

Fortress Absolute Return Fund

Annual Report

30 September 2020



FORTRESS ABSOLUTE RETURN FUND

Annual Report and Audited Financial Statements

For the Financial Period from 18 October 2019 (Date Launched) to 30 September 2020

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GENERAL INFORMATION ABOUT THE FUND

Name, Category and Type

Fund Name	-	Fortress Absolute Return Fund
Fund Category	-	Mixed Assets
Fund Type	-	Growth Fund

Investment Objective, Policy and Strategy

Objective of the Fund

The Fund aims to provide long term capital appreciation.

Investment Strategy

The Fund aims to achieve its objective by adopting a tactical asset allocation strategy where the Fund may invest to up 100% of its NAV in equities and equity-related securities (such as warrants, rights issue and equity linked notes). The investment selection for the Fund is unconstrained by any country, sector or market capitalization. However, the Fund will only invest in markets where the regulatory authority is an ordinary or associate members of the International Organization of Securities Commissions.

In addition to equity and equity-related securities, the Fund may invest in other asset classes depending on the prevailing market conditions. These asset classes would range from money market instruments, deposits and/or collective investments schemes (including but not limited to real estate investment trusts (REITs) and exchange-traded funds (ETFs) (including inverse ETFs)).

The Fund may also use derivatives such as forwards, futures, swaps and/or options for hedging purposes.

Equities and equity-related securities are selected through our rigorous investment process. Criteria that we looked at when selecting companies includes its growth profile, earnings quality, business model, competitive advantage, management quality and capability, corporate governance, balance sheet strength, cash flow strength, industry dynamics, and valuation.

The Fund adopts a tactical asset allocation, for example, when market condition is favourable, the Fund will have higher equity exposure when market condition becomes less attractive, the Fund will preserve its capital with higher cash levels by investing in money market instruments, deposits or collective investment schemes (including inverse ETFs).

Temporary Defensive Position

In responding to adverse market, political or economic conditions, we may hold up to 100% of the Fund's NAV in liquid assets such as money market instruments, deposits and money market collective investment schemes which may be inconsistent with the Fund's principal investment strategy and asset allocation.

The asset allocation of the Fund will be as follows:-

- 0% - 100% of the NAV of the Fund will be invested in equities and equity-related securities;
- 0% - 100% of the NAV of the Fund will be invested in money market instruments and/or deposits;
- 0% - 100% of the NAV of the Fund will be invested in collective investment schemes (including exchange-traded funds); and
- 0% - 10% of the NAV of the Fund will be invested in derivatives and structured products.

Performance Benchmark

The performance of the Fund is benchmark against Absolute return of 8% per annum. Risk profile of the Fund is different from the risk profile of the reference benchmark. The return was not guaranteed and it is only measurement of the Fund's performance. The Fund may not achieve this growth rate in any particular financial year but targets to achieve this growth over long term.

Permitted Investments, Investment Restrictions and Limits

Unless otherwise prohibited by the relevant authorities or any relevant laws and provided always that there is no inconsistency with the investment objective of the Fund, the Fund will invest in the following permitted investments:

- 1) equities and equity-related securities;
- 2) money market instruments;
- 3) deposits;
- 4) collective investment schemes (including REITs and ETFs);
- 5) structured products;
- 6) derivatives (for hedging purposes); and
- 7) any other investments which are in line with the Fund's objective.

The Fund is not subject to any investment restrictions and limits.

Distribution Policy

The Fund is not expected to make distribution. However, incidental distribution may be declared whenever is appropriate. The source of income, if any, for the purpose of distribution shall be derived from realised income and /or gain.

FUND PERFORMANCE DATA

Year ended
30 SEPTEMBER 2020

PORTFOLIO COMPOSITION (% OF NAV)

Equities	92.72
Liquidities (Net of Liabilities)	7.28
Total Investment	100.00

Total Net Asset Value (USD)	4,494,825
Units In Circulation	3,778,988
Net Asset Value Per Unit (USD)	1.1894
Management Fee Ratio (%)	0.94
Performance Fee Ratio (%)	3.04
*Other Expenses Ratio (%)	0.32
Management Expenses Ratio With Performance Fee (%)	4.30
Management Expenses Ratio Without Performance Fee (%)	1.26
Portfolio Turnover Ratio (PTR) (times)	1.09

**Other Expenses include Trustee Fee, Custodian Fee, Audit Fee, Tax Agent Fee and others.*

UNIT PRICES

NAV Per Unit (USD)	1.1894
Highest NAV Per Unit for the Year (USD)	1.2229
Lowest NAV Per Unit for the Year (USD)	0.8847

TOTAL RETURN (%)

Total Return of Fund	18.94
Absolute Return Benchmark	8.00

FORTRESS ASOLUTE RETURN FUND

MANAGER'S REPORT

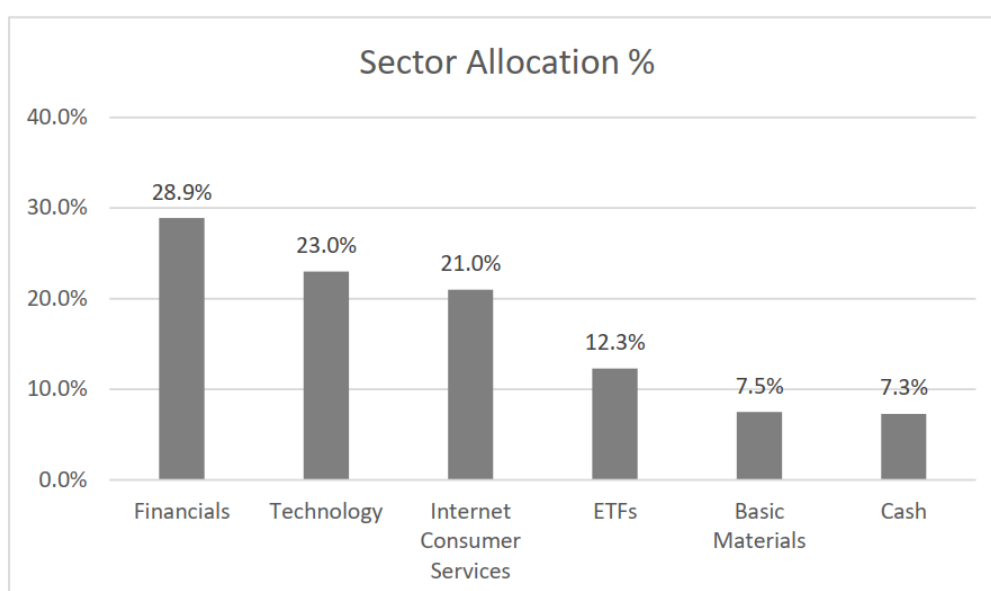
Dear Investors,

The Fortress Absolute Return Fund had a promising start to its inaugural financial year (30 September year-end) with an +18.9% return compared to its Absolute Return Benchmark of 8% and the Fund has also outperformed comparable MSCI Indices by a significant margin.

