

2020

Annual Report

Fortress Caribbean
High Interest Fund



Fortress
FUND MANAGERS



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.

Fortress Fund Managers Limited
Radley Court
Upper Collymore Rock
St. Michael, BB14004
Barbados
BB11144
TEL (246) 431 2198
FAX (246) 431 0514
invest@fortressfund.com
www.fortressfund.com



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 \$50.00 for monthly savings plan	
FUND STATUS:	Closed to lump sum subscriptions Open for pension and monthly savings programme only	
	ACCUMULATION	DISTRIBUTION
NET ASSET VALUE PER SHARE 9/30/2020	\$2.0532	\$1.0283
NET ASSETS 9/30/2020	\$129,485,494	\$3,301,567
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
John Howard
Maria Nicholls
Tracey Shuffler
John Williams
Roger Cave - Investment Director

COMPANY SECRETARY

Hanna M. Chrysostom
Broad Street
Bridgetown
St. Michael
Barbados

FORTRESS FUND MANAGERS AUDIT COMMITTEE

John Howard
Maria Nicholls

REGISTERED OFFICE

Radley Court
Upper Collymore Rock
St. Michael, BB14004
Barbados

ATTORNEY AT LAW

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

INDEPENDENT AUDITORS

Ernst & Young Ltd.
One Welches
Welches
St. Thomas
Barbados

CUSTODIAN

CIBC FirstCaribbean International Bank (Barbados) Limited
Wealth Management Division
Ground Floor,
Michael Mansoor Building,
Warrens,
Barbados

INVESTMENT MANAGER & ADMINISTRATOR

Fortress Fund Managers Limited
Radley Court
Upper Collymore Rock
St. Michael, BB14004
Barbados

Tel: (246) 431 2198
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 Radley Court, Upper Collymore Rock, St. Michael, BB14004, 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.



Directors' Report

“This was a volatile year in financial markets and interest rates remained low, but the Fund generated a solid return. ”

Directors' Report

Investment Director Roger Cave

This was a volatile year in financial markets and interest rates remained low, but the Fund generated a solid return. The Fortress Caribbean High Interest Fund returned 2.8% for the year ended September 30, 2020. The net asset value (NAV) of the Accumulation shares increased from \$1.9975 at September 30, 2019 to \$2.0532 at September 30, 2020, while the Distribution shares moved from \$1.0189 to \$1.0283 after paying a dividend of \$0.0188 per share. Total assets decreased from \$137 million to \$133 million. The Fund's compound annual return since inception in 2002 is now 4.0% per year, net of all fees and expenses. Its investment objective continues to be the highest level of income consistent with the preservation of capital.

The Fund is still closed to new lump-sum subscriptions but remains open for subscriptions from monthly savings programs, RRSPs and pension plans.

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 but growing allocation to government securities, a wide range of high-quality global bonds accomplished via the US\$ Fortress Fixed Income Fund and directly,

investments in specialised funds, and cash on deposit with CIBC FirstCaribbean, the Fund's Custodian Trustee. The gross yield of the Fund's portfolio is approximately 3.5%, a good estimate of its return potential in the medium-term.

In terms of day-to-day operations, I am pleased to report that the Fund remained completely operational through the challenges and everyday stresses brought about by the lockdowns early in the year. In line with the Fortress Fund Managers business continuity plan our team worked remotely from home until returning to the office in June. Investors were able to access their accounts, redeem shares and invest new money. Reports were prepared and posted to our website and we communicated regularly about market conditions both directly with clients and indirectly via the press. Investment operations, fund administration and financial functions were all uninterrupted. Investors might have noticed some new (online) processes for facilitating things like subscriptions and redemptions which were brought about by necessity, but which we now find ourselves keeping by choice. I would like to thank especially our clients, our team, and our business partners and suppliers for their support and adaptability during that time.

2020 Investment Performance

The Fund returned 2.8% for the year as global bond prices rose significantly and more of the Fund's Barbados dollar cash was put to work earning higher returns. Global bonds rallied strongly during the year after the U.S. Federal Reserve (Fed) moved from raising interest rates to lowering them. The Fed wound up cutting its target rate twice in late 2019 and aggressively in March 2020 to between 0% and 0.25 % in response to the COVID-19 crisis. The Fund's investments in the US\$ Fortress Fixed Income Fund and other U.S. and global bonds achieved high single digit returns in this environment of falling rates, contributing significantly to the Fund's overall result. Our holdings in Barbados government and corporate bonds also contributed steady returns during the year.

With the most immediate default risk passed, we continued to take a measured approach to adding Government of Barbados exposure back in the Fund. This and other new investments reduced the cash levels in the Fund, which helped increase the average yield in the portfolio and added to the returns during the year. The Fund's cash balance is now down to 11% of the portfolio and we are hopeful the Fund will once again become fully invested in the coming months which will further boost its overall yield.

