

CABEI Central American Fund Investment Policy for the First Quarter of 2006

December 2005



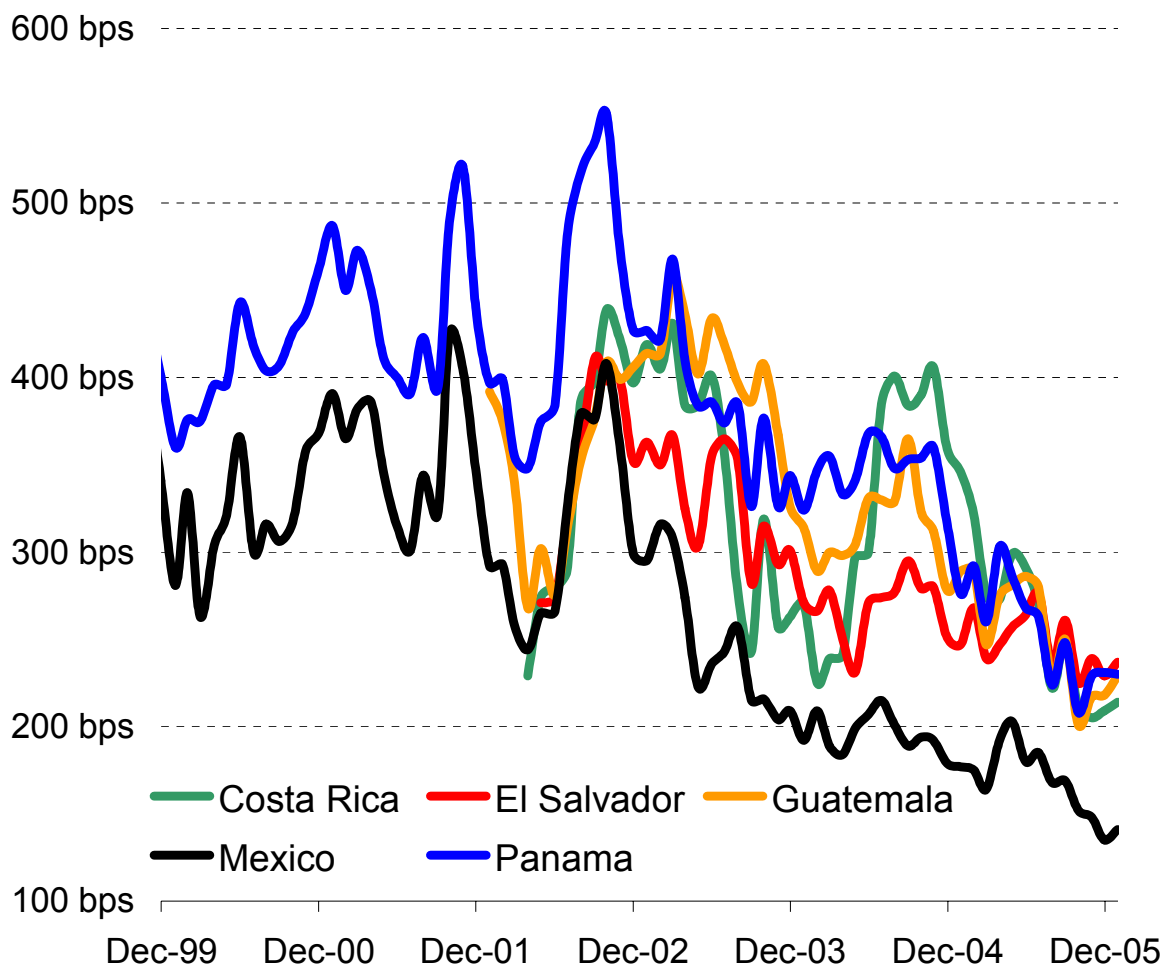
Deutsche Asset Management
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Economic forecasts in the report have been prepared with the assistance of Hector Paz and Gabriel López from the Chief Economist Office of the Central American Bank for Economic Integrations (CABEI) in Tegucigalpa, Honduras.

