

CABEI Central American Fund Investment Policy for the First Quarter of 2008

January 2008

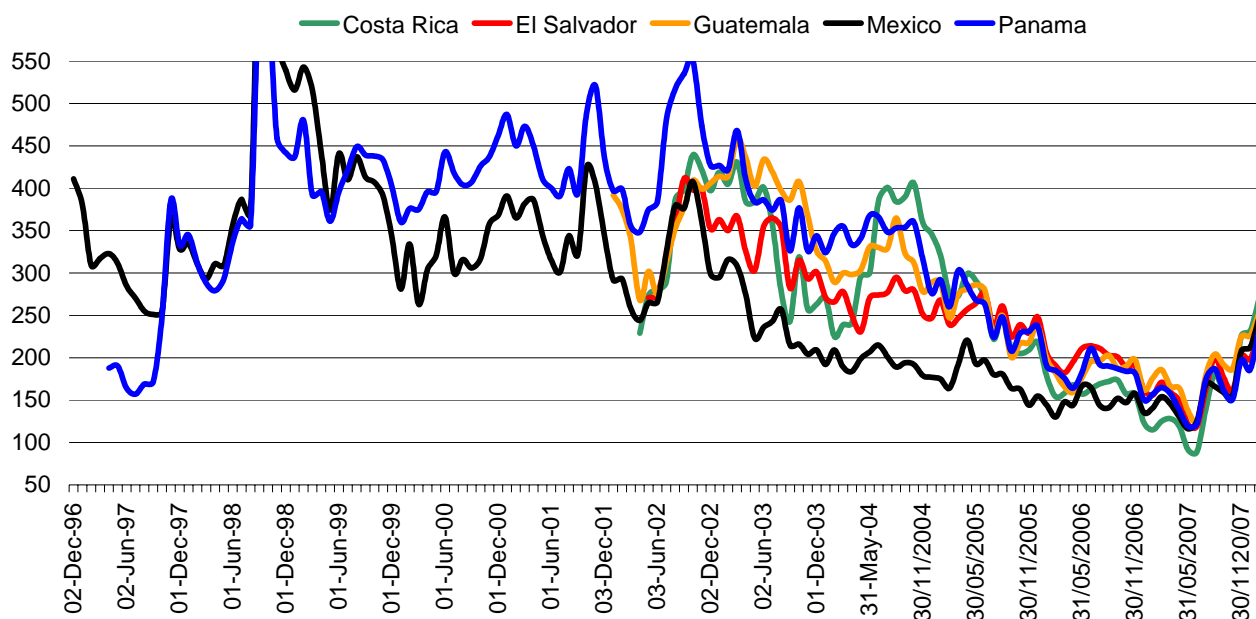


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Relative Value Analysis





Source: JP Morgan

Note:

In general, **Central America** performed solidly in 2007 (measured in economic terms). Implementation of profound structural reforms over the past couple of years helped the region follow a broad-based expansion path. Main drivers of growth included buoyant domestic demand, high tourism revenues, firm remittances flows and robust exports. Panama, Costa Rica and Guatemala turned out to be the most dynamic economies. At the same time, though, inflation accelerated on the back of increases in world food and energy prices. Hurricane activity was fairly modest, with Dean and Félix considered destructive but not devastating. Concerning the outlook for the region, especially the external environment will prove tougher in 2008 as the US slowdown will likely weigh on the region. In this respect, family transfers are the most vulnerable factor, as many immigrants work in the US construction sector, but also tourism and merchandise trade will suffer. Second, high oil and food prices are expected to continuously keep inflation on elevated levels. Overall, we see growth slowing in the region, but not decreasing sharply.

Spreads of Central American sovereign debt did widen further in the past months, but this was more caused by a sharp slump of US Treasury yields rather than any country-specific or regional negative event. From end-September 2007 until now, the yield of 5-year US Treasuries fell by 150 basis points, driven by both a “flight to quality” (out of corporate issuers) and increasing worries about economic development in the US. Sovereign issuers nevertheless saw some differentiation, as spreads of El Salvador (+60 bps), Guatemala (+67 bps) and Panama (+75 bps) suffered less than those of Mexico (+90 bps) and Costa Rica (+123 bps). This can mostly explained by scarcity and lower liquidity, with Panama (impressive growth story) being the only exception.

