

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

March 2006



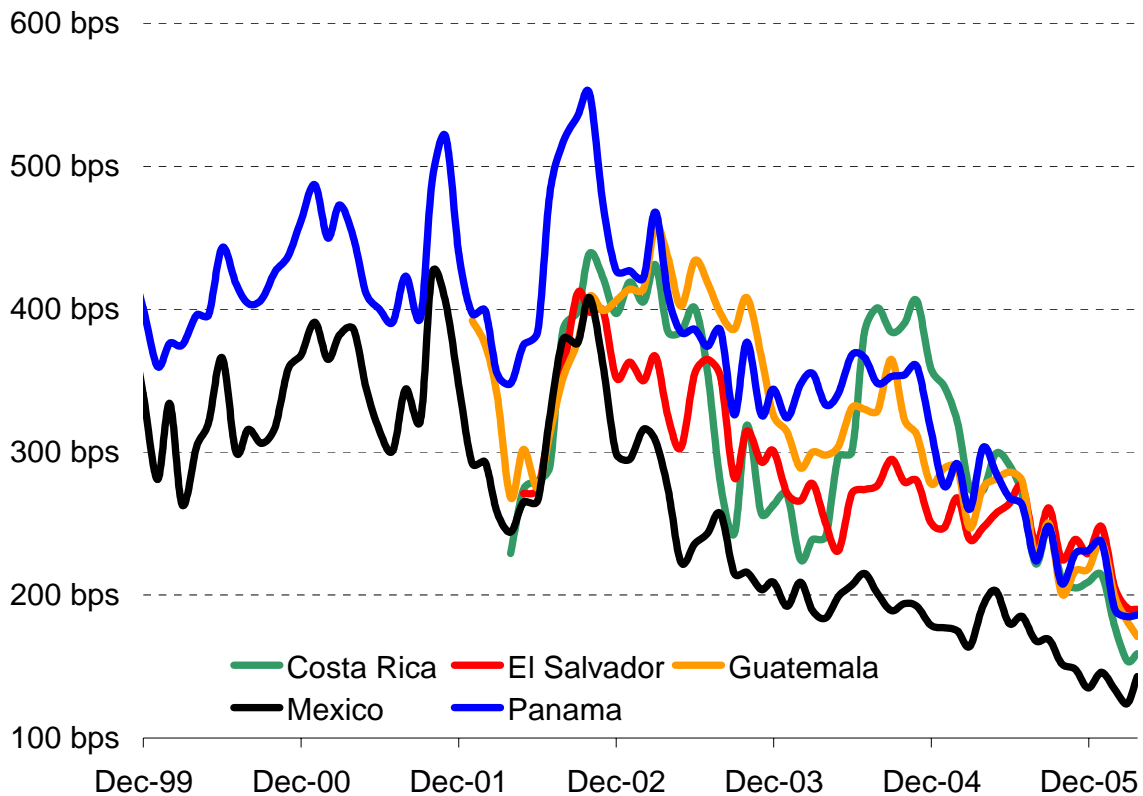
Deutsche Asset Management
A Member of the Deutsche Bank Group



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:

The Central American sovereign debt market has had a good start into 2006, with spread compression in all countries. Costa Rica, El Salvador and Guatemala have moved in unison, and are all tighter by about 50 basis points this year. Mexican spreads have fallen until February, but widened again in March, erasing almost all gains achieved earlier in the year.

In spite of this strong performance, it is important to notice that the Central American market has lagged the performance of South American issuers. For example, the Brazil 2034 bond used to trade 200 basis points wide to El Salvador 2034 until October 2005. This was a reflection of the difference in rating: El Salvador (Baa3) is rated three notches above Brazil (Ba3) by Moody's. As of March 23, 2006, the spread of 200 basis points had narrowed to 35 basis points. As a result, we believe that Central America sovereign issuers are now favorably valued compared to other Latin American bonds.