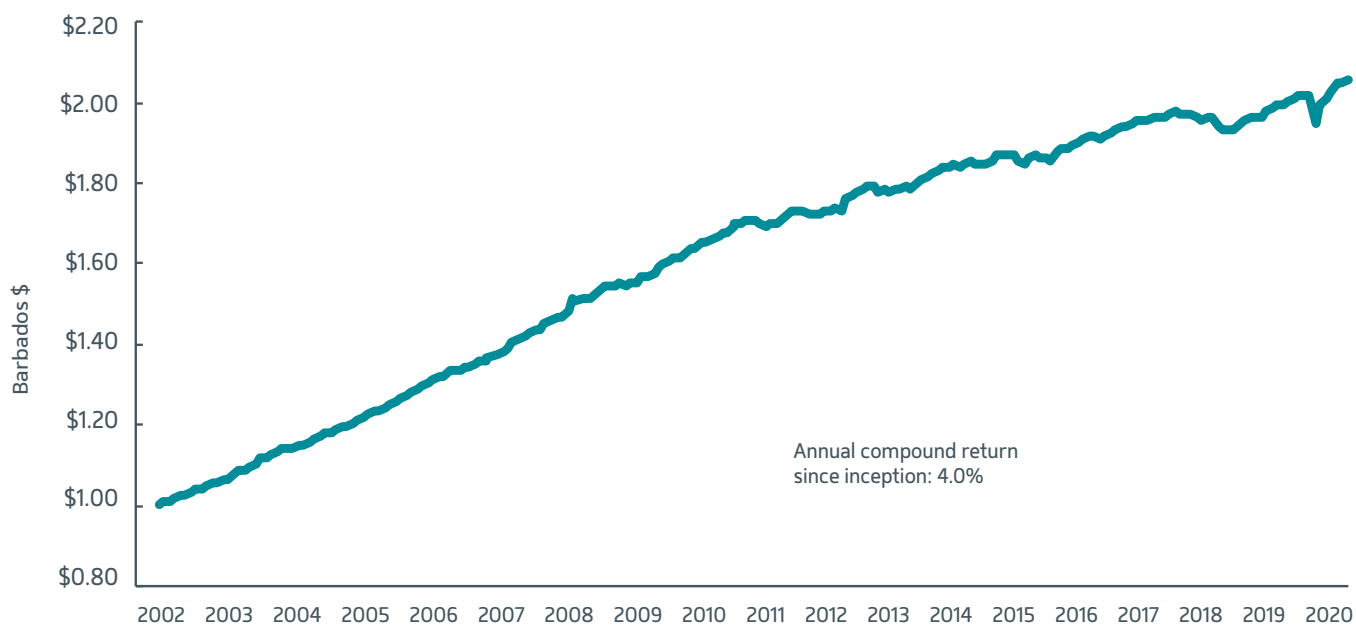
The Fund's recent performance and performance since inception in 2002 are summarised in the table and graph below.

Investment Performance as of 9/30/20*

	3 month	1 year	3 year	5 year	Inception
Caribbean High Interest Fund (Accumulation Shares)	1.3%	2.8%	1.5%	2.2%	4.0%

**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 and government 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 continued to add to the Fund's holdings in post-restructuring Government of Barbados bonds during the year. These purchases occurred at yields between 7% and 11% depending on maturity and left the Fund's allocation to Government of Barbados debt at approximately 13% of the total portfolio. During the market weakness early in the year we also established positions in select U.S. corporate bonds that were being offered at extremely attractive levels due to the COVID-19 stress. As a result of these and other incremental investments the Fund's cash level declined from approximately \$30 million in 2019 to \$15 million at September 30, 2020, and its average yield to maturity increased even though global bond yields fell.

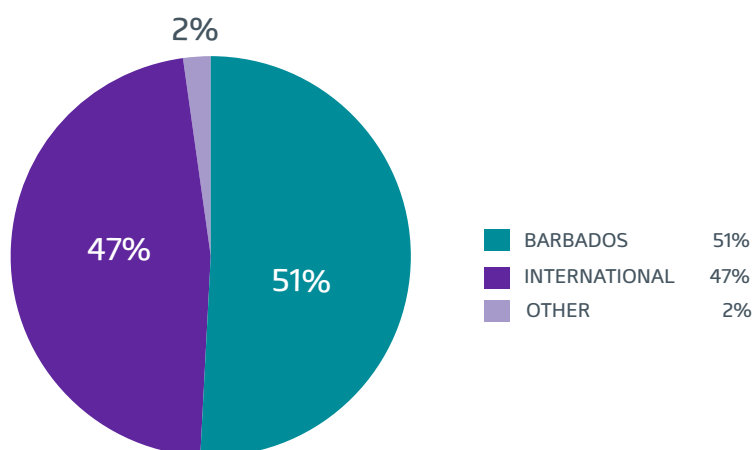
The Fund's core allocation to the US\$ Fortress Fixed Income Fund remains the Fund's largest investment at

23% of the portfolio. This fund, also managed directly by Fortress, invests in high quality corporate and government bonds primarily in the U.S., and is an efficient way to access this type of conservative investment with an actively managed, well-diversified portfolio. It offers us the ability to gain efficient diversification for the Fund and to easily adjust allocations as necessary. The fund had an outstanding year in 2020 both in relative and absolute terms and was up 8.2% over the year, also surpassing its benchmark return of 7.0%. The Fed has promised to keep interest rates very low for the foreseeable future which while an important tailwind for financial markets will unfortunately mean that returns this high are unlikely to be repeated any time soon.

