

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

April 2005



Deutsche Asset Management
A Member of the Deutsche Bank Group



This report contains an assessment of medium-term market prospects for the sovereign debt issued by countries in the investment universe of the CABI Central American Fund. The information in this report is meant to guide and explain investment decisions by portfolio management. Information contained in this report does not represent a credit opinion by CABI and / or DWS.

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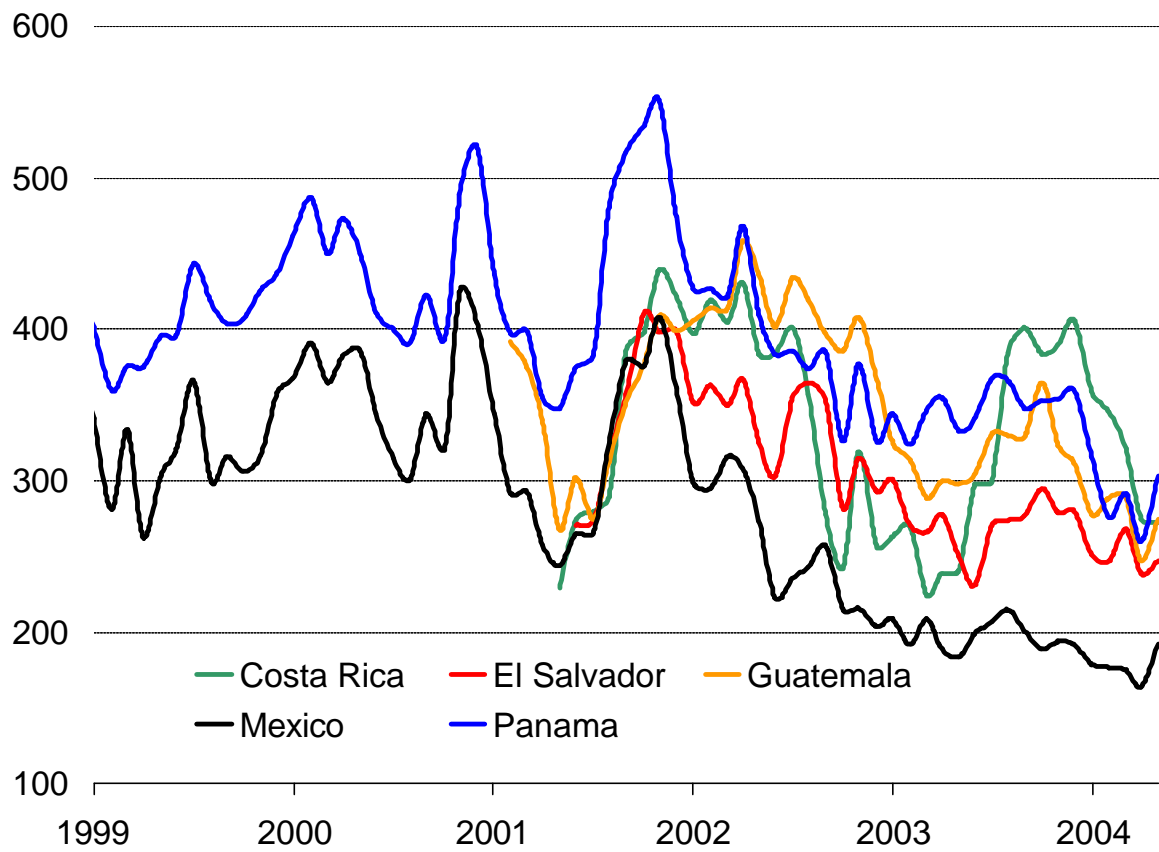
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Relative Value Analysis





Source: JP Morgan

Country Views



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Argentina (Caa1/SD)

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Economic Indicators	2003	2004e	2005f	2006f
Real GDP, year-on-year change in percent	8,8	8,8	6,8	4,4
Nominal GDP, in USD billions	127	151	179	205
CPI (year-end), in percent	3,6	6,1	9,3	7,4
Fiscal Balance, in percent of GDP	0,5	2,6	1,7	1,6
External Debt, in percent of GDP	94,9	81,3	68,8	60,1
Current Account Balance, in percent of GDP	6,1	2,7	1,5	1,2
Foreign Exchange Reserves, in USD billions	1,4	0,7	0,7	0,7

Economic and political developments

- As expected, Argentina has completed the debt restructuring during the first quarter of 2005. The participation rate reached 76%, but with almost all domestic holders participating in the exchange, only about 40% of foreign holders chose to exchange their debt. The country remains in default on more than \$ 25 bn. of old bonds.
- The issue date of the new bonds got postponed because of a lawsuit in the United States, but we expect the exchange to be completed at the end of April. We expect new bonds to come under some pressure following their release, as hedge funds are very active in this market segment.
- The medium-term outlook for the Argentine economy remains favorable: public debt appears to be on a sustainable path, and debt service will be low in the coming years. The fiscal accounts show a primary surplus in the order of 4% of GDP, and Argentina is still running current account surpluses.
- Standard & Poor's has announced that it will raise the country rating to Single-B after completion of the exchange.

Risk factors

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

Spread forecast	April 11, 05	Base Case	Risk Case
Latin Eurobond Index Argentina	5168 bps	4500 bps	5000 bps



Colombia (Ba2/BB)

Kopf

Economic Indicators	2003	2004e	2005f	2006f
Real GDP, year-on-year change in percent	3,9	3,8	3,6	3,3
Nominal GDP, in USD billions	81,8	99,5	114,1	108,2
CPI (year-end), in percent	6,5	5,5	4,9	6,0
Fiscal Balance, in percent of GDP	-5,2	-5,6	-6,4	-7,1
External Debt, in percent of GDP	46,6	40,1	36,3	39,7
Current Account Balance, in percent of GDP	-1,8	-0,6	-2,1	-4,3
Foreign Exchange Reserves, in USD billions	2,0	2,3	2,2	2,9

Economic and political developments

- The Constitutional court might reject the re-election bill in mid 2005, this poses a major political risk.
- The economy is growing at a pace of around 3.5% – that is a respectable number, but the pace of growth remains low in regional comparison, and taking into account the very positive external environment. Meanwhile, the current account deficit keeps growing.
- In spite of rising tax revenues, the government has been unable to bring the fiscal deficit under control. The Central Government deficit will reach around 6% of GDP this year, and it is only partly compensated by surpluses of State-Owned Enterprises (Ecopetrol).
- Public debt as a share of GDP has fallen last year, mainly due to the rapid currency appreciation. This trend probably won't continue in 2005.

Risk factors

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

Spread forecast	April 11, 05	Base Case	Risk Case
Latin Eurobond Index Colombia	396 bps	450 bps	550 bps



Costa Rica (Ba1/BB)

Kopf

Economic Indicators	2003	2004e	2005f	2006f
Real GDP, year-on-year change in percent	6,5	4,2	3,4	3,0
Nominal GDP, in USD billions	17,4	18,5	19,5	20,3
CPI (year-end), in percent	9,9	13,1	12,0	10,0
Fiscal Balance, in percent of GDP	-2,9	-3,0	-3,0	-3,0
External Debt, in percent of GDP	21,8	20,5	21,0	21,7
Current Account Balance, in percent of GDP	-5,3	-4,8	-4,2	-3,8
Foreign Exchange Reserves, in USD billions	3,2	2,7	2,6	2,5

Economic and political developments

- The campaign for presidential elections (to be held on Feb 5, 2006) has started already. Party conventions will be held in May 2005, and former president Oscar Arias seems to be the leading contender.
- Inflation is running at levels close to 15%, and the overnight rate stands at 14.5%. Given negative real yields and a rising current account deficit, the crawling peg regime might come under pressure.
- The chances for the passage of a fiscal reform have risen recently, and congress might also ratify the CAFTA treaty.
- Rating agencies remain concerned about fiscal dynamics.
- The technical situation in the sovereign debt market remains positive, with no new issuance of USD bonds planned for this year. Also, high liquidity in banking sector is supporting bond prices.

Risk factors

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

Spread forecast	April 11, 05	Base Case	Risk Case
Latin Eurobond Index Costa Rica	278 bps	350 bps	550 bps



Dominican Republic (B3/CC)

Kopf

Economic Indicators	2003	2004e	2005f	2006f
Real GDP, year-on-year change in percent	-0,4	2,0	2,5	4,0
Nominal GDP, in USD billions	18,4	17,6	25,6	23,5
CPI (year-end), in percent	42,6	28,7	14,9	10,0
Fiscal Balance, in percent of GDP	-5,2	-2,7	-1,1	0,4
External Debt, in percent of GDP	85,5	58,9	78,9	71,9
Current Account Balance, in percent of GDP	4,7	6,3	1,8	0,3
Foreign Exchange Reserves, in USD billions	1,7	3,4	2,9	3,2

Economic and political developments

- The economy continues to recover from the banking crisis in 2003 and 2005. Over the last month, a major decline in inflation could be observed. The stock of CB certificates is still increasing, but interest rates have fallen. The country is still posting a healthy current account surplus, and net international reserves have surpassed \$ 950 million.
- The IMF agreement has been restored on January 21, 2005. The Dominican Republic is expected to receive disbursements of \$ 300 m in 2005 and further funds from the World Bank and the Inter-American Development Bank.
- After the Senate passed legislation on the restructuring of external debt, the government started a roadshow to present the terms of the new securities. The Government plans to extend the maturity of existing bonds by five years, capitalize part of the coupon payments, and have the new bonds amortize over five years. This exchange would be NPV-neutral at an exit yield of around 10%, which seems plausible given the country's low debt numbers.

Risk factors

- Failure to secure IMF support.

Spread forecast	April 11, 05	Base Case	Risk Case
Latin Eurobond Index Dominican Republic	631 bps	600 bps	850 bps



El Salvador (Baa3/BB+)

Kopf

Economic Indicators	2003	2004e	2005f	2006f
Real GDP, year-on-year change in percent	1,8	1,5	1,9	2,5
Nominal GDP, in USD billions	14,9	15,8	16,8	17,8
CPI (year-end), in percent	2,5	5,4	4,0	3,5
Fiscal Balance, in percent of GDP	-2,1	-1,4	-1,1	0,0
External Debt, in percent of GDP	31,6	30,2	29,8	29,2
Current Account Balance, in percent of GDP	-4,9	-4,4	-4,0	-3,8
Foreign Exchange Reserves, in USD billions	0,6	1,6	1,9	2,1

Economic and political developments

- Tony Saca enjoys an approval rating of 70%, according to a Gallup survey. This is the highest number any president of El Salvador has received over the last two decades. But the window of opportunity for reforms is closing fast, as politics start to focus on parliamentary elections in March 2006.
- Growth continues to disappoint, the stagnation is due to low domestic investments and low FDI inflows. Parts of the Maquila industry is moving to Honduras and Nicaragua due to the large wage differential.
- Inflation running at 5.7 % due to high import prices.
- Interest rates remain very low (close to Libor), and the banking system is very liquid due to high remittances.
- The CAFTA agreement got ratified by congress.

Risk factors

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

Spread forecast	April 11, 05	Base Case	Risk Case
Latin Eurobond Index El Salvador	237 bps	250 bps	350 bps



Guatemala (Ba2/BB-)

Kopf

Economic Indicators	2003	2004e	2005f	2006f
Real GDP, year-on-year change in percent	2,1	2,7	3,2	3,1
Nominal GDP, in USD billions	24,5	28,4	31,6	33,4
CPI (year-end), in percent	5,9	8,7	6,0	5,0
Fiscal Balance, in percent of GDP	-2,3	-1,0	-1,8	-1,5
External Debt, in percent of GDP	14,2	13,6	12,8	12,8
Current Account Balance, in percent of GDP	-4,5	-4,1	-4,0	-3,9
Foreign Exchange Reserves, in USD billions	0,6	0,5	0,5	0,4

Economic and political developments

- Growth is picking up and should continue to gain momentum in 2005. The Quezal is under pressure to appreciate further due to a relatively high interest rate differential. Meanwhile, the Central Bank keeps accumulation international reserves.
- The government plans to reduce the fiscal deficit to 1.8% in 2005 and 1.5% thereafter. For the year 2005, the borrowing requirement is estimated to reach \$ 550 million, but half of last year's issue was saved (\$ 175 million) and part of new issuance may be done in the local market. We expect \$ 250 million of issuance in international market, which should be easy to place. It remains to be seen whether the Guatemalan Government will choose to bring a new issue or to tap an existing bond. In the latter case, Guatemala would be able to enter the EMBI family of indices, which would bring it on the radar screen of many international investors and investment banks.
- Congress has ratified the CAFTA agreement and a new IMF program is expected.
- The government is in conversation with rating agencies, and has good chances of receiving a rating upgrade later on this year.
- On the political side, former dictator Rios Montt might have to stand trial this year and former paramilitaries cause some noise, after the constitutional court ruled out further government pension payments to them.

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).

Spread forecast	April 11, 05	Base Case	Risk Case
Latin Eurobond Index Guatemala	276 bps	260 bps	380 bps



Mexico (Baa1/BBB)

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Economic Indicators	2003	2004e	2005f	2006f
Real GDP, year-on-year change in percent	1,3	4,2	3,8	3,0
Nominal GDP, in USD billions	608	647	700	725
CPI (year-end), in percent	4,0	5,2	3,7	3,6
Fiscal Balance, in percent of GDP	-2,5	-1,8	-2,2	-2,6
External Debt, in percent of GDP	26,7	24,8	23,1	22,5
Current Account Balance, in percent of GDP	-1,4	-1,3	-1,7	-1,7
Foreign Exchange Reserves, in USD billions	1,8	2,5	1,9	2,0

Economic and political developments

- The lower house of parliament has lifted political immunity of Mexico City's major, Andrés Manuel López Obrador (AMLO), who is due to stand trial because of a minor issue. This seems to be motivated by the desire of the PRI and the PAN to get rid of the leading candidate for next year's presidential elections. As AMLO enjoys strong support in the population, their strategy might backfire. But the outcome of this conflict is still open.
- In spite of political turbulences, the economy continues to grow at a healthy pace. The fiscal deficit has not come down over the last year, in spite of windfall profits from the high oil price. This points to an expansionary fiscal policy.
- Standard & Poor's has raised the country's rating to BBB from BBB- on January 31, 2005. The Rating of state-owned petroleum company Pemex has been raised as well.

Risk factors

- Widening spreads of US corporate bonds.
- Rapid fall of oil prices

Spread forecast	April 11, 05	Base Case	Risk Case
Latin Eurobond Index Mexico	194 bps	200 bps	250 bps



Panama (Ba1/BB)

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Economic Indicators	2003	2004e	2005f	2006f
Real GDP, year-on-year change in percent	4,1	6,4	3,7	3,5
Nominal GDP, in USD billions	12,9	13,8	14,5	15,1
CPI (year-end), in percent	1,4	2,2	2,0	1,6
Fiscal Balance, in percent of GDP	-1,5	-3,4	-2,3	-0,9
External Debt, in percent of GDP	279,2	285,0	283,1	281,9
Current Account Balance, in percent of GDP	-3,2	-3,2	-4,2	-4,3
Foreign Exchange Reserves, in USD billions	6,2	5,8	6,2	5,9

Economic and political developments

- The new president Torrijos is using his majority in parliament to move forward on important structural reforms. A tax reform has been passed in January; it is expected to increase government revenues by about 2.5% of GDP. Together with the planned job cuts in the public sector, the government hopes to bring down the fiscal deficit to about 1% of GDP over the medium term.
- In the coming months, the discussion about the controversial reform of public sectors social security will be at the center of attention.
- S&P changed the country outlook to stable on Feb 22, 2005.
- Panama should continue to trade about 100 basis points wide of Mexico.

Risk factors

- No progress on social security reform.

Spread forecast	April 11, 05	Base Case	Risk Case
Latin Eurobond Index Panama	278 bps	300 bps	350 bps

Scenario Analysis



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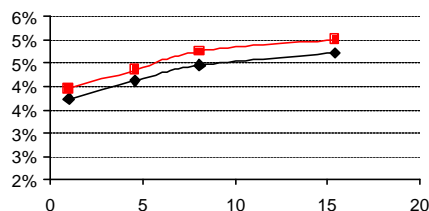




Time of Analysis		Risk-free Rate	Probabilities	
Start	Horizon		Base Case	Risk Case
11-Apr-05	11-Apr-06	2.75%	80%	20%

Country	BSCAX-mod Weight	Stripped Spread	Spread Forecast		Expected Total Return		DSSE
			Base Case	Risk Case	Base Case	Risk Case	
Argentina	0.0%	5168 bps	4500 bps	5000 bps	15.8%	4.0%	0.0%
Colombia	4.8%	396 bps	450 bps	550 bps	4.4%	-0.6%	1.5%
Costa Rica	22.4%	278 bps	350 bps	550 bps	1.3%	-10.5%	6.1%
Dom. Rep.	0.6%	631 bps	600 bps	850 bps	10.7%	2.0%	0.3%
El Salvador	31.1%	237 bps	250 bps	350 bps	3.2%	-5.7%	3.8%
Guatemala	15.1%	276 bps	260 bps	380 bps	6.5%	-1.3%	1.8%
Mexico	20.1%	194 bps	200 bps	250 bps	4.1%	0.6%	1.0%
Panama	3.3%	278 bps	300 bps	400 bps	3.6%	-3.9%	3.0%
Supranat.	2.7%	105 bps	120 bps	150 bps	4.1%	1.9%	0.4%
BSCAX-mod	100.0%	251 bps	273 bps	388 bps	3.6%	-4.3%	3.1%

Treasury Benchmark bonds	Yield at Start	Yield at Horizon	Modified Duration
2yr On-the-run Treasury	3.73%	3.95%	1.0
5yr On-the-run Treasury	4.12%	4.35%	4.6
10yr On-the-run Treasury	4.45%	4.75%	8.1
30yr On-the-run Treasury	4.72%	5.00%	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 1.8% on average. The loss would be over-compensated by the running yield and, in some cases, by an expected spread tightening.

Allocation Ranges



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

Country	Index weight	Today	Minimum	Maximum
Argentina *	0.0 %	0 %	0 %	5 %
Belize	0.1 %	0 %	0 %	0 %
Colombia	4.8 %	6.1 %	5 %	15 %
Costa Rica	22.2 %	12.2 %	5 %	15 %
Dominican Republic *	0.6 %	0 %	0 %	5 %
El Salvador	31.0 %	30.0 %	20 %	30 %
Guatemala	15.1 %	29.4 %	20 %	35 %
Mexico	20.1 %	10.9 %	10 %	20 %
Nicaragua *	0 %	0 %	0 %	5 %
Panama	3.3 %	8.2 %	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	2.0 yrs	5.0 yrs
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