Relative Value Analysis





Source: JP Morgan

Note:

Spreads on Central American sovereign bonds have tightened in during 2005, and credit differentiation between the four main Central American issuers has come down – they all trade at around 250 basis points.

Country Views





Argentina (B3/B-/D)

Kopf

Economic Indicators	2003	2004	2005e	2006f
Real GDP, year-on-year change in percent	8.8	9.0	7.1	4.4
Nominal GDP, in USD billions	127	151	182	212
CPI (year-end), in percent	3.6	6.1	11.0	9.8
Fiscal Balance, in percent of GDP	0.5	2.6	1.7	1.6
External Debt, in percent of GDP	129.4	113.3	67.0	58.7
Current Account Balance, in percent of GDP	6.0	2.2	3.5	2.4
Foreign Exchange Reserves, in USD billions	14.1	19.6	28.1	33.9

Economic and political developments

- There are no elections scheduled for 2006. President Kirchner has tightened his grip on the executive by replacing economy minister Lavagna with Felisa Miceli in November. Except for erratic policy actions by the President, political stability should persist.
- Kirchner surprised the markets in December by announcing that the government will repay the remaining \$ 10 billion of IMF debt in advance, using about one third of the Central Bank's stock of reserves.
- With a primary surplus of close to 4% of GDP and strong growth, Argentina's debt ratios continue to improve.
- There will be no supply of Argentina Pars or Discounts, only some issuance of Boden (amortizing dollar-denominated bonds issued under domestic law).
- The Argentine Peso remains undervalued by about 20%. As the central bank continues to intervene to keep the currency weak, real appreciation should come through double-digit inflation this year.

Risk factors

- Massive fiscal expansion and/or inflation spiraling out of control.
- Strong fall in commodity prices, especially in soy and oil.

Spread forecast	12/30/05	A	B	C
EMBI Global Diversified Argentina	504 bps	340 bps	390 bps	550 bps



Colombia (Ba2/BB/BB)

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Economic Indicators	2003	2004	2005e	2006f
Real GDP, year-on-year change in percent	4.0	4.0	4.2	3.7
Nominal GDP, in USD billions	80.0	97.5	123.5	130.5
CPI (year-end), in percent	6.5	5.5	4.9	4.5
Fiscal Balance, in percent of GDP (C.G.)	-5.0	-5.5	-5.5	-5.9
External Debt, in percent of GDP	47.6	40.6	32.8	32.9
Current Account Balance, in percent of GDP	-1.2	-1.0	-1.4	-3.9
Foreign Exchange Reserves, in USD billions	10.9	13.5	14.1	14.6

Economic and political developments

- The Constitutional Court has ruled in favor of the constitutional reform to allow a re-election of the acting president. With 65% vote intentions, President Uribe now seems likely to win the election in the first round, which will be held on May 28, 2006. On March 12, congressional elections will be held as well, and the outcome will indicate whether Uribe can count on a strong majority in congress during his second term.
- Public sector debt remains stagnant at 46% of GDP, in spite of strong growth and an appreciating exchange rate. The government continues to battle a growing deficit of the public pension system and growing transfers to local governments, and will have to find a way to deal with the end of transitory taxes in 2007.
- According to the financing plan for 2006, Colombia will borrow \$ 2.5 billion in the international markets this year. \$ 2 billion have been pre-financed already, leaving room for maybe one little issue.
- The Colombian peso appears to be fairly valued at current levels, and remains well-supported by the high carry in the domestic bond market.
- After last year's rally in the TES market, real rates have fallen to very low levels. While valuations appear a bit stretched, foreign participation might drive yields down further.

Risk factors

- Structural deterioration in public finances, which is now over-shadowed by strong cycle.
- Burst of the asset price bubble.