As of September 30, 2020, the average term to maturity of the Fund's holdings was just over two years, and the average gross yield to maturity was 3.5% (up from 3.3% last year). Approximately 49% of the portfolio is invested outside the Caribbean region in U.S. dollars and other global currencies.

The graph below summarises the Fund's geographic distribution as of September 30, 2020 and the table lists some of the top holdings. 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 9/30/20



Top 5 Holdings

<i> Holding </i>	<i> Country/Region </i>	<i> Sector </i>	<i> Weight </i>
Fortress Fixed Income Fund	International	Various	23%
Government of Barbados Series F Bond	Barbados	Government	12%
First Citizens Repo Jan 6, 2020	Barbados	Financial	7%
Deposits - CIBC FirstCaribbean Int'l Bank	Barbados	Bank	6%
GEL Note Nov 30, 2021	Barbados	Conglomerate	6%

Outlook

Investors in the Caribbean region seeking to earn a return from low-risk government and corporate bonds face some significant, though not entirely new, challenges. With interest rates at zero or even negative in several of the leading countries in the developed world, investors will have to assume greater risks in terms of credit quality and/or maturity to achieve any kind of returns from these bonds in the years ahead. With regional commercial banks now paying little or no interest on savings accounts and the default risks associated with regional government debt still a genuine concern, there are few straightforward, attractive options. This is particularly difficult for persons at or near retirement, where for many fixed income investments were expected to be a stable component of their income to support their normal living expenses.

It is clear that in order to earn a positive return with interest rates so low, that some level of risk must be taken and the key issue is how it can be done sensibly with an appropriate level of diversification while keeping the objective of capital preservation firmly in focus. This is especially difficult to achieve in our small local market with almost no new government bonds currently being issued, very few new corporate issues, limited secondary trading of fixed income securities and exchange controls. We are pleased with the quality and performance of our current local holdings but would like to find many more investments of appropriate quality and price.

Including global investments to the extent possible helps significantly. With 49% of the Fund invested in diversified US\$ fixed income funds and direct positions in select US\$ corporate bonds issued by large international companies, the Fund's diversification, risk reduction and liquidity are greatly enhanced. This is especially important because in the local Barbados market there are so few viable bond investments, and there is so little secondary trading and robust price discovery.

The average yield on the Fund's portfolio is currently about 3.5%. We expect this to rise marginally in the months ahead as more low-yielding cash is profitably deployed. But there are limits to what can be accomplished given the challenges of the current environment, both in the Caribbean and abroad. We suggest investors in the Fund continue to expect lower than historic returns in the range of 2.5-3% per year for the foreseeable future. With bonds, the math is inescapable and you simply can't achieve the high returns that bonds have produced in recent years starting with such low yields.

There were some changes to the Board of Directors of Fortress Fund Managers and the funds during the year. Tracey Shuffler and Maria Nicholls both joined the boards in early 2020, and David Simpson retired in August. Over his many years with us, Mr. Simpson contributed to the governance of the company and its progress and growth. We thank him wholeheartedly

for his accomplished work on the behalf of Fortress and the funds' investors. All our Directors have done an outstanding job in guiding and supporting us through a most volatile and challenging year and we thank them for their focus and dedication.

Finally, and most importantly, thanks to you our valued shareholders for your continued support. We look forward to what will hopefully be a far less eventful year in 2021.

A handwritten signature in black ink that reads "Roger Cave". The signature is written in a cursive, flowing style.

Roger Cave, CA, CFA
Investment Director



Financial Statements



Ernst & Young Ltd
P.O. Box 261
Bridgetown, BB11000
Barbados, W.I.

Tel: 246 430 3900
Fax: 246 426 9551
246 430 3879
www.ey.com

Street Address
One Welches
Welches
St. Thomas, BB22025
Barbados, W.I.

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 (“the Fund”), which comprise the statement of financial position as at 30 September 2020, and the statement of net assets attributable to holders of redeemable mutual fund shares, statement of comprehensive income and statement of cash flows for the year then ended, and 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 2020 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’ (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (“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 the Board of Directors 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.

The Audit Committee is 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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 (Continued)

We communicate with the Audit Committee 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.

Other Matter

This report is made solely to the Fund's shareholders, as a body, in accordance with Section 147 of the Companies 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

Ernst & Young Ltd
BARBADOS
14 December 2020

Fortress Caribbean High Interest Fund Limited

Statement of Financial Position

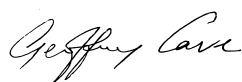
As at September 30, 2020

(expressed in Barbados dollars)