With regard to the **performance in the region of Latin America**, external debt of Central American issuers has mostly delivered average performance in the fourth quarter of 2007 (and also in January 2008). It did not suffer as much as Venezuela’s USD bonds did, and

some countries (those with less spread widening) also performed better than bonds of Brazil, Colombia and Trinidad & Tobago. The fact that USD bonds of Central American countries could not hold pace (in performance terms) with instruments issued by Ecuador is not a big deal, as Ecuador is a totally different story.

Overall, the **fund** managed to deliver a very good **performance** since end-September 2007. The returns achieved have not only been high (11 % annualized), but also stable throughout this period, which is interesting amid the fact that volatility has remained high in global financial markets. Thus, demand for stable bonds with reasonable yield pick-up already delivered supports for the asset class of Central American bonds. The return for the full year of 2007 was better than one might have expected in August 2007, when markets were slumping. Nevertheless, the fund management continues to aim at achieving a return above the performance target in 2008.

Performance of “CABEI Central American Fund”

	2008 ytd	2007	2006	2005	2004
Performance	0.74 %	4.72 %	9.02 %	7.30 %	2.20 %

As at 29 January 2008; Sources: Bank of Ireland, DWS

Future outlook

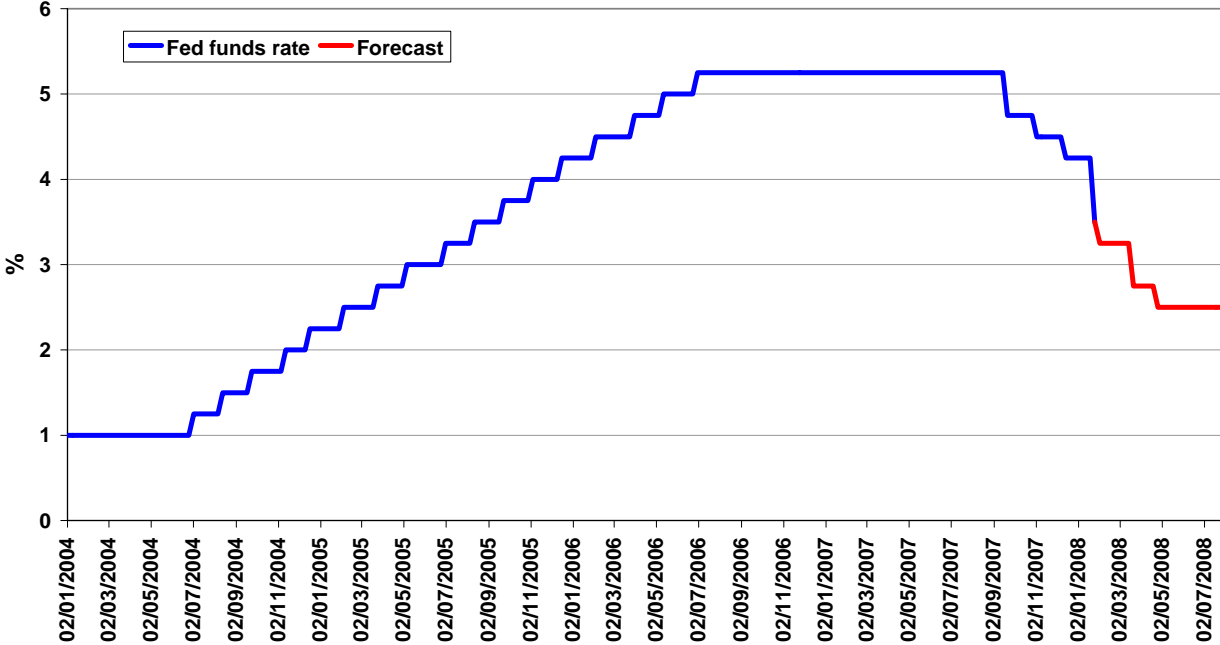
The US economy is definitely heading towards a stronger slowdown, even a recession cannot be ruled out as possible scenario anymore. Economic indicators currently still deliver a moderate picture, but one should not become too optimistic about US economy amid problems in the housing market and instability of financial institutions. As a consequence, the Fed has already cut rates by 125 bps to 3.5 %, and we expect them to lower rates further in the next months, only pausing once Fed funds rate is somewhere between 2 % and 2.5 %.