Spread forecast	12/30/05	A	B	C
BSCAX Colombia	192 bps	180 bps	230 bps	330 bps



Costa Rica (Ba1/BB/BB)

Kopf

Economic Indicators	2003	2004	2005e	2006f
Real GDP, year-on-year change in percent	6.5	4.2	4.0	3.0
Nominal GDP, in USD billions	17.5	18.6	19.5	20.3
CPI (year-end), in percent	9.9	13.1	14.0	11.0
Fiscal Balance, in percent of GDP	-3.1	-2.5	-2.0	-2.0
External Debt, in percent of GDP	21.5	21.1	19.9	18.1
Current Account Balance, in percent of GDP	-5.3	-4.0	-4.7	-4.6
Foreign Exchange Reserves, in USD billions	1.8	1.9	2.5	2.5

Economic and political developments

- Former president and Nobel laureate Oscar Arias will most likely win the presidential elections on February 5. His victory would be a positive, as greater political clarity might speed up CAFTA ratification and the tax reform, which are both stalled in congress.
- In spite of the missing tax reform, total public sector debt is expected to decline to 52% of GDP this year, from 60% of GDP in 2002 – 2004. This is mainly due to a decline in the external debt ratio over the past couple of years. However, the total debt ratio remains comparatively high.
- There should be no new issues from Costa Rica this year.
- Growth remains lackluster and inflation is high, driven by energy prices. On the positive side, portfolio investments have allowed the Central Bank to increase international reserves during 2005.

Risk factors

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

Spread forecast	12/30/05	A	B	C
BSCAX Costa Rica	207 bps	180 bps	200 bps	300 bps



Dominican Republic (B3/B/B-)

Kopf

Economic Indicators	2003	2004	2005e	2006f
Real GDP, year-on-year change in percent	-1.9	2.0	7.0	4.5
Nominal GDP, in USD billions	16.5	18.4	25.6	23.5
CPI (year-end), in percent	27.5	28.7	9.0	8.0
Fiscal Balance, in percent of GDP	-2.1	-3.0	-1.0	-0.9
External Debt, in percent of GDP	42.4	40.1	25.3	22.6
Current Account Balance, in percent of GDP	5.2	7.6	-1.1	-2.6
Foreign Exchange Reserves, in USD billions	0.5	0.9	0.8	0.8

Economic and political developments

- Congressional elections will be held on May 16. With some luck, this could allow President Fernandez to strengthen his grip on the legislative.
- Debt ratios continue to improve due to the strong economic rebound. We expect a one-notch upgrade by Moody's this year.
- The government might tap the 2018 bond this year, if it fails to close a financing gap stemming from the abolition of import taxes.
- After the impressive recovery during 2004, the Dominican Peso has started a depreciation trend again last year, which should continue for the time being.

Risk factors

- Conflicts with the IMF

Spread forecast	12/30/05	A	B	C
BSCAX Dominican Republic	365 bps	280 bps	300 bps	450 bps



El Salvador (Baa3/BB+/BB+)

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Economic Indicators	2003	2004	2005e	2006f
Real GDP, year-on-year change in percent	1.8	1.8	2.2	2.6
Nominal GDP, in USD billions	14.9	15.9	16.8	17.8
CPI (year-end), in percent	2.1	4.5	3.3	3.0
Fiscal Balance, in percent of GDP	-3.7	-2.4	-3.0	-2.5
Public External Debt, in percent of GDP	57.6	55.8	55.9	55.7
Current Account Balance, in percent of GDP	-4.9	-3.9	-4.2	-4.2
Foreign Exchange Reserves, in USD billions	1.9	1.9	1.9	2.0

Economic and political developments

- Despite wide-spread public discontent with the current economic situation, the ruling Arena party could do well in the mid-term congressional elections which have been set for March 12, 2006, as factions within the FMLN are weakening the opposition.
- Due to anemic growth and the transitional costs of the pension reform, public sector debt remains stagnant at around 48% of GDP.
- The government plans to issue \$ 663 million in bonds next year. Most of the proceeds will be used to refinance maturing debt.
- The country was very much affected by hurricane Stan, and the government prepares for a rebuilding of affected infrastructure. The government is also pushing for a number of "mega projects", such as a new container port in Puerto de la Union, hydroelectric plans, and a "dry canal" to connect El Salvador to Puerto Cortez in Honduras. These construction activities should have an impact on consumer prices and growth in 2006.