Country Views





Argentina (B3/B/D)

Kopf

Economic Indicators	2004	2005	2006f	2007f
Real GDP, year-on-year change in percent	9.0	9.1	6.4	3.7
Nominal GDP, in USD billions	151	183	205	217
CPI (year-end), in percent	6.1	12.3	13.0	11.4
Fiscal Balance, in percent of GDP	2.6	1.9	1.6	1.4
External Debt, in percent of GDP	113.3	71.7	57.1	54.5
Current Account Balance, in percent of GDP	2.2	3.5	2.0	1.3
Foreign Exchange Reserves, in USD billions	19.6	28.2	24.9	27.9

Economic and political developments

- There are no elections scheduled for 2006, and political stability should persist.
- Argentina's foreign currency rating was raised to B from B- by Standard & Poor's on March 23 on the back of a fall in the country's debt burden.
- The country continues to enjoy strong growth, a current account surplus of close to 3% of GDP, and a primary fiscal surplus of around 4% of GDP. All this points to further declines in debt ratios. Spreads on Argentine restructured debt have collapsed by around 150 bps during the first quarter of 2006.
- The country has re-gained market access by issuing \$ 500 million of 5-year bonds in March, at a yield of 8.36%. The securities were issued under domestic law.
- The government is trying to force the private sector to stop increasing consumer prices. These price controls won't last for long, and inflation could surprise on the upside (15%).
- The peso remains undervalued by about 20%. The Central Bank's main priority is aggressive reserve accumulation, which continues to weight on the currency. By countering the effect of higher domestic inflation, the nominal depreciation is keeping the peso undervalued for now. This certainly fits into President Kirchner's mercantilist thinking. But it is a dangerous game, as the continuing misalignment between the prices of tradable and non-tradable goods could bring inflation out of control.
- High inflation is dangerous for Kirchner's popularity, and chances are the Central Bank will reduce reserve accumulation later on in the year to stop the peso from weakening.

Risk factors

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

Spread forecast	03/23/06	A	B	C
EMBI Global Diversified Argentina	353 bps	300 bps	320 bps	450 bps



Colombia (Ba2/BB/BB)

Kopf

Economic Indicators	2004	2005	2006f	2007f
Real GDP, year-on-year change in percent	4.0	5.3	4.4	4.5
Nominal GDP, in USD billions	97.5	126.1	136.6	138.3
CPI (year-end), in percent	5.5	4.8	4.4	4.6
CG Fiscal Balance, in percent of GDP	-5.5	-4.6	-5.5	-5.9
External Debt, in percent of GDP	40.7	29.5	28.3	29.4
Current Account Balance, in percent of GDP	-0.7	-1.6	-0.9	-2.0
Foreign Exchange Reserves, in USD billions	13.5	15.0	18.6	20.4

Economic and political developments

- President Uribe gained a strong backing in the congressional elections on March 12. The government coalition now has 69 % of the seats in the Senate and 61 % of the seats in the Lower House, which will make it easier for Uribe to pass meaningful reforms during his second term. His re-election can be seen as a given, but Uribe may not get an absolute majority in the first round of presidential elections on May 28.
- Once the new administration has taken office on August 7, another fiscal reform and a constitutional reform on transfers to local governments are expected. These reforms are badly needed in order to reduce the central government's structural deficit of 5%/GDP.
- Growth remains strong, and the strength of the Peso is driving inflation down. There are growing signs of a bubble in the housing market.
- The government has recently retired \$ 447 million in Eurobonds through a buy-back operation. We expect very little issuance, if any, in the external markets this year.
- The Colombian peso appears to be fairly valued at current levels. The strong rally in the TES markets, combined with rising rates in the United States, has led to significant carry erosion. Combined with the Central Bank's ongoing currency interventions, this could lead to a moderate weakening of the peso.

Risk factors

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

Spread forecast	03/23/06	A	B	C
BSCAX Colombia	153 bps	140 bps	150 bps	260 bps



Costa Rica (Ba1/BB/BB)

Kopf

Economic Indicators	2004	2005	2006f	2007f
Real GDP, year-on-year change in percent	4.2	4.1	4.0	n/a
Nominal GDP, in USD billions	18.6	19.5	20.3	n/a
CPI (year-end), in percent	13.1	14.1	11.5	n/a
CG Fiscal Balance, in percent of GDP	-2.8	-2.0	-2.5	n/a
External Debt, in percent of GDP	20.9	19.1	18.0	n/a
Current Account Balance, in percent of GDP	-4.3	-4.8	-4.6	n/a
Foreign Exchange Reserves, in USD billions	1.9	2.3	2.4	n/a