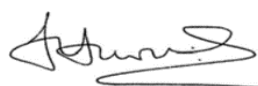
	2020 \$	2019 \$
Assets		
Financial assets (note 5)	117,298,716	107,334,123
Accounts receivable	744,449	–
Cash and cash equivalents (note 6)	14,794,014	29,847,222
Total assets	132,837,179	137,181,345
Liabilities		
Accounts payable and accrued expenses	49,118	40,069
Liabilities (excluding net assets attributable to holders of redeemable mutual fund shares)	49,118	40,069
Net assets attributable to holders of redeemable mutual fund shares:		
Accumulation shares (note 9)	129,485,494	133,633,464
Distribution shares (note 9)	3,301,567	3,506,812
	132,787,061	137,140,276
Total liabilities	132,836,179	137,180,345
Share capital (note 10)	1,000	1,000
Liabilities and shareholder funds	132,837,179	137,181,345
Net asset value per accumulation share	2.0532	1.9975
Net asset value per distribution share	1.0283	1.0189

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

Approved by the Board of Directors on December 14, 2020



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, 2020

(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, 2018	66,239,320	3,574,417	128,382,150	3,533,640	131,915,790
Issue of shares	3,753,758	49,483	7,316,006	49,356	7,365,362
Redemption of shares	(3,091,838)	(182,242)	(6,044,839)	(182,463)	(6,227,302)
Total comprehensive income for the year	—	—	3,980,147	106,279	4,086,426
Balance - September 30, 2019	66,901,240	3,441,658	133,633,464	3,506,812	137,140,276
Issue of shares	2,006,989	14,465	4,039,539	14,250	4,053,789
Redemption of shares	(5,842,914)	(245,243)	(11,778,705)	(246,808)	(12,025,513)
Total comprehensive income for the year	—	—	3,591,196	27,313	3,618,509
Balance - September 30, 2020	63,065,315	3,210,880	129,485,494	3,301,567	132,787,061

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, 2020

(expressed in Barbados dollars)

	2020	2019
	\$	\$
Revenue		
Interest income (note 7)	1,756,031	1,618,747
Net fair value gains on investments (note 5)	3,008,781	3,559,439
Dividend income	84,167	97,183
Total investment income	<u>4,848,979</u>	<u>5,275,369</u>
Expenditure		
Management fees (note 8)	827,416	845,255
Administrator and custodian fees (note 8)	228,941	229,365
Other operating expenses	58,884	81,250
Audit fees	37,567	31,973
Trade fees	12,953	1,100
Operating expenditure	<u>1,165,761</u>	<u>1,188,943</u>
Operating income	<u>3,683,218</u>	<u>4,086,426</u>
Finance costs		
Distributions to holders of redeemable shares- distribution shares	<u>(64,709)</u>	–
Total comprehensive income	<u>3,618,509</u>	<u>4,086,426</u>
Total comprehensive income on ordinary activities allocated to:		
Holders of redeemable mutual fund distribution shares	27,313	106,279
Holders of redeemable mutual fund accumulation shares	<u>3,591,196</u>	<u>3,980,147</u>
Total comprehensive income	<u>3,618,509</u>	<u>4,086,426</u>

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, 2020

(expressed in Barbados dollars)

	2020	2019
	\$	\$
Cash flows from operating activities		
Total comprehensive income	3,618,509	4,086,426
Adjustments for:		
Net fair value gains on investments	(3,008,781)	(3,559,439)
Interest income	(1,756,031)	(1,618,747)
Dividend income	(84,167)	(97,183)
Distributions to holders of redeemable shares	64,709	—
	<hr/>	<hr/>
Operating loss before working capital changes	(1,165,761)	(1,188,943)
Increase in account receivable	(744,449)	—
Increase/(decrease) in accounts payable and accrued expenses	9,049	(1,999)
Purchase of investments	(80,221,455)	(38,039,974)
Proceeds on the sale of investments	73,313,858	17,432,621
	<hr/>	<hr/>
Cash used in operations	(8,808,758)	(21,798,295)
Interest received	1,707,816	1,591,788
Dividends received	84,167	97,183
	<hr/>	<hr/>
Cash used in operating activities	(7,016,775)	(20,109,324)
	<hr/>	<hr/>
Cash flows from financing activities		
Issue of mutual fund shares	4,053,789	7,365,362
Redemption of mutual fund shares	(12,025,513)	(6,227,302)
Distributions paid to holders of redeemable shares	(64,709)	—
	<hr/>	<hr/>
Cash (used in)/generated from financing activities	(8,036,433)	1,138,060
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(15,053,208)	(18,971,264)
	<hr/>	<hr/>
Cash and cash equivalents - beginning of year	29,847,222	48,818,486
	<hr/>	<hr/>
Cash and cash equivalents - end of year	14,794,014	29,847,222
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The accompanying notes form an integral part of these financial statements.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(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 14, 2020.

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 preparation

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.

New and amended standards and interpretations

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on January 1, 2019 that have a material effect on the financial statements of the Fund.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

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.

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 instruments

(i) Classification

In accordance with IFRS 9, the Fund classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

Financial assets

The Fund classifies its financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The entity's business model for managing the financial assets
- The contractual cash flow characteristics of the financial asset

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Fund can also elect to select the fair value option to eliminate an accounting mismatch.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

c) Financial instruments...continued

(i) Classification...continued

Financial assets measured at amortised cost

A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Fund includes in this category short-term non-financing receivables including cash collateral posted on derivative contracts, accrued income and other receivables.

