CABEI Central American Fund Investment Policy for the Fourth Quarter of 2007

October 2007

DWS INVESTMENTS

Deutsche Asset Management
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Relative Value Analysis

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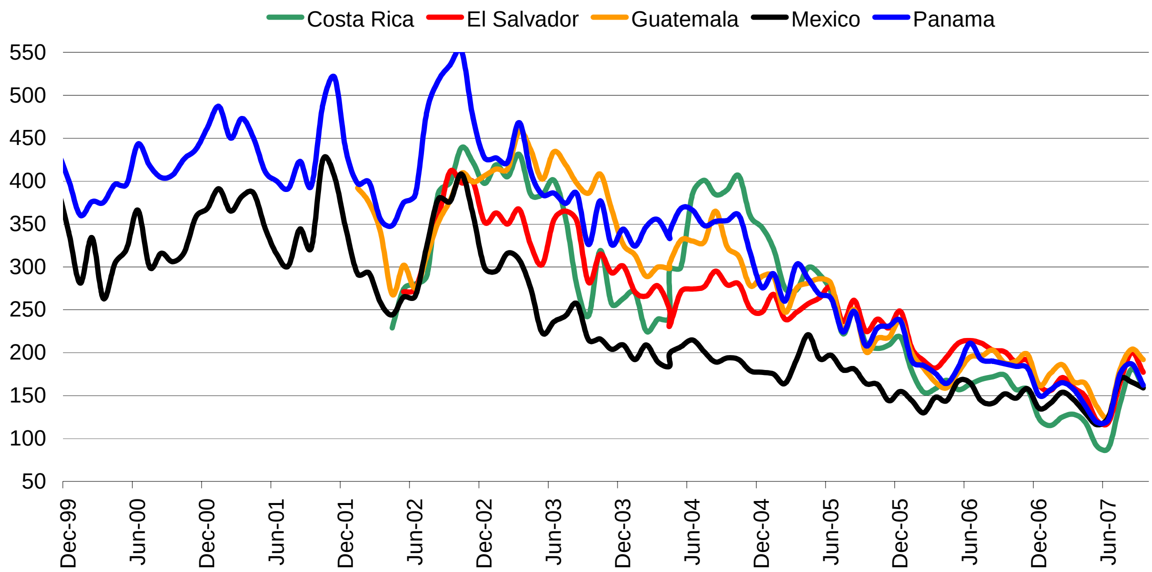

Source: JP Morgan

Note:

Central American countries registered another period of strong economic performance. Expansion follows a broad-based path, with main sources of growth including buoyant domestic demand, solid tourism revenues, firm remittances flows and robust exports. To mention a few country-specific spots: Costa Rica not only steadily grows above trend, but also posts solid fiscal results on the back of revenues outpacing expenditures. Panama's excellent growth story also remains on track, mostly backed by construction and tourism activity. Hurricane activity has been fairly modest so far, with Dean and Félix considered destructive but not devastating. Concerning the outlook for the region, the economies are likely to stay on the strong side. However, some moderation cannot be ruled out in the course of a US economic slowdown triggered by the housing market. In this respect, the most vulnerable factor is family transfers, as many immigrants work in the US construction sector. Another issue is the current immigration debate in US Congress aiming at reducing remittance growth. One more important topic to watch is the recent upward trend in international food prices, also finding its way to the region. So far, the countries are not severely hit by rising inflation figures.

Spreads of Central American sovereign debt could not decouple from market turbulences in the past months, hence widening 70 bps on average. Helped by the Fed's rate cut, markets already managed to rebound substantially, with Dominican Republic's and Costa Rica's spreads decreasing most. Based on strong and stable fundamentals, we do see good potential for further spread compression.

Taking a look at performance across the region of Latin America, external debt of Central American issuers comes in somewhere in midfield. They mostly performed slightly better than some South American names, which lost ground in July and August (Argentina, Uruguay, Venezuela). Furthermore, they did better than Belize, which delivered a negative return (-2.4 % in third quarter). But USD bonds of Central American issuers lagged the very good performance of some issuers with stable or improving rating (Trinidad & Tobago, Brazil, Peru). The outstanding performance was delivered by Ecuador (+14 % in Q3), but this country cannot be regarded as benchmark, due to its unstable politics and very volatile development. Overall, Central American external debt held up well in Q3, if one takes into account the shaky global environment, the impact of high commodity prices and negative country-specific news. This again underpins the strong standing of this country group, which helped to weather the negative impact of global factors.

