

CABEI Central American Fund Investment Strategy for the First Quarter of 2005

December 2004



Deutsche Asset Management
A Member of the Deutsche Bank Group



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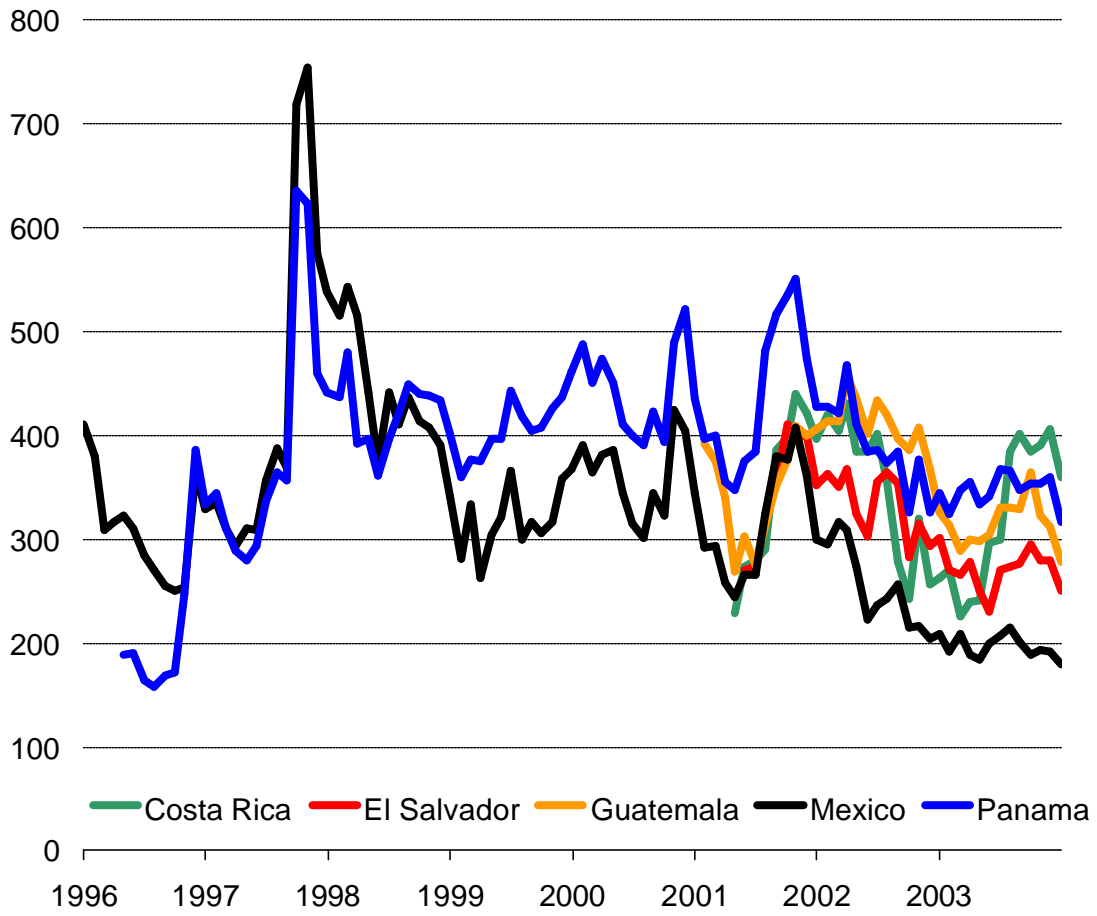
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Relative Value Analysis



Central American Spreads



Country Views



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Argentina (Ca/SD)

Kopf

Economic Indicators	2003	2004e	2005f
Real GDP, year-on-year change in percent	8.7	7.6	4.5
Nominal GDP, in USD billions	130	145	158
CPI (year-end), in percent	3.6	6.9	7.3
Fiscal Balance, in percent of GDP	0.5	2.6	1.4
External Debt, in percent of GDP	102.3	93.8	87.7
Current Account Balance, in percent of GDP	6.1	2.7	2.9
Foreign Exchange Reserves, in USD billions	13.1	19.5	22.5

Economic and political developments

- Argentina will probably come to the market with an exchange offer for defaulted Eurobonds in January 2005. This offer should value defaulted debt at around 30% of face value. Argentina should be able to secure participation in the order of 70% for this exchange.
- Domestic Dollar-denominated bonds, the so-called Boden 2012 (ISIN ARARGE034678) offer higher value than defaulted bonds. They have returned more than 20 % in 2004 and should continue to perform well next year, as the banking system is recovering.

Risk factors

- Continuous discord between government and IMF.
- Strong fall in commodity prices, especially in soy and oil.