Financial assets measured at fair value through profit or loss (FVPL)

A financial asset is measured at fair value through profit or loss if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding or;
- (b) It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell or
- (c) At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Fund includes in this category:

- Equity instruments
- Debt instruments. These include investments that are held under a business model to manage them on a fair value basis for investment income and fair value gains. It also includes instruments management has elected to designate at fair value through profit and loss under IFRS 9.
- Instruments held for trading. This category includes equity instruments and debt instruments which are acquired principally for the purpose of generating a profit from short-term fluctuations in price. This category also includes derivative contracts in an asset position.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

c) Financial instruments...continued

(i) Classification...continued

Financial liabilities

Financial liabilities measured at fair value through profit or loss (FVPL)

A financial liability is measured at FVPL if it meets the definition of held for trading. A financial liability is also measured at fair value through profit or loss if, upon initial recognition, it is irrevocably designated by the entity as at fair value through profit or loss when doing so results in more relevant information, because it eliminates, or significantly reduces, a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial liabilities measured at amortised cost

This category includes all financial liabilities, other than those measured at fair value through profit or loss. The Fund includes in this category other short-term payables.

(ii) Recognition

The Fund recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

(iii) Initial measurement

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Financial assets and liabilities (other than those classified as at FVPL) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

(iv) Subsequent measurement

After initial measurement, the Fund measures financial instruments which are classified as at FVPL, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at FVPL in the statement of comprehensive income. Interest and dividends earned or paid on these instruments are recorded separately in interest revenue or expense and dividend revenue or expense in the statement of comprehensive income.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

c) Financial instruments...continued

(iv) Subsequent measurement...continued

Financial assets, other than those classified as at FVPL, are measured at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the instruments are derecognised or impaired, as well as through the amortisation process.

Financial liabilities, other than those classified as at FVPL, are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process.

The effective interest method (EIR) is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating and recognising the interest income or interest expense in profit or loss over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instruments, but does not consider expected credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(v) Derecognition

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired, or the Fund has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and the Fund has:

- (a) Transferred substantially all of the risks and rewards of the asset or;
- (b) Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset. In that case, the fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the fund has retained.

The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

c) Financial instruments...continued

(v) Impairment of financial assets

The Fund holds only other receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under IFRS 9 to all its other receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Fund's approach to ECLs reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

2 Summary of significant accounting policies...continued

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 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. These dividends are presented as a finance cost in the statement of comprehensive income. 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 100% of the income that is designated to be the income of the Fund shareholders.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

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.

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

Price risk is the risk of unfavourable changes in the fair values of equity instruments or equity-linked instruments as the result of changes in the levels of equity indices and the value of individual shares. The majority of the Fund's financial assets are debt securities and units in managed bond funds. 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, 2020 is disclosed in note 5.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

4 Financial risk management...continued

Market risk...continued

i) Price risk...continued

Sensitivity

Management's best estimate of the effect on profit or loss for a year due to a reasonably possible change in indices, with all other variables held constant is indicated in the table below. The analysis is based on the assumptions that the Bloomberg Barclays US Aggregate Bond Index increased by 6% (2019- 3%), with all other variables held constant. In practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material. An equivalent decrease in each of the indices shown below would have resulted in an equivalent, but opposite, impact.

	Effect on profit or loss for the	
	2020	2019
	\$	\$
Effect on net assets attributable to redeemable shares of an increase in the indices		
Bloomberg Barclays US Aggregate Bond Index	3,258,594	452,563

The Investment Manager uses the Bloomberg Barclays US Aggregate Bond Index as a reference point in making investment decisions. However, the Investment Manager does not manage the Fund's investment strategy to track the Bloomberg Barclays US Aggregate Bond Index or any other index or external benchmark.

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, 2020

(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 2020 \$	Effect on net assets 2019 \$
Change in interest rate:		
-2%	1,749,118	1,698,696
2%	(1,757,265)	(1,484,257)

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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

4 Financial risk management...continued

Market risk...continued

iii) Foreign exchange risk...continued

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 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. The Fund has no significant exposure to currency risk at year end as the foreign currencies within the Fund do not fluctuate noticeably against the Barbados dollar. The table below summarises the Fund's assets and liabilities, monetary and non-monetary, for the prior year, which are denominated in a currency other than the Barbados dollar. These currencies include the Mexican peso (MXN).

	MXN
	\$
September 30, 2019	
Financial assets	
Investments	742,483
Total financial assets	742,483
Total financial liabilities	–
Net position	742,483

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, 2020	Effect of a 5% depreciation as of September 30, 2019
	\$	\$
Balances denominated in MXN	–	37,124

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

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

4 Financial risk management...continued

Credit risk

Credit risk is the risk that an issuer or counterparty to a financial instrument will be unable or unwilling to meet a commitment thereby causing a financial loss to the Fund.

The main concentration to which the Fund is exposed arises from the Fund's investments in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents, amounts due from brokers and other receivable balances.

The maximum direct exposure to the Fund to credit risk is set out in the following table.

	2020	2019
	\$	\$
Government backed securities	18,525,422	11,586,746
Corporate debt securities	39,771,385	40,376,840
Accounts receivable	744,449	–
Cash and cash equivalents	14,794,014	29,847,222
Total	73,835,270	81,810,808

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.