2007 year-to-date performance of Latin external debt

Argentina	Brazil	Colombia	Costa Rica	Dom-Rep	El Salvador	Guatemala	Mexico	Panama	Venezuela
0.82%	7.55%	6.16%	5.04%	3.74%	4.44%	3.59%	5.31%	4.93%	-9.61%

As at 04 October 2007; Sources: JP Morgan, DWS

Performance of "CABEI Central American Fund"

	2007 ytd	**2006**	**2005**	**2004**
Performance	2.43 %	9.02 %	7.30 %	2.20 %

Sources: Bank of Ireland, DWS

The return outlook for the fund currently depends on two factors: the US growth story and country-specific events. Latest US economic data has delivered some relief for markets, as the deterioration does not seem to materialize as feared by many investors in the wake of the sub-prime meltdown. Nevertheless, risks for US economy and thus risk sentiment remain: financial conditions have tightened significantly in the past months, which could adversely impact domestic consumption. Furthermore, distortions in the financial system could affect investor behavior. For the time being, this seems to be more of a risk scenario, but nevertheless has to be kept in mind. Our main scenario still sees a moderation in US economic activity, but this should not lead to a slump in global GDP growth. The latter can be avoided as other pillars of global growth (like China, India) stand on sound footing, which is reflected by stable economic growth around 10 %.

This balanced outlook should bode well for bonds of most Central American issuers. The positive outlook for global growth will support their stance of further economic stabilization. With their fiscal accounts being in good shape, financing needs would remain manageable, which should mostly reduce the need for external financing to a very low amount. In addition, better access to local markets (like Colombia, Costa Rica) will further enhance diversification and offers attractive return opportunities.

Key indicators for US economy

	2005	**2006**	**2007f**	**2008f**
Real GDP, change in %	3.2	3.3	2.0	1.8
Inflation rate (year-end), in %	3.4	3.2	2.9	2.5

Source: DWS

Country Views

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Argentina (B3/B+/B)

Schlotthauer

Economic Indicators	2005	2006	2007f	2008f
Real change in GDP, in percent	9.2	8.5	7.7	5.7
Nominal GDP, in USD billion	183	214	244	270
Inflation rate (year-end), in percent	12.3	9.8	7.1	13.0
Budget balance, in percent of GDP	1.8	1.8	1.5	1.0
Foreign debt, in percent of GDP	62.4	51.2	46.5	43.3
Current account balance, in percent of GDP	3.1	3.7	3.5	2.6
Foreign direct investment, in percent of GDP	2.2	1.6	1.9	2.0

Economic and political developments

- Argentine senator Cristina Fernandez de Kirchner, wife of the incumbent president, is leading the polls for presidential election on October 28, with 43% ahead of Elisa Carrio (15%) and former Economy Minister Roberto Lavagna (13%). Both opposition candidates have seized on voters' inflation concerns and blame President Kirchner for government figures under-reporting inflation.
- Christina Fernandez so far has not achieved to persuade markets because she didn't present answers for coping with the economic challenges Argentina faces. She doesn't seem willing to implement the necessary reforms to overcome the limitations of her husband's economic policy (energy shortages, supply constraints etc.).
- The central bank tries to stabilize the exchange rate and thus accumulates international reserves. However, the dollar purchases were only partly sterilized (via local currency bonds Nobacs and Lebacs), and real interest rates on deposits have been in negative territory for a long time. This accommodative monetary policy and a pro-cyclical fiscal spending policy serve fuelling inflation pressures.
- Argentine hard currency bonds were severely hit during the global crisis. The spread widened about 250 bps to peak at 520 bps. Part of the spread widening was reversed (around 120 bps), however the remarkable widening of spreads shows the high vulnerability of the Argentine debt. Whereas the economic policy might work to muddle through and the country should have enough liquidity to meet financing needs in the short term, long term sustainability still has to be proven. We continue favoring shorter dated Argentine bonds (Bodens, Bonars).

Risk factors

- Ongoing fiscal expansion and intervention from government authorities in all markets, or other populist policy measure after election.
- Strong fall in commodity prices, especially in soy and oil.

Spread forecast	10/09/07	A	B	C
EMBI Global Diversified Argentina	370 bps	270 bps	350 bps	550 bps

Colombia (Ba2/BB+/BB+)

Ebner / Schlotthauer

Economic Indicators	2005	2006	2007f	2008f
Real change in GDP, in percent	4.7	6.8	6.9	5.8
Nominal GDP, in USD billion	122.9	136.0	165.0	158.0
Inflation rate (year-end), in percent	4.8	4.5	5.1	4.0
Budget balance, in percent of GDP	-0.3	-1.0	-0.9	-1.2
Foreign debt, in percent of GDP	31.1	28.9	27.0	25.0
Current account balance, in percent of GDP	-1.5	-2.1	-3.2	-3.0
Foreign direct investment, in percent of GDP	4.6	3.8	3.3	3.1

