

FORTRESS European Equity Fund

Fund Highlights

Investment Review

Second Quarter 2009

Market Commentary and Outlook

Investors rediscovered an appetite for equities in quarter two. This was due to signs that the recent coordinated efforts of governments to stimulate the economy may be beginning to take hold, and hopes grew that we may be through the worst of the downturn. The MSCI Europe index was up 16.9% in Canadian dollar terms over the quarter:

Investors focused on the rate of change in economic data and earnings releases, rather than the absolute levels, which are still mainly weak. Good news is being rewarded and this included improving business sentiment in Germany and improving consumer sentiment and signs of stabilization in the property prices in the U.S. and U.K. There were also indications that China's economy has benefited from the government's considerable fiscal stimulus package. The rally was also supported by better-than-expected earnings from some large companies, particularly in the U.S. Also, several U.S. banks are now repaying the TARP funds, a much needed sign of stabilization in financial markets. However, toward the end of June, positive data was harder to come by and global stock markets retreated slightly.

After two further interest rate cuts by the European Central Bank ("ECB"), interest rates are now at their lowest levels ever in the Eurozone. The ECB also offered unlimited one-year financing to banks. There was a large take-up and the money markets are now awash with excess liquidity. However, banks are still choosing to lend very little and instead cash is being placed on deposit or into the very short end of the bond market.

The U.S. dollar came under pressure as speculation increased that China, India and Russia may diversify their reserves away from the U.S. currency, and the dollar weakened 6% against the euro over the quarter.

In line with the outperformance of so-called riskier assets, there was a move out of defensive sectors (such as Healthcare, Staples and Telecoms) into cyclical sectors (such as Financials, Industrials and Consumer Cyclical). Emerging markets also outperformed.

Top 5 Holdings

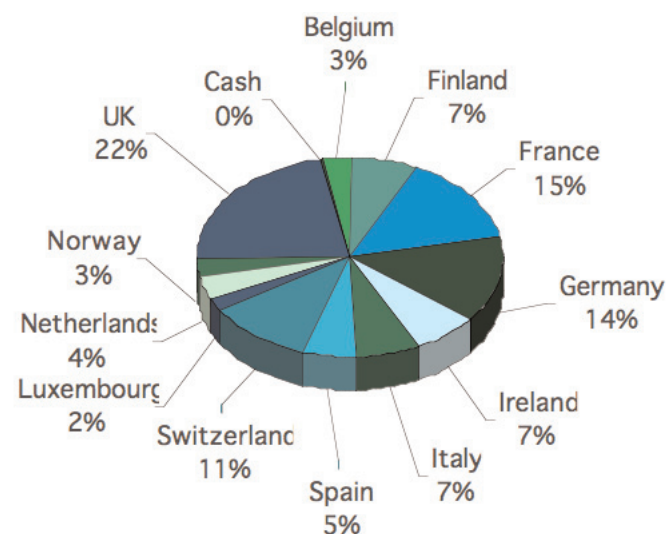
HOME RETAIL GROUP	4.7%
THE SWATCH GROUP	4.7%
NOKIA	4.4%
GLAXOSMITHKLINE	4.2%
SANOFI-AVENTIS	4.2%

Sector Breakdown (excl. cash)

Summary Sector	Fund %	Relative to Benchmark %
Financials	18.8	23.0
Consumer Discretionary	12.1	8.5
Healthcare	10.0	10.4
Consumer Staples	8.1	12.1
Information Technology	7.9	3.1
Industrials & Materials	18.6	16.6
Energy	11.6	12.0
Telecoms & Utilities	12.8	14.3
Total	100	100

*source: Setanta Asset Management

Geographic Breakdown



Fund Review

Top contributing stocks year-to-date:

BNP Paribas has performed extremely well since the dramatic rebound in markets from March 2009 onwards. The stock performed poorly last year on concerns over the banking crisis, and the stock was trading at depressed levels. With the dramatic change in sentiment in March and a notable stabilization in financial markets, as well as an absence of a new equity issue, BNP has thus far been relatively insulated from the broader crisis. Credit Suisse has also benefited from the aggressive rotation into Financials from March onwards. Credit Suisse was likewise on a depressed valuation entering the year. However, despite its obvious capital markets exposure, Credit Suisse has also thus far proven to be relatively insulated from the crisis. DCC also entered the year on a low valuation and to date seems to be weathering the economic storm better than many. Its diverse business activities (from energy distribution to healthcare and IT distribution) as well as some synergies from recent acquisitions have helped to shield the business. Furthermore, the focus on cash flow is also paying dividends and the balance sheet remains strong.

Bottom contributing stocks year-to-date:

A more than tripling of the share price from its March lows was not enough to bring Swiss Re back into positive territory for the first half of 2009. Swiss Re has been impacted more than many financial stocks due to financial market losses and a tight balance sheet. There have been a number of management changes. We remain somewhat concerned about this holding, but continue to hold a smaller than average position on the basis that the valuation remains low and we will look to replace the stock if we find more attractive alternatives. Synthes had performed relatively well during the financial crisis and its valuation had become more difficult to justify. We sold some, but not the entire position as we could not find superior alternatives at the time. The stock has performed poorly because of slowing revenue growth with a higher-than-average valuation. As a result of its underperformance, the valuation now looks more appealing and the company retains very favourable long-term characteristics so there is no urgency to sell. We will continue to try to identify potential replacements. Belgacom underperformed primarily due to a significant rotation out of defensive stocks into cyclicals and Financials from March onwards. However the valuation is attractive with a dividend yield of 9.5% and a strong balance sheet.

We added Norwegian bank DNB Nor to the fund and financed this through partial sales of existing holdings. DNB retains a very strong position in Norway, an attractive banking market. The company has thus far weathered the crisis well and the valuation remains reasonably attractive. This also allows us to diversify our Financials holdings further. We sold Casino Guichard and replaced it with Prosegur. Casino Guichard has a somewhat complicated ownership structure with the major shareholder being highly leveraged and opaque. This has not caused any problems yet but we see better

opportunities elsewhere. Prosegur is a more attractive proposition. It is the dominant provider of cash-in-transit and security guard services in Spain and has developed a strong business in Latin America. The company has a good track record and it is conservatively managed and financed. The stock valuation is low, with a PE of about 10x.

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 Setanta Asset Management Ltd.