FORTRESS Enhanced Dividend Fund

Investment Review

Fund Highlights

First Quarter 2010

Market review

- The Canadian equity market, after falling in January 2010, continued its upward march during the rest of the first quarter, as investors continued to bet on the economic recovery. The TSX gained 3.1% in Q1, to start the year off on a positive note. The first quarter was led by the small sector - Health Care (up 9.6%), Financials (up 7.1%) and Information Technology (up 6.0%). The only sub-groups which experienced negative returns in the quarter were Energy (down 2.7%) and Consumer Staples (down 0.3%).
- The bond market experienced modest gains during Q1, as bond yields decreased slightly. Ten year treasury yields decreased one basis point to 3.83%, with Canadian yields decreasing four basis points to 3.57%. The Canadian dollar rallied against the U.S. dollar during the quarter, trading up at 98.5 U.S. cents.

Portfolio review

Positive performance factors

By Sector:

- The portfolio's overweight position in Financials and Telecom Services and its underweight position in Energy were positive contributors in the quarter.

By Stock:

- The primary individual stock contributors were: Thomson Reuters Corp. and Bank of Montreal.

Negative performance factors

By Sector:

- The performance detractors by sector were the portfolio's underweighting in Information Technology and the overweighting of Utilities.

By Stock:

- The primary individual stock detractors were: Bell Aliant and Ritchie Brothers Auctioneers Inc.

Outlook and strategy

- The first quarter of 2010 continued the positive trend for the equity markets, as the TSX closed above 12,000.
- As the economic data keeps improving, we expect that markets could sustain a move higher, as our valuation metrics remain constructive, and fixed income markets look challenging.
- The two main risks to the positive scenario are 1) the economy fizzles when the government stimulus is removed, and 2) a severe bond market retreat causes interest rate levels to pose problems for the economy and stiff competition for equities.
- Our belief is that Canada will continue to look attractive to foreign investors for the foreseeable future.
- Our expectation is that in 2010, the returns on stocks will outperform cash and bonds, but will not be nearly as high as the returns in 2009.
- Our strategy continues to be one of selectively adding to positions, as valuations of individual stocks decline to attractive levels.
- We have reduced slightly our preferred share weighting in favour of equities, as certain positions became fully valued.

Any amount that is allocated to a segregated fund is invested at the risk of the contract holder and may increase or decrease in value.

This report is published to provide additional information on economic conditions and investment performance. It was prepared by Laketon Investment Management.

FaithLife FINANCIAL