

Fortress Caribbean High Interest Fund

Annual Report 2017





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

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

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

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Fortress Caribbean
High Interest Fund

Investment Objectives & Fund Details

The Fund's primary objective is income and capital preservation over the medium term. The Fund actively invests in a diversified portfolio of primarily Caribbean and international debt securities.

The Fund issues two classes of shares - "Accumulation" and "Distribution". Holders of the Distribution shares receive dividends every six months. Holders of the Accumulation shares are not paid dividends, but receive their entire return via the Fund's increase in Net Asset Value. Pre-tax returns to holders of the two share classes are identical.

FUND NAME:	Fortress Caribbean High Interest Fund	
LAUNCH DATE:	May 17, 2002	
LAUNCH PRICE:	\$1.00 per share	
MINIMUM INVESTMENT:	\$500.00 \$100.00 for subsequent investments \$100.00 for monthly savings plan	
FUND STATUS:	Closed to lumpsum subscriptions Open for pension and monthly savings programme only	
NET ASSET VALUE PER SHARE 9/30/2017	ACCUMULATION	DISTRIBUTION
	\$1.9612	\$1.0115
NET ASSETS 9/30/2017	\$122,767,263	\$4,649,300
MANAGEMENT EXPENSES: <i>Management fees:</i>	0.75% per annum on the net assets	
<i>Custodian & Administrator:</i>	0.20% per annum on the first \$30 million of net assets 0.175% per annum on the next \$50 million of the net assets and 0.15% per annum on amounts over \$80 million in net assets	
INITIAL CHARGES:	Nil	
REDEMPTION CHARGES:	Up to 2% on amounts placed less than 6 months Up to 1% on amounts placed less than 2 years Nil on amounts placed greater than 2 years	
INVESTMENT MANAGER & ADMINISTRATOR:	Fortress Fund Managers Limited	
CUSTODIAN:	CIBC FirstCaribbean International Bank (Barbados) Limited Wealth Management Division	
FUND VALUATIONS:	Weekly on Fridays	
NAV QUOTATIONS:	Internet: www.fortressfund.com Local Barbados newspapers Bloomberg: FORCAHI BA	

Directors & Administrators

DIRECTORS

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

COMPANY SECRETARY

Hanna M. Chrysostom
Broad Street
Bridgetown
St. Michael
Barbados

AUDIT COMMITTEE

David Simpson
C. David Bynoe
John Howard

CORPORATE GOVERNANCE AND NOMINATION COMMITTEE

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

REGISTERED OFFICE

First Floor, Carlisle House
Hincks Street
Bridgetown
St. Michael
Barbados

ATTORNEY AT LAW

Clarke Gittens Farmer
Parker House
Wilkey Business Park
Wilkey Road
St. Michael
Barbados

INDEPENDENT AUDITORS

Ernst & Young
One Welches
Welches
St. Thomas
Barbados

CUSTODIAN

CIBC FirstCaribbean International Bank (Barbados) Limited
Wealth Management Division
3rd Floor
Broad Street
Bridgetown
Barbados

INVESTMENT MANAGER & ADMINISTRATOR

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

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

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

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

Investment Performance

For the year ended September 30, 2017 the Fund returned 2.5%, a solid performance given the ongoing Caribbean government debt crisis, and historically low prevailing interest rates globally. The Accumulation shares rose to \$1.9612 from \$1.9135 a year ago, and the Distribution shares decreased to \$1.0115 from \$1.0209 after paying a dividend of \$0.0339 during the year. Returns came from income and capital gains produced by corporate bonds in Barbados and the U.S., and from healthy returns in the Fortress Income Builder funds.

Returns continued to be constrained by relatively high cash levels in Barbados that are the result of the shortage of appropriate investment options.

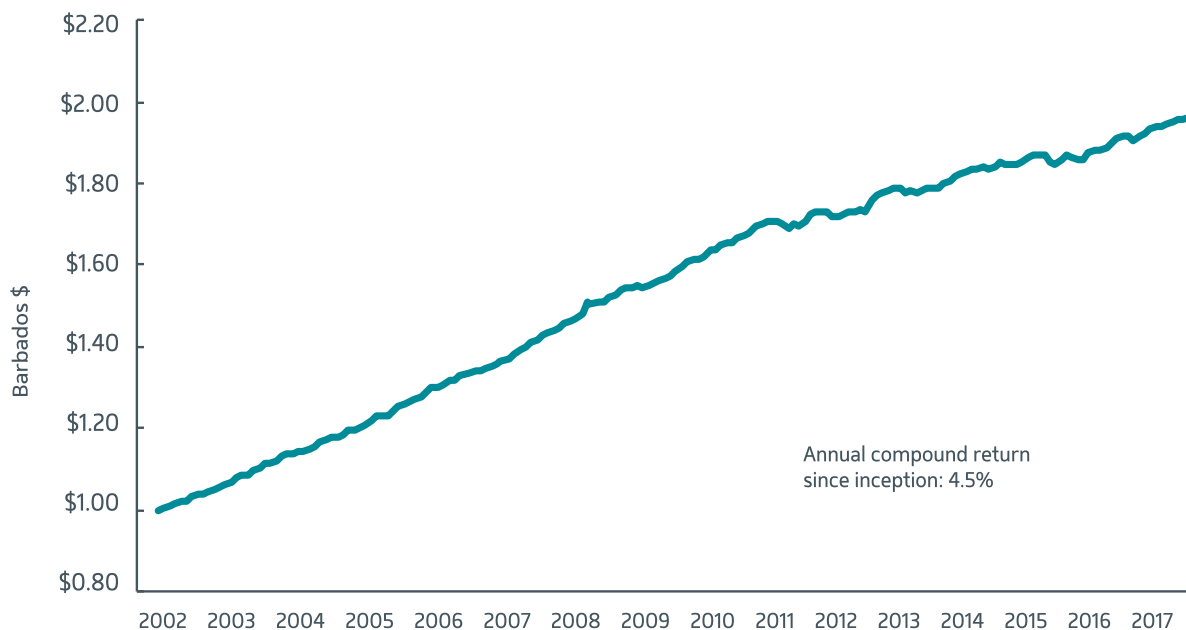
Since inception in 2002 the Fund has now generated a compound annual rate of return of 4.5% per year, net of all fees and expenses. Over this period, its diversified mix of Caribbean and global fixed income assets has led to relatively steady performance in a range of market conditions.