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

	2020	2019
	% of debt securities	
A-	–	3%
BBB+	2%	1%
BBB	1%	17%
BBB-	17%	–
BB	1%	–
BB-	–	1%
B-	31%	20%
Unrated*	48%	58%
Total	100%	100%

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

4 Financial risk management...continued

Credit risk...continued

*In order to monitor the credit quality of the “Unrated” underlying debt securities, the Investment Manager, on the basis of internal research, reviews the key financial metrics of the issue and structural features of the instruments in order to calculate the implied ratings for each of these investments. The majority of unrated securities have been assessed by the Investment Manager to have credit quality consistent with BBB-/Baa3 rated securities. A BBB-/Baa3 rating is the lowest rating a bond can have and still be considered investment-grade. An investment grade bond is a bond considered to have a relatively low risk of default.

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:

	2020	2019
	\$	\$
Cash and cash equivalents		
CIBC FirstCaribbean International Bank Limited	8,038,368	27,510,023
NCB Capital Markets Ltd	5,107,010	–
	13,145,378	27,510,023

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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

4 Financial risk management...continued

Liquidity risk...continued

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.

	Less than 1 month \$	1 - 3 months \$
At September 30, 2020		
Accounts payable and accrued expenses	–	49,118
Net assets attributable to holders of redeemable mutual fund shares	132,787,061	–
Total financial liabilities	132,787,061	49,118
At September 30, 2019		
Accounts payable and accrued expenses	–	40,069
Net assets attributable to holders of redeemable mutual fund shares	137,140,276	–
Total financial liabilities	137,140,276	40,069

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, 2020, 48% (2019 - 51%) 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 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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

4 Financial risk management...continued

Liquidity risk...continued

	Less than 1 week \$	1 week- 1 month \$	1 - 3 months \$	Over 3 months \$
September 30, 2020				
Total assets	<u>23,871,833</u>	<u>6,872,634</u>	<u>25,998,131</u>	<u>76,094,581</u>
September 30, 2019				
Total assets	<u>52,920,520</u>	<u>15,627,185</u>	<u>1,504,393</u>	<u>67,129,247</u>

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 exit 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).

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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation...continued

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, 2020				
Financial assets at fair value through profit or loss				
Government backed securities	–	–	18,525,422	18,525,422
Corporate debt securities	3,125,516	–	36,645,869	39,771,385
Listed equity securities	2,492,070	–	–	2,492,070
Hedge funds	–	1,438,806	–	1,438,806
Mutual funds	550,866	54,520,167	–	55,071,033
	6,168,452	55,958,973	55,171,291	117,298,716

September 30, 2019

Financial assets at fair value through profit or loss

Government backed securities	–	–	11,586,746	11,586,746
Corporate debt securities	2,218,820	742,483	37,931,137	40,892,440
Hedge funds	–	1,336,750	–	1,336,750
Mutual funds	–	53,518,187	–	53,518,187
	2,218,820	55,597,420	49,517,883	107,334,123

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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation...continued

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 debt and corporate issued debt securities. 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 following table presents the transfers between levels for the year ended September 30, 2020.

	Level 1	Level 2
	\$	\$
Financial assets at fair value through profit or loss:		
Mutual funds	491,845	(491,845)

The mutual funds transferred into Level 1 relate to positions for which significant trading activity existed on September 30, 2020 but which were only thinly traded on and around September 30, 2019. There were no transfers between levels as at September 30, 2019.

Transfers between levels of the fair value hierarchy, for the purpose of preparing the above table, are deemed to have occurred at the beginning of the reporting period.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation...continued

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

	Government backed securities \$	Corporate debt securities \$	Total \$
September 30, 2020			
Opening balance	11,586,746	37,931,137	49,517,883
Purchases	12,534,377	28,535,236	41,069,613
Sales	(5,571,238)	(30,081,837)	(35,653,075)
(Losses)/gains recognised in statement of comprehensive income	(24,463)	261,333	236,870
Closing balance	18,525,422	36,645,869	55,171,291
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	(24,463)	261,333	236,870
	Government backed securities \$	Corporate debt securities \$	Total \$
September 30, 2019			
Opening balance	2,420,037	–	2,420,037
Transfers into level 3- (reclassification to fair value through profit or loss in adaption of IFRS 9)	–	23,327,663	23,327,663
Purchases	14,001,612	14,565,740	28,567,352
Sales	(4,181,714)	(36,007)	(4,217,721)
(Losses)/gains recognised in statement of comprehensive income	(653,189)	73,741	(579,448)
Closing balance	11,586,746	37,931,137	49,517,883
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	(653,189)	73,741	(579,448)

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

4 Financial risk management ...continued

Fair value estimation...continued

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

Description	Fair value at September 30, 2020 \$	Fair value at September 30, 2019 \$	Valuation technique	Unobservable Inputs	Relationship of unobservable inputs to fair value
Government backed securities	18,525,422	11,586,746	DCF method	Discount rate	The higher the discount rate, the lower the fair value
Corporate debt securities	36,645,869	37,931,137	DCF method	Discount rate	The higher the discount rate, the lower the fair value

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, 2020 but for which fair value is disclosed.