Fund	29-Nov-19	31-Dec-19	31-Jan-20	28-Feb-20	31-Mar-20	30-Apr-20	29-May-20	30-Jun-20	31-Jul-20	31-Aug-20	30-Sep-20
FARF NAV per Unit (USD)	1.0371	1.0832	1.0679	1.0849	0.9739	1.0522	1.0502	1.1095	1.1616	1.2095	1.1894
% return	3.71%	8.32%	6.79%	8.49%	-2.61%	5.22%	5.02%	10.95%	16.16%	20.95%	18.94%

(*note: due to certain month ends falling on a weekend, the last Friday of the month was used)

Portfolio returns were largely driven by Technology and Internet Consumer Services while Financials were the main detractors. The sector allocation as of 30th September 2020 was as follows:



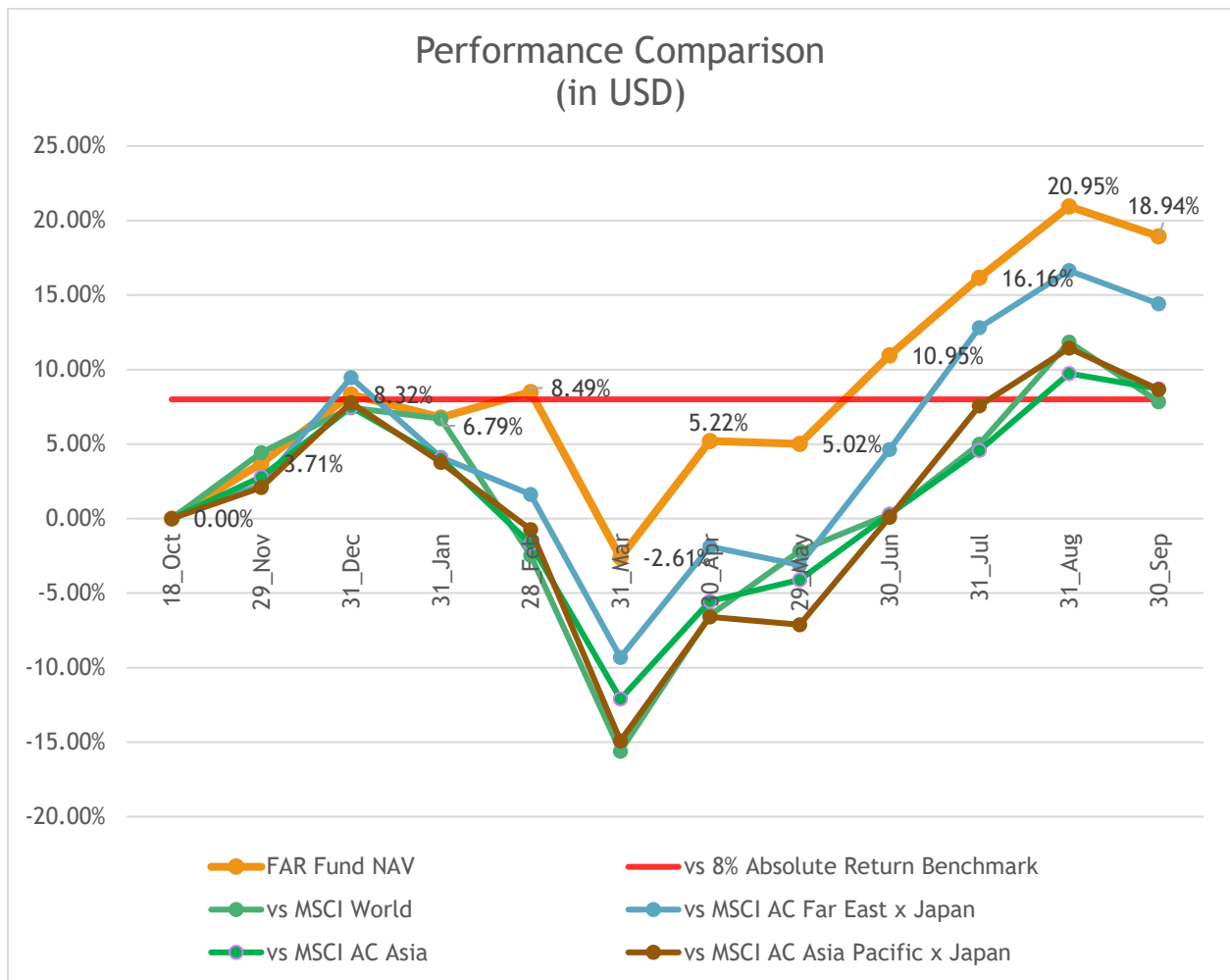
The Fund was lodged and launched on 18th October 2019 with a 5 business days' Initial Offer Period (IOP). First capital deployment began on 30th October 2019.

In the period from October-December 2019, the major equity indices rallied higher. During that period, a major challenge of the Fund was to deploy capital as quickly as the new monies were sighted, in order to benefit from the equity market rally while mitigating cash drag. The Fund was able to maintain performance with the major equity indices despite having to navigate large cash injections and drag from cash deployment due to a favourable stock-picking and sector selection strategy.

Equity markets entered early 2020 with volatility from economic and market uncertainty due to the COVID-19 global pandemic. The Fund managed to navigate this period with considerable success by keeping relatively high cash levels into the major March equity correction. A tactical decision was made to deploy much of the cash on 18th March 2020. With hindsight, this reallocation into equity was near the bottom of the market correction, which was handsomely rewarded as global equity markets staged a sharp rebound from end-March into April 2020, largely due to monetary easing from global central banks as well as fiscal spending stimulus by the major industrial economies.

A decision was made to mitigate equity exposure risk from April onwards, with the view that exogenous risks remained for the rest of the year. The Fund subsequently added some exposure to gold in early July via Gold ETFs (Exchange Traded Funds) on expectations that gold would benefit from a low interest-rate environment, loose monetary policies as well as rising geo-political tension. Gold prices rallied sharply in mid-to-late July 2020 and had since given back some of its gains towards September 2020. The Fund also added more exposure to Financials and Technology in July 2020.