Risk factors

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

Spread forecast	12/30/05	A	B	C
BSCAX El Salvador	232 bps	200 bps	210 bps	260 bps



Guatemala (Ba2/BB-/NR)

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Economic Indicators	2003	2004	2005e	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
Public 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	2.8	3.5	3.7	4.0

Economic and political developments

- There are no elections scheduled for 2006. However, the presidential elections in November 2007 are already on the horizon. A number of deputies have left the established parties to run as independents, and the legislative agenda is slowing down.
- Guatemala's creditworthiness continues to benefit from the lowest public debt ratios in the region and in its rating peer group (18% of GDP). The country is still under-rated.
- The government does not plan to issue in the international markets this year. There might still be excess supply of Guatemalan sovereign bonds due to forced selling from domestic bank Bancafé, which has suffered heavy losses from a custodial arrangement with Refco. Bancafé has unsecured claims totaling \$ 176 million against Refco Capital Markets Ltd. It will likely have to take a 50% haircut on this position, which would wipe out the bank's equity of \$ 45 million. As Bancafé has more than one million clients, the government might opt for a bailout to avoid a bank-run.
- Large infrastructure projects in the energy sector got delayed because of protests from indigenous groups.

Risk factors

- Selling pressure in Guatemalan eurobonds resulting from closure of Bancafé.
- Current account deficit and dollar deposits make the banking system vulnerable.

Spread forecast	12/30/05	A	B	C
BSCAX Guatemala	210 bps	190 bps	240 bps	310 bps



Mexico (Baa1/BBB/BBB-)

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Economic Indicators	2003	2004	2005e	2006f
Real GDP, year-on-year change in percent	1.3	4.2	3.5	3.6
Nominal GDP, in USD billions	608	645	714	738
CPI (year-end), in percent	4.0	5.2	3.8	4.0
Fiscal Balance, in percent of GDP	-2.5	-1.8	-2.2	-2.6
External Debt, in percent of GDP	26.7	24.9	23.0	22.7
Current Account Balance, in percent of GDP	-1.4	-1.1	-0.9	-1.5
Foreign Exchange Reserves, in USD billions	59.0	61.1	71.1	78.2

Economic and political developments

- Presidential and legislative elections will be held on July 2. Campaigning is heating up, and Andres Manuel Lopez Obrador (PRD) has been losing most of his lead in the polls. Calderon from President Fox' PAN is catching up, which might force AMLO to move to the center and avoid radical positions. The election outcome remains unclear, but the current gridlock between President and congress will most likely persist during the next *sexenio*.
- Public sector debt remains stagnant at 32% of GDP, but Mexico continues to refinance itself in the domestic market, while public external debt is being reduced. There will be no more issues in 2006, but Pemex is expected to come back to the market.
- The Mexican peso appears to be fairly valued at current levels.
- In November, headline CPI came in at 2.9 % yoy, and core inflation fell to 3.1 % yoy. As the central bank has managed to bring inflation down into the target range, it is now increasing the pace of monetary easing with a rate cut of 50 bps on December 9.

Risk factors

- Recession in the United States
- Rapid fall of oil prices
- Widening of US corporate bond spreads.

Spread forecast	12/30/05	A	B	C
BSCAX Mexico	99 bps	75 bps	100 bps	150 bps



Panama (Ba1/BB/BB+)

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Economic Indicators	2003	2004	2005e	2006f
Real GDP, year-on-year change in percent	4.1	6.2	3.8	3.0
Nominal GDP, in USD billions	12.9	13.7	14.6	15.4
CPI (year-end), in percent	0.1	1.5	2.5	2.4
Fiscal Balance, in percent of GDP (ex Canal)	-4.7	-5.0	-3.6	-3.0
External Debt, in percent of GDP	279.2	285.0	276.9	273.8
Current Account Balance, in percent of GDP	-3.4	-2.0	-1.5	-1.5
Foreign Exchange Reserves, in USD billions	0.9	0.5	0.5	0.4