Investment Performance as of 9/30/17*

	3 month	1 year	3 year	5 year	Inception
Caribbean High Interest Fund (Accumulation Shares)	0.6%	2.5%	2.2%	2.5%	4.5%

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

Caribbean High Interest Fund Net Asset Value Since Inception - Accumulation Share



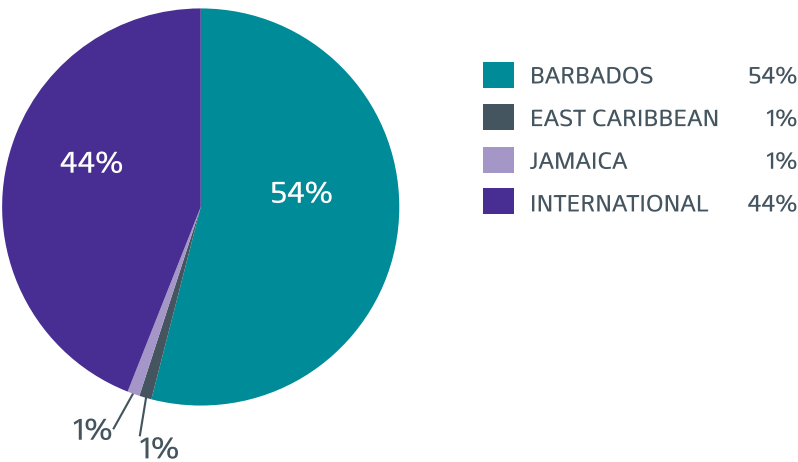
Portfolio Positioning

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

We continue to face the dual challenges of historically low global interest rates, and an ongoing government debt crisis in the Caribbean. Both are significant risks

for bond investors. The Fund has only very limited exposure to Caribbean government bonds. Its exposure to rising interest rates globally also remains low. As of September 30, 2017, the average term to maturity of the Fund’s holdings was 3.0 years, and the average gross yield to maturity was 3.3%. Approximately 44% of the portfolio is invested outside the Caribbean region in U.S. dollars and other global currencies. We remain focused on capital preservation in the current environment, and expect returns looking forward to continue to be lower than the long-term average for the Fund. For a complete list of the Fund’s holdings as of year-end, please see the notes to the accompanying financial statements.

Geographic Distribution of Portfolio as of 9/30/17



Top 5 Holdings

Holding	Country/Region	Sector	Weight
Legg Mason Asian Opportunities Debt Fund	International	Various	4.4%
PIMCO Global Investment Grade Credit Fund	Global	Various	4.1%
Franklin Templeton Global Bond Fund	Global	Various	4.0%
GEL 4.5% 30 Nov 2017	Barbados	Conglomerate	3.9%
Stallion Property 5% 31 Dec 2021	Barbados	Real Estate	3.9%



Directors' Report

“ We expect
interest rates
to keep moving
higher... ”



Directors' Report

Investment Director Roger Cave

The Fortress Caribbean High Interest Fund generated a return of 2.5% for the year ended September 30, 2017 as global interest rates remained low and the Fund operated in an environment shaped by the ongoing crisis in Caribbean government debt. The net asset value (NAV) of the Accumulation shares rose from \$1.9135 to \$1.9612, while the Distribution shares moved from \$1.0209 to \$1.0115 after paying dividends totaling \$0.0339 during the year. The Fund's compound annual return since inception in 2002 is now 4.5% per year.

The Fund had another year of earning a lower than normal return. We continued to encounter the headwinds of artificially suppressed global interest rates and an unresolved Caribbean government debt situation which caused credit risk to remain high in the region and left few viable alternatives for investment. In this environment we continued to position the Fund in capital preservation mode, paying as much attention to return of capital as return on capital. This meant the Fund's portfolio maintained a relatively short average term to maturity, higher than normal cash levels, and only minimal exposure to Caribbean government bonds.

A harsh spotlight remained on Caribbean government creditworthiness, as Barbados and Trinidad both saw their government bonds downgraded during the year. Barbados ended the year with a move by Standard & Poor's to drop its rating to "CCC", a level that implies a substantial risk of restructuring or default in the medium

term. Government stated in its budgetary proposals that it is already working on a selective restructuring of the debt held by the National Insurance (NIS) and Central Bank of Barbados (CBB) to cut the coupons and thereby reduce the burden on the budget. A similar move with other lenders may be required to bring government finances and the foreign exchange situation back on track, especially if combined with a move to a sustainable level of spending and taxation. So far there has been only limited progress on any of these fronts and we believe the risks identified by the global bond rating agencies remain real and immediate.

During the year we added a few positions in corporate bonds from Barbados issuers at yields in the mid-single digits. This helped edge the running yield higher and reduce cash somewhat. Unfortunately, we feel that investors' desire to place money with entities other than the government is causing some corporate lending to occur at rates that do not fairly compensate lenders for the risks involved. We always wish rates were higher, but the situation has become particularly acute. The lack of investment options in Barbados that fairly compensate investors for the risks meant that a higher than desired amount of the Fund's cash was on deposit with the Custodian Trustee earning approximately zero. This was a meaningful drag on performance during the year, but we continue to believe a necessary measure to avoid unacceptable risks in this very unusual time.

In global markets, interest rates generally rose slightly during the year. The U.S. Federal Reserve (Fed) raised its target rate three times, bringing short-term interest rates over 1% after more than seven years spent at or near zero. The increases came as the unemployment rate in the U.S. declined to nearly 4%, the real estate market showed continued strength, and corporate profits hit new highs along with a surging stock market. The Fed repeatedly stated their intention to raise rates only slowly, but there is ground to make up if the economy continues growing at the current pace especially as economies in Europe and Asia have seen a return to more uniform growth. We expect interest rates to keep moving higher and are keeping the average term to maturity of the Fund's bond holdings relatively short to limit volatility. As rates rise we expect to gradually add longer term holdings, locking in more attractive yields.