As a result, the Fund was able to outperform comparable major MSCI Indices, maintaining a consistent outperformance gap:



(*note: due to certain month ends falling on a weekend, the last Friday of the month was used)

Moving forward, the Fund remains committed to its investment objective of long-term capital appreciation, maintaining its investment strategy of stock selection and tactical asset allocation based on the Manager’s anticipation of economic and market conditions.

Soft Commissions received from Brokers

As per the requirements of the Securities Commission's Guidelines on Unit Trust Funds and Guidelines on Compliance Function for Fund Management Companies, soft commissions received from brokers/dealers may be retained by the management company only if the :-

- (i) goods and services provided are of demonstrable benefit to Unit holders of the Fund; and
- (ii) goods and services are in the form of research and advisory services that assists in the decision making process.

The Manager will not retain any rebate from, or otherwise share in any commission with, any broker or dealer in consideration for directing dealings in the investments of the Fund. Notwithstanding the aforesaid, the Manager may receive goods and services by way of soft commissions provided always that the goods and services are of demonstrable benefit to the Unit Holders in the form of research and advisory services that assist in the decision-making process relating to the Fund's investments.

During the financial period under review, the management company had received on behalf of the Fund, soft commissions in the form of:-

- (i) research materials;
- (ii) data and quotation services;
- (iii) investment-related publications;
- (iv) market data feed and industry benchmarking agencies which are of demonstrable benefit to Unitholders of the Fund.

**TRUSTEE'S REPORT
TO THE UNIT HOLDERS OF FORTRESS ABSOLUTE RETURN FUND**

We, **CIMB Commerce Trustee Berhad** being the trustee for **Fortress Absolute Return Fund** ("the Fund"), are of the opinion that **Fortress Capital Asset Management (M) Sdn Bhd** ("the Manager"), acting in the capacity as the Manager of the Fund, has fulfilled its duties in the following manner for the financial period from 18 October 2019 (date of launch) to 30 September 2020.

- a) The Fund has been managed in accordance with the limitations imposed on the investment powers of the Manager under the Deed, the Securities Commission Malaysia's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework, the Capital Markets and Services Act 2007 (as amended from time to time) and other applicable laws;
- b) Valuation and pricing for the Fund has been carried out in accordance with the Deed and relevant regulatory requirements; and
- c) Creation and cancellation of units have been carried out in accordance with the Deed and relevant regulatory requirements.

For and on behalf of
CIMB Commerce Trustee Berhad

Lee Kooi Yoke
Chief Executive Officer

Kuala Lumpur, Malaysia

23 November 2020

STATEMENT BY MANAGER

We, Yong Peng Tak and Loo Kok Yuen, being the two directors of Fortress Capital Asset Management (M) Sdn. Bhd. ("The Manager"), do hereby state that, in the opinion of the Manager, the accompanying financial statements set out on pages 12 to 44 are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as give true and fair view of the financial position of Fortress Absolute Return Fund as at 30 September 2020 and of its financial performance, changes in net asset value and cash flows for the financial period then ended.

For and on behalf of the Manager,

Fortress Capital Asset Management (M) Sdn. Bhd.

Yong Peng Tak

Loo Kok Yuen

Kuala Lumpur

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF FORTRESS ABSOLUTE RETURN FUND

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Fortress Absolute Return Fund ("the Fund"), which comprise the statement of financial position as at 30 September 2020, and the statement of profit or loss and other comprehensive income, statement of changes in net asset value and statement of cash flows of the Fund for the financial period then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 12 to 44.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 30 September 2020, and of its financial performance and its cash flows of the Fund for the financial period then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Fund in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information Other than the Financial Statements and Auditors' Report Thereon

The Manager of the Fund is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Fund and our auditors' report thereon.

Our opinion on the financial statements of the Fund does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Fund, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Fund or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF FORTRESS ABSOLUTE RETURN FUND (CONT'D)

Responsibilities of the Manager for the Financial Statements

The Manager of the Fund is responsible for the preparation of financial statements of the Fund that give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Manager of the Fund is also responsible for such internal control as the Manager determines is necessary to enable the preparation of financial statements of the Fund that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Fund, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Fund as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:-

- Identify and assess the risks of material misstatement of the financial statements of the Fund, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Fund or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF FORTRESS ABSOLUTE RETURN FUND (CONT'D)

Auditors' Responsibilities for the Audit of the Financial Statements (Cont'd)

- Evaluate the overall presentation, structure and content of the financial statements of the Fund, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER MATTERS

This report is made solely to the unitholders of the Fund and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Crowe Malaysia PLT
20190600005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

Kuala Lumpur

23 November 2020

Choong Kok Keong
03461/11/2021 J
Chartered Accountant

FORTRESS ABSOLUTE RETURN FUND

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2020

	Note	USD
ASSETS		
Investments	4	4,167,983
Dividend receivables		5,611
Cash at bank		432,566
TOTAL ASSETS		4,606,160
LIABILITIES		
Accruals		3,814
Amount owing to Manager		107,171
Amount owing to Trustee		350
TOTAL LIABILITIES		111,335
UNITHOLDERS' FUND		
Unitholders' capital		3,933,689
Retained earning		561,136
NET ASSET VALUE ("NAV") ATTRIBUTABLE TO UNITHOLDERS	5	4,494,825
TOTAL UNITHOLDERS' FUND AND LIABILITIES		4,606,160
UNITS IN CIRCULATION		3,778,988
NAV PER UNIT (USD)		1.1894

FORTRESS ABSOLUTE RETURN FUND

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

	Note	USD
INVESTMENT INCOME		
Gross dividend income		43,884
Net realised gain on disposal of financial assets at fair value through profit or loss ("FVTPL")		244,493
Net unrealised gain on changes in fair value of financial assets at FVTPL		410,950
Net realised gain on foreign exchange		12,978
Net unrealised gain on foreign exchange		20,402
Other income		11
		<hr/>
		732,718
		<hr/>
LESS: EXPENSES		
Manager's fee	6	32,036
Performance fee	7	103,393
Custodian's fee	8	1,610
Trustee's fee	9	3,991
Auditors' remuneration		2,862
Tax agent's fee		952
Administrative expenses		1,449
Brokerage and other transaction fees		25,289
		<hr/>
		171,582
		<hr/>
NET INCOME BEFORE TAXATION		561,136
INCOME TAX EXPENSE	10	-
		<hr/>
NET INCOME AFTER TAXATION		561,136
OTHER COMPREHENSIVE INCOME		-
		<hr/>
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		561,136
		<hr/>