Economic and political developments

- There are no elections scheduled for 2006. On top of the fiscal reform, President Torrijos has managed to get the social security reform passed on December 21, 2005. The law came into force on January 1, 2006, and will lead to a gradual increase in the number of years of contribution towards pension eligibility, lower pension payments, and higher contributions to pension and health insurance programs. By passing these two reforms, President Torrijos' administration has significantly improved the medium-term solvency of Panama, which should be reflected in lower spreads in the months to come.
- Fiscal deficits are expected to come down substantially over the coming years due higher tax revenues, and total public sector debt is declining fast.
- Panama is conducting a debt exchange operation this week, and might use this as an opportunity to fulfill its borrowing requirement of around \$ 400 million.
- Otherwise, the economy is growing at a strong pace, driven mainly by the Colón Free Zone and the Panama Canal.

Risk factors

- Fiscal slippage.

Spread forecast	12/30/05	A	B	C
BSCAX Panama	195 bps	160 bps	180 bps	280 bps

Scenario Analysis

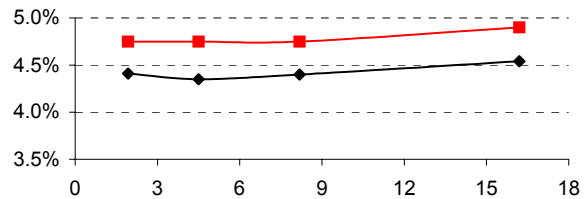




Time of Analysis		Risk-free Rate	Probabilities		
Start	Horizon		A	B	C
12/30/2005	12/30/2006	4.25%	15%	70%	15%