The deterioration in US outlook will not only weigh on markets and should affect risk sentiment, but it would also be of importance for Central American countries, as growth and capital flows might suffer from a slump in US economic activity. Nevertheless, there are various points which make us feel comfortable about investing in Central American debt. First of all, many bonds have already priced in weak US economic development, as US Treasury yields are extremely low and spreads of external debt have already widened significantly. Future rate cuts should also bode well for bond markets around the world, as many investors might start looking for higher-yielding bonds from stable (or improving) sovereign issuers.

In addition, many countries in the region have made their homework in the past years regarding fiscal consolidation and prudent policy, which results in much better solvency indicators for many countries (and a better growth outlook due to trade integration) and reduces their financing needs on external markets significantly. Thus, even a slowdown in workers’ remittances and export activity should not move most countries to the brink of a crisis. Furthermore, some Central American countries continue to benefit from rising inflows of foreign direct investment (Costa Rica) or their extra-ordinary business and investment cycle (Panama), which partially shields them from exogenous shocks.

Two charts on US financial markets

US Fed funds rate



Country Views



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Argentina (B3/B+/B)

Schlotthauer

Economic Indicators	2006	2007e	2008f	2009f
Real change in GDP, in percent	8.5	8.1	5.1	3.6
Nominal GDP, in USD billion	209	250	289	330
Inflation rate (year-end), in percent	10.0	17.0	16.3	13.6
Budget balance, in percent of GDP	1.8	1.8	1.3	1.5
Foreign debt, in percent of GDP	107.9	113.8	113.6	114.7
Current account balance, in percent of GDP	3.9	2.6	1.6	0.7
Foreign direct investment, in percent of GDP	1.2	1.0	0.5	0.4

Economic and political developments

- Inflation in private measurements is said to range between 15-20%, whereas the official consumer price inflation is reported at 8.5% yoy. The former president Mr. Kirchner is blamed for underreporting inflation and the new government wants to continue to solve the problem by discretionary intervention (and by introducing a new CPI index). However, as long as inflation is not fundamentally confronted by monetary measures, all this discretionary intervention will only add to further distort an efficient allocation (leading to supply constraints, as e.g. electricity and water shortages, and more bureaucracy).
- The new government intends to improve the financing outlook for this year and (more as a side effect) to curb demand. Tax increases, elimination of tax reimbursements, expiry of a special tax regime granting tax exemptions on investment all seem to aim at improving the financial conditions for the government. An increase in employee social security contributions adds to cut private income thus helping to cool down private demand.
- The Central Bank is expected to continue to intervene in the FX market to build reserves and to maintain export competitiveness thus avoiding a nominal appreciation of the Peso (vs. USD). In view of the high inflation a slight nominal depreciation (to around 3.20 US-DARS until yearend) would nevertheless imply a moderate appreciation in real terms.
- Having recovered from the first spread widening in the subprime crisis in autumn the Argentine bonds suffered again in the last few weeks and spreads have widened again to a 450-500 bps level. Despite the measurements to improve short term financing, long term sustainability has to be proven. We still favor the shorter bonds (Bodens, Bonars) as the longer bonds in risk/reward perspective are only market average.

Risk factors

- Inflation pressures, continued fiscal expansion and government intervention in the economy, underinvestment in public services and energy shortages, strong fall in commodity prices (i.a. soy and oil), non-restructured foreign currency debt and Paris club loans.