Rising rates kept a lid on bond returns in most developed markets around the world, as coupon income was largely offset by price declines. Against this backdrop, the Fund's U.S. and international holdings performed relatively well, generating positive returns. Our allocations to specialist funds also contributed, though mostly with low single digit returns. The best performance among these allocations came from the Templeton Global Bond Fund, up 12.9% for the year. To further enhance yield and broaden the diversification of the Fund, we continue to allocate approximately 7% to the Fortress Income Builder funds, which use portfolios of high quality equities and options around them to target high single digit returns with only bond-like volatility. This year the Fortress Income Builder US Fund and Fortress Income Builder International Fund returned an average of 5.3% (1.2% and 9.5% respectively), adding to the overall return of the Fund.

The challenging regional operating environment for the Fund has made it difficult to absorb substantial new investment. As a result, in January 2017, the Board of the Fund took the decision to temporarily close to new lump-sum subscriptions. This was done to safeguard

the interests of existing investors and was in response to significantly increased demand to place money in the Fund at the same time as currency and liquidity constraints made it impossible to allocate that money to investments that met the Fund's requirements and mandate. Unfortunately, we do not know how long the closure will have to last because the factors behind it are out of our control. During the temporary closure, regular pension and monthly savings plan contributions continue as normal, as of course do redemptions.

Positioning & Outlook

The Fund's portfolio continues to be as diversified as possible given the constraints and controls in place in Barbados and the limited capital markets in the region. Its holdings are a mix of Barbados corporate bonds, a small allocation to government securities, a wide range of high quality global bonds, investments in specialised funds, and a substantial amount of cash on deposit with CIBC FirstCaribbean, the Fund's Custodian Trustee.

With an average gross yield in the Fund's portfolio of 3.3%, it is almost certain that returns in the medium term will continue to be below historic norms. These are not normal times for bond investors, especially in the Caribbean. We keenly anticipate a time on the "other side" of the government debt adjustments, when creditworthiness is restored and we can resume investing widely and earning more attractive rates. Unfortunately, that time has not come. For global bonds, we expect rates to continue rising slowly in the U.S. and potentially in Europe, too. This will be a short-term headwind on returns but over time, if it happens, it will set the stage for more normal returns going forward.

We thank you very much for investing with us, and hope to be able to report next year on progress in the Fund's investments and the environment in which it operates.



Roger Cave, CA, CFA
Investment Director



Financial Statements



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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF FORTRESS CARIBBEAN HIGH INTEREST FUND LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Fortress Caribbean High Interest Fund Limited ("the Fund"), which comprise the statement of financial position as at 30 September 2017, and the statement of comprehensive income, statement of changes in net assets attributable to holders of redeemable mutual fund shares and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 30 September 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF FORTRESS CARIBBEAN HIGH INTEREST FUND LIMITED

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF FORTRESS CARIBBEAN HIGH INTEREST FUND LIMITED

Report on the Audit of the Financial Statements (Continued)

Other Legal Matters

This report is made solely to the Fund's shareholders, as a body, in accordance with Section 32 of the Mutual Funds Act of Barbados. Our audit work has been undertaken so that we might state to the Fund's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law and subject to any enactment or rule of law to the contrary, we do not accept or assume responsibility to anyone other than the Fund and the Fund's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

A handwritten signature in black ink that reads 'Ernst & Young Ltd'.

Bridgetown
BARBADOS
15 December 2017

Fortress Caribbean High Interest Fund Limited

Statement of Financial Position

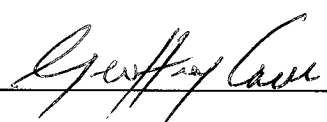
As at September 30, 2017

(expressed in Barbados dollars)

	2017 \$	2016 \$
Assets		
Financial assets (note 5)	95,095,576	71,636,029
Accounts receivable	30,263	89,923
Due from broker	32,000	—
Cash and cash equivalents (note 6)	32,271,254	49,782,629
Total assets	127,429,093	121,508,581
Liabilities		
Accounts payable and accrued expenses	11,530	34,075
Liabilities (excluding net assets attributable to holders of redeemable mutual fund shares)	11,530	34,075
Net assets attributable to holders of redeemable mutual fund shares:		
Accumulation shares (note 9)	122,767,263	116,323,814
Distribution shares (note 9)	4,649,300	5,149,692
	127,416,563	121,473,506
Total liabilities	127,428,093	121,507,581
Share capital (note 10)	1,000	1,000
Liabilities and shareholder funds	127,429,093	121,508,581
Net asset value per accumulation share	1.9612	1.9135
Net asset value per distribution share	1.0115	1.0209

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

Approved by the Board of Directors on December 15, 2017

 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, 2017

(expressed in Barbados dollars)

	Number of shares		Net assets attributable to holders of redeemable mutual fund shares		
	Accumulation	Distribution	Accumulation \$	Distribution \$	Total \$
Balance - September 30, 2015	60,314,615	5,338,204	111,186,175	5,304,032	116,490,207
Issue of shares	4,800,840	308,036	9,076,862	309,033	9,385,895
Redemption of shares	(4,324,602)	(601,799)	(8,077,453)	(604,696)	(8,682,149)
Dividends paid (note 9)	—	—	—	(53,202)	(53,202)
Total comprehensive income for the year	—	—	4,138,230	194,525	4,332,755
Balance - September 30, 2016	60,790,853	5,044,441	116,323,814	5,149,692	121,473,506
Issue of shares	5,574,283	352,772	10,783,661	354,447	11,138,108
Redemption of shares	(3,766,157)	(800,815)	(7,299,343)	(802,222)	(8,101,565)
Dividends paid (note 9)	—	—	—	(165,967)	(165,967)
Total comprehensive income for the year	—	—	2,959,131	113,350	3,072,481
Balance - September 30, 2017	62,598,979	4,596,398	122,767,263	4,649,300	127,416,563

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

Fortress Caribbean High Interest Fund Limited

Statement of Comprehensive Income

For the year ended September 30, 2017

(expressed in Barbados dollars)