FORTRESS ABSOLUTE RETURN FUND

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020 (CONT'D)

	Note	USD
Net income after taxation is made up as follows:		
- net realised gains		129,784
- net unrealised gains		431,352
		<hr/>
		561,136
		<hr/>
Distribution during the financial period:-		
Net distribution	11	-
		<hr/>
Gross distribution per unit (sen)	11	-
		<hr/>
Net distribution per unit (sen)	11	-
		<hr/>

FORTRESS ABSOLUTE RETURN FUND

STATEMENT OF CHANGES IN NET ASSET VALUE FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

	Note	Unitholders' Capital USD	Retained Earning USD	NAV Attributable To Unitholders USD
Transactions with unitholders: - creation of units	5(a)	3,933,689	-	3,933,689
		3,933,689	-	3,933,689
Net income after taxation/Total comprehensive income for the financial period		-	561,136	561,136
Balance as at 30 September 2020		3,933,689	561,136	4,494,825

FORTRESS ABSOLUTE RETURN FUND

STATEMENT OF CASH FLOWS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

	USD
CASH FLOWS FOR OPERATING AND INVESTING ACTIVITIES	
Proceeds from disposal of investments	1,932,151
Purchase of investments	(5,448,748)
Net dividends received	37,072
Manager's and performance fee paid	(28,258)
Trustee's and custodian fee paid	(5,251)
Payments for other fees and expenses	(237)
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NET CASH FOR OPERATING AND INVESTING ACTIVITIES	(3,513,271)
	<hr/>
NET CASH FROM FINANCING ACTIVITY	
Proceeds from the creation of units	3,933,689
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NET INCREASE IN CASH AT BANK	420,418
EFFECT OF EXCHANGE RATE IN CHANGES IN CASH AT BANK	12,148
CASH AT BANK AT BEGINNING OF THE FINANCIAL PERIOD	-
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CASH AT BANK AT END OF THE FINANCIAL PERIOD	432,566
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FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

1. THE FUND, THE MANAGER AND THEIR PRINCIPAL ACTIVITIES

Fortress Absolute Return Fund (hereinafter referred to as “the Fund”) was constituted pursuant to the execution of a Deed dated 1 October 2019 (“the Deed”), made between Fortress Capital Asset Management (M) Sdn. Bhd. (“the Manager”), and CIMB Commerce Trustee Berhad (“the Trustee”).

The Fund was launched on 18 October 2020 and the fund will continue its operations until terminated according to the Deed.

All investments are subjected to the Securities Commission Malaysia (“SC”) Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework, SC requirements, the Deed, except where exemptions or variations have been approved by the SC, internal policies and procedures and the Fund’s objective.

The Fund seeks to generate returns largely in the form of capital gains above its prescribed benchmark from investments in stocks which exhibit strong growth features.

The Manager, Fortress Capital Asset Management (M) Sdn. Bhd., a company incorporated in Malaysia, is principally engaged in the management of funds, including wholesale funds, and private funds.

The financial statements were authorised for issue by the Manager on 23 November 2020.

2. BASIS OF PREPARATION

These are the Fund’s first set of financial statements since its date launched.

The financial statements of the Fund are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with Malaysian Financial Reporting Standards (“MFRSs”), International Financial Reporting Standards.

2.1 During the current financial period, the Fund has adopted all the MFRSs that were become effective on or before the date launched.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

2. BASIS OF PREPARATION (CONT'D)

- 2.2 The Fund has not applied in advance the following accounting standards and/or interpretations (including the consequential amendments, if any) that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the current financial period:-

MFRSs and/or IC Interpretations (Including The Consequential Amendments)	Effective Date
MFRS 17 Insurance Contracts	1 January 2023
Amendments to MFRS 3: Definition of a Business	1 January 2020
Amendments to MFRS 3: Reference to the Conceptual Framework	1 January 2022
Amendments to MFRS 9, MFRS 139 and MFRS 7: Interest Rate Benchmark Reform	1 January 2020
Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16: Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred
Amendments to MFRS 16: COVID-19-Related Rent Concessions	1 June 2020
Amendments to MFRS 17 Insurance Contracts	1 January 2023
Amendments to MFRS 101 and MFRS 108: Definition of Material	1 January 2020
Amendments to MFRS 101: Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to MFRS 116: Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to MFRS 137: Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to References to the Conceptual Framework in MFRS Standards	1 January 2020
Annual Improvements to MFRS Standards 2018 – 2020	1 January 2022

The adoption of the above accounting standards (including the consequential amendments, if any) is expected to have no material impact on the financial statements of the Fund upon their initial application.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Key Sources of Estimation Uncertainty

Manager believes that there are no key assumptions made concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

In the process of applying the Fund's accounting policies, the manager is not aware of any judgements that have significant effects on the amounts recognised in the financial statements.

There are also no assumptions concerning the future and other key sources of estimation of uncertainties at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3.2 FUNCTIONAL AND FOREIGN CURRENCIES

(a) Functional and Presentation Currency

The functional currency of the Fund is the currency of the primary economic environment in which the Fund operates.

The financial statements of the Fund are presented in United States Dollar ("USD"), which is the Fund's functional and presentation currency.

(b) Foreign Currency Transactions and Balances

Transactions in foreign currencies are converted into the respective functional currencies on initial recognition, using the exchange rates at the transaction dates. Monetary assets and liabilities at the end of the reporting period are translated at the exchange rates ruling as of that date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All exchange differences are recognised in profit or loss.

3.3 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the statement of financial position when the Fund has become a party to the contractual provisions of the instruments.

Financial instruments are classified as financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual arrangement and their definitions in MFRS 132. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 FINANCIAL INSTRUMENTS (CONT'D)

Financial instruments are offset when the Fund has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

A financial instrument is recognised initially at its fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial instrument (other than a financial instrument at fair value through profit or loss) are added to/deducted from the fair value on initial recognition, as appropriate. Transaction costs on the financial instrument at fair value through profit or loss are recognised immediately in profit or loss.

Financial instruments recognised in the statement of financial position are disclosed in the individual policy statement associated with each item.

(a) Financial Assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value (through profit or loss, or other comprehensive income), depending on the classification of the financial assets.

Debt Instruments

(i) Amortised Cost

The financial asset is held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset. When the asset has subsequently become credit-impaired, the interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), excluding expected credit losses, through the expected life of the financial asset or a shorter period (where appropriate).