Economic and political developments

- Former president and Nobel laureate Oscar Arias (PLN) has won a very narrow victory over Otton Solis (PAC) in the presidential elections on February 5. He will take office on May 8. Arias' victory bodes well for CAFTA ratification.
- With the election out of the way, the National Assembly is now making progress on the fiscal reform. The reform is expected to generate around 2%/GDP in additional revenue.
- However, the fiscal deficit is not expected to come down this year, as primary expenditure is on the rise (salaries, education-related expenses). Also, the government will probably assume \$ 2.7 billion in Central Bank domestic debt, and use the proceeds from the fiscal reform to pay for it. This would allow the Central Bank to stop bloating money supply through its debt service, and would help to bring inflation under control.
- The Central Bank has reduced the pre-announced depreciation rate of the colon to 6.6% for 2006 from 8.2% last year. This should further help to bring inflation down. The Central Bank is even contemplating to move away from the current crawling peg regime. Given the high carry in the domestic bond market, a move to a floating exchange rate would probably lead to an appreciation of the colon.
- In sum, it seems like the country's policymakers are finally starting to tackle some of the structural problems that are hindering Costa Rica's economic performance.
- Declining inflation and less currency depreciation bodes well for the local bond market.

Risk factors

- No tax reform.
- CAFTA ratification could become problematic.

Spread forecast	03/23/06	A	B	C
BSCAX Costa Rica	156 bps	130 bps	140 bps	240 bps



Dominican Republic (B3/B/B-)

Kopf

Economic Indicators	2004	2005	2006f	2007f
Real GDP, year-on-year change in percent	2.0	9.3	5.5	n/a
Nominal GDP, in USD billions	18.4	25.6	23.5	n/a
CPI (year-end), in percent	28.7	7.4	8.0	n/a
Fiscal Balance, in percent of GDP	-3.0	0.6	0.0	n/a
External Debt, in percent of GDP	33.5	n/a	n/a	n/a
Current Account Balance, in percent of GDP	7.6	-0.8	-2.6	n/a
Foreign Exchange Reserves, in USD billions	0.6	1.5	n/a	n/a

Economic and political developments

- While we still expect President Fernandez's PLD to gain from congressional elections on May 16, the recently formed alliance the former president Mejía's PRD and the conservative PRSC will make it harder for the president to tighten his grip on the legislative.
- After numerous delays, congress finally approved a watered-down version of the fiscal reform. As the revenue increase of DOP 25 billion (around 3% of GDP) falls short of President Fernandez' original proposal, congress also approved a transitory tax on import goods.
- With the new taxes in place, the government is on track to reach a balanced budget this year. However, the Central Bank continues to run a quasi-fiscal deficit of around 3% of GDP, which is stemming from domestic debt issued during the 2004 bank bailout.
- Debt ratios continue to improve due to the strong economic rebound. We expect a one-notch upgrade by Moody's this year.
- The government has issued \$ 300 million of a 20-year bond on March 13. The proceeds were used to prepay a loan to Spanish energy distributor Union Fenosa.
- After depreciating by 20% during 2005, the Dominican peso is recovering lost ground.

Risk factors

- Conflicts with the IMF

Spread forecast	03/23/06	A	B	C
BSCAX Dominican Republic	294 bps	250 bps	300 bps	400 bps



El Salvador (Baa3/BB+/BB+)

Kopf

Economic Indicators	2004	2005	2006f	2007f
Real GDP, year-on-year change in percent	1.8	2.8	3.4	n/a
Nominal GDP, in USD billions	15.9	16.9	18.2	n/a
CPI (year-end), in percent	4.5	4.3	3.8	n/a
Fiscal Balance, in percent of GDP	-2.4	-3.0	-3.1	n/a
Public External Debt, in percent of GDP	30.2	29.4	29.7	n/a
Current Account Balance, in percent of GDP	-3.9	-4.4	-4.5	n/a
Foreign Exchange Reserves, in USD billions	1.9	1.8	1.8	n/a