	2017 \$	2016 \$
Revenue		
Interest income (note 7)	2,367,581	2,553,370
Net fair value gains on investments (note 5)	1,801,031	2,495,224
Amortisation of premiums	14,907	385
Dividend income	112,196	416,271
Total investment income	4,295,715	5,465,250
Expenditure		
Management fees (note 8)	844,265	793,749
Administrator and custodian fees (note 8)	214,219	202,924
Other operating expense	129,318	100,002
Audit fees	34,927	35,794
Trade fees	505	26
Operating expenditure	1,223,234	1,132,495
Total comprehensive income	3,072,481	4,332,755
Total comprehensive income on ordinary activities allocated to:		
Holders of redeemable mutual fund distribution shares	113,350	194,525
Holders of redeemable mutual fund accumulation shares	2,959,131	4,138,230
Total comprehensive income	3,072,481	4,332,755

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

Fortress Caribbean High Interest Fund Limited

Statement of Cash Flows

For the year ended September 30, 2017

(expressed in Barbados dollars)

	2017 \$	2016 \$
Cash flows from operating activities		
Total comprehensive income	3,072,481	4,332,755
Adjustments for:		
Amortisation of premium	(14,907)	(385)
Net fair value gains on investments	(1,801,031)	(2,495,224)
Interest income	(2,367,581)	(2,553,370)
Dividend income	(112,196)	(416,271)
Operating loss before working capital changes	(1,223,234)	(1,132,495)
Decrease/(increase) in accounts receivable	58,843	(16,459)
Increase in due from broker	(32,000)	—
Decrease in accounts payable and accrued expenses	(22,545)	(10,750)
Purchase of investments	(48,625,396)	(23,017,202)
Proceeds on the sale of investments	27,046,498	27,483,793
Cash (used in)/generated from operations	(22,797,834)	3,306,887
Interest received	2,303,687	2,520,989
Dividends received	112,196	416,271
Cash (used in)/generated from operating activities	(20,381,951)	6,244,147
Cash flows from financing activities		
Issue of mutual fund shares	11,138,108	9,385,895
Redemption of mutual fund shares	(8,101,565)	(8,682,149)
Dividends paid	(165,967)	(53,202)
Cash generated from financing activities	2,870,576	650,544
Net (decrease)/increase in cash and cash equivalents	(17,511,375)	6,894,691
Cash and cash equivalents - beginning of year	49,782,629	42,887,938
Cash and cash equivalents - end of year	32,271,254	49,782,629

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

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

1 Incorporation and principal activity

Fortress Caribbean High Interest Fund Limited (“the Fund”) was incorporated in Barbados on May 9, 2002 under the Companies Act of Barbados and is licensed under the Mutual Funds Act 2002-22 of Barbados as an authorised mutual fund. The Fund maintains its registered office at 1st Floor, Carlisle House, Hincks Street, Bridgetown, Barbados.

The Fund’s primary objective is income and capital preservation over the medium term. The Fund actively invests in a diversified portfolio of primarily Caribbean and international debt securities.

The Fund’s investment and administration activities are managed by Fortress Fund Managers Limited (“the Investment Manager”).

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

These financial statements were authorised for issue by the Board of Directors on December 15, 2017.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

a) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and IFRS Interpretations Committee (IFRS IC) promulgated by the International Accounting Standards Board (IASB), applicable to companies reporting under IFRS. The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of financial assets held at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund’s accounting policies. Although these estimates are based on management’s best knowledge of current events and conditions, actual results could differ from these estimates. The areas involving a higher degree of judgement on complexity, or areas where assumptions and estimates are significant to the financial assets are disclosed in note 3.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

a) Basis of preparation...continued

New and amended standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning October 1, 2017 that would be expected to have a material impact on the Fund.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Fund except the following set out below:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and is applicable from January 1, 2018. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Fund is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after October 1, 2018.

b) Foreign currency translation

Functional and presentation currency

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The financial statements are presented in Barbados dollars which is the Fund's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

b) Foreign currency translation...continued

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the statement of comprehensive income as part of the net fair value gain and loss on investments.

c) Financial assets

The Fund classifies its investments into two categories:

- Financial assets at fair value through profit or loss
- Loans and receivables

Management determines the appropriate classification of these assets at initial recognition.

Financial assets at fair value through profit or loss

i) Classification

A significant component of the Fund's investments has been classified as financial assets at fair value through profit or loss in accordance with International Accounting Standards 39 (IAS 39), Financial Instruments: Recognition and Measurement.

Financial assets in the category at fair value through profit or loss have been so designated by management at inception since the assets form part of the managed portfolio whose performance is evaluated on a fair value basis in accordance with a documented investment strategy.

ii) Recognition, derecognition and measurement

Regular-way purchases and sales of investments are recognised on the trade date, which is the date the Fund commits to purchase or sell the investments.

Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed as incurred in the statement of comprehensive income, which include the bid-ask spread, fees and commissions paid to agents, advisers, brokers and dealers. Financial assets at fair value through profit or loss are derecognised when the rights to receive cash flows from these assets have expired or the Fund has transferred substantially all risks and rewards of ownership.

Investments in other investment funds are valued on the basis of the net asset value per share as determined by the administrators of those investment vehicles in accordance with industry practice.

Gains or losses arising from changes in the fair value of investments classified as financial assets at fair value through profit or loss are recognised in the statement of comprehensive income as they arise. Average cost is used to compute realised and unrealised gains and losses on investments.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

c) Financial assets...continued

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

iii) Fair value estimation

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

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

iv) Transfers between levels of the fair value hierarchy

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus transaction costs and are subsequently 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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

d) Cash and cash equivalents

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

e) Investment income

Interest income

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

Dividend income

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

f) Expenses

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

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

g) Due from and due to brokers

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

h) Redeemable shares/net asset value

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

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

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

h) Redeemable shares/net asset value...continued

valued based on the procedures described in note 2c for the purpose of determining the net asset value per share for subscriptions and redemptions.

i) Distributions payable to holders of redeemable mutual fund shares

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

j) Taxation

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

3 Critical accounting estimates and assumptions

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

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year relate to the valuation of unquoted investments and the determination of impairment provisions. The fair value of such securities not quoted in an active market may be determined by the Fund using reputable pricing sources (such as pricing agencies) or indicative prices.