Economic and political developments

- Colombia's GDP grew a solid 6.9% yoy in Q2 2007, hence slowing down only marginally from the 8.2% yoy in Q1. Once again, domestic demand was the main driver of expansion. Gross fixed investment expenditure led the pace, showing an increase of 20.2% yoy. In addition, favorable credit conditions, gains in employment and wages and improved consumer confidence drove private consumption up 8% yoy. External sector contribution to overall growth was negative due to a stronger Colombian Peso leading to imports clearly outpacing exports (16.3% vs 4.3% yoy). Concerning Colombia's outlook, the FTA with the US remains key, as inception would increase trade to roughly USD 17.5 billion. President Uribe strongly calls for US congress to approve the controversial agreement with Democrats primarily concerned over anti-trade union violence.
- After pushing the policy rate up 325 bps to a restrictive 9.25%, Banrep refrained from further hikes at its last two policy meetings. The post-meeting press communiqués demonstrated the bank's satisfaction with the impact of the tightening measures taken so far. August and September inflation figures already showed a declining trend on the back of retreating food price inflation. However, significant risks on the inflation front in the months ahead are still lingering. Non-tradable goods inflation, Banrep's preferred measure of core inflation, receded only modestly, pointing to some demand pressures remaining. In our view, the central bank is likely to maintain a hawkish bias. Latest inflation reports give them some time to assess US monetary policy and economic development.
- The Ministry of Finance recently published the 2008 budget plan, showing the consolidated fiscal deficit to widen to 1.4% of GDP due to reduction of the NFPS surplus. Taking Ecopetrol and Isagen out of NFPS accounting and transferring COP 2.7 trillion out of FAEP to the central government are the reasons behind the lower NFPS surplus.
- Global COP-denominated TES bonds offer attractive yield pickup, easy access and a good opportunity to gain exposure in the local market, circumventing capital controls.

Risk factors

- Structural deterioration in public finances, now over-shadowed by strong cycle.

Spread forecast	10/09/07	A	B	C
BSCAX Colombia	159 bps	80 bps	120 bps	200 bps

Costa Rica (Ba1/BB+/BB)

Ebner

Economic Indicators	2005	2006	2007f	2008f
Real change in GDP, in percent	5.9	8.2	7.3	7.5
Nominal GDP, in USD billion	20.0	21.8	24.1	25.0
Inflation rate (year-end), in percent	14.1	9.4	8.2	7.9
Budget balance, in percent of GDP	-2.3	-0.5	-1.3	-1.8
Foreign debt, in percent of GDP	26.1	25.2	23.8	22.6
Current account balance, in percent of GDP	-4.8	-5.0	-4.9	-5.0
Foreign direct investment, in percent of GDP	4.5	6.1	4.1	3.8

Economic and political developments

- DR-CAFTA: Not an open issue anymore! On Sunday, Costa Rican voters narrowly approved the free trade agreement with the US, CentAm and DomRep. The measure was passed by 51.6% to 48.4%. Undoubtedly, the country had been sharply divided over the referendum. To be honest, we had not expected that extent of polarization before visiting the country in August. Final polls had shown Costa Rica poised to be the first country to reject the agreement. In response, the White House had immediately ruled out any renegotiation of the deal in case of Costa Rica voting against it. As expected, the opposition did not accept the outcome, announcing continued resistance. Critics primarily object the required opening up of state monopolies to greater competition.
- Costa Rica's economy continuously grows above trend, real GDP expanded 7.5% yoy in Q2 2007. On the back of exports outpacing imports, the country's trade deficit narrowed a significant 8.2% during the first seven months of the year compared to the same period in 2006. The economic base is well-diversified, main sectors including high-value-added manufacturing, tourism and agriculture. The approval of DR-CAFTA brightens the outlook for Costa Rica even more, enhancing medium-term growth prospects. In the first place, trade liberalization is likely to boost FDI and support main industries, textiles and tuna.
- Inflation successfully managed its way down to single-digit numbers, reaching 9.4% yoy in September. More flexible and effective monetary policy due to the recently implemented system of crawling exchange-rate bands brightens the outlook for inflation even more. By 2010, the central bank plans to fully implement an inflation-targeting system and let the currency freely float.
- Costa Rica's sound fundamental story – not least supported by DR-CAFTA – makes external debt quite attractive. In addition, the local bond market becomes increasingly interesting due to the smoothly appreciating Colón and declining inflation. We already hold a small portion in local bonds (as IADB has lately issued a dual-currency Eurobond).

Risk factors

- Lack of structural reforms such as broadening the tax base.