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial Assets (Cont'd)

Debt Instruments (Cont'd)

(ii) Fair Value through Other Comprehensive Income

The financial asset is held for both collecting contractual cash flows and selling the financial asset, where the asset's cash flows represent solely payments of principal and interest. Movements in the carrying amount are taken through other comprehensive income and accumulated in the fair value reserve, except for the recognition of impairment, interest income and foreign exchange difference which are recognised directly in profit or loss. Interest income is calculated using the effective interest rate method.

(iii) Fair Value through Profit or Loss ("FVTPL")

All other financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

The Fund reclassifies debt instruments when and only when its business model for managing those assets change.

Equity Instruments

All equity investments are subsequently measured at fair value with gains and losses recognised in profit or loss except where the Fund has elected to present the subsequent changes in fair value in other comprehensive income and accumulated in the fair value reserve at initial recognition.

The designation at fair value through other comprehensive income is not permitted if the equity investment is either held for trading or is designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise.

Dividend income from this category of financial assets is recognised in profit or loss when the Fund's right to receive payment is established unless the dividends clearly represent a recovery of part of the cost of the equity investments.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial Liabilities

(i) Financial Liabilities at Fair Value through Profit or Loss

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. The changes in fair value of these financial liabilities are recognised in profit or loss.

(ii) Other Financial Liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), through the expected life of the financial liability or a shorter period (where appropriate).

(c) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset measured at amortised cost, the difference between the carrying amount of the asset and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of a debt instrument classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified from equity to profit or loss. In contrast, there is no subsequent reclassification of the fair value reserve to profit or loss following the derecognition of an equity investment.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.4 UNITHOLDERS' CAPITAL

The unitholders' capital is classified as equity.

The Fund issues cancellable units, which are cancelled at the unitholder's option and are classified as equity. Cancellable units can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's Net Asset Value ("NAV"). The outstanding units are carried at the redemption amount that is payable as at the date of the statement of financial position if the unitholder exercises the right to put the unit back to the Fund.

Units are created and cancelled at the unitholder's option at prices based on the Fund's NAV per unit at the time of creation or cancellation. The Fund's NAV is calculated by dividing the net assets attributable to unitholders with the total number of outstanding units.

The units in the Fund are puttable instruments which entitle the unitholders to a pro-rata share of the net assets of the Fund. The units are subordinated and have identical features. There is no contractual obligations to deliver cash or another financial asset other than the obligation on the Fund to repurchase the units. The total expected cash flows from the units in the Fund over the life of the units are based on the change in the net assets of the Fund.

3.5 IMPAIRMENT OF FINANCIAL ASSETS

The Fund recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at fair value through other comprehensive income.

The expected credit loss is estimated as the difference between all contractual cash flows that are due to the Fund in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at the original effective interest rate.

The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Fund always recognises lifetime expected credit losses for the receivables using the simplified approach. The expected credit losses on these financial assets are estimated using a provision matrix based on the Fund's historical credit loss experience and are adjusted for forward-looking information (including time value of money where appropriate).

For all other financial instruments, the Fund recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Fund measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.5 IMPAIRMENT OF FINANCIAL ASSETS (CONT'D)

The Fund recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at fair value through other comprehensive income, for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

3.6 INCOME TAXES

(a) Current Tax

Current tax assets and liabilities are expected amount of income tax recoverable or payable to the taxation authorities.

Current taxes are measured using tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period and are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss (either in other comprehensive income or directly in equity).

(b) Deferred Tax

Deferred tax is recognised using the liability method for temporary differences other than those that arise from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Current and deferred tax items are recognised in correlation to the underlying transactions either in profit or loss, other comprehensive income or directly in equity.

Current tax assets and liabilities or deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxable entity (or on different tax entities but they intend to settle current tax assets and liabilities on a net basis) and the same taxation authority.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value with original maturity periods of three months or less.

3.8 INCOME

Realised gain or loss on disposal of quoted securities is accounted for as the difference between net disposal proceeds and the carrying amount of investments, determined on a weighted average cost basis.

Dividend income from investment is recognised when the right to receive dividend payment is established.

3.9 DISTRIBUTIONS

Distributions are at the discretion of the Manager. A distribution to the Fund's unitholders is accounted for as a deduction from realised reserves. A proposed distribution is recognised as a liability in the period in which it is approved.

3.10 OPERATING SEGMENTS

For management purposes, the Fund is managed as a portfolio of investments. The operating results are regularly reviewed by the Investment Manager and the Investment Committee. The Investment Manager assumes the role of chief operating decision maker, for performance assessment purposes and to make decisions about resources allocated to investments in each segment.

3.11 NET ASSET VALUE ATTRIBUTABLE TO UNITHOLDERS

Net asset value attributable to unitholders represents the total equity in the statement of financial position, which is carried at the redemption amount that would be payable at the end of the reporting period if the unitholders exercised the right to redeem units of the Fund.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.12 FAIR VALUE MEASUREMENTS

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, regardless of whether that price is directly observable or estimated using a valuation technique. The measurement assumes that the transaction takes place either in the principal market or in the absence of a principal market, in the most advantageous market. For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial reporting purposes, the fair value measurements are analysed into level 1 to level 3 as follows:-

- Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liability that the Fund can access at the measurement date;
- Level 2: Inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Inputs are unobservable inputs for the asset or liability.

The transfer of fair value between levels is determined as of the date of the event or change in circumstances that caused the transfer.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

4. INVESTMENTS

Investments at FVTPL:-	USD
Quoted investments - outside Malaysia	4,167,983

The quoted investments - outside Malaysia held for trading at the end of the reporting period are as follows:-

Name Of Counter	Quantity	Acquisition Cost USD	Fair Value USD	Percentage Of NAV %
QUOTED IN: HONG KONG				
Technology				
Tencent Holdings Limited	9,200	414,347	607,280	13.51
Basic Materials				
Nine Dragons Paper Holdings Limited	268,000	287,658	336,168	7.48
Financials				
CITIC Securities Co., Ltd.	75,000	197,461	166,668	3.71
ESR Cayman Limited	84,000	200,206	260,705	5.80
Ping An Insurance (Group) Company of China, Ltd.	48,500	557,116	497,582	11.07
		954,783	924,955	20.58
Consumer				
Alibaba Group Holding Limited	20,600	503,561	732,660	16.30
Total Quoted Investments In Hong Kong		2,160,349	2,601,063	57.87

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

4. INVESTMENTS

The quoted investments - outside Malaysia held for trading at the end of the reporting period are as follows (Cont'd):-