The Fund would exercise judgement and estimates on the quantity and quality of pricing sources used. The determination of what constitutes 'observable' requires significant judgement by the Fund. The Fund considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Management policies surrounding these estimates and assumptions are disclosed in note 4.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

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4 Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (which includes price risk, interest rate risk and currency risk), credit risk and liquidity risk.

The Fund's overall risk management programme seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise the potential adverse effect on the Fund's financial performance.

The risk management policies employed by the Fund to manage these risks are discussed below. There are no changes in the risk management policies from the prior year.

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

Market risk

i) Price risk

The Fund is exposed to market price risk arising primarily from the changes in equity and traded bond prices. To manage this risk the Fund holds a diversified portfolio of investments in accordance with its investment policy. A summary of the overall statement of financial position market exposures at September 30, 2017 is disclosed in note 5.

At September 30, 2017, 53% (2016- 61%) of financial assets at fair value through profit or loss, comprise of investments in other funds that have been fair valued in accordance with the policies set out in note 2c. Since the shares of the other funds are not publicly traded, redemption can only be made by the Fund on the redemption dates and subject to the required notice periods specified in the offering documents of each of the other funds. The rights of the Fund to request redemption of its investments in other funds may vary in frequency from daily to monthly redemptions. As a result, the carrying values of the other funds may not be indicative of the prevailing values ultimately realised on redemption. In addition, the Fund may be materially affected by the actions of other investors who have invested in funds in which the Fund has invested.

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

Sensitivity

The effects of a change in market prices as at September 30, 2017 of the Fund's financial assets at fair value through profit or loss are set out below. The analysis is based on the assumption that the equity indexes increase/decrease by 5-10% with all other variables held constant.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

4 Financial risk management

Market risk...continued

i) Price risk...continued

	Carrying Value 2017 \$	Effective change at September 2017	Impact on income \$
Listed on Caribbean stock exchange and markets	442,661	6%	26,560
Unlisted hedge and mutual funds	27,063,498	10%	2,706,350
Unlisted securities	29,682,107	10%	2,968,210
	57,188,266		5,701,120

	Carrying Value 2016 \$	Effective change at September 2016	Impact on income \$
Listed on Caribbean stock exchange and markets	503,703	6%	30,222
Unlisted hedge and mutual funds	28,501,645	10%	2,850,165
Unlisted securities	18,675,663	10%	1,867,566
	47,681,011		4,747,953

ii) Cash flows and fair value interest rate risk

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

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

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

4 Financial risk management...continued

Market risk...continued

ii) Cash flows and fair value interest rate risk...continued

Sensitivity

The following table indicates the sensitivity to the fair value of the Fund's long term fixed rate financial assets at fair value through profit or loss, to a reasonable possible change in interest rates with all other variables being constant.

	Effect on net assets 2017 \$	Effect on net assets 2016 \$
Change in interest rate:		
-2%	3,043,829	1,955,179
2%	(2,601,982)	(1,693,196)

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

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

iii) Foreign exchange risk

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

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

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

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

4 Financial risk management...continued

Market risk...continued

iii) Foreign exchange risk...continued

currency risk. However, management monitors the exposure on all foreign currency denominated assets and liabilities.

The Fund is most exposed to currency risk in its operating currencies whose values have noticeably fluctuated against the Barbados dollar. These currencies include the Brazilian Real (BRL), and the Mexican peso (MXN). The table below summarises the Fund's assets and liabilities, monetary and non-monetary, which are denominated in a currency other than the Barbados dollar:

	BRL \$	MXN \$
September 30, 2017		
Financial assets		
Investments	—	778,753
Total financial assets	—	778,753
Total financial liabilities	—	—
Net position	—	778,753
	BRL \$	MXN \$
September 30, 2016		
Financial assets		
Investments	376,197	741,348
Total financial assets	376,197	741,348
Total financial liabilities	—	—
Net position	376,197	741,348

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

4 Financial risk management...continued

Market risk...continued

iii) Foreign exchange risk...continued

Sensitivity

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

	Effect of a 5% depreciation as of September 30, 2017	Effect of a 5% depreciation as of September 30, 2016
	\$	\$
Balances denominated in MXN	38,938	37,067
Balances denominated in BRL	—	18,809

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

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.

	2017	2016
	\$	\$
Loans and receivables	37,907,310	23,955,018
Government backed securities	10,650,288	7,150,637
Corporate securities	16,413,210	11,525,026
Accounts receivable	30,263	89,923
Cash and cash equivalents	32,271,254	49,782,629
Total	97,272,325	92,503,233

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

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

4 Financial risk management...continued

Credit risk...continued

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

	2017	2016
	\$	\$
US Treasury Notes (AA+ by Standard & Poor's)	6,723,810	2,804,393
Sagicor Finance Limited (BB- by Standard & Poor's)	1,738,129	2,822,251
Scotiabank Peru (BBB+ by Standard & Poor's)	1,269,474	1,244,640
Juniper Networks (BBB by Standard & Poor's)	1,064,768	—
Time Warner Inc (BBB+ by Standard & Poor's)	1,023,556	—
Cisco Systems Inc (AA- by Standard & Poor's)	987,072	1,007,432
Amgen Inc (A by Standard & Poor's)	978,480	996,905
Mosaic Co (BBB- by Standard & Poor's)	949,514	—
Mexican Bonos (A+ by Standard & Poor's)	778,753	741,348
Bank of Nova Scotia (A+ by Standard & Poor's)	705,866	702,321
Whole Foods Market Inc (A+ by Standard & Poor's)	700,968	—
GE Cap Corp (AA- by Standard & Poor's)	611,640	618,240
Wells Fargo & Co (A by Standard & Poor's)	568,675	—
Lennar Corporation (BB+ by Standard & Poor's)	536,959	—
Helmerich & Payne (BBB+ by Standard & Poor's)	530,705	—
Ultrapar Int (BB+ by Standard & Poor's)	528,772	—
Concho Resources (BBB- by Standard & Poor's)	527,808	—
Axis Capital Holdings Ltd (A by Standard & Poor's)	506,900	—
Xerox Corporation (BBB- by Standard & Poor's)	504,133	—
United Tech Corp (A- by Standard & Poor's)	496,900	—
Ventas Realty LP (BBB+ by Standard & Poor's)	406,880	432,160
Alphabet Inc (B by Standard & Poor's)	376,865	—
Alphabet Inc (AA- by Standard & Poor's)	376,865	394,774
Noble Holding International (B by Standard & Poor's)	366,993	485,313
Solar Capital (BBB- by Fitch)	253,400	255,600
Grupo Elektra Bond (BB- by Fitch)	—	506,188
Western Digital Corp (BB+ by Standard & Poor's)	—	725,400
International Financial Corp (AAA by Standard & Poor's)	—	376,197
Lexmark Intl Inc (BBB- by Standard & Poor's)	—	216,257
Government of Barbados debt securities (CCC by Standard & Poor's)	—	203,220
	23,513,885	14,532,639