Economic and political developments

- President Saca's Arena party gained seven additional seats in the congressional elections on March 12, making it the strongest party in the assembly. However, most of Arena's gains came at the expense of its traditional ally, the PCN, which lost six of its seats. The left-wing FMLN gained one seat, and managed to retain the mayor of the country's capital, San Salvador.
- As the FMLN has regained one third of congress again, President Saca and his allies will now need its support to get the budget approved or to name judges.
- Growth is expected to accelerate somewhat this year, driven mainly by rising exports and public investment projects in infrastructure.
- The government plans to issue \$ 663 million in bonds in the international market this year. The proceeds will be used to refinance maturing debt and to cover the transitional costs of changes in the pension system.

Risk factors

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

Spread forecast	03/23/06	A	B	C
BSCAX El Salvador	182 bps	150 bps	170 bps	250 bps



Guatemala (Ba2/BB-/BB+)

Kopf

Economic Indicators	2004	2005	2006f	2007f
Real GDP, year-on-year change in percent	2.7	3.2	4.0	4.5
Nominal GDP, in USD billions	27.5	30.7	34.0	35.5
CPI (year-end), in percent	9.2	8.6	7.0	6.0
Fiscal Balance, in percent of GDP	-1.1	-1.6	-2.5	-1.6
Public External Debt, in percent of GDP	14.0	12.1	12.4	n/a
Current Account Balance, in percent of GDP	-4.4	-4.1	-3.9	-3.8
Foreign Exchange Reserves, in USD billions	3.5	3.8	3.9	4.2

Economic and political developments

- On February 22, Fitch assigned Guatemala a BB+ rating with stable outlook. This rating is two notches above S&P and one notch above Moody's. Fitch has noted Guatemala's very low debt burden, but sees the rating constrained by the country's narrow tax base. The IMF's managing director, Rodrigo de Rato, pointed to the same problem in a public statement after his visit to Guatemala in late February. In our view, a meaningful increase in tax revenues could put the country on track for an investment grade rating. In the near future, however, there is only a low probability for this.
- President Berger's minority government will find it hard to pass any meaningful reforms before the next presidential elections in November 2007.
- The growth outlook remains fair, as Guatemala should be able to profit from rising exports due to CAFTA and preferential access to the markets of the European Union.
- Banco de Guatemala has missed its inflation target of 4 – 6 % by a wide margin in 2005, in spite of disinflation effects from the nominal appreciation of the exchange rate. The Central Bank has reacted to inflationary pressures by moving the policy rate to 4.25% in December, but has since kept rates unchanged. Further monetary tightening could lead to unwelcome currency strength. This would in turn force Banco de Guatemala to step up interventions, sterilize excess money supply and run an even higher operational loss.
- The bankruptcy of Bancafé has not evolved into a systemic problem. While the offshore operations probably won't recover, the onshore bank will be up for sale, and several competitors are bidding for it.
- The government does not plan to issue in the international markets this year.

Risk factors

- Current account deficit and dollar deposits make the banking system vulnerable.

Spread forecast	03/23/06	A	B	C
BSCAX Guatemala	163 bps	140 bps	170 bps	230 bps



Mexico (Baa1/BBB/BBB-)

Kopf

Economic Indicators	2004	2005	2006f	2007f
Real GDP, year-on-year change in percent	4.4	3.0	3.3	3.0
Nominal GDP, in USD billions	646	716	775	784
CPI (year-end), in percent	5.2	3.3	3.6	3.5
Fiscal Balance, in percent of GDP	-0.9	-2.2	-2.0	-2.2
External Debt, in percent of GDP	24.9	21.4	19.6	19.7
Current Account Balance, in percent of GDP	-1.1	-0.8	-1.5	-2.4
Foreign Exchange Reserves, in USD billions	61.1	68.7	75.6	77.7

Economic and political developments

- Presidential and legislative elections will be held on July 2. Campaigning is heating up, and Andres Manuel Lopez Obrador (PRD) is gaining ground in the polls again. The left-wing PRD even has a small chance to gain a majority in congress, which is a source of concern for the business sector.
- Mexico has retired \$ 3 billion of short-dated external debt in a buy-back operation, which was financed by the issuance of a new 10-year bond.
- Growth is picking up, driven by increasing exports of manufactured goods. Automobile exports have been particularly strong.
- In February, headline CPI came in at 3.75 % yoy, and core inflation fell to 2.9 % yoy. The Central Bank has cut the overnight rate by 50 bps in January and by another 25 bps in February and in March, bringing it to 7.25%. We expect only one more rate cut this year.
- The Mexican peso has come under strong pressure in March, on the back of lower carry and deteriorating global liquidity conditions.