Name Of Counter	Quantity	Acquisition Cost USD	Fair Value USD	Percentage Of NAV %
<u>QUOTED IN: UNITED STATES OF AMERICA</u>				
Technology				
Microsoft Corporation	2,037	407,052	428,442	9.53
Financials				
VanEck Vectors Gold Miners ETF	7,030	272,341	275,295	6.12
SPDR Gold Shares	1,577	271,971	279,318	6.21
		544,312	554,613	12.33
Consumer				
Amazon.com, Inc.	67	204,564	210,965	4.69
Total Quoted Investments In United States of America		1,155,928	1,194,020	26.55
<u>QUOTED IN: SINGAPORE</u>				
Financials				
Prime US Reit	452,000	430,370	372,900	8.30
Total Quoted Investments In Singapore		430,370	372,900	8.30
Total Quoted Investment - Outside Malaysia		3,746,647	4,167,983	92.72
Excess Of Fair Value Over Acquisition Cost			421,336	

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

5. NET ASSET VALUE (“NAV”) ATTRIBUTABLE TO UNITHOLDERS

	Note	USD
Unitholders' capital	(a)	3,933,689
Retained earnings:		
- Realised		129,784
- Unrealised		431,352
NAV attributable to unitholders		<u>4,494,825</u>

(a) Unitholders' capital

	No. of Units	USD
At the beginning of the financial period	-	-
Creation of units	3,778,988	3,933,689
As the end of financial period	<u>3,778,988</u>	<u>3,933,689</u>

6. MANAGER'S FEE

The Manager is entitled to a maximum management fee of 3.00% per annum, calculated daily based on NAV of the Fund. For the financial period ended 30 September 2020, the management fee is recognised at a rate of 1.00% per annum.

There will be no further liability to the Manager in respect of management fee other than amount recognised above.

7. PERFORMANCE FEE

The performance fee is computed 20% per annum on the appreciation in the NAV per Unit over above the Hurdle Value during a particular Performance Period.

The performance fee is calculated and adjusted on a daily basis. Although the calculation is on a daily basis, the performance fee is only payable to the Manager at the end of each Performance Period if there is an appreciation in the NAV per Unit over and above the Hurdle Value, which is high-water mark (HWM) plus 8%, at the end of the particular Performance Period.

8. CUSTODIAN'S FEE

The Custodian's fee payable to CIMB Bank Berhad based on month end market value portfolio and transaction purchase and sale of shares during the month. The custodian fee is payable monthly.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

9. TRUSTEE'S FEE

The Trustee's fee is entitled to a minimum fee of USD4,000 per annum at rate 0.20%, calculated daily based on the NAV of the Fund, whichever is higher.

For the financial period ended 30 September 2020, the Trustee's fee is recognised at USD3,991, which is the pro-rated from the minimum fee of USD4,000, from the subscription date of 25 October 2019.

There will be no further liability to the Trustee in respect of trustee fee other than amount recognised above.

10. INCOME TAX EXPENSE

No provision for taxation has been made during the financial period.

A reconciliation of income tax expense applicable to the net income before taxation at the statutory tax rate to income tax expense at the effective tax rate of the Fund is as follows:-

	USD
Net income before taxation	561,136
Tax at the statutory tax rate of 24%	134,673
Tax effects of:-	
Tax-exempt income	(169,780)
Non-deductible expenses	35,107
Income tax expense for the financial period	-

11. DISTRIBUTION DURING THE FINANCIAL PERIOD

There was no distribution paid or proposed for the financial period.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

12. TRANSACTIONS WITH STOCKBROKING COMPANIES/INVESTMENT BANKS

Details of transactions with the top 10 brokers for the financial period ended 30 September 2020 are as follows:

	Value Of Trade 2020 USD	Percentage Of Total Trade %	Brokerage Fees USD	Percentage Of Total Brokerage Fees %
Credit Suisse (HK) Ltd	3,064,786	41.50	9,101	47.36
China Galaxy International Securities (HK) Ltd	1,487,621	20.15	4,165	21.68
CGS-CIMB Securities (SG) Pte Ltd	581,065	7.87	1,627	8.47
CCB International Securities Ltd	420,606	5.70	631	3.28
Standard Chartered Bank, Singapore	407,526	5.52	1,141	5.94
DBS Vickers (HK) Ltd	365,150	4.95	1,022	5.32
Daiwa Capital Markets HK Ltd	307,560	4.17	578	3.01
Credit Suisse AG	207,446	2.81	44	0.23
UOB Kay Hian Hong Kong Limited	201,758	2.73	605	3.15
Brown Brothers Harriman	199,605	2.70	37	0.19
Other	140,067	1.90	263	1.37
	<u>7,383,190</u>	<u>100.00</u>	<u>19,214</u>	<u>100.00</u>

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

13. RELATED PARTY DISCLOSURES

(a) Identities of Related Parties

The Fund has related party relationships with its Manager, Fortress Capital Asset Management (M) Sdn. Bhd. and Trustee, CIMB Commerce Trustee Berhad.

(b) Units held by the Manager and Parties related to the Manager

	No. of units
Related parties to the Manager:	
- Manager, persons and companies connected to the Manager	95,542

14. PORTFOLIO TURNOVER RATIO ("PTR")

The PTR of the Fund is the ratio of the average of the total acquisitions and disposals of investments of the Fund for the year over the average NAV of the Fund calculated on a daily basis. For the financial period ended 30 September 2020, the PTR of the Fund stood at 1.09 times.

The PTR is calculated as follows:

A = Total Acquisitions of the Fund	USD 5,459,827
B = Total Disposals of the Fund	1,934,212
$\text{PTR} = \frac{(A+B) / 2}{\text{Average NAV of the Fund}}$	
	$= \frac{\text{USD3,697,020}}{\text{USD3,403,844}}$
	$= 1.09 \text{ times}$

The average NAV of the Fund calculated daily for the financial period ended 30 September 2020 was USD3,403,844.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

15. MANAGEMENT EXPENSE RATIO (“MER”)

Management expense ratio is the ratio of the total fees and recovered expenses of the Fund expressed as a percentage of the Fund’s average NAV of the Fund calculated on a daily basis. The fees and expenses include Manager’s fee, Custodian’s fee, Trustee’s fee, Performance fee, auditors’ remuneration, tax agent’s fee and other administrative expenses. The management expense ratio for the current period is 4.30%.

	USD
A = Manager’s fee	32,036
B = Custodian’s fee	1,610
C = Trustee’s fee	3,991
D = Performance fee	103,393
E = Auditors’ remuneration	2,862
F = Tax agent’s fee	952
G = Administrative and other expenses	1,449
H = Average NAV of the Fund calculated daily	3,403,844

$$\begin{aligned} \text{MER} &= \frac{(A+B+C+D+E+F+G)}{H} \times 100 \\ &= \frac{\text{USD}146,293}{\text{USD}3,403,844} \times 100 \\ &= 4.30\% \end{aligned}$$

The average NAV of the Fund for the financial period ended 30 September 2020 was USD3,403,844.

