FORTRESS Enhanced Dividend Fund

Fund Highlights

Investment Review

Second Quarter 2009

Market review:

- The Canadian equity market rallied strongly during the second quarter as depression risks were unwound from the markets and tentative signs of economic recovery presented themselves. The TSX gained 20.0% in Q2, led by Technology (up 43.3%), Financials (up 32.7%), Materials (up 20.7%) and Energy (up 19.0%). The only sub-group which experienced negative returns was Telecommunication Services (down 2.4%).
- The bond market achieved modest gains during Q2 even though bond yields fell. 10-year treasury yields increased 83 basis points to 3.52%, while Canadian yields increased 58 basis points to 3.36%. The Canadian dollar rallied against the U.S. dollar during the quarter, trading up at 86 cents U.S.

Portfolio review:

Positive performance factors in the second quarter

By Sector:

- The portfolio's overweight position in Financials and the significant underweight in the Materials sector were the major positive performance factors in the quarter.

By Stock:

- The primary individual stock contributors were: Bank of Montreal, Magna International and National Bank

Negative performance factors in the second quarter

By Sector:

- The performance detractors were the portfolio's overweighting in Telecom Services and the underweight in Information Technology.

By Stock:

- The primary individual stock detractors were: Thomson Reuters, BCE Inc., and Telus Corporation.

Outlook and Strategy:

- The second quarter of 2009 was all about the "green shoots." The early March optimism carried on essentially for all April, May and June in the equity markets.
- We, however, are wary now that the market has had such a fantastic rebound at this stage of the economic cycle.
- We believe that the markets need some consolidation time and will likely take a bit of a breather in this next, "summer" quarter, prior to resuming an upward advance into year-end.
- Our strategy continues to be one of selectively adding to stocks as valuations decline to very attractive levels.
- We remain defensive due to our view that the market will be slightly disappointed with the earnings progression at this juncture, especially in the Energy and Materials sectors. We are not expecting a return to the panic markets of last Fall and early winter of 2009.
- Even though the return on cash equivalents remains low, we have raised our cash levels due to the rapid advance in the markets in such a short period. We will re-deploy cash into the markets as opportunities present themselves.

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

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