Spread forecast	10/09/07	A	B	C
BSCAX Costa Rica	177 bps	100 bps	120 bps	210 bps

Dominican Republic (B2/B+/B)

Ebner

Economic Indicators	2005	2006	2007f	2008f
Real change in GDP, in percent	9.5	10.7	8.5	8.0
Nominal GDP, in USD billion	33.6	35.2	40.2	43.4
Inflation rate (year-end), in percent	7.4	5.0	5.0	4.8
Budget balance, in percent of GDP	-0.7	-0.8	-0.5	-0.7
Foreign debt, in percent of GDP	22.6	22.7	22.3	21.1
Current account balance, in percent of GDP	-1.4	-2.2	-2.0	-2.7
Foreign direct investment, in percent of GDP	2.9	3.1	2.9	3.0

Economic and political developments

- After Moody's positive rating action last May, S&P raised Dominican Republic's long-term sovereign credit rating to B+ from B, with stable outlook. Basically, the agency's decision reflects continued passage and implementation of structural reforms and improvement in general government fiscal balances due to tax reforms passed in 2006. The latter also includes laws that criminalize electricity theft and a plan to recapitalize the central bank over a 10-year period by issuing government bonds.
- The IMF recently expressed satisfaction with the country's economic development, highlighting strong growth coupled with single-digit inflation due to tight monetary policy, downward trending public sector debt and rising international reserves. In addition, the country is expected to meet key fiscal targets in 2007, mainly due to solid revenue collection levels. On the back of all these developments, Dominican Republic was granted disbursement of USD 118 million under an IMF loan program.
- DomRep not only experienced an outstanding rate of expansion (10.7% yoy) in 2006, but 2007 performance so far underpins the picture of a constantly and favorably improving economy. Economic dynamism is primarily driven by communications, commerce, construction and financial services. Besides, sizeable credit growth to the private sector and a substantial upsurge in workers' remittances (USD 1.4 billion in H1 2007) support consumption. As most Dominican immigrants work in services industries, the country is also less likely to be affected by the slowdown in the US construction/housing sector. Finally, exports are expected to be backed by DomRep's recent accession to DR-CAFTA.
- Based on solid fundamentals and the positive rating dynamics, we still consider DomRep an interesting credit that offers higher yields than other Central American countries.

Risk factors

- Conflicts with the IMF combined with the fragile external liquidity for the country.
- Energy sector crisis (subsidies around USD 750 million).

Spread forecast	10/09/07	A	B	C
BSCAX Dominican Republic	270 bps	130 bps	180 bps	400 bps

El Salvador (Baa3/BB+/BB+)

Ebner

Economic Indicators	2005	2006	2007f	2008f
Real change in GDP, in percent	2.8	4.2	5.0	4.8
Nominal GDP, in USD billion	17.0	18.2	19.4	20.1
Inflation rate (year-end), in percent	4.5	4.9	4.2	3.8
Budget balance, in percent of GDP	-3.0	-2.9	-2.3	-2.0
Foreign debt, in percent of GDP	45.0	45.7	42.7	39.9
Current account balance, in percent of GDP	-4.6	-4.5	-4.6	-4.4
Foreign direct investment, in percent of GDP	1.8	3.1	2.7	2.8

Economic and political developments

- 2006 was marked by strong growth, primarily driven by double-digit expansion in construction activity and the financial services sector. According to recently released economic figures for the first half of the year, positive momentum is expected to hold up in 2007. In short, robust flows of workers' remittances and solid credit growth provided boost to domestic consumption, while exports benefited from DR-CAFTA that went into effect one year ago. Maquiladora exports, accounting for 44% of total exports, continuously suffer from increased competition coming from Chinese textiles. Another challenge for El Salvador is the potential weakening US economy and tighter immigration controls, both affecting remittances.The Temporary Protection Status program, allowing 220,000 Salvadorans to work in the US until 2009, underpins flows only to a certain degree.
- Massive earthquakes and the public pension system reform forced the government to increase debt issuance between 2002 and 2006, bringing public debt to 40% of GDP. On the back of strong economic performance, however, the country plans to steadily decrease the ratio starting this year. In general, El Salvador shows strong commitment to fiscal responsibility, underlined by successful efforts to improve tax-collection via broadening the tax base, removing loopholes and eliminating distortional subsidies. The authorities intend to increase tax take to 14.2% of GDP this year from 13.9% in 2006. Fiscal accounts for H1 2007 look quite promising. Strong collections and conservative spending enabled the government to produce a better-than-expected NFPS result, i.e. 0.1% of GDP deficit including pension reform-related expenses. Given that the government sticks to its fiscal blueprint, it is likely to meet its 2.3% of GDP budget deficit target in 2007.
- Based on positive fundamentals, we consider El Salvadoran bonds attractive and fairly priced. Technical factors underpinning Salvadoran paper also start to improve, as banks become active again in the bond market, after the acquisition process by foreign players is finally coming to an end.

Risk factors

- The growing crime problem could threaten investments in the medium to long term.

Spread forecast	10/09/07	A	B	C
BSCAX El Salvador	174 bps	105 bps	125 bps	230 bps

Guatemala (Ba2/BB/BB+)

Ebner

Economic Indicators	2005	2006	2007f	2008f
Real change in GDP, in percent	3.5	4.9	5.2	4.9
Nominal GDP, in USD billion	31.6	35.3	38.7	42.6
Inflation rate (year-end), in percent	8.6	4.6	5.5	5.4
Budget balance, in percent of GDP	-1.5	-1.7	-1.3	-1.5
Foreign debt, in percent of GDP	16.6	15.7	14.7	13.6
Current account balance, in percent of GDP	-4.4	-4.4	-4.3	-4.1
Foreign direct investment, in percent of GDP	0.7	0.7	0.5	0.5

Economic and political developments

- Polls ahead of Guatemala's September 9 presidential election had already shown a dead heat between left-leaning Alvaro Colom and Otto Perez Molina. Exactly this turned out to be the case, neither candidate received enough votes to win outright. Hence, Guatemala is heading for a second round on November 4. In any case, the current policy course that served the country well is not expected to be changed. The issue of political violence and authorities' response to the problem remain major topics of any new government.
- Guatemala's economic performance significantly strengthened in 2006, growth reached 4.9% yoy. Consistently strong exports and increased workers' remittances flows supporting private consumption added to a broad-based expansion. Economic indicators also point to strong growth momentum in 2007. Latest tourist arrival numbers indicate growing importance of the tourism sector as a driver of overall economic activity and source of foreign exchange. To an idea, tourist arrivals went up 9% between January and August, leading to a 20% increase in tourism revenues. In addition, implementation of DR-CAFTA in July 2006 is expected to prompt trade and FDI flows to increase significantly. Concerning remittances, tighter US immigration laws and a potential slowdown of the US economy are likely to lead to a reduction in growth of transfer payments.
- In 2000, Banco de Guatemala started shifting its focus away from targeting monetary aggregates to an explicit inflation objective. The bank successfully managed to bring down inflation to 4.6% yoy in 2006, its lowest year-end level since 2000. Regarding 2007, it is confident that inflation will also stay within the target range of 4-6%. The leading interest rate has already been lifted a 75 bps this year to keep inflation in check.
- Guatemala's public debt ratio of roughly 19% of GDP remains the lowest in the CentAm region. The fiscal account looks equally encouraging, supported by better than expected revenue performance. Based on stable fundamentals, Guatemala's bonds are highly attractive. Hence, we would likely participate in a potential tap of Guatemalan paper.

Risk factors

- The high current account deficit and dollar deposits make the banking system vulnerable.

Spread forecast	10/09/07	A	B	C
BSCAX Guatemala	199 bps	130 bps	150 bps	240 bps

Mexico (Baa1/BBB+/BBB+)

Ebner / Schlotthauer

Economic Indicators	2005	2006	2007f	2008f
Real change in GDP, in percent	2.8	4.8	3.4	3.8
Nominal GDP, in USD billion	716	780	850	880
Inflation rate (year-end), in percent	3.3	4.0	3.8	3.4
Budget balance, in percent of GDP	-1.4	-0.8	-1.8	-1.6
Foreign debt, in percent of GDP	24.1	22.3	21.7	21.0
Current account balance, in percent of GDP	-0.7	-0.2	-1.2	-1.8
Foreign direct investment, in percent of GDP	2.6	2.3	2.4	2.1

Economic and political developments

- After some modifications to Calderón's initial proposal, Congress finally completed the passage of the fiscal reform, hence clearing the way for Mexico's ambitious infrastructure plans. New resources are projected at MXN 120bn (1.3% of GDP) in 2008, growing to 2.1% of GDP by 2012. The main components of the reform involve a flat corporate tax aiming at reducing tax evasion, a 5.5% tax on gasoline/diesel, lowering Pemex' implicit tax rate and a new 2% tax on accounts with monthly balances above MXN 20.000.
- In our view, the reform has strong medium-term potential. In the short term, however, frictions to growth and inflation cannot be denied. First, the increased tax burden on corporations is likely to harm investment expenditure. Second, spreading the implementation of the gasoline/diesel tax over 18 months can only dampen but not fully eliminate the negative effect on inflation. Third, the reform coincides with mounting food price pressures, the Fed's easing and potential US deceleration affecting the domestic economy.
- Mexico is likely to be hit by weakening US construction and manufacturing sectors. Flows of workers remittances have already started to slow down massively (2% yoy in 2007F compared to 20% yoy last year) on the back of the US housing slump. In addition, a deceleration in the US manufacturing sector is expected to heavily weigh on the Mexican economy, as around 75% of the country's auto(-related) exports go to the US.
- After leaving the overnight rate unchanged, Banxíco released a pretty hawkish statement, emphasizing risks of constantly high agricultural prices over negative effects of a US slowdown. In our opinion, a rate hike later this year, as priced in by markets, is not a done deal yet, as the bank might be very careful in jumping the gun before a more intensive assessment of external conditions. Apart from that, Calderón's ordered freeze of energy prices and the shift of the new gasoline/diesel tax to 2008 should support inflation.
- Mexican external bonds currently appear more attractive than MXN-denominated paper, as the latter suffers from fears about inflation.

Risk factors

- Sharp slowdown in the United States and/or rapid fall of oil prices.

Spread forecast	10/09/07	A	B	C
BSCAX Mexico	107 bps	80 bps	100 bps	170 bps

Nicaragua (B3/NR/NR)

Ebner

Economic indicators	2005	2006	2007f	2008f
Real change in GDP, in percent	4.3	3.7	3.5	3.1
Nominal GDP, in USD billion	5.0	5.0	6.0	6.0
Inflation rate (year-end), in percent	9.6	9.4	8.5	7.5
Budget balance, in percent of GDP	-5.1	-6.0	-6.6	-6.5
Foreign debt, in percent of GDP	104.8	74.1	65.8	58.3
Current account balance, in percent of GDP	-16.3	-17.3	-17.4	-17.6
Foreign direct investment, in percent of GDP	4.9	5.6	6.7	7.2

Markets, economy, politics

- Nicaragua's 2006 GDP figure shows that the country continues growing, at a much slower pace though. Overall economic growth came out at 3.7% yoy, weaker domestic demand and the election process got called responsible for slower performance. However, the drop in internal demand was partly offset by higher international prices and a sharp increase in export revenues, with coffee leading the field, followed by beef and dairy products. The positive export development can definitely be put down to DR-CAFTA that went into effect in 2005 and should support trade further. Apart from the external side, the outlook for Nicaragua is not too promising given that political uncertainty and institutional weakness still pose some drag on the economy. In addition, the vulnerability of the country's commodity export base to international price swings and natural disasters also presents a severe risk to the country. Finally, slower growth in the US is likely to negatively affect family remittances, Nicaragua's main source of foreign currency inflows.
- Albeit Ortega claiming not to be the fervent revolutionary anymore that ruled the country in the 1980s, politics are expected to remain shaky. As the Frente Sandinista de Liberación Nacional does not control a legislative majority, Ortega will need to work with the right-wing PLC. Disputes in congress might occasionally lead to political impasse.
- Nicaragua continuously faces a high level of debt and a substantial debt service burden, despite massive debt forgiveness initiatives. Since 2003, the country has experienced debt relief amounting to about 65% of GDP under Highly Indebted Poor Country (HIPC) and G8 Multilateral Debt Relief initiatives. The IADB agreed to a USD 984 million debt write-off last March. In October 2007, the IMF approved a three-year USD 111.3 million arrangement under the Poverty Reduction and Growth Facility. It creates additional fiscal space to increase spending in key sectors as energy and health. At the same time, it should contribute to lower debt levels in the medium-term due to structural reforms. Good relations with IFIs may lead to additional debt forgiveness, thus improving debt ratios.

Risk factors

- Conflicts with the IMF and political instability.

Market forecasts	10/09/07	A	B	C
Sovereign debt	n/a	no market levels available		

Panama (Ba1/BB/BB+)

Ebner

Economic Indicators	2005	2006	2007f	2008f
Real change in GDP, in percent	6.9	8.1	9.0	8.7
Nominal GDP, in USD billion	15.5	17.2	18.7	20.0
Inflation rate (year-end), in percent	3.4	2.2	3.6	3.2
Budget balance, in percent of GDP	-3.2	-1.9	-1.3	-1.6
Foreign debt, in percent of GDP	63.1	58.2	55.1	51.8
Current account balance, in percent of GDP	-5.3	-4.7	-4.6	-6.7
Foreign direct investment, in percent of GDP	6.5	16.9	7.8	8.2

Economic and political developments

- Panama's excellent economic performance remains on track, with Q2 GDP up 9.6%. Primarily, it was capital investment (32% yoy) as well as goods and services exports (14.9% yoy) causing the solid outcome. Additionally, robust port and tourism activity and the country's booming construction sector fuelled the economy. Construction expansion is broad-based, including private and public residential investment, Autoridad del Canal de Panamá investment and highway construction. The outlook for Panama remains equally positive, with the tourism sector becoming increasingly important.
- In 2006, the government demonstrated substantial fiscal discipline, leading to a decrease in the budget deficit to roughly 2% of GDP. In the first half of 2007, fiscal balance even turned positive, showing a slight NFPS surplus of 0.2% of GDP. Revenues grew a strong 21.7% yoy on the back of a booming economy and positive effects of the 2005 fiscal reform, especially improved overall tax collections. Given these positive fiscal trends, Panama is likely to meet/beat its 2007 budget target anticipating a NFPS deficit of 2.4% of GDP. Public debt ratios are also expected to profit from solid economic development.
- Inflation is on a clear upward trend. Imported inflation via higher food and oil prices and strong domestic demand let consumer prices increase substantially over the last couple of months. August figures showed inflation rising 4.2% yoy. Decreased government spending should help stem the upward trend in inflation before it turns into a severe risk.
- In August, we had the pleasure to meet with the Canal Authority in Panama City, listening to an impressive presentation on the extremely well-structured expansion project. To finance the upgrade, the authority plans to issue around USD 1.5-2.3 billion debt in 2009. The unsecured amortizing paper without government guarantee is projected to be repaid by 2022. It would not surprise us if the bonds received investment grade status.
- Based on sound and, moreover, sustainable economic fundamentals, we consider Panama an attractive credit with the mid and long end of the curve bearing most value.

Risk factors

- Fiscal slippage

Spread forecast	10/09/07	A	B	C
BSCAX Panama	156 bps	100 bps	135 bps	200 bps

Scenario Analysis

DWS INVESTMENTS

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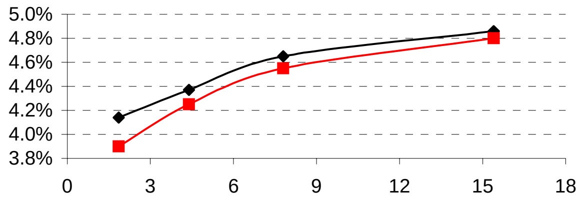
Time of Analysis		Risk-free	Probabilities		
Start	Horizon	Rate	A	B	C
09/10/2007	08/10/2008	4.75%	15%	70%	15%

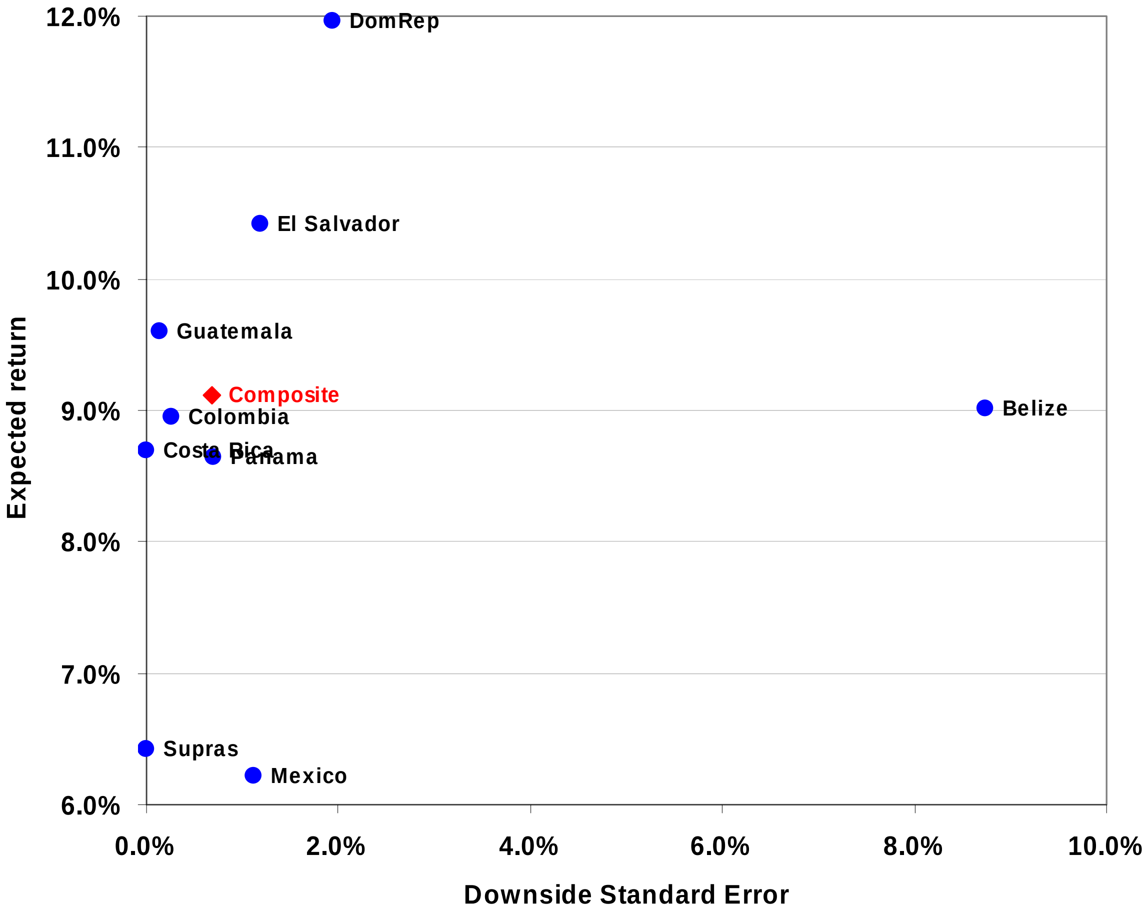
Country	BSCAX Weight	Stripped Spread	Spread Forecast A	Spread Forecast B	Spread Forecast C	Expected Total Return A	Expected Total Return B	Expected Total Return C	DSSE
Belize	0.2%	491 bps	415 bps	465 bps	800 bps	17.5%	12.9%	-17.8%	8.7%
Colombia	5.2%	159 bps	80 bps	120 bps	200 bps	12.0%	9.3%	4.1%	0.3%
Costa_Rica	19.1%	177 bps	100 bps	120 bps	210 bps	10.0%	9.1%	5.3%	0.0%
Dominican_F	0.8%	270 bps	130 bps	180 bps	400 bps	16.7%	13.6%	-0.3%	1.9%
El Salvador	41.0%	174 bps	105 bps	125 bps	230 bps	13.5%	11.6%	1.7%	1.2%
Guatemala	12.4%	199 bps	130 bps	150 bps	240 bps	11.6%	10.3%	4.4%	0.1%
Mexico	13.6%	107 bps	80 bps	100 bps	170 bps	8.1%	6.7%	1.9%	1.1%
Panama	3.1%	156 bps	100 bps	130 bps	200 bps	11.9%	9.2%	2.9%	0.7%
Supranationa	4.6%	113 bps	90 bps	100 bps	130 bps	7.0%	6.5%	5.3%	0.0%
Composite	**100.0%**	**166 bps**	**103 bps**	**124 bps**	**214 bps**	**11.5%**	**9.9%**	**3.0%**	**0.7%**

Treasury Benchmark bonds	Yield at Start	Yield at Horizon	Modified Duration
2yr On-the-run Treasury	4.14%	3.90%	1.9
5yr On-the-run Treasury	4.37%	4.25%	4.4
10yr On-the-run Treasury	4.65%	4.55%	7.8
30yr On-the-run Treasury	4.86%	4.80%	15.4



Note:

This table shows the expected return of CABEI Fund's benchmark over a twelve-month horizon under three different spread scenarios. We expect US Treasury yields to slightly decline in the next 12 months, which would result in a positive return contribution of 0.65% on average. This positive return will add to the running yield and, in some cases, to return from expected spread tightening.



DomRep
El Salvador
Guatemala
Composite
Colombia
Belize
Costa Rica
Panama
Supras
Mexico
12.0%
11.0%
10.0%
9.0%
8.0%
7.0%
6.0%
0.0%
2.0%
4.0%
6.0%
8.0%
10.0%
Expected return
Downside Standard Error

Currency forecasts (6 months)

Currency	A (15 %)	B (70 %)	C (15 %)
EURUSD	1.48	1.40	1.22
USDJPY	105.00	115.00	130.00
USDMXN	10.40	10.80	11.50

Allocation Ranges

DWS INVESTMENTS

Deutsche Asset Management
A Member of the Deutsche Bank Group

The investment committee has agreed on the following policy ranges for the country allocation of the CABEI Fund for the fourth quarter of 2007:

Country	Index	10/10/07	Minimum *	Maximum *
Argentina **	0.0 %	2.6 %	0 %	10 %
Belize	0.2 %	0 %	0 %	5 %
Colombia	5.3 %	0 %	0 %	10 %
Costa Rica	19.3 %	18.3 %	15 %	30 %
Dominican Republic **	0.9 %	4.3 %	0 %	10 %
El Salvador	41.4 %	22.2 %	20 %	40 %
Guatemala	12.4 %	19.2 %	10 %	30 %
Mexico external	13.1 %	12.3 %	5 %	15 %
Mexico domestic	0 %	0.0 %	0 %	10 %
Nicaragua **	0 %	2.8 %	0 %	5 %
Panama	3.1 %	6.8 %	5 %	15 %
Cash	0.0 %	8.0 %		

* The policy ranges were changed last time in April 2007.
** The combined allocation to Argentina, the Dominican Republic, and Nicaragua should not exceed 20 % of the fund's assets.

Duration (after hedge)	6.7 yrs	6.3 yrs	3.0 yrs	9.0 yrs

Change in allocation as discussed during investment committee meeting:

- We will increase the share of Costa Rican and Panamanian external bonds by 2% each.
- In addition, we might build up a position in Colombia.

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