 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.

## FUND OBJECTIVE

Capital growth, income and security over the long term, as appropriate to each class of share. The Fund invests in equities, fixed income, and real estate assets primarily via the other Fortress funds.

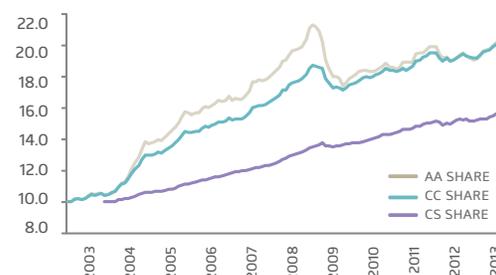
<b>Net Asset Value Per Share (est.):</b>	\$19.70/\$19.83/\$15.62 (AA/CC/CS)
<b>Fund Net Assets (est.):</b>	\$179,469,268

## INVESTMENT RETURNS

	3 Mo	1 Yr	3 Yrs	5 Yrs	Incept.
AA Share	-2.7%	3.6%	2.1%	-1.5%	6.3%
CC Share	-1.6%	3.7%	2.7%	1.2%	6.4%
CS Share	-0.4%	3.2%	2.9%	2.9%	4.5%

\*periods longer than 1 year are annual compound returns

## NAV SINCE INCEPTION TO JUNE 30TH, 2013



## BENEFITS AT A GLANCE

### Company Pension (DC Scheme):

- Contributions earn a tax allowance up to certain maximums based on your income.
- Choose from three easy, professionally managed options to get the class of share that suits you.
- 25% of your pension can be withdrawn tax free at retirement.
- Employers match employee contributions up to certain amounts.

### Personal Pension (RRSP):

- Contributions earn tax allowance up to \$10,000 per year depending on your income.
- Choose from the same three easy, professionally managed options to get the class of share that suits you; or pick your mix of Fortress funds.
- Up to \$25,000 may be withdrawn tax free for the purchase of a first house.
- Flexibility to withdraw funds as necessary, provided tax paid in year of withdrawal.

Fortress is a leading provider of DB and DC pension management and administration services to companies of all sizes, and to individuals via the Personal Pension Plan (RRSP).

## DIRECTORS

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