Spread forecast	Dec 13, 04	Base Case	Risk Case
Latin Eurobond Index Argentina	5127 bps	4500 bps	6000 bps



Colombia (Ba2/BB)

Kopf

Economic Indicators	2003	2004e	2005f
Real GDP, year-on-year change in percent	3.9	4.0	3.9
Nominal GDP, in USD billions	78.7	92.2	98.4
CPI (year-end), in percent	6.5	5.4	4.9
Fiscal Balance, in percent of GDP	-5.4	-5.6	-6.3
External Debt, in percent of GDP	48.5	44.0	43.2
Current Account Balance, in percent of GDP	-1.9	-1.5	-3.9
Foreign Exchange Reserves, in USD billions	10.9	12.4	12.1

Economic and political developments

- Congress has passed a constitutional reform that allows for re-election of President Uribe. The constitutional court will rule on it next year.
- Third-quarter growth came in with a disappointing 2.4 %, signaling a deceleration of economic expansion.
- In spite of relatively strong growth, the government will post a fiscal deficit in excess of 5 % of GDP and public debt keeps rising.
- External debt ratios have improved this year, mainly thanks to the massive appreciation of the Colombian Peso (+14 % year-to-date).

Risk factors

- No progress on structural reforms, mainly pension reform.
- Continuous deterioration of public finances.

Spread forecast	Dec 13, 04	Base Case	Risk Case
Latin Eurobond Index Colombia	358 bps	400 bps	500 bps



Costa Rica (Ba1/BB)

Kopf

Economic Indicators	2003	2004e	2005f
Real GDP, year-on-year change in percent	6.5	3.9	2.9
Nominal GDP, in USD billions	17.5	18.5	19.2
CPI (year-end), in percent	9.9	13.5	10.0
Fiscal Balance, in percent of GDP	-2.8	-3.5	-3.5
External Debt, in percent of GDP	21.4	21.8	22.0
Current Account Balance, in percent of GDP	-5.5	-5.0	-4.0
Foreign Exchange Reserves, in USD billions	1.8	1.6	1.6

Economic and political developments

- Economic growth has been held back by high oil prices and a slowdown of technology demand in the US this year. Growth will probably fall further in 2005, as rising interest rates and political uncertainty hold back domestic demand.
- The fiscal deficit remains at an unsustainable level, and the rapid deterioration of public debt ratios continues. Public debt has risen by more than 10 % of GDP over the past three years, reaching 60 % in 2004.
- Tax reform has been delayed due to turbulences about the bribing of former presidents. An amended and watered-down version of the reform project could get passed in 2005, but the scope of the reform remains unclear.
- Even strong capital inflows have been insufficient to finance this year's current account deficit, which is exceeding 7 % of GDP. As a consequence, foreign exchange reserves keep falling. The current exchange rate regime may eventually become unsustainable.
- Early polls for the presidential election in 2006 give former president and Nobel laureate Oscar Arias a lead, but it is still too early to tell who will win.
- Moody's will probably downgrade Costa Rica's rating by one or two notches.

Risk factors

- No tax reform, turmoil in the run-up to elections in 2006.
- CAFTA ratification could become problematic.

Spread forecast	Dec 13, 04	Base Case	Risk Case
Latin Eurobond Index Costa Rica	362 bps	400 bps	550 bps



Dominican Republic (B1/CC)

Kopf

Economic Indicators	2003	2004e	2005f
Real GDP, year-on-year change in percent	-0.4	1.5	2.0
Nominal GDP, in USD billions	16.2	19.4	22.5
CPI (year-end), in percent	42.8	35.5	12.7
Fiscal Balance, in percent of GDP	-3.5	-7.0	-5.0
External Debt, in percent of GDP	51.8	40.7	35.5
Current Account Balance, in percent of GDP	5.3	5.1	3.3
Foreign Exchange Reserves, in USD billions	0.5	0.9	0.8

Economic and political developments

- Leonel Fernandez has been sworn in as president on August 16. In his inauguration address, he presented an ambitious austerity program to stabilize public finances, and committed himself to a restructuring of external debt.
- A government delegation has recently met investors to propose a restructuring of external bonded debt with a relatively small haircut.
- The new IMF program is still under discussion.
- The government's liquidity position has improved remarkably due to the current account surplus, and the strong appreciation of the Dominican Peso has helped to bring down external debt ratios.

Risk factors

- Failure to secure IMF support.