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

4 Financial risk management...continued

Credit risk...continued

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

	2017 \$	2016 \$
Cash and cash equivalents		
CIBC FirstCaribbean International Bank Limited	32,134,895	38,389,936
Morgan Stanley & Co (A by Standard & Poor's)	119,650	6,698,734
CIBC Bank and Trust Company (Cayman) Limited	—	4,462,242
	<u>32,254,545</u>	<u>49,550,912</u>

None of the Fund's loans and receivables are impaired. None of the receivables are past due but not impaired.

The Fund's exposure to individual counterparty credit risk on its and loans and receivables are disclosed in note 5.

Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to weekly cash redemptions of Class "A" Redeemable Mutual Fund Shares (note 9). 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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

4 Financial risk management ...continued

Liquidity risk...continued

	Less than 1 month \$	1 - 3 months \$
At September 30, 2017		
Accounts payable and accrued expenses	–	11,530
Net assets attributable to holders of redeemable mutual fund shares	127,416,563	–
Total financial liabilities	127,416,563	11,530

At September 30, 2016

Accounts payable and accrued expenses	–	34,075
Net assets attributable to holders of redeemable mutual fund shares	121,473,506	–
Total financial liabilities	121,473,506	34,075

Redeemable shares are redeemed at the holder's option (note 9). 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.

At September 30, 2017, 53% (2016- 61%) of financial assets at fair value through profit or loss, comprise of investments in other funds that have been fair valued in accordance with the policies set out in note 2c. Since the shares of the other funds are not publicly traded, redemption can only be made by the Fund on the redemption dates and subject to the required notice periods specified in the offering documents of each of the other funds. The rights of the Fund to request redemption of its investments in other funds may vary in frequency from daily to monthly redemptions. As a result, the carrying values of the other funds may not be indicative of the prevailing values ultimately realised on redemption. In addition, the Fund may be materially affected by the actions of other investors who have invested in funds in which the Fund has invested.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

4 Financial risk management ...continued

Liquidity risk...continued

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

	Less than 1 week \$	1 week- 1 month \$	1 - 3 months \$	Over 3 months \$
September 30, 2017				
Total assets	73,121,052	15,264,835	7,122,418	31,920,788
September 30, 2016				
Total assets	80,100,631	11,936,842	3,062,523	26,408,585

Capital risk management

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

Fair value estimation

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

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

The Fund is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation...continued

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgment by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following tables analyse within the fair value hierarchy the Fund's financial assets measured at fair value:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
September 30, 2017				
Financial assets at fair value through profit or loss				
Government backed securities	6,723,810	2,836,187	1,090,291	10,650,288
Corporate securities	16,413,210	—	—	16,413,210
Hedge funds	—	4,674,711	—	4,674,711
Mutual funds	—	25,450,057	—	25,450,057
	23,137,020	32,960,955	1,090,291	57,188,266

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
September 30, 2016				
Financial assets at fair value through profit or loss				
Government backed securities	2,804,393	3,306,794	1,039,450	7,150,637
Corporate securities	11,525,026	—	—	11,525,026
Hedge funds	—	4,434,045	—	4,434,045
Mutual funds	—	24,571,303	—	24,571,303
	14,329,419	32,312,142	1,039,450	47,681,011

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

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4 Financial risk management ...continued

Fair value estimation...continued

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

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

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

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

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

There were no transfers between levels as at September 30, 2017.

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

	Government backed securities	Total
	\$	\$
September 30, 2017		
Opening balance	1,039,450	1,039,450
Purchases	—	—
Sales	(2,566)	(2,566)
Gains recognised in statement of comprehensive income	53,407	53,407
Closing balance	1,090,291	1,090,291
Change in unrealised gains or losses for level 3 assets held at year end and included in other net changes in fair value on financial assets at fair value through profit or loss	53,407	53,407

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

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4 Financial risk management ...continued

Fair value estimation...continued

	Government backed securities \$	Total \$
September 30, 2016		
Opening balance	609,072	609,072
Purchases	658,976	658,976
Sales	(609,072)	(609,072)
Gains recognised in statement of comprehensive income	380,474	380,474
Closing balance	1,039,450	1,039,450
Change in unrealised gains or losses for level 3 assets held at year end and included in other net changes in fair value on financial assets at fair value through profit or loss	380,474	380,474

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

Description	Fair value at September 30, 2017 \$	Fair value at September 30, 2016 \$	Valuation technique	Unobservable Inputs	Relationship of unobservable inputs to fair value
Government backed securities	1,090,291	1,039,450	Third party valuation of bond prices	Market yields Linear interpolation	The higher the market yield the higher the fair value

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

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4 Financial risk management ...continued

Fair value estimation...continued

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

The following table analyses within the fair value hierarchy the Fund's assets and liabilities (by class) not measured at fair value at September 30, 2017 but for which fair value is disclosed.