16. OPERATING SEGMENTS

The Manager is responsible for allocating resources available to the Fund in accordance with the overall investment strategies as set out in the Information Memorandum of the Fund. The Fund will also maintain certain amounts of its investment in liquid deposits.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

16. OPERATING SEGMENTS (CONT'D)

The segmental analysis of the Fund's revenue, expenses, assets, liabilities are shown in the table below:

2020	Equity Securities USD	Cash And Liquid Assets USD	Others USD	Total USD
Statement Of Profit Or Loss And Other Comprehensive Income				
Gross dividend income	43,884	-	-	43,884
Net realised gain on disposal of financial assets at FVTPL	244,493	-	-	244,493
Net unrealised gain on change in fair value of financial assets at FVTPL	410,950	-	-	410,950
Net realised gain/(loss) on foreign exchange	11,079	2,132	(233)	12,978
Net unrealised gain on foreign exchange	10,386	10,016	-	20,402
Other income	-	-	11	11
<hr/>				
Total segment operating income/(loss) for the financial period	720,792	12,148	(222)	732,718
<hr/>				
Statement Of Financial Position				
Assets				
Investments	4,167,983	-	-	4,167,983
Dividend receivables	5,611	-	-	5,611
Cash at bank	-	432,566	-	432,566
<hr/>				
Total segment assets	4,173,594	432,566	-	4,606,160
<hr/>				
Liabilities				
Segment liabilities	-	-	111,335	111,335
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FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

16. OPERATING SEGMENTS (CONT'D)

Expenses of the Fund are not considered part of the performance of any operating segment. The following table provides reconciliation between net reportable segment income and net income after taxation:-

	USD
Net reportable segment operating income	732,718
Expenses	(171,582)
	<hr/>
Net income before taxation	561,136
Income tax expense	-
	<hr/>
Net income after taxation	561,136
	<hr/>

The liabilities of the Fund are not considered to be part of the net liabilities of an individual segment.

17. FINANCIAL INSTRUMENTS

The Fund's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Fund's business whilst managing its market risk (including equity price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk.

17.1 CAPITAL RISK MANAGEMENT

The Fund Manager is responsible for identifying and controlling risks. The Board of Directors of the Manager is ultimately responsible for the overall risk management approach for the Fund.

Monitoring and controlling risks are primarily set up to be performed based on limits established by the Manager and Trustee. These limits reflect the inherent risk management set by the Manager and Trustee for the Fund as well as the level of the risk that the Fund is willing to accept. In addition, the Fund monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The Fund has investment guidelines that set out its overall investment strategies, its tolerance for risk and its general risk management philosophy. The Manager also has compliance personnel to ensure that the Fund complies with the various regulations and guidelines stipulated in its Information Memorandum, the Securities Commission's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework in Malaysia and the Investment Committee.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

17. FINANCIAL INSTRUMENTS (CONT'D)

17.2 FINANCIAL RISK MANAGEMENT POLICIES

The Fund's policies in respect of the major areas of treasury activity are as follows:-

(a) Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, foreign exchange and interest rates. The policies in respect of the major areas of treasury activity are as follows:-

(i) Equity Price Risk

Equity price risk is the risk of unfavourable changes in the fair values of equities as the result of changes in the value of the individual shares. The equity price risk exposure arises from the Fund's investments in quoted equity securities. This risk is managed by constructing a portfolio of equities with different risk profile for example by geographical region and by sector.

The Fund's concentration of equity price risk at the end of the reporting period analysed by the Fund's equity instruments by geographical spread was as follows:-

	Fair Value USD	As a % of NAV %
Hong Kong	2,601,063	57.87
United States	1,194,020	26.55
Singapore	372,900	8.30

The Fund's concentration of equity price risk at the end of the reporting period analysed by the Fund's equity instruments by sector was as follows:-

	Fair Value RM	As a % of NAV %
Basic Materials	336,168	7.48
Financials	1,852,468	41.21
Consumer	943,625	20.99
Technology	1,035,722	23.04

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

17. FINANCIAL INSTRUMENTS (CONT'D)

17.2 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(a) Market Risk (Cont'd)

(i) Equity Price Risk (Cont'd)

Equity Price Risk Sensitivity Analysis

The following table details the sensitivity analysis to a reasonably possible change in the prices of the quoted investments as at the end of the reporting period, with all other variables held constant:-

	Effect On Net Income After Taxation Increase/ (Decrease) USD	Effect On NAV Attributable To Unitholders Increase/ (Decrease) USD
Hong Kong Stock Exchange:		
- strengthened by 5%	130,053	130,053
- weakened by 5%	(130,053)	(130,053)
United States Stock Exchange:		
- strengthened by 5%	59,701	59,701
- weakened by 5%	(59,701)	(59,701)
Singapore Stock Exchange:		
- strengthened by 5%	18,645	18,645
- weakened by 5%	(18,645)	(18,645)

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

17. FINANCIAL INSTRUMENTS (CONT'D)

17.2 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(a) Market Risk (Cont'd)

(ii) Foreign Currency Risk

The Fund is exposed to foreign currency risk on quoted investments and cash at bank that are denominated in foreign currencies other than United States. The currencies giving rise to this risk are primarily Hong Kong Dollar, Singapore Dollar and Malaysia Ringgit. Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptance level.

The following table set out the Fund's exposure to foreign currency risk as at the end of the reporting period.

Foreign Currency Exposure

	USD	As a % of NAV %
<u>Investments</u>		
Hong Kong Dollar	2,601,063	57.87
	<hr/>	<hr/>
	USD	As a % of NAV %
<u>Cash at bank</u>		
Hong Kong Dollar	53,500	1.19
Singapore Dollar	356,839	7.94
Malaysia Ringgit	5,485	0.12
	<hr/>	<hr/>

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

17. FINANCIAL INSTRUMENTS (CONT'D)

17.2 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(a) Market Risk (Cont'd)

(ii) Foreign Currency Risk (Cont'd)

Foreign Currency Risk Sensitivity Analysis

The following table details the sensitivity analysis to a reasonable possible change in the foreign currencies as at the end of the reporting period, with all other variables held constant:-

	Effect On Net Income After Taxation Increase/ (Decrease) USD	Effect On NAV Attributable To Unitholders Increase/ (Decrease) USD
Hong Kong Dollar:		
- strengthened by 5%	132,728	132,728
- weakened by 5%	(132,728)	(132,728)
Singapore Dollar:		
- strengthened by 5%	17,842	17,842
- weakened by 5%	(17,842)	(17,842)
Malaysia Ringgit:		
- strengthened by 5%	274	274
- weakened by 5%	(274)	(274)

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

17. FINANCIAL INSTRUMENTS (CONT'D)

17.2 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(a) Market Risk (Cont'd)

(iii) Interest Rate Risk

The Fund does not have any interest-bearing borrowings and hence, is not exposed to interest rate risk.

(b) Liquidity Risk

Liquidity risk is defined as the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Exposure to liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities or redeem its units earlier than expected. The Fund is exposed to cash redemptions of its units every now and then. Units sold to unitholders by the Manager are redeemable at the unitholder's option based on the Fund's NAV per unit at the time of redemption calculated in accordance with the Fund's Information Memorandum. The Manager monitors the Fund's liquidity position frequently.

The Manager's policy is to always maintain a prudent and sufficient level of liquid assets so as to meet normal operating requirements and expected redemption requests by unitholders. Liquid assets comprise cash, deposits with financial institutions and other instruments which are capable of being converted into cash within 7 days. The Manager also manages the potential redemption risk by having an appropriate percentage of the portfolio in more liquid investments which can be converted into cash within a short period of time. In addition, the liquidity risk is managed by giving the Manager 10 working days to pay the unit holder once a redemption is received.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

17. FINANCIAL INSTRUMENTS (CONT'D)

17.2 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Liquidity Risk (Cont'd)

Maturity Analysis

The following table sets out the maturity profile of the Fund's issue (classified as equity instruments) and financial liabilities. Balances due within six months equal their carrying amounts, as the impact of discounting is insignificant. The table also analyses the maturity profile of the Fund's financial assets (undiscounted where appropriate) and equity in order to provide a complete view of the Fund's contractual commitments and liquidity.

	1 - 3 Months USD	3 - 6 Months USD	6 - 9 Months USD	Over 9 Months USD	Total USD
Financial Assets:-					
Investments	4,167,983	-	-	-	4,167,983
Dividend receivables	5,611	-	-	-	5,611
Cash at bank	432,566	-	-	-	432,566
	4,606,160	-	-	-	4,606,160
Financial Liabilities:-					
Accruals	3,814	-	-	-	3,814
Amount owing to Manager	107,171	-	-	-	107,171
Amount owing to Trustee	350	-	-	-	350
	111,335	-	-	-	113,335
Unitholders' fund	4,494,825	-	-	-	4,494,825

(i) Financial Assets

Analysis of financial assets at FVTPL into maturity groupings is based on the expected date on which these assets can be realised. The Fund's investments have been included in the "Less than 1 month category" on the assumption that those are liquid investments which can be realised should all of the Fund's unitholders capital be required to be redeemed. For other assets, the analyses into maturity groupings is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date on which the assets will be realised.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

17. FINANCIAL INSTRUMENTS (CONT'D)

17.2 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Liquidity Risk (Cont'd)

Maturity Analysis

(ii) Financial Liabilities

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Fund can be required to pay.

(iii) Unitholders' Fund

The Fund is an open ended fund with no maturity. Unitholders can request a purchase and redemption on their unit by giving the Manager on the business day with cut off time of 2pm. The Manager believes that it would be able to liquidate other investments should the need arise to satisfy all the redemption requirements of the Fund.

(c) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will cause financial loss for the Fund by failing to discharge an obligation. The Fund is exposed to the risk of credit-related losses that can occur as a result of a counterparty or issuer being unable or unwilling to honour its contractual obligations to make timely repayments of interest, principal and proceeds from realisation of investments. These credit exposures exist within financing relationships, derivatives and other transactions.

The Fund Manager manages the Fund's credit risk by undertaking credit evaluation and close monitoring of any changes to the issuer/counterparty's credit profile to minimise such risk. It is the Fund's policy to buy financial instruments with reputable counterparties. The Manager also closely monitors the creditworthiness of the Fund's counterparties by reviewing their credit ratings and credit profiles on a regular basis.

At the reporting date, the Fund's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position. None of the Fund's financial assets were past due or impaired as at the end of the reporting period.

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

17. FINANCIAL INSTRUMENTS (CONT'D)

17.3 CLASSIFICATION OF FINANCIAL INSTRUMENTS

	USD
Financial Assets	
<u>Fair Value Through Profit or Loss</u>	
Investments	4,167,983
	<hr/>
<u>Amortised Cost</u>	
Dividend receivables	5,611
Cast at bank	432,566
	<hr/>
	438,177
	<hr/>
Financial Liability	
<u>Amortised Cost</u>	
Accruals	3,814
Amount owing to Manager	107,171
Amount owing to Trustee	350
	<hr/>
	111,335
	<hr/>

17.4 GAINS ARISING FROM FINANCIAL INSTRUMENTS

	USD
Financial Assets	
<u>Fair Value Through Profit or Loss</u>	
Net gains recognised in profit or loss by: - mandatorily required by MFRS 9	699,327
	<hr/>
<u>Amortised Cost</u>	
Net gains recognised in profit or loss	33,391
	<hr/>

FORTRESS ABSOLUTE RETURN FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 18 OCTOBER 2019 (DATE LAUNCHED) TO 30 SEPTEMBER 2020

17. FINANCIAL INSTRUMENTS (CONT'D)

17.5 FAIR VALUE INFORMATION

The Fund has carried its quoted investments that are classified as FVTPL at their fair values, determined at their quoted closing prices at the end of the reporting period. These financial assets belong to level 1 of the fair value hierarchy.

The fair values of the other financial assets and financial liabilities which are maturing within the next 12 months approximated their carrying amounts due to relatively short-term maturity of the financial instruments. The fair values are included in level 2 of the fair value hierarchy.

There were no transfers between level 1 and level 2 during the financial period.

18. SIGNIFICANT EVENT DURING THE FINANCIAL PERIOD

The outbreak of COVID-19 in early 2020 has affected the business and economic environments of the Fund and hence, may impact its performance and financial position in the future. However, given the unpredictability associated with the COVID-19 pandemic and any further contingency measures that may be put in place by the governments and various private corporations, the potential financial impact of the COVID-19 pandemic on the Fund's 2021 financial statements could not be reasonably quantified at this juncture.

FORTRESS ABSOLUTE RETURN FUND

CORPORATE INFORMATION

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APPENDIX



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