Spread forecast	Dec 13, 04	Base Case	Risk Case
Latin Eurobond Index Dominican Republic	888 bps	800 bps	1500 bps



El Salvador (Baa3/BB+)

Kopf

Economic Indicators	2003	2004e	2005f
Real GDP, year-on-year change in percent	1.8	1.8	2.9
Nominal GDP, in USD billions	14.9	15.9	16.7
CPI (year-end), in percent	2.5	5.5	4.0
Fiscal Balance, in percent of GDP	-2.8	-1.7	-1.4
External Debt, in percent of GDP	31.6	30.6	30.8
Current Account Balance, in percent of GDP	-4.1	-4.7	-4.3
Foreign Exchange Reserves, in USD billions	1.9	1.8	1.9

Economic and political developments

- Economic growth has been disappointing this year. But as the elections are now out of the way and public construction projects are starting to have an impact, growth should pick up somewhat in 2005. Trend growth remains low due to competitiveness problems.
- The high oil price is weighting on the current account and has led to an increase in inflation.
- The non-financial public sector continues to run a deficit of 2.5% of GDP, in part due to transitional costs from the move to a funded pension system.
- The Saca administration managed to pass measures to raise tax revenues and reduce tax evasion in October. It remains to be seen how much these measures will yield next year. The budget for 2005 has been presented to congress, but has not been passed yet. It envisions a continuous freeze on public sector salaries, higher transfers to municipalities, and debt issuance of \$ 540 million.

Risk factors

- Continuously weak economic growth and the associated problems for debt sustainability.

Spread forecast	Dec 13, 04	Base Case	Risk Case
Latin Eurobond Index El Salvador	269 bps	250 bps	380 bps



Guatemala (Ba2/BB)

Kopf

Economic Indicators	2003	2004e	2005f
Real GDP, year-on-year change in percent	2.1	2.6	3.0
Nominal GDP, in USD billions	24.7	26.8	28.9
CPI (year-end), in percent	5.8	8.5	6.0
Fiscal Balance, in percent of GDP	-2.3	-1.9	-1.8
External Debt, in percent of GDP	20.0	13.8	13.5
Current Account Balance, in percent of GDP	-4.5	-4.1	-4.0
Foreign Exchange Reserves, in USD billions	2.9	3.1	3.0

Economic and political developments

- Guatemala continues to post the best solvency indicators of all sovereign issuers in Central America. Most public external debt is with the official sector and carries low interest rates. Public bonded external debt stands at slightly more than \$ 1 billion, which is less than 4 % of GDP.
- After the break-down of the government coalition, President Berger needs to work with the FRG in order to pass legislation. This will make reform projects more difficult. A partial fiscal reform has been passed, but more consolidation is needed. Meanwhile, the administration is trying to keep the deficit under control by reducing investment expenditures. The administration should be able to renew the IMF program next year.
- Former dictator Ríos Montt is still under house arrest and will most likely have to stand trial next year.
- Economic growth continues to disappoint, as investment is held back by political instability and social violence.
- Inflation has exceeded 8 %, which is 2 % north of the Central Bank's upper target bank. The Central Bank is running a tight monetary policy, which has contributed to the strengthening of the Quetzal.

Risk factors

- Significant political weakening of President Berger.
- Problems in financing the high current account deficit.
- Weak tax revenues make the economy vulnerable to shocks (e.g. to a banking crisis).
- CAFTA ratification could become problematic.

Spread forecast	Dec 13, 04	Base Case	Risk Case
Latin Eurobond Index Guatemala	303 bps	280 bps	400 bps



Mexico (Baa2/BBB-)

Kopf

Economic Indicators	2003	2004e	2005f
Real GDP, year-on-year change in percent	1.2	4.0	3.8
Nominal GDP, in USD billions	601	627	663
CPI (year-end), in percent	4.0	5.3	4.5
Fiscal Balance, in percent of GDP	-0.4	-0.2	-0.2
External Debt, in percent of GDP	24.4	22.9	21.3
Current Account Balance, in percent of GDP	-1.5	-1.7	-1.8
Foreign Exchange Reserves, in USD billions	57.0	63.5	65.0

Economic and political developments

- Congress and the president have so-far been unable to agree on next year's budget.
- Public finances are in good shape due to the high oil price.
- The run-up to presidential elections in 2006 has started. The leading contenders are Madrazo, a PRI dinosaur, and Mexico City's populist major Lopez Obrador (PRD). Neither one of these politicians would do much to speed up tax reform or a deregulation of the electricity sector.

Risk factors

- Widening spreads of US corporate bonds.