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
September 30, 2017				
Assets				
Loans and receivables	—	—	37,907,310	37,907,310
Accounts receivable	—	30,263	—	30,263
Due from broker	—	32,000	—	32,000
Cash and cash equivalents	32,271,254	—	—	32,271,254
Total	32,271,254	62,263	37,907,310	70,240,827
Liabilities				
Accounts payable and accrued expenses	—	11,530	—	11,530
Net assets attributable to holders of redeemable mutual fund shares	—	127,416,563	—	127,416,563
Total	—	127,428,093	—	127,428,093
September 30, 2016				
Assets				
Loans and receivables	—	—	23,955,018	23,955,018
Accounts receivable	—	89,923	—	89,923
Cash and cash equivalents	49,782,629	—	—	49,782,629
Total	49,782,629	89,923	23,955,018	73,827,570
Liabilities				
Accounts payable and accrued expenses	—	34,075	—	34,075
Net assets attributable to holders of redeemable mutual fund shares	—	121,473,506	—	121,473,506
Total	—	121,507,581	—	121,507,581

The assets and liabilities, except for the redeemable mutual fund shares, included in the above table are carried at amortised cost; their carrying values are a reasonable approximation of fair value.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation...continued

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

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

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

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

The puttable value of redeemable shares is calculated based on the net difference between total assets and all other liabilities of the Fund in accordance with the Fund's offering memorandum. These shares are not traded on an active market. A demand feature is attached to these shares, as they are redeemable at the holders' option and can be put back to the Fund at any dealing date for cash equal to a proportionate share of the Fund's net asset value attributable to the share class (note 2h). The fair value is based on the amount payable on demand, discounted from the first date that the amount could be required to be paid. The impact of discounting in this instance is not material. As such, level 2 is deemed to be the most appropriate categorisation for net assets attributable to holders of redeemable shares.

5 Financial assets

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

	2017 \$	2016 \$
Financial assets at fair value through profit or loss		
- government backed securities	10,650,288	7,150,637
- corporate securities	16,413,210	11,525,026
- mutual funds	25,450,057	24,571,303
- hedge funds	4,674,711	4,434,045
Total financial assets designated as fair value through profit or loss	57,188,266	47,681,011
Loans and receivables	37,907,310	23,955,018
Total investments	95,095,576	71,636,029

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

5 Financial assets ...continued

	2017 \$	2016 \$
Gains recognised in relation to financial assets at fair value through profit or loss:		
- unrealised gains	1,283,911	1,618,745
- realised gains	517,120	876,479
Net gains in fair value through profit or loss	1,801,031	2,495,224

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

	2017		2016	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Financial assets at fair value through profit or loss	57,188,266	57,188,266	47,681,011	47,681,011
Loans and receivables	37,907,310	37,907,310	23,955,018	23,954,628
	95,095,576	95,095,576	71,636,029	71,635,639

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

	Carrying value 2017 \$	Carrying value 2016 \$
Due within one year	24,642,052	5,388,131
Due after one year but within five years	19,387,205	24,602,124
Due after 5 years	19,162,731	9,900,202
No stated maturity	31,903,588	31,745,572
	95,095,576	71,636,029

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

5 Financial assets ...continued

The detailed portfolio of investments is as follows:

Security	Rate	Maturity	2017		2016	
			Cost \$	Market value \$	Cost \$	Market value \$
Financial assets at fair value through profit or loss:						
Barbados						
UWI Cave Hill Bond	9.03%	2027-09-27	2,544,113	2,836,187	2,798,525	3,103,574
Sagicor Finance Ltd	8.88%	2022-08-11	1,513,054	1,738,129	2,457,618	2,822,251
Fortress Caribbean Property Fund SCC Ltd- Value Fund			534,341	442,661	480,341	503,703
Government of Barbados	6.63%	2020-09-30	—	—	192,591	203,220
			4,591,508	5,016,977	5,929,075	6,632,748
OECS						
Government of Grenada	7.00%	2025-09-15	1,749,154	1,090,291	1,843,982	1,039,450
			1,749,154	1,090,291	1,843,982	1,039,450
International						
Western Asset Asian Opportunities Fund			5,000,000	5,646,064	5,000,000	5,661,427
PIMCO GLB Inv Grade Inst			4,398,440	5,270,254	4,398,440	5,073,392
Franklin Templeton Global Bond Fund			4,178,564	5,034,496	4,427,525	4,721,893
Fortress Income Builder Int'l Fund SP			4,200,000	4,564,493	4,200,000	4,170,337
Fortress Income Builder US Fund			3,971,799	4,492,089	3,971,799	4,440,551
US Treasury Note	2.25%	2027-02-15	3,988,758	3,985,652	—	—
Permal Fixed Inc Holdings Fund Class N			3,500,000	3,500,093	3,500,000	3,354,122
US Treasury Note	2.00%	2020-07-31	2,690,588	2,738,158	2,687,300	2,804,393
Scotiabank Peru	4.50%	2022-12-13	1,162,409	1,269,474	1,155,187	1,244,640
ChapelGate Credit Opportunity Fund Ltd			522,545	1,174,618	522,545	1,079,923
Juniper Networks	4.35%	2025-06-15	1,026,445	1,064,768	—	—
Balance c/fwd			34,639,548	38,740,159	29,862,796	32,550,678

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

5 Financial assets ...continued

			2017		2016	
Security	Rate	Maturity	Cost \$	Market Value \$	Cost \$	Market Value \$
Financial assets at fair value through profit or loss:						
International						
Balance b/fwd			34,639,548	38,740,159	29,862,796	32,550,678
Time Warner Inc	3.88%	2026-01-15	997,670	1,023,556	—	—
Cisco Systems Inc	2.20%	2023-09-20	998,259	987,072	997,948	1,007,432
Amgen Inc	2.25%	2023-08-19	997,897	978,480	997,532	996,905
Mosaic Co	4.25%	2023-11-15	908,201	949,514	—	—
Mexican Bonos	5.00%	2019-11-12	998,194	778,753	998,972	741,348
Bank of Nova Scotia Libor+.66	2.64%	2019-06-14	700,000	705,866	700,000	702,321
Whole Foods Market Inc	5.20%	2025-12-03	631,307	700,968	—	—
GE Cap Corp			600,000	611,640	600,000	618,240
Wells Fargo & Co	4.25%	2029-07-15	600,000	568,675	—	—
Lennar Corporation	4.88%	2023-12-15	503,831	536,959	—	—
Helmerich & Payne	4.65%	2025-03-15	518,919	530,705	—	—
Ultrapar Int	5.25%	2026-10-05	502,412	528,772	—	—
Concho Resources	5.50%	2022-10-01	511,178	527,808	—	—
Axis Capital Holdings Ltd			500,000	506,900	—	—
Xerox Corporation	3.80%	2024-05-15	491,738	504,133	—	—
United Tech Corp	1.95%	2021-11-01	499,078	496,900	—	—
Ventas Realty LP			400,000	406,880	400,000	432,160
Alphabet Inc	2.00%	2026-08-15	392,629	376,865	391,795	394,774
Noble Holding Intl	4.63%	2021-03-01	364,097	366,993	594,466	485,313
Solar Capital			250,000	253,400	250,000	255,600
Grupo Elektra Bond	7.25%	2018-08-06	—	—	494,649	506,188
Intl Financial Corp	10.00%	2017-06-12	—	—	309,300	376,197
Lexmark Intl Inc	6.65%	2018-06-01	—	—	208,395	216,257
Western Digital Corp	10.50%	2024-04-01	—	—	585,706	725,400
			47,004,958	51,080,998	37,391,559	40,008,813
Total financial assets at fair value through profit or loss			53,345,620	57,188,266	45,164,616	47,681,011