Spread forecast	01/25/08	A	B	C
EMBI Global Diversified Argentina	468 bps	350 bps	490 bps	740 bps



Colombia (Ba2/BBB-/BB+)

Ebner

Economic Indicators	2006	2007e	2008f	2009f
Real change in GDP, in percent	6.8	6.5	5.8	5.5
Nominal GDP, in USD billion	136.0	172.8	187.0	194.9
Inflation rate (year-end), in percent	4.5	5.7	4.6	3.7
Budget balance, in percent of GDP	-1.0	-0.9	-0.8	-0.2
Foreign debt, in percent of GDP	28.9	25.1	24.6	24.7
Current account balance, in percent of GDP	-2.1	-4.0	-4.3	-3.8
Foreign direct investment, in percent of GDP	3.8	3.3	3.1	3.1

Economic and political developments

- Colombia still exhibits above average growth. Nevertheless, the pace of expansion is about to decelerate to more sustainable levels, consistent with the monetary tightening cycle in place since April 2007. After printing 8.1% yoy in Q1 2007, real GDP slowed down to 6.7% yoy in the third quarter. Concerning 2008, dynamism of domestic demand continues to lead activity on the back of gains in employment and wages as well as improved consumer and investment confidence.
- The external sector looks slightly less promising due to deteriorating terms of trade and lower projected growth in the US and Venezuela. The dispute between the two Presidents Uribe and Chavez is unlikely to become a short-term negative drag on Colombian exports. However, it has to be monitored closely if Venezuela eventually starts to find substitutes to Colombian imports and disrupts trading. The FTA with the US remains another key challenge, as the government has so far been unable to secure the passage of the much-awaited agreement. A failure of the FTA would negatively affect trade and FDI projections and exacerbate pressures on the already deteriorating current account.
- Last November, the central bank surprisingly raised the reference rate to 9.5%, all in all pushing the rate up 325 bps over the past eighteen months. Nevertheless, 2007 inflation printed well above the bank's target of 3.5-4.5%. In our view, the central bank is likely to maintain a hawkish bias until inflation is clearly under control. Given the negative US outlook, another rate hike is unlikely, though.
- 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. However, inflation developments need to be monitored closely. COP appreciation potential will be capped somewhat by a rising current account deficit. In January 2008, Colombia reopened the USD 2017 and 2037 bonds. On the back of solid fundamentals, material exposure in Colombian external debt pays off well.

Risk factors

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

Spread forecast	01/25/08	A	B	C
BSCAX Colombia	266 bps	210 bps	235 bps	400 bps



Costa Rica (Ba1/BB/BB)

Ebner

Economic Indicators	2006	2007e	2008f	2009f
Real change in GDP, in percent	8.2	7.0	6.5	6.0
Nominal GDP, in USD billion	22.2	25.8	28.4	30.0
Inflation rate (year-end), in percent	9.4	10.8	9.5	8.1
Budget balance, in percent of GDP	-0.5	-0.4	-0.2	-0.1
Foreign debt, in percent of GDP	28.5	26.1	24.4	23.2
Current account balance, in percent of GDP	-5.0	-6.2	-5.5	-6.1
Foreign direct investment, in percent of GDP	6.2	6.2	4.5	4.2

Economic and political developments

- Last October, the free trade agreement with the US, CentAm and DomRep was finally approved in a referendum. Implementation, that includes the passage of 13 crucial laws, needs to be completed by end February 2008. The most controversial laws are related to opening up state monopolies like the telecommunications sector. Although we cannot say that it is a done deal, all the necessary legislation is expected to be approved in time.
- Costa Rica continuously enjoys growth above trend. On the back of well performing exports, strong domestic demand coupled with robust credit growth and soaring FDI flows, real GDP expanded roughly 7% yoy in 2007. The country's outlook is significantly supported by the approval of DR-CAFTA. Trade liberalization is likely to boost FDI, support main industries (textiles and tuna) and somehow offset the high oil import bill.
- Higher than expected fiscal revