FORTRESS Global Equity Fund

Investment Review

Fund Highlights

Third Quarter 2009

Market review

It is now one year since the financial crisis unleashed by Lehman's bankruptcy began, and trust in the solvency of the banking system has been significantly restored. Although equity markets remain below their pre-Lehman levels, liquidity has returned, the TED spread (3-month U.S. T-bills vs. 3-month LIBOR rate) and investment grade credit spreads have declined, and volatility has stabilized.

Emergency liquidity programs are likely to be scaled back over the coming months; however, policy makers have signaled that they intend to keep interest rates low until an economic recovery is well underway. Low interest rates and low inflation continue to support bonds.

The MSCI World index had its seventh consecutive positive month in September, and it is now up 8.6% year-to-date. Increased merger and acquisition activity and positive economic data bolstered equity markets but some mixed economic data toward the end of September triggered profit taking, especially in cyclical assets.

On a year-to-date basis, the Information Technology sector is the best performing sector. The more defensive Healthcare and Telecom/Utilities sectors are the worst performing year-to-date.

Portfolio review

In September, we purchased a new name in the Technology Sector, Lexmark. Lexmark International is a leading developer, manufacturer, and supplier of printing and imaging solutions for offices and homes. Lexmark is a simple business and a simple investment case. They sell printers at very low margins and associated consumables at very high margins. The investment case is based on a view that the market is overly pessimistic to assume that the business is in secular decline. We believe current restructuring efforts will bear fruit, that the new printer portfolio will at least hold its own and not lead to any more market share erosion, and that the follow on sales of consumables will lead to increased profitability over the next few years. Sentiment and expectations are so low for this company that even the slightest bit of good news will be well rewarded. As a result, we believe that on a risk reward basis, Lexmark is currently an attractive investment. Stock markets have had a significant rally since early March and cyclical sectors have outperformed over this period. However, the valuations of the cyclical sectors do not make a compelling argument for an underweight position. Some of the defensive sectors, for example Healthcare, currently appear to be trading at a discount to their post 1990 averages. Banks remain the most challenging sector to assess, appearing to be either extremely 'cheap' or extremely 'expensive'.

We believe our marginal underweight position in this sector is prudent given the risks in such a politically driven sector. A greater focus on the valuation of stock markets, relative to the risk free alternative of sovereign bonds, may well become a growing feature of investor thinking as risk appetite continues to stabilize.

Top contributing stocks year-to-date:

Norwegian Bank DnB Nor has rebounded sharply from a very low valuation having sold off aggressively in the second half of 2008. We continue to hold the stock on the belief that its capital position will be sufficient to withstand the current economic turmoil. Xstrata, a diversified mining group, has advanced strongly on the back of the sharp recovery in the spot prices of its products since mid-March. We bought Bank Leumi of Israel toward the end of last year, attracted by the strength of its balance sheet (which provides downside protection for the business) and a very attractive valuation (which provides downside protection for the share price). While the investment case did not rest upon an improved global economy/general return of 'risk appetite', it has certainly benefited the share price, up around 75% in euro terms year-to-date.

Bottom contributing stocks year-to-date:

U.S. Bank Synovus entered the current financial crisis highly capitalized, but with a large concentration of commercial real estate and developer loans. We bought the stock on the belief that its capital would be sufficient to see it through tough times. The stock has been a very disappointing performer and the stock market has taken a much harsher view of its future than we have. We expect the company to re-emerge from the crisis intact. Peoples United Financial is arguably the world's strongest bank, both in terms of its capital and the conservative nature of its loan book. It was profitable throughout the financial crisis and since the start of 2007 it has outperformed the global financial sector by more than 50%. People's share price has fallen this year as investors sought out riskier, previously out-of-favour stocks. The valuation of the company is still attractive; we believe it does not fully capture the bank's strength and quality. U.S. regional banks have performed poorly this year and Keycorp has performed somewhat worse than the overall group. This is primarily due to share price weakness in the wake of the Fed's "stress test" report, which found that Keycorp had insufficient capital and had to raise $1.8 billion (and hence dilute the share of ownership of current shareholders). We believe the additional capital will put the bank in a stronger position and better equip it to ride out the current crisis.

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.

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