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

5 Financial assets ...continued

Security	Rate	Maturity	2017		2016	
			Cost \$	Amortised cost/ carrying value \$	Cost \$	Amortised cost/ carrying value \$
Loans and receivables:						
Barbados						
Simpson Finance	3.58%	2021-06-15	3,000,000	3,032,193	—	—
Fortress Caribbean Property Ltd SCC- Value Fund	5.00%	2020-07-31	2,100,000	2,118,083	2,100,000	2,118,083
Fortress Caribbean Property Ltd SCC- Value Fund	4.00%	2018-07-31	1,500,000	1,510,333	1,500,000	1,510,333
Cave Shepherd & Co. Ltd			1,000,000	1,009,555	1,000,000	1,006,884
N.S.R Limited	5.00%	2029/09/30	500,000	500,139	—	—
Fortress Caribbean Property Ltd SCC- Value Fund	4.50%	2019-07-31	300,000	302,325	300,000	302,325
Williams Industries Inc	5.25%	2023-06-23	200,000	202,713	200,000	202,713
Simpson Finance	5.50%	2021-06-15	—	—	3,000,000	3,040,500
			8,600,000	8,675,341	8,100,000	8,180,838
Jamaica						
NCB Capital Markets Ltd	9.00%	2018-12-20	1,000,000	1,002,034	1,000,000	1,002,034
NCB Financial Group	5.25%	2019-08-04	600,000	603,754	—	—
			1,600,000	1,605,788	1,000,000	1,002,034
OECS						
Property Holdings	8.00%	2017-12-21	50,000	50,950	150,000	152,850
Other						
Loans receivables	3.56% - 6.05%	2017-02-28 -2019-09-28	27,444,521	27,575,231	14,514,600	14,619,296
			27,444,521	27,575,231	14,514,600	14,619,296
Total loans and receivables			37,694,521	37,907,310	23,764,600	23,955,018
Total investments			91,040,141	95,095,576	68,929,216	71,636,029

The effective yield on loans and receivable is 3.18% (2016 – 4.80%).

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

6 Cash and cash equivalents

Cash and cash equivalents of \$32,271,254 (2016 - \$49,782,629) are placed with leading regional commercial banks. The effective yield on interest bearing cash and cash equivalents is 0% (2016 – 0.19%).

7 Interest income

	2017 \$	2016 \$
Loans and receivables	1,220,693	1,294,788
Debt securities at fair value through profit or loss	1,083,605	922,145
Cash and cash equivalents	63,283	336,437
	<u>2,367,581</u>	<u>2,553,370</u>

8 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Fortress Fund Managers Limited serves as manager and registrar of the Fund. As a result of providing investment advisory, management, registrar and administrator services, Fortress Fund Managers Limited receives a weekly management and administration fee based on the actual net asset value of the Fund, calculated weekly and payable in arrears. Management fees for the financial year amounted to \$933,593 (2016- \$876,745).

Management fees of \$89,328 (2016- \$82,996) were refunded by Fortress Fund Advisory Limited (a subsidiary of Fortress Fund Managers Limited) being 1% of the net asset values of Fortress Income Builder US Fund and Fortress Income Builder Intl Fund shares held by the Fund during the year. This is to avoid double charging of management fees on assets invested in related Funds which have the same Manager.

The administrator fees amounted to \$107,110 (2016 - \$101,462) for the year.

Custodian fees of \$107,109 (2016- \$101,462) were paid to CIBC FirstCaribbean International Bank (Barbados) Limited for which there is shared directorship.

The Fund holds 983,690 (2016- 883,690) shares valued at \$442,661 (2016- \$503,703) in the Fortress Caribbean Property Fund Limited SCC- Value Fund.

The Fund holds 19,859 (2016- 19,859) shares valued at \$4,492,089 (2016- \$4,440,551) in the Fortress Income Builder US Fund SPC.

The Fund holds 20,430 (2016- 20,430) shares valued at \$4,564,493 (2016- \$4,170,337) in the Fortress Income Builder International Fund SPC.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

(expressed in Barbados dollars)

8 Related parties ...continued

Included in the loans and receivable is \$3,930,741 (2016- \$3,930,741) due from Fortress Caribbean Property Fund SCC Limited- Value Fund. The loans bear interest at rates of 4%- 5% (2016- 4% - 5%) per annum. These loans are repayable on July 31, 2018- July 31, 2020

Directors fees of \$16,000 (2016- \$16,000) were paid during the year. Directors' interest (including beneficial interests) in class "A" redeemable mutual fund shares are as follows:

Shareholder	Number of shares at start of year	Number of shares purchased in the year	Number of shares redeemed in the year	Number of shares at year end
Directors	237,923	3,168	(160,543)	80,548

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

	Number of shares	
	2017	2016
Fortress Caribbean Pension Fund Limited	42,363,602	38,919,435

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

Redeemable Distribution Shares

This class of shares will distribute substantially all of its income accruing to the investors in the form of dividends, which are paid semi-annually. A dividend of \$0.0339 (2016-\$0.0104) per share amounting to \$165,967 (2016- \$53,202) was declared and paid during the financial year.

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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2017

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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, these shares would be repaid at par.



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