

# ANNUAL REPORT 2016

FORTRESS CARIBBEAN  
HIGH INTEREST FUND





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  
First Floor, Carlisle House  
Hincks Street  
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BB11144  
TEL (246) 431 2198  
FAX (246) 431 0514  
[invest@fortressfund.com](mailto:invest@fortressfund.com)  
[www.fortressfund.com](http://www.fortressfund.com)



## Fortress Caribbean High Interest Fund

# Investment Objectives & Fund Details

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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.

<b>FUND NAME:</b>	Fortress Caribbean High Interest Fund	
<b>LAUNCH DATE:</b>	May 17, 2002	
<b>LAUNCH PRICE:</b>	\$1.00 per share	
<b>MINIMUM INVESTMENT:</b>	\$500.00 \$100.00 for subsequent investments \$100.00 for monthly savings plan	
	<b>ACCUMULATION</b>	<b>DISTRIBUTION</b>
<b>NET ASSET VALUE PER SHARE</b> 9/30/2016	\$1.9135	\$1.0209
<b>NET ASSETS</b> 9/30/2016	\$116,323,814	\$5,149,692
<b>MANAGEMENT EXPENSES:</b> <i>Management fees:</i>	0.75% per annum on the net assets	
<i>Custodian &amp; 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	
<b>INITIAL CHARGES:</b>	Nil	
<b>REDEMPTION CHARGES:</b>	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	
<b>INVESTMENT MANAGER &amp; ADMINISTRATOR:</b>	Fortress Fund Managers Limited	
<b>CUSTODIAN:</b>	CIBC FirstCaribbean International Bank (Barbados) Limited Wealth Management Division	
<b>FUND VALUATIONS:</b>	Weekly on Fridays	
<b>NAV QUOTATIONS:</b>	Internet: <a href="http://www.fortressfund.com">www.fortressfund.com</a> Local Barbados newspapers Bloomberg: FORCAHI BA	

# Directors & Administrators

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## **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**

Sir Henry Forde K.A., Q.C.  
Juris Chambers  
Fidelity House  
Wilkey Business Park  
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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Email: [invest@fortressfund.com](mailto: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](http://www.fortressfund.com).

# Investment Performance

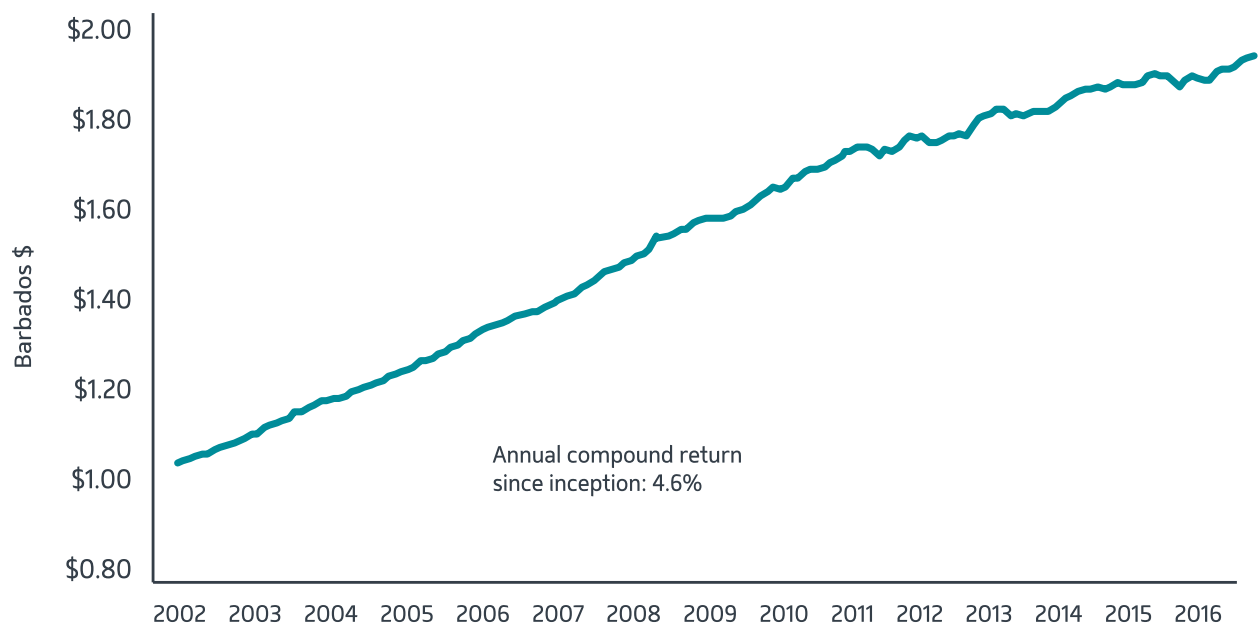
For the year ended September 30, 2016 the Fund returned 3.8%, a solid performance given the ongoing Caribbean government debt crisis, and historically low prevailing interest rates globally. The Accumulation shares rose to \$1.9135 from \$1.8434 a year ago, and the Distribution shares rose to \$1.0209 from \$0.9936 after paying a dividend of \$0.0104 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 4.6% 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 9/30/16*					
	3 month	1 year	3 year	5 year	Inception
<b>Caribbean High Interest Fund</b> (Accumulation Shares)	<b>1.4%</b>	<b>3.8%</b>	<b>2.4%</b>	<b>2.5%</b>	<b>4.6%</b>
<i>*periods longer than one year are annual compound returns</i>					