Risk factors

- Recession in the United States
- Rapid fall of oil prices
- PRD majority in congressional elections.

Spread forecast	03/23/06	A	B	C
BSCAX Mexico	108 bps	75 bps	100 bps	130 bps



Nicaragua (Caa1/NR)

Kopf

Economic indicators	2004	2005	2006f	2007f
Real change in GDP, in percent	5.1	4.0	3.1	n/a
Nominal GDP, in billions of USD	4.5	4.8	5.2	n/a
Inflation rate (year-end), in percent	9.3	9.6	7.6	n/a
CG balance, before grants, in percent of GDP	-5.4	-5.6	-5.0	n/a
Foreign debt, in percent of GDP	159	118.3	85.7	n/a
Current account balance, in percent of GDP	-16.1	-17.3	-17.0	n/a
Foreign direct investment, in percent of GDP	4.4	4.5	4.4	n/a

Markets, economy, politics

- With a per capita income of around \$ 900 per year, Nicaragua is one of the poorest countries in the western hemisphere. Nicaragua has already received substantial debt relief from IMF, Paris Club, WB, IADB and CABEL under the Heavily Indebted Poor Country (HIPC) Initiative during the past years. After the end of the last IMF program in December 2005, the Nicaraguan government has agreed on a monitoring procedure with the Fund. A good relationship with the IMF is key in order for debt relief to go into force and to continue receiving donor monies.
- President Boloña's efforts to reduce the fiscal deficit were thwarted by congress, and we expect no progress on economic reforms before the presidential and congressional elections on November 5, 2006. However, congress ratified CAFTA in October 2005.
- Growing remittance flows and stronger donor inflows should allow the Central Bank to further increase its foreign reserves, which have reached \$ 730 million last year.
- Nicaragua has issued \$ 895 million in Bonds for the Payment of Indemnification (BPI) between 1999 and 2001. BPI are dollar-denominated securities issued under Nicaraguan law; CABEL acts as Foreign Exchange Agent. BPI amount to 92% of public domestic debt, and the HIPC framework does not require a restructuring of BPI.
- Moody's has downgraded Nicaragua's rating to Caa1 from B2 in June of 2003, because of the banking system's heavy dollarization.

Risk factors

- Conflicts with the IMF.
- Persistent political instability.

Market forecasts	03/23/06	A	B	C
Sovereign debt	n/a	no market levels available		



Panama (Ba1/BB/BB+)

Kopf

Economic Indicators	2004	2005	2006f	2007f
Real GDP, year-on-year change in percent	7.6	5.5	6.0	6.2
Nominal GDP, in USD billions	13.7	14.6	15.4	16.5
CPI (year-end), in percent	2.0	3.0	2.3	2.2
Fiscal Balance, in percent of GDP (ex Canal)	-5.5	-3.3	-3.0	-2.0
External Debt, in percent of GDP	285	277	274	260
Current Account Balance, in percent of GDP	-2.0	-1.5	-0.5	0.0
Foreign Exchange Reserves, in USD billions	0.7	1.0	1.1	1.2

Economic and political developments

- There are no elections scheduled for 2006. Last years' fiscal reform and social security reform should lead to lower fiscal deficits in the years to come. The 2005 deficit has already decreased to 3.3% of GDP. The government is planning to re-introduce the fiscal sustainability law, which calls for a fiscal deficit of no more than 2% of GDP in the years to come.
- Growth is running at close to 6%, driven by the Panama Canal and construction works.
- Panama has swapped \$ 1.36 billion in bonds due 2020, 2023 and 2034 for a new bond with maturity in 2036 in January. The government might come back to the market with another small issue later on this year.
- The most important event to monitor this year is the planned referendum on an extension of the Panama Canal.

Risk factors

- Fiscal slippage.

Spread forecast	03/23/06	A	B	C
BSCAX Panama	170 bps	135 bps	160 bps	220 bps

Scenario Analysis

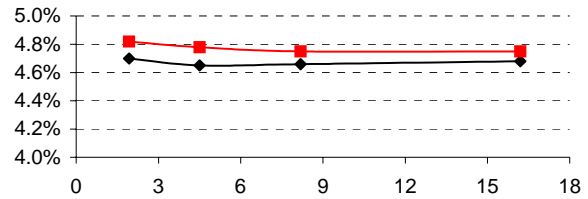




Time of Analysis		Risk-free Rate	Probabilities		
Start	Horizon		A	B	C
3/23/2006	3/23/2007	4.50%	15%	70%	15%

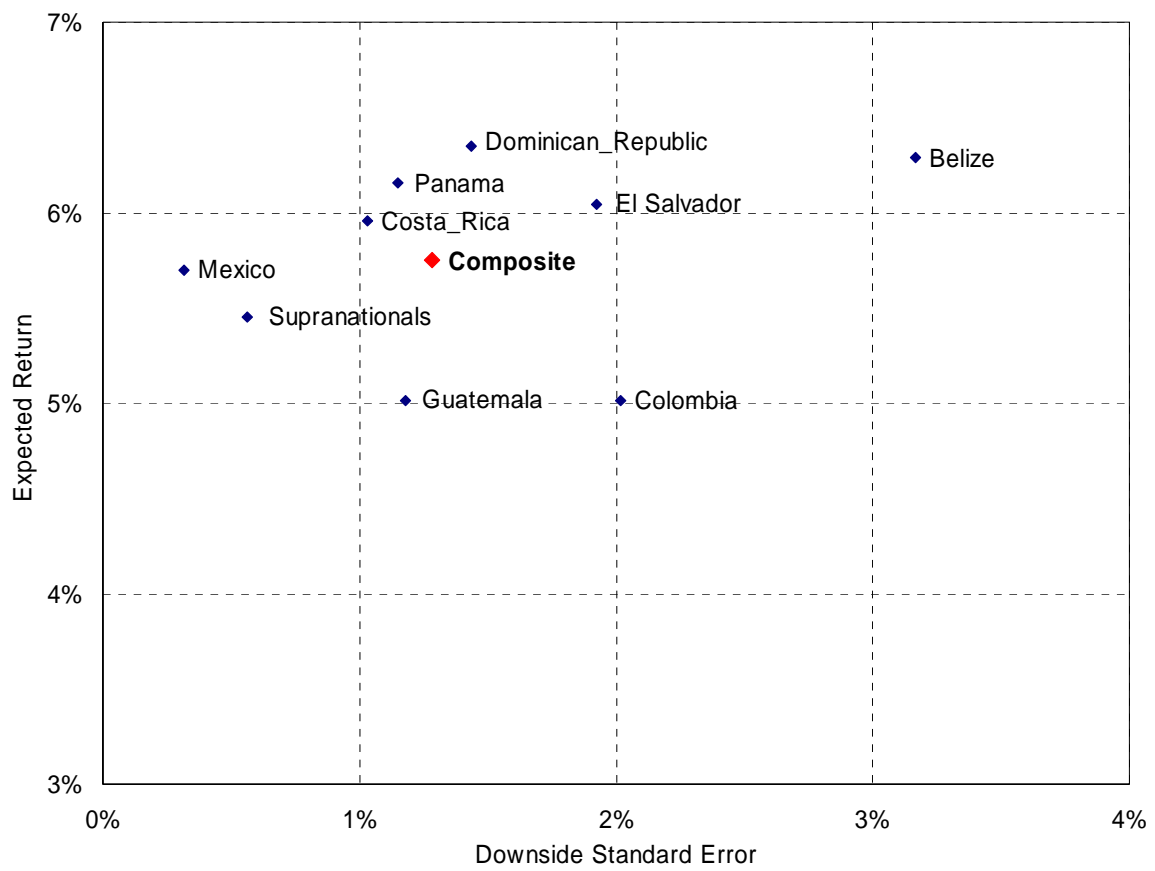
Country	BSCAX Weight	Stripped Spread	Spread Forecast			Expected Total Return			DSSE
			A	B	C	A	B	C	
Belize	0.1%	696 bps	600 bps	800 bps	1000 bps	16.2%	6.3%	-3.7%	3.2%
Colombia	4.9%	153 bps	140 bps	150 bps	260 bps	6.5%	5.9%	-0.7%	2.0%
Costa Rica	22.4%	156 bps	130 bps	140 bps	240 bps	7.1%	6.6%	1.8%	1.0%
Dominican_F	0.7%	294 bps	250 bps	300 bps	400 bps	9.8%	6.8%	0.8%	1.4%
El Salvador	34.0%	182 bps	150 bps	170 bps	250 bps	8.7%	6.9%	-0.5%	1.9%
Guatemala	15.0%	163 bps	140 bps	170 bps	230 bps	7.2%	5.3%	1.5%	1.2%
Mexico	16.9%	108 bps	75 bps	100 bps	130 bps	7.5%	5.8%	3.7%	0.3%
Panama	3.6%	170 bps	135 bps	160 bps	220 bps	8.7%	6.6%	1.5%	1.1%
Supranation	2.5%	109 bps	90 bps	100 bps	150 bps	6.3%	5.8%	3.1%	0.6%
Composite	100.0%	158 bps	130 bps	150 bps	223 bps	7.8%	6.3%	1.2%	1.3%

Treasury Benchmark bonds	Yield at Start	Yield at Horizon	Modified Duration
2yr On-the-run Treasury	4.70%	4.82%	1.9
5yr On-the-run Treasury	4.65%	4.78%	4.5
10yr On-the-run Treasury	4.66%	4.75%	8.2
30yr On-the-run Treasury	4.68%	4.75%	16.2



Note:

This table shows the expected return of CABEL Fund's benchmark over a twelve-month horizon under three spread scenarios. In the coming year, we expect US Treasury yields to rise only slightly, which would result in a loss of 0.7% 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 second quarter of 2006:

Country	Index	03/23/06	Minimum	Maximum
Argentina *	0.0 %	4.7 %	0 %	10 %
Belize	0.1 %	0 %	0 %	5 %
Colombia	4.9 %	4.8 %	0 %	10 %
Costa Rica	22.4 %	21.1 %	15 %	25 %
Dominican Republic *	0.7 %	2.2 %	0 %	5 %
El Salvador	34.0 %	30.2 %	30 %	40 %
Guatemala	15.0 %	18.0 %	20 %	30 %
Mexico (external)	16.9 %	5.3 %	5 %	10 %
Mexico (domestic)	0 %	0 %	0 %	5 %
Nicaragua *	0 %	4.9 %	0 %	5 %
Panama	3.6 %	7.3 %	5 %	10 %

* The combined allocation to Argentina, the Dominican Republic, and Nicaragua should not exceed 15 % of the fund's assets.

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

Contact

Christian Kopf, CFA
DWS Finanz-Service GmbH
Mainzer Landstrasse 178-190
60612 Frankfurt, Germany

Phone +49 69 71909-8554
Fax +49 69 71909-3006
Email christian.kopf@dws.com

This report contains an assessment of medium-term market prospects for the sovereign debt issued by countries in the investment universe of the CABEL 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 CABEL and / or DWS.

This report may contain confidential and / or privileged information. It is intended solely for members of the Investment Committee of the CABEL Central American Fund plc. and it is not meant to be distributed to the public. Any unauthorized copying, disclosure or distribution of the material in this report is strictly forbidden.

The information contained in this assessment is based on the DWS Group's figures or publicly accessible sources that we consider reliable. We cannot guarantee the correctness or completeness of this information, and no statements made in this report are to be understood as such a guarantee. All opinions given reflect the current assessment of the DWS Group. The opinions expressed in this assessment are subject to change without prior notice. The information given here is based on our assessment of the current legal and tax position. Past performance is not necessarily indicative of future returns. The sole binding basis for the purchase of fund units is the latest sales prospectus in conjunction with any performance reports or half-yearly reports.

Please visit our website for further information:

<http://www.deam-us.com/t/offshorefunds/index.jhtml>