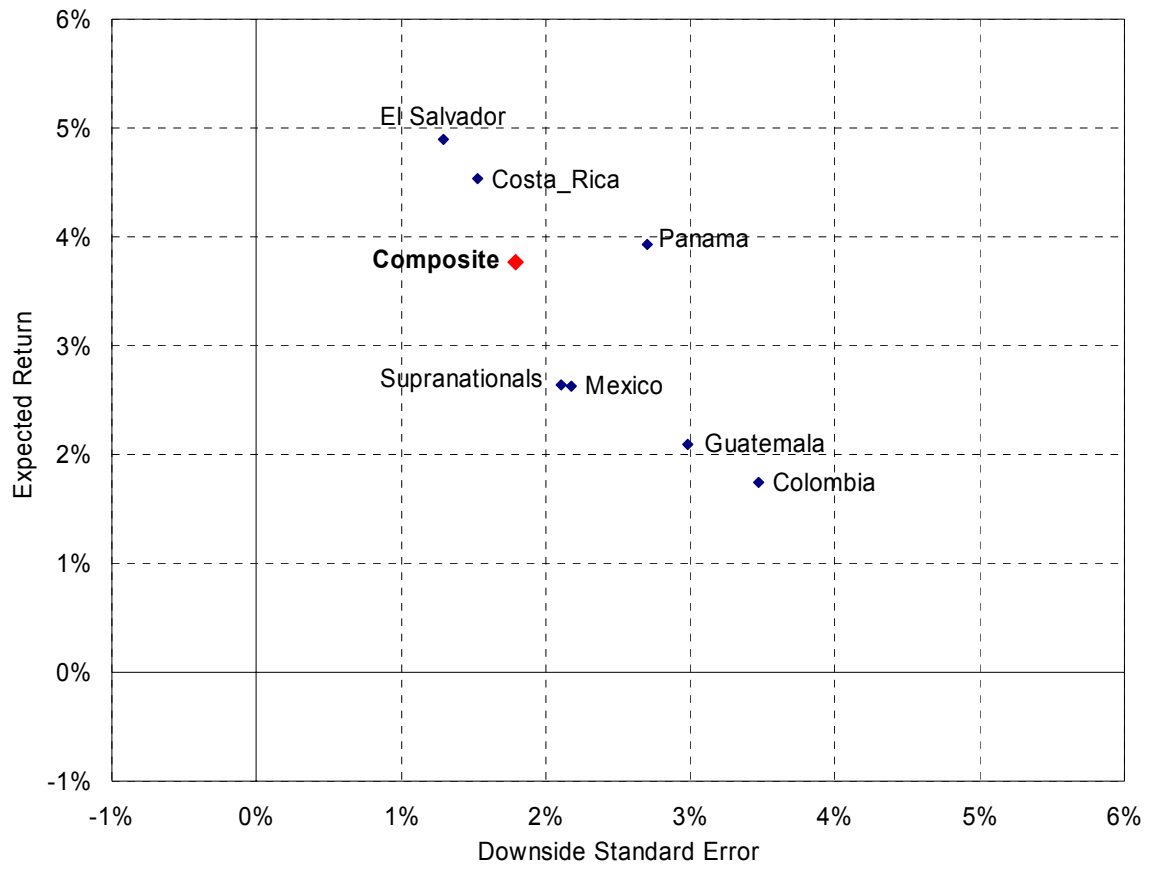
Country	BSCAX Weight	Stripped Spread	Spread Forecast			Expected Total Return			DSSE
			A	B	C	A	B	C	
Belize	0.1%	765 bps	900 bps	1000 bps	2000 bps	3.8%	-1.2%	-51.3%	22.0%
Colombia	5.2%	192 bps	180 bps	230 bps	330 bps	5.0%	2.2%	-3.5%	3.5%
Costa Rica	22.1%	207 bps	180 bps	200 bps	300 bps	6.1%	5.1%	0.3%	1.5%
Dominican_	0.7%	390 bps	280 bps	300 bps	450 bps	12.9%	11.7%	2.5%	0.7%
El Salvador	33.0%	232 bps	200 bps	210 bps	260 bps	6.3%	5.4%	0.9%	1.3%
Guatemala	14.5%	210 bps	190 bps	240 bps	310 bps	5.5%	2.3%	-2.2%	3.0%
Mexico	17.9%	99 bps	75 bps	100 bps	150 bps	4.6%	2.9%	-0.5%	2.2%
Panama	4.0%	195 bps	160 bps	180 bps	280 bps	6.3%	4.8%	-2.7%	2.7%
Supranation€	2.5%	112 bps	100 bps	120 bps	180 bps	4.1%	3.0%	-0.4%	2.1%
Composite	100.0%	194 bps	168 bps	192 bps	261 bps	5.8%	4.2%	-0.4%	1.8%

Treasury Benchmark bonds	Yield at Start	Yield at Horizon	Modified Duration
2yr On-the-run Treasury	4.41%	4.75%	1.9
5yr On-the-run Treasury	4.35%	4.75%	4.5
10yr On-the-run Treasury	4.40%	4.75%	8.2
30yr On-the-run Treasury	4.54%	4.90%	16.2



Note:

This table shows the expected return of CABEL Fund's benchmark over a twelve-month horizon under three spread scenarios. Over the coming year, we expect US Treasury yields to rise, which would result in a loss of 2.6% 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 policy ranges for the country allocation of the CABEL Fund for the first quarter of 2005:

Country	Index	12/30/05	Minimum	Maximum
Argentina *	0.0 %	2.8 %	0 %	5 %
Belize	0.1 %	0 %	0 %	5 %
Colombia	5.2 %	4.9 %	0 %	10 %
Costa Rica	22.1 %	16.0 %	15 %	25 %
Dominican Republic *	0.7 %	1.3 %	0 %	8 %
El Salvador	33.0 %	26.7 %	25 %	35 %
Guatemala	14.5 %	26.8 %	15 %	25 %
Mexico (external)	17.9 %	5.7 %	5 %	15 %
Mexico (domestic)	0 %	0 %	0 %	5 %
Nicaragua *	0 %	0 %	0 %	5 %
Panama	4.0 %	7.7 %	5 %	15 %

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

Duration (after hedge)	7.0 yrs	5.9 yrs	3.0 yrs	8.0 yrs
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