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
September 30, 2020				
Assets				
Accounts receivable	–	744,449	–	744,449
Cash and cash equivalents	14,794,014	–	–	14,794,014
Total	14,794,014	744,449	–	15,538,463
Liabilities				
Accounts payable and accrued expenses	–	49,118	–	49,118
Net assets attributable to holders of redeemable mutual fund shares	–	132,787,061	–	132,787,061
Total	–	132,836,179	–	132,836,179

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(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

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
September 30, 2019				
Assets				
Cash and cash equivalents	29,847,222	–	–	29,847,222
Total	29,847,222	–	–	29,847,222
Liabilities				
Accounts payable and accrued expenses	–	40,069	–	40,069
Net assets attributable to holders of redeemable mutual fund shares	–	137,140,276	–	137,140,276
Total	–	137,180,345	–	137,180,345

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.

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.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

5 Financial assets

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

	2020	2019
	\$	\$
Financial assets at fair value through profit or loss		
- mutual funds	55,071,033	53,518,187
- corporate debt securities	39,771,385	40,892,440
- government backed securities	18,525,422	11,586,746
- Listed equity securities	2,492,070	-
- hedge funds	1,438,806	1,336,750
Total financial assets designated as fair value through profit or loss	117,298,716	107,334,123
Gains recognised in relation to financial assets at fair value through profit or loss:		
- unrealized gains	2,231,871	3,684,876
- realised gain/(losses)	776,910	(125,437)
Net gains in fair value through profit or loss	3,008,781	3,559,439

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

	Carrying value 2020	Carrying value 2019
	\$	\$
Due within one year	13,767,739	30,051,782
Due after one year but within five years	40,525,096	19,103,495
Due after 5 years	4,003,972	2,808,309
No stated maturity	59,001,909	55,370,537
	117,298,716	107,334,123

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

5 Financial assets ...continued

The detailed portfolio of investments is as follows:

Security	Rate	Maturity	2020		2019	
			Cost \$	Market value \$	Cost \$	Market value \$
Financial assets at fair value through profit or loss:						
Barbados						
Government of Barbados-Series F (zero coupon)	0.00%	2022-09-30	15,065,361	15,581,951	9,783,191	9,783,191
First Citizens Bank	3.25%	2021-01-04	9,000,000	9,077,819	–	–
Goddards Enterprises Ltd	3.00%	2021-11-30	8,000,000	8,105,739	–	–
Stallion Prop Holdings	5.00%	2021-12-31	5,000,000	5,076,750	5,000,000	5,047,700
Cave Shepherd & Co. Ltd	5.00%	2021-12-31	4,500,000	4,614,412	–	–
Eppley Cbean Property Fund-Value Fund	4.60%	2023-07-31	3,000,000	3,052,867	–	–
Government of Barbados-Series B	2.00%	2033-09-30	1,736,580	1,654,487	7,098	5,075
Eppley Cbean Property Fund-Value Fund	4.00%	2021-07-31	1,500,000	1,519,138	1,500,000	1,504,393
Cave Shepherd & Co. Ltd	3.75%	2022-08-31	1,000,000	1,007,335	–	–
Government of Barbados-Series D	4.00%	2053-08-31	1,502,770	569,035	1,499,543	795,847
Eppley Cbean Property Fund-Value Fund			534,341	550,866	534,341	491,845
N.S.R Limited	5.00%	2029-09-30	500,000	510,599	500,000	466,619
Cave Shepherd & Co. Ltd	3.25%	2021-03-31	500,000	505,327	500,000	501,527
Eppley Cbean Property Fund-Value Fund	4.00%	2023-07-31	300,000	301,587	300,000	295,944
Williams Industries Inc	5.25%	2023-06-30	200,000	208,841	200,000	205,281
First Citizens Bank	3.50%	2020-01-06	–	–	9,000,000	9,076,903
Goddards Enterprises Ltd	3.75%	2019-11-30	–	–	5,000,000	5,072,121
Cave Shepherd & Co. Ltd	5.00%	2019-12-15	–	–	5,000,000	5,034,874
Eppley Cbean Property Fund-Value Fund	5.00%	2020-07-31	–	–	3,000,000	3,057,393
Goddards Enterprises Ltd	3.25%	2019-11-30	–	–	3,000,000	3,035,769
Cave Shepherd & Co. Ltd	3.25%	2020-07-31	–	–	1,000,000	1,008,971
Cave Shepherd & Co. Ltd	3.25%	2020-05-31	–	–	1,000,000	1,008,831
			52,339,052	52,336,753	46,824,173	46,392,284
OECS						
Government of Grenada	7.00%	2025-09-15	948,271	719,949	1,043,098	1,002,633

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

5 Financial assets ...continued

Security	Rate	Maturity	2020		2019	
			Cost \$	Market value \$	Cost \$	Market value \$
Financial assets at fair value through profit or loss:						
Jamaica						
NCB Capital Markets Ltd	2.75%	2020-10-26	2,055,363	2,065,584	–	–
NCB Financial Group	4.75%	2021-03-01	600,000	599,871	600,000	600,374
NCB Capital Markets Ltd	2.00%	2019-10-28	–	–	2,007,397	2,014,437
			2,655,363	2,665,455	2,607,397	2,614,811
International						
Fortress Fixed Income Fund SP			25,700,627	29,760,543	25,700,627	27,487,512
LEGG Mason WA Asian Opport A			5,000,000	6,279,038	5,000,000	5,990,589
PIMCO GLB Inv Grade Inst Franklin Templeton Global Bond Fund			4,398,440	6,085,821	4,398,440	5,866,462
Fortress Income Builder US Fund SP			4,178,564	4,796,845	4,178,564	5,002,472
Fortress Income Builder Int'l Fund SP			3,971,799	4,067,783	3,971,799	4,583,659
Utilities Select Sector SPDR ChapelGate Credit Opportunity Fund Ltd			4,200,000	3,530,137	4,200,000	4,095,648
Kohls Corp	9.50%	2025-05-15	2,497,022	2,492,070	–	–
Southwest Airlines Co	5.25%	2025-05-04	522,545	1,438,806	522,545	1,336,750
Scotiabank Peru	4.50%	2022-12-13	617,700	732,725	–	–
Wells Fargo & Co	4.00%	2029-07-25	598,500	675,292	–	–
Sagicor Finance Ltd	8.88%	2022-08-11	589,398	644,835	588,386	631,029
Mexican Bonos	5.00%	2019-12-11	600,000	549,902	600,000	538,135
Axis Capital Holdings Ltd			502,332	522,762	502,580	534,056
			–	–	996,656	742,483
			–	–	500,000	515,600
			53,376,927	61,576,559	51,159,597	57,324,395
Total financial assets at fair value through profit or loss			109,319,613	117,298,716	101,634,265	107,334,123

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

6 Cash and cash equivalents

Cash and cash equivalents of \$14,794,014 (2019 - \$29,847,222) are placed with leading regional commercial banks. The effective yield on interest bearing cash and cash equivalents is 0% (2019 – 0%).

7 Interest income

	2020 \$	2019 \$
Debt securities at fair value through profit or loss	1,752,891	1,587,859
Cash and cash equivalents	3,140	30,888
	<u>1,756,031</u>	<u>1,618,747</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 \$1,014,808 (2019 - \$1,009,323).

Management fees of \$187,392 (2019- \$164,068) were refunded by Fortress Fund Advisors Limited (a subsidiary of Fortress Fund Managers Limited) being 1% of the net asset values of Fortress Income Builder US Fund SP, Fortress Fixed Income Fund SP and Fortress Income Builder Intl Fund SP 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 \$114,471 (2019 - \$114,683) for the year.

The Fund holds 19,859 (2019 - 19,859) shares valued at \$4,067,783 (2019- \$4,583,659) in the Fortress Income Builder US Fund SP.

The Fund holds 20,430 (2019 - 20,430) shares valued at \$3,530,137 (2019 - \$4,095,648) in the Fortress Income Builder International Fund SP.

The Fund holds 127,339 (2019 - 127,339) shares valued at \$26,760,543 (2019 - \$27,487,512) in the Fortress Fixed Income Fund SP.

Directors fees of \$14,000 (2019 - \$12,000) were paid during the year. Directors' interest (including beneficial interests) in class "A" redeemable mutual fund shares are as follows:

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

8 Related parties...continued

	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
Shareholder				
Directors	80,831	–	(72,493)	8,338

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

	Number of shares	
	2020	2019
Fortress Caribbean Pension Fund Limited	47,069,333	49,409,487

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 \$0.0188 (2019 - \$nil) per share amounting to \$64,709 (2019 - \$nil) was declared and paid during the financial year. These dividends are presented as finance cost.

Redeemable Accumulation Shares

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

10 Share capital

The 1,000 common shares held by the Fund Manager, carry full voting rights, but do not share in the profits of the Fund. On winding up of the Fund, these shares would be repaid at par.

Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2020

(expressed in Barbados dollars)

11 Covid-19

In December 2019, a novel strain of coronavirus, (“COVID-19”), surfaced in Wuhan, China. This virus continues to spread around the world, resulting in business and social disruption. COVID-19 was declared a global pandemic by the World Health Organization on 11 March 2020. The operations and business results of the Fund could be materially adversely affected. As the COVID-19 pandemic is ongoing and the near term worldwide economic outlook remains uncertain, we cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact our financial statements.

As at the reporting date any impact on the balances as of 30 September 2020 due to the ongoing COVID-19 pandemic have been appropriately accounted for in accordance with the reporting framework.

Management does not believe there is any risk to the Fund’s ability to continue as a going concern for the foreseeable future from the reporting date linked to the COVID-19 pandemic.

We have evaluated all significant activities through to 11 December 2020, the date these financial statements were available to be issued and concluded that no additional subsequent events occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.



FORTRESS FUND MANAGERS LIMITED
RADLEY COURT, UPPER COLLYMORE ROCK, ST. MICHAEL, BB14004, BARBADOS
TEL: (246) 431-2198 FAX: (246) 431-0514 • invest@fortressfund.com • www.fortressfund.com