Spread forecast	Dec 13, 04	Base Case	Risk Case
Latin Eurobond Index Mexico	190 bps	200 bps	250 bps



Panama (Ba1/BB)

Kopf

Economic Indicators	2003	2004e	2005f
Real GDP, year-on-year change in percent	4.1	6.4	3.6
Nominal GDP, in USD billions	12.9	13.8	14.5
CPI (year-end), in percent	1.7	2.5	0.2
Fiscal Balance, in percent of GDP	-1.5	-4.0	-1.6
External Debt, in percent of GDP	277.9	283.7	282.1
Current Account Balance, in percent of GDP	-3.2	-1.8	-3.9
Foreign Exchange Reserves, in USD billions	0.9	1.0	1.0

Economic and political developments

- Panama has started to pre-fund its financial requirements for 2005, by issuing \$ 600 million of a 7.25% bond due 2015.
- The new administration continues to purge its accounts, which might bring some more nasty surprises. Reliable data about the state of the fiscal accounts should be included in the staff report of the IMF's Article IV Consultation, which is due to be released soon.
- Discussions on fiscal reform are underway.
- Growth has been very strong this year, led by a construction boom and growing traffic in the Panama Canal.
- Panama should continue to trade about 100 basis points wide of Mexico.

Risk factors

- No progress on fiscal reform.

Spread forecast	Dec 13, 04	Base Case	Risk Case
Latin Eurobond Index Panama	313 bps	300 bps	400 bps

Scenario Analysis

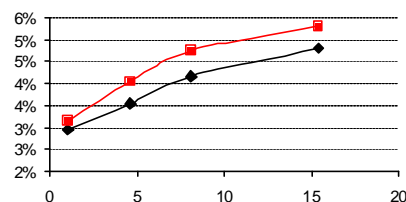




Time of Analysis		Risk-free	Probabilities	
Start	Horizon	Rate	Base Case	Risk Case
14/12/04	14/12/05	2.00%	80%	20%

Country	BSCAX-mod Weight	Stripped Spread	Spread Forecast		Expected Total Return		DSSE
			Base Case	Risk Case	Base Case	Risk Case	
Argentina	0.0%	5356 bps	4500 bps	6000 bps	18.4%	-13.9%	7.1%
Colombia	4.9%	356 bps	400 bps	500 bps	2.6%	-2.6%	2.1%
Costa Rica	22.2%	364 bps	400 bps	550 bps	2.2%	-6.7%	3.9%
Dom. Rep.	0.6%	931 bps	800 bps	1500 bps	16.0%	-8.0%	4.5%
El Salvador	31.7%	271 bps	250 bps	380 bps	3.5%	-8.0%	4.5%
Guatemala	15.2%	300 bps	280 bps	400 bps	4.8%	-3.3%	2.4%
Mexico	19.8%	189 bps	200 bps	250 bps	1.5%	-2.0%	1.9%
Panama	2.9%	308 bps	300 bps	400 bps	3.5%	-4.1%	2.7%
Supranat.	2.7%	122 bps	120 bps	300 bps	3.0%	-10.6%	5.6%
BSCAX-mod	100.0%	285 bps	287 bps	407 bps	3.0%	-5.5%	3.3%

Treasury Benchmark bonds	Yield at Start	Yield at Horizon	Modified Duration
2yr On-the-run Treasury	2.95%	3.15%	1.0
5yr On-the-run Treasury	3.55%	4.05%	4.6
10yr On-the-run Treasury	4.17%	4.75%	8.1
30yr On-the-run Treasury	4.80%	5.30%	15.4



Note:

This table shows the expected return of the index of the CABEL Fund over a twelve-month horizon. Over the coming months, we expect US Treasury yields to rise, which would result in a loss of 3.7% on average. The loss would be over-compensated by the running yield and, in some cases, by an expected spread tightening.

According to this scenario analysis, which is based on our macroeconomic and political country views, we expect Argentina, the Dominican Republic and Guatemala to outperform the index over the coming twelve months.

Allocation Ranges



The investment committee has agreed on the following ranges for the country allocation of the CABEI Fund for the first quarter of 2005:

Country	Index weight	Today	Minimum	Maximum
Argentina *	0.0 %	0 %	0 %	5 %
Belize	0.1 %	0 %	0 %	0 %
Colombia	4.9 %	6.4 %	0 %	10 %
Costa Rica	22.2 %	12.1 %	5 %	15 %
Dominican Republic *	0.6 %	0 %	0 %	5 %
El Salvador	31.6 %	30.5 %	25 %	35 %
Guatemala	15.2 %	32.2 %	20 %	35 %
Mexico	19.8 %	4.2 %	5 %	15 %
Nicaragua *	0 %	0 %	0 %	5 %
Panama	2.7 %	10.0 %	5 %	15 %

* The combined allocation to Argentina, the Dominican Republic, and Nicaragua should not exceed 10 % of the fund's assets .

Duration (after hedge)	6.8 yrs	3.6 yrs	2.8 yrs	5.8 yrs
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