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



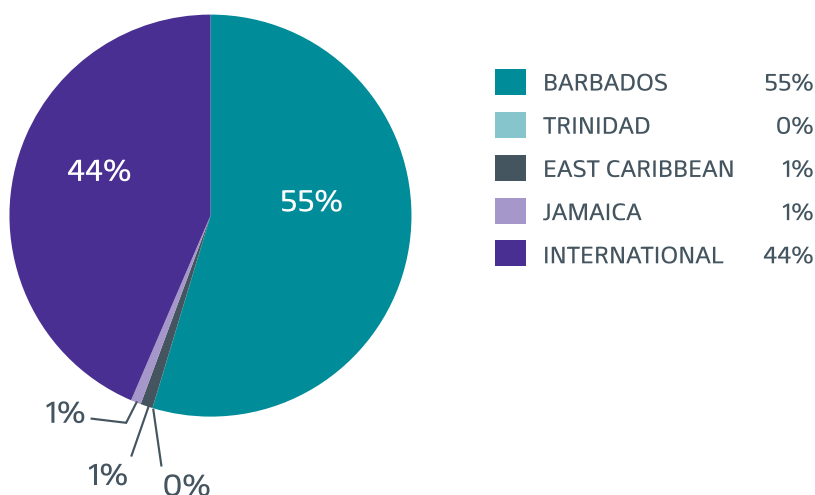


# Portfolio Positioning

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.

## Geographic Distribution of Portfolio as of 9/30/16



## Top 5 Holdings

<i>Holding</i>	<i>Country/Region</i>	<i>Sector</i>	<i>Weight</i>
Legg Mason Asian Opportunities Debt Fund	International	Various	4.7%
PIMCO Global Investment Grade Credit Fund	Global	Various	4.2%
GEL 4.5% 30 Nov 2017	Barbados	Conglomerate	4.1%
Franklin Templeton Global Bond Fund	Global	Various	3.9%
Stallion Property 5% 30 Sep 2019	Barbados	Real Estate	3.7%

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, 2016, the average term to maturity of the

Fund's holdings was 2.8 years, and the average gross yield to maturity was 3.6%. We remain squarely 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.



## Directors' Report



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## Directors' Report



*Investment Director Roger Cave*

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The Fortress Caribbean High Interest Fund overcame a challenging environment in 2016 to generate a return of 3.8% for the year ended September 30, 2016. The net asset value (NAV) of the Accumulation shares rose from \$1.8434 to \$1.9135, while the Distribution shares rose from \$0.9936 to \$1.0209 after paying a dividend of \$0.0104 during the year. The Fund's compound annual return since inception in 2002 is now 4.6% per year.

During the year, Caribbean governments continued to struggle with weak economies and low credit quality, limiting the availability of appropriate investments for the Fund in regional capital markets. Barbados government bonds were downgraded by Moody's to Caa1, a level closer to default than to investment grade, while Trinidad & Tobago was downgraded to Baa3. Barbados' economic performance continued to be hampered by high taxes, uneven infrastructure and structural inefficiencies. Outstanding government debt, already among the highest in the world relative to GDP, continued to grow to feed the fiscal deficit.

In Trinidad, meanwhile, overall economic performance, government's fiscal balance and the currency all came under pressure from lower oil industry revenues, much

like other energy producing countries around the world. A portion of the sovereign wealth fund was liquidated to help balance the books. The economic stress is real and we think it is unlikely to abate soon. In Jamaica, the government's fiscal position continued to stabilise from a very low level. This has resulted more recently in a credit rating upgrade following progress in their IMF programme. Pressure remains on the currency, though, and the Jamaican dollar weakened 8% over the year. The weakening currency and local taxes both make investing in Jamaican bonds a challenging proposition from the perspective of Barbados dollar investors.

We have responded to the credit issues in Caribbean government bonds by favouring instead corporate bonds issued by companies with a strong ability to repay. Often these are secured by specific assets. Unfortunately, Caribbean capital markets are relatively small and undeveloped, and the investment options available outside of government debt, especially in a period of subdued economic activity, are severely limited. The Fund's cash balances in Barbados dollars are higher than we would like and this has been a significant drag on overall investment performance. The Fund continues to have very little exposure to Caribbean government debt.



*The Fortress team responds to questions at the 7th Annual Fortress Investment Forum.*

Looking around the rest of the world, interest rates largely remain at historically low levels as central banks apply stimulus to encourage economic growth. Many government bonds with maturities out to ten years have yields near or below zero. This makes earning a reasonable rate of return extremely difficult. Just as importantly, it creates price risk for investors. When interest rates rise, market prices of bonds will fall, and in the case of long maturity bonds they will fall dramatically. This is especially important as the U.S. Federal Reserve indicates it will be raising interest rates again soon. We are responding to this situation by keeping the Fund's portfolio invested in short and medium-term issues, and by favouring corporate bonds over governments to earn incremental yield. This approach worked well during the year as corporate bonds posted solid returns, higher than their running yields. The Fund invests directly in individual bonds as well as in funds that pursue specialist strategies. The average term to maturity of the Fund's portfolio remains quite short at 2.8 years, keeping the exposure to rising rates low.

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 each returned 5%, contributing to the overall return of the Fund.

Looking forward, we see the primary challenges of Caribbean government credit quality and low global interest rates persisting in the medium term. This means the Fund will likely continue earning less than its long-term average. We do not see an easy fix for the huge debt overhang that governments in this part of the world face, and the solution will almost certainly involve pain for bondholders, among others. We expect deposit rates will stay low in Barbados because the banking system has so much unused liquidity. Exchange controls remain an issue limiting the Fund's ability to



diversify geographically. We see rising interest rates in the U.S. pressuring bond prices, while the low prevailing rates provide little compensation for the risks of owning very long-dated bonds.

Against this backdrop, the Fund's portfolio remains firmly in capital preservation mode, while still positioning as much as possible to earn a reasonable rate of return. The average gross yield of the Fund's portfolio is 3.6%. When the Caribbean government debt situation eventually gets resolved or improves, we stand ready to "flip the switch" and quickly resume earning healthy coupons for a reasonable level of risk in government bonds. Right now, though, deteriorating credit ratings suggest that the risk is still too high to take.

As we mark the 20th anniversary of Fortress Fund Managers this year, we would like to sincerely thank our investors for their trust and support over the years. These are unique and risky times for bond investors. We will continue working hard to preserve the Fund's capital while earning a positive rate of return in this low return world.

Roger Cave, CA, CFA  
Investment Director



## Financial Statements

# **Fortress Caribbean High Interest Fund Limited**

Financial Statements

**September 30, 2016**

(expressed in Barbados dollars)



Ernst & Young Ltd  
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## AUDITORS' REPORT

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

We have audited the accompanying financial statements of **Fortress Caribbean High Interest Fund Limited**, which comprise the statement of financial position as at 30 September 2016 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

#### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements present fairly, in all material respects, the statement of financial position of **Fortress Caribbean High Interest Fund Limited** as at 30 September 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### 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, 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*  
CHARTERED ACCOUNTANTS  
Barbados

29 December 2016



# Fortress Caribbean High Interest Fund Limited

## Statement of Financial Position

As at September 30, 2016

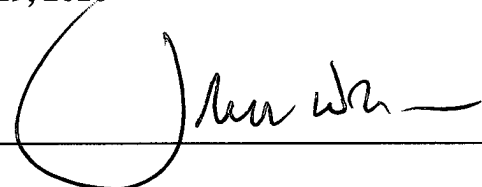
(expressed in Barbados dollars)

	2016 \$	2015 \$
<b>Assets</b>		
Financial assets (note 5)	71,636,029	73,587,904
Accounts receivable	89,923	60,190
Cash and cash equivalents (note 6)	49,782,629	42,887,938
<b>Total assets</b>	<b>121,508,581</b>	<b>116,536,032</b>
<b>Liabilities</b>		
Accounts payable and accrued expenses	34,075	44,825
<b>Liabilities (excluding net assets attributable to holders of redeemable mutual fund shares)</b>	<b>34,075</b>	<b>44,825</b>
<b>Net assets attributable to holders of redeemable mutual fund shares:</b>		
Accumulation shares (note 9)	116,323,814	111,186,175
Distribution shares (note 9)	5,149,692	5,304,032
	<b>121,473,506</b>	<b>116,490,207</b>
<b>Total liabilities</b>	<b>121,507,581</b>	<b>116,535,032</b>
<b>Share capital (note 10)</b>	<b>1,000</b>	<b>1,000</b>
<b>Liabilities and shareholder funds</b>	<b>121,508,581</b>	<b>116,536,032</b>
<b>Net asset value per accumulation share</b>	<b>1.9135</b>	<b>1.8434</b>
<b>Net asset value per distribution share</b>	<b>1.0209</b>	<b>0.9936</b>

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

Approved by the Board of Directors on December 29, 2016

 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, 2016

(expressed in Barbados dollars)

	Number of shares		Net assets attributable to holders of redeemable mutual fund shares		
	Accumulation	Distribution	Accumulation \$	Distribution \$	Total \$
<b>Balance - September 30, 2014</b>	<b>58,090,982</b>	<b>5,576,366</b>	<b>106,698,457</b>	<b>5,643,629</b>	<b>112,342,086</b>
Issue of shares	6,051,167	20,608	11,192,711	20,706	<b>11,213,417</b>
Redemption of shares	(3,827,534)	(258,770)	(7,101,564)	(259,990)	<b>(7,361,554)</b>
Dividends paid (note 9)	—	—	—	(121,807)	<b>(121,807)</b>
Total comprehensive income for the year	—	—	396,571	21,494	<b>418,065</b>
<b>Balance - September 30, 2015</b>	<b>60,314,615</b>	<b>5,338,204</b>	<b>111,186,175</b>	<b>5,304,032</b>	<b>116,490,207</b>
Issue of shares	4,800,840	308,036	9,076,862	309,033	<b>9,385,895</b>
Redemption of shares	(4,324,602)	(601,799)	(8,077,453)	(604,696)	<b>(8,682,149)</b>
Dividends paid (note 9)	—	—	—	(53,202)	<b>(53,202)</b>
Total comprehensive income for the year	—	—	4,138,230	194,525	<b>4,332,755</b>
<b>Balance - September 30, 2016</b>	<b>60,790,853</b>	<b>5,044,441</b>	<b>116,323,814</b>	<b>5,149,692</b>	<b>121,473,506</b>

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, 2016

(expressed in Barbados dollars)

	2016 \$	2015 \$
<b>Revenue</b>		
Interest income (note 7)	2,553,370	2,680,164
Net fair value gains/(losses) on investments (note 5)	2,495,224	(1,500,549)
Amortisation of premiums	385	(11,099)
Dividend income	416,271	380,899
<b>Total investment income</b>	<b>5,465,250</b>	<b>1,549,415</b>
<b>Expenditure</b>		
Management fees (note 8)	793,749	786,350
Administrator and custodian fees (note 8)	202,924	202,088
Other operating expense	100,002	99,168
Audit fees	35,794	35,437
Trade fees	26	8,307
<b>Operating expenditure</b>	<b>1,132,495</b>	<b>1,131,350</b>
<b>Total comprehensive income</b>	<b>4,332,755</b>	<b>418,065</b>
<b>Total comprehensive income on ordinary activities allocated to:</b>		
Holders of redeemable mutual fund distribution shares	194,525	21,494
Holders of redeemable mutual fund accumulation shares	4,138,230	396,571
<b>Total comprehensive income</b>	<b>4,332,755</b>	<b>418,065</b>

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, 2016

(expressed in Barbados dollars)

	2016 \$	2015 \$
<b>Cash flows from operating activities</b>		
Total comprehensive income	4,332,755	418,065
Adjustments for:		
Amortisation of premium	(385)	11,099
Net fair value (gains)/losses on investments	(2,495,224)	1,500,549
Interest income	(2,553,370)	(2,680,164)
Dividend income	(416,271)	(380,899)
Operating loss before working capital changes	(1,132,495)	(1,131,350)
(Increase)/decrease in accounts receivable	(16,459)	3,470,400
(Decrease)/increase in accounts payable and accrued expenses	(10,750)	5,694
Purchase of investments	(23,017,202)	(26,727,544)
Proceeds on the sale of investments	27,483,793	30,708,317
<b>Cash generated from operations</b>	3,306,887	6,325,517
Interest received	2,520,989	2,726,627
Dividends received	416,271	380,899
<b>Cash generated from operating activities</b>	6,244,147	9,433,043
<b>Cash flows from financing activities</b>		
Issue of mutual fund shares	9,385,895	11,213,417
Redemption of mutual fund shares	(8,682,149)	(7,361,554)
Dividends paid	(53,202)	(121,807)
<b>Cash generated from financing activities</b>	650,544	3,730,056
<b>Net increase in cash and cash equivalents</b>	6,894,691	13,163,099
<b>Cash and cash equivalents - beginning of year</b>	42,887,938	29,724,839
<b>Cash and cash equivalents - end of year</b>	49,782,629	42,887,938

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

# Fortress Caribbean High Interest Fund Limited

## Notes to the Financial Statements

September 30, 2016

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(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 1<sup>st</sup> 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 29, 2016.

### 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, 2016

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(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, 2015 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, 2015, 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 January 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, 2016

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(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, 2016

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(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 bid 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, 2016

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(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, 2016

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(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, 2016

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(expressed in Barbados dollars)

### 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 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, 2016 is disclosed in note 5.

At September 30, 2016, 41% (2015- 41%) 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 equity prices as at September 30, 2016 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 5-13% with all other variables held constant.

# Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2016

(expressed in Barbados dollars)

## 4 Financial risk management

Market risk...continued

### i) Price risk...continued

	Carrying Value 2016 \$	Effective change at September 2016	Impact on income \$
Listed on Caribbean stock exchange and markets	503,703	6%	30,222
Listed on US stock exchanges and markets	4,110,393	13%	534,351
Unlisted hedge and mutual funds	28,501,645	10%	2,850,165
Unlisted securities	14,565,270	10%	1,456,527
	<b>47,681,011</b>		<b>4,871,265</b>

	Carrying Value 2015 \$	Effective change at September 2015	Impact on income \$
Listed on Caribbean stock exchange and markets	5,577,952	6%	334,677
Listed on US stock exchanges and markets	4,017,680	13%	522,298
Unlisted hedge and mutual funds	29,947,373	10%	2,994,737
Unlisted securities	11,112,047	10%	1,111,204
	<b>50,655,052</b>		<b>4,962,916</b>

### 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, 2016

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(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 2016 \$	Effect on net assets 2015 \$
<b>Change in interest rate:</b>		
-2%	1,955,179	1,641,436
2%	(1,693,196)	(1,404,922)

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 any 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, 2016

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(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 \$
<b>September 30, 2016</b>		
<b>Financial assets</b>		
Investments	376,197	741,348
<b>Total financial assets</b>	<b>376,197</b>	<b>741,348</b>
<b>Total financial liabilities</b>	—	—
<b>Net position</b>	<b>376,197</b>	<b>741,348</b>
	BRL \$	MXN \$
<b>September 30, 2015</b>		
<b>Financial assets</b>		
Investments	502,940	868,533
<b>Total financial assets</b>	<b>502,940</b>	<b>868,533</b>
<b>Total financial liabilities</b>	—	—
<b>Net position</b>	<b>502,940</b>	<b>868,533</b>

# Fortress Caribbean High Interest Fund Limited

## Notes to the Financial Statements

September 30, 2016

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(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, 2016	Effect of a 5% depreciation as of September 30, 2015
	\$	\$
Balances denominated in BRL	18,809	25,147
Balances denominated in MXN	37,067	43,427

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.

	2016	2015
	\$	\$
Loans and receivables	23,955,018	22,932,852
Government backed securities	7,150,637	7,142,158
Corporate securities	10,219,026	6,758,989
Accounts receivable	89,923	60,190
Cash and cash equivalents	49,782,629	42,887,938
<b>Total</b>	<b>91,197,233</b>	<b>79,782,127</b>

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, 2016

(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:

	2016	2015
	\$	\$
Sagicor Finance Limited (B by Standard & Poor's)	2,822,251	3,247,718
US Treasury Notes (AA+ by Standard & Poor's)	2,804,393	2,789,100
Scotiabank Peru (BBB+ by Standard & Poor's)	1,244,640	1,170,240
Government of Grenada (unrated)	1,039,450	609,072
Cisco Systems Inc (AA- by Standard & Poor's)	1,007,432	—
Amgen Inc (A by Standard & Poor's)	996,905	—
Mexican Bonos (BBB+ by Standard & Poor's)	741,348	868,533
Western Digital Corp (BB+ by Standard & Poor's)	725,400	—
Bank of Nova Scotia (A+ by Standard & Poor's)	702,321	—
GE Cap Corp 4.7% preference shares (AA- by Standard & Poor's)	618,240	597,600
Grupo Elektra Bond (BB- by Fitch)	506,188	481,788
Noble Holding International (BB+ by Standard & Poor's)	485,313	464,415
Ventas Realty LP 5.45% preference (BBB+ by Standard & Poor's)	432,160	400,480
Alphabet Inc (AA- by Standard & Poor's)	394,774	—
International Financial Corp (AAA by Standard & Poor's)	376,197	303,500
Solar Capital 6.75% pref (BBB- by Fitch)	255,600	230,500
Lexmark Intl Inc (BBB- by Standard & Poor's)	216,257	222,795
Government of Barbados debt securities (B- by Standard & Poor's)	203,220	195,160
Republic of Brazil (BB+ by Standard & Poor's)	—	199,440
	<b>15,572,089</b>	<b>11,780,341</b>

The Fund's holding in the Government of Grenada Bond has been rated as default by Standard & Poor's in the previous year. During the year, the Government of Grenada has restructured the bond. The Fund carries this holding at fair value through profit and loss. The fair value as at September 30, 2016 reflects the default status and the effect of the restructuring of the debt.

# Fortress Caribbean High Interest Fund Limited

## Notes to the Financial Statements

September 30, 2016

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(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 and other receivables exceeding 2.5% of the Fund's net assets are set out below:

	2016 \$	2015 \$
<b>Cash and cash equivalents</b>		
CIBC FirstCaribbean International Bank Limited	38,389,936	34,607,597
Morgan Stanley & Co (A by Standard & Poor's)	6,698,734	5,450,871
CIBC Bank and Trust Company (Cayman) Limited	4,462,242	504,399
	<b>49,550,912</b>	<b>40,562,867</b>
Accounts receivable	<b>89,923</b>	<b>60,190</b>

None of the Fund's loans and receivables and accounts 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, 2016

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(expressed in Barbados dollars)

### 4 Financial risk management ...continued

#### Liquidity risk...continued

	Less than 1 month \$	1 - 3 months \$
<b>At September 30, 2016</b>		
Accounts payable and accrued expenses	–	34,075
Net assets attributable to holders of redeemable mutual fund shares	121,473,506	
	<hr/>	
<b>Total financial liabilities</b>	<b>121,473,506</b>	<b>34,075</b>
	<hr/>	

#### At September 30, 2015

Accounts payable and accrued expenses	10,750	34,075
Net assets attributable to holders of redeemable mutual fund shares	116,490,207	–
	<hr/>	
<b>Total financial liabilities</b>	<b>116,500,957</b>	<b>34,075</b>
	<hr/>	

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, 2016, 41% (2015- 41%) 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, 2016

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(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 \$
<b>September 30, 2016</b>				
Total assets	<b>80,100,631</b>	<b>11,936,842</b>	<b>3,062,523</b>	<b>26,408,585</b>
<b>September 30, 2015</b>				
Total assets	68,407,330	17,031,383	9,030,043	22,067,276

#### 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 bid 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, 2016

(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 \$
<b>September 30, 2016</b>				
<b>Financial assets at fair value through profit or loss</b>				
Government backed securities	2,804,393	3,306,794	1,039,450	<b>7,150,637</b>
Corporate securities	10,219,026	—	—	<b>10,219,026</b>
Listed equity securities	1,306,000	—	—	<b>1,306,000</b>
Mutual funds	—	4,434,045	—	<b>4,434,045</b>
Hedge funds	—	24,571,303	—	<b>24,571,303</b>
	<b>14,329,419</b>	<b>32,312,142</b>	<b>1,039,450</b>	<b>47,681,011</b>

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>September 30, 2015</b>				
<b>Financial assets at fair value through profit or loss</b>				
Government backed securities	2,988,540	3,544,546	609,072	<b>7,142,158</b>
Corporate securities	6,758,989	—	—	<b>6,758,989</b>
Listed equity securities	1,228,580	5,224,476	—	<b>6,453,056</b>
Mutual funds	—	22,916,351	—	<b>22,916,351</b>
Hedge funds	—	7,384,498	—	<b>7,384,498</b>
	<b>10,976,109</b>	<b>39,069,871</b>	<b>609,072</b>	<b>50,655,052</b>

# Fortress Caribbean High Interest Fund Limited

## Notes to the Financial Statements

September 30, 2016

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(expressed in Barbados dollars)

### 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, 2016.

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

	<b>Government backed securities</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>
<b>September 30, 2016</b>		
Opening balance	609,072	<b>609,072</b>
Purchases	658,976	<b>658,976</b>
Sales	(609,072)	<b>(609,072)</b>
Gains recognised in statement of comprehensive income	380,474	<b>380,474</b>
Closing balance	<b>1,039,450</b>	<b>1,039,450</b>
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	<b>380,474</b>	<b>380,474</b>

# Fortress Caribbean High Interest Fund Limited

## Notes to the Financial Statements

September 30, 2016

(expressed in Barbados dollars)

### 4 Financial risk management ...continued

#### Fair value estimation...continued

	Government backed securities \$	Total \$
<b>September 30, 2015</b>		
Opening balance	507,560	<b>507,560</b>
Purchases	—	—
Sales	—	—
Losses recognised in statement of comprehensive income	101,512	<b>101,512</b>
Closing balance	<b>609,072</b>	<b>609,072</b>
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	<b>101,512</b>	<b>101,512</b>

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

Description	Fair value at September 30, 2016 \$	Fair value at September 30, 2015 \$	Valuation technique	Unobservable Inputs	Relationship of unobservable inputs to fair value
Government backed securities	<b>1,039,450</b>	609,072	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, 2016

(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

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, 2016 but for which fair value is disclosed.

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>September 30, 2016</b>				
<b>Assets</b>				
Loans and receivables	—	—	23,955,018	<b>23,955,018</b>
Accounts receivable	—	89,923	—	<b>89,923</b>
Cash and cash equivalents	49,782,629	—	—	<b>49,782,629</b>
<b>Total</b>	<b>49,782,629</b>	<b>89,923</b>	<b>23,955,018</b>	<b>73,827,570</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	—	34,075	—	<b>34,075</b>
Net assets attributable to holders of redeemable mutual fund shares	—	121,473,506	—	<b>121,473,506</b>
<b>Total</b>	<b>—</b>	<b>121,507,581</b>	<b>—</b>	<b>121,507,581</b>
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>September 30, 2015</b>				
<b>Assets</b>				
Loans and receivables	—	—	22,932,852	<b>22,932,852</b>
Accounts receivable	—	60,190	—	<b>60,190</b>
Cash and cash equivalents	42,887,938	—	—	<b>42,887,938</b>
<b>Total</b>	<b>42,887,938</b>	<b>60,190</b>	<b>22,932,852</b>	<b>65,880,980</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	—	44,825	—	<b>44,825</b>
Net assets attributable to holders of redeemable mutual fund shares	—	116,490,207	—	<b>116,490,207</b>
<b>Total</b>	<b>—</b>	<b>116,535,032</b>	<b>—</b>	<b>116,535,032</b>

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, 2016

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(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:

	2016 \$	2015 \$
<b>Financial assets at fair value through profit or loss</b>		
- government backed securities	7,150,637	7,142,158
- corporate securities	10,219,026	6,758,989
- listed equity securities	1,306,000	6,453,056
- mutual funds	24,571,303	22,916,351
- hedge funds	4,434,045	7,384,498
<b>Total financial assets designated as fair value through profit or loss</b>	<b>47,681,011</b>	<b>50,655,052</b>
Loans and receivables	23,955,018	22,932,852
<b>Total investments</b>	<b>71,636,029</b>	<b>73,587,904</b>

# Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2016

(expressed in Barbados dollars)

## 5 Financial assets ...continued

	2016 \$	2015 \$
<b>Gains/(losses) recognised in relation to financial assets at fair value through profit or loss:</b>		
- unrealised gains/(losses)	1,618,745	(1,299,786)
- realised gains/(losses)	876,479	(200,763)
<b>Net gains/(losses) in fair value through profit or loss</b>	<b>2,495,224</b>	<b>(1,500,549)</b>

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

	2016		2015	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Financial assets at fair value through profit or loss	47,681,011	47,681,011	50,655,052	50,655,052
Loans and receivables	23,955,018	23,954,628	22,932,852	22,936,302
	<b>71,636,029</b>	<b>71,635,639</b>	<b>73,587,904</b>	<b>73,591,354</b>

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

	Carrying value 2016 \$	Carrying value 2015 \$
Due within one year	5,388,131	10,012,333
Due after one year but within five years	24,602,124	15,345,247
Due after 5 years	9,900,202	11,476,419
No stated maturity	31,745,572	36,753,905
	<b>71,636,029</b>	<b>73,587,904</b>

# Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2016

(expressed in Barbados dollars)

## 5 Financial assets ...continued

The detailed portfolio of investments is as follows:

			2016		2015	
Security	Rate	Maturity	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	2,798,525	3,103,574	3,052,936	3,349,386
Sagikor Finance Ltd	8.88%	2022-08-11	2,457,618	2,822,251	3,010,823	3,247,718
Fortress Caribbean Property Fund SCC Ltd- Value Fund			480,341	503,703	480,341	353,476
Government of Barbados	6.63%	2020-09-30	192,591	203,220	190,723	195,160
Sagikor Financial Corporation-preference shares			—	—	5,255,764	5,224,476
			5,929,075	6,632,748	11,990,587	12,370,216
OECS						
Government of Grenada	4.50%	2025-09-15	—	—	2,042,969	609,072
Government of Grenada	7.00%	2025-09-15	1,843,982	1,039,450	—	—
			1,843,982	1,039,450	2,042,969	609,072



# Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2016

(expressed in Barbados dollars)

## 5 Financial assets ...continued

Security	Rate	Maturity	2016		2015	
			Cost \$	Market Value \$	Cost \$	Market Value \$
Financial assets at fair value through profit or loss:						
International						
Western Asset Asian Opportunities Fund			5,000,000	5,661,427	5,000,000	4,946,259
PIMCO GLB Inv Grade Inst Fund			4,398,440	5,073,392	4,398,440	4,631,861
Franklin Templeton Global Bond Fund			4,427,525	4,721,893	4,427,525	4,779,042
Fortress Income Builder US Fund			3,971,799	4,440,551	3,971,799	4,241,599
Fortress Income Builder Int'l Fund SP			4,200,000	4,170,337	4,200,000	3,964,114
Permal Fixed Inc Holdings Fund			3,500,000	3,354,122	3,500,000	3,433,839
US Treasury Note	2.00%	2020-07-31	2,687,300	2,804,393	2,683,981	2,789,100
Scotiabank Peru	4.50%	2022-12-31	1,155,187	1,244,640	1,147,946	1,170,240
ChapelGate Credit Opportunity Fund Ltd			522,545	1,079,923	2,092,683	3,950,659
Cisco Systems Inc	2.20%	2023-09-20	997,948	1,007,432	—	—
Amgen Inc	2.25%	2023-08-19	997,532	996,905	—	—
Mexican Bonos	5.00%	2019-12-11	998,972	741,348	999,798	868,533
Western Digital Corp	10.50%	2024-04-01	585,706	725,400	—	—
Bank of Nova Scotia	2.64%	2019-06-14	700,000	702,321	—	—
GE Cap Corp 4.7% preference shares			600,000	618,240	600,000	597,600
Grupo Elektra Bond	7.25%	2018-08-06	494,649	506,188	491,747	481,788
Noble Holding International	4.63%	2021-03-01	594,466	485,313	593,211	464,415
Ventas Realty LP 5.45% pref			400,000	432,160	400,000	400,480
Alphabet Inc	2.00%	2026-08-15	391,795	394,774	-	-
International Financial Corp	10.00%	2017-06-12	309,300	376,197	304,565	303,500
Solar Capital 6.75% preference shares			250,000	255,600	250,000	230,500
Lexmark Intl Inc	6.65%	2018-06-01	208,395	216,257	213,440	222,795
Republic of Brazil			—	—	540,390	199,440
			37,391,559	40,008,813	35,815,525	37,675,764
Total financial assets at fair value through profit or loss			45,164,616	47,681,011	49,849,081	50,655,052

# Fortress Caribbean High Interest Fund Limited

Notes to the Financial Statements

September 30, 2016

(expressed in Barbados dollars)

## 5 Financial assets ...continued

Security	Rate	Maturity	2016		2015	
			Cost \$	Amortised cost/ carrying value \$	Cost \$	Amortised cost/ carrying value \$
Loans and receivables:						
Barbados						
Simpson Finance	5.50%	2021-06-15	3,000,000	3,040,500	3,000,000	3,049,500
Fortress Caribbean Property Ltd SCC- Value Fund	5.00%	2020-07-31	2,100,000	2,118,083	1,800,000	1,815,500
Fortress Caribbean Property Ltd SCC- Value Fund	4.00%	2018-07-31	1,500,000	1,510,333	1,200,000	1,208,267
Cave Shepherd & Co. Ltd			1,000,000	1,006,884		
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	—	—
			8,100,000	8,180,838	6,300,000	6,375,592
Jamaica						
NCB Capital Markets Ltd	6.00%	2018-12-20	1,000,000	1,002,034	1,000,000	1,002,034
Trinidad						
Maruenergy Trinidad LLC	7.02%	2016-02-01	—	—	1,812,863	1,853,163
St Maarten Telecom Holdings	8.25%	2020-01-19	—	—	775,000	788,143
			—	—	2,587,863	2,641,306
OECS						
Property Holdings	8.00%	2017-12-21	150,000	152,850	250,000	254,750
Other						
Loans receivables	3.56% - 6.05%	2017-02-28 -2019-09-28	14,514,600	14,619,296	12,532,000	12,659,170
			14,514,600	14,619,296	12,532,000	12,659,170
Total loans and receivables			23,764,600	23,955,018	22,669,863	22,932,852
Total investments			68,929,216	71,636,029	72,518,944	73,587,904

The effective yield on loans and receivable is 4.80% (2015 – 5.40%).

# Fortress Caribbean High Interest Fund Limited

## Notes to the Financial Statements

September 30, 2016

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(expressed in Barbados dollars)

### 6 Cash and cash equivalents

Cash and cash equivalents of \$49,782,629 (2015 - \$42,887,938) are placed with leading regional commercial banks. The effective yield on interest bearing cash and cash equivalents is 0.19% (2015 – 0.78%).

### 7 Interest income

	2016 \$	2015 \$
Loans and receivables	1,294,788	1,698,882
Debt securities at fair value through profit or loss	922,145	706,092
Cash and cash equivalents	336,437	275,190
	<u>2,553,370</u>	<u>2,680,164</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 \$876,745 (2015 - \$880,337).

Management fees of \$82,996 (2015- \$93,987) 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 \$101,462 (2015 - \$101,044) for the year.

Custodian fees of \$101,462 (2015 - \$101,044) were paid to CIBC FirstCaribbean International Bank (Barbados) Limited for which there is shared directorship.

The Fund holds 883,690 (2015-883,690) shares valued at \$503,703 (2014- \$353,476) in the Fortress Caribbean Property Fund Limited SCC- Value Fund.

The Fund holds 19,859 (2015-19,859) shares valued at \$4,440,551 (2015-\$4,241,599) in the Fortress Income Builder US Fund SPC.

The Fund holds 20,430 (2015-20,430) shares valued at \$4,170,337 (2015-\$3,964,114) in the Fortress Income Builder International Fund SPC.

# Fortress Caribbean High Interest Fund Limited

## Notes to the Financial Statements

September 30, 2016

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(expressed in Barbados dollars)

### 8 Related parties ...continued

Included in the loans and receivable is \$3,930,741 (2015 - \$3,326,092) due from Fortress Caribbean Property Fund SCC Limited- Value Fund. The loans bear interest at rates of 4%- 5% (2015- 4.00%- 5%) per annum. These loans are repayable on July 31, 2018- July 31, 2020

Directors fees of \$16,000 (2015- \$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	39,920	240,648	(42,645)	237,923

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

	Number of shares	
	2016	2015
Fortress Caribbean Pension Fund Limited	38,919,435	35,948,986

### 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:

- Disposal of substantially all of the Assets of the Fund, other than the course of ordinary business.
- Any change or abrogation of the rights attached to the shares or any variation affecting the rights attached to the Fund shares.
- Any proposed amalgamation of the Fund with another company or any amalgamation of the Fund with another Mutual Fund.
- 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 \$0.0104 per share 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, 2016**

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(expressed in Barbados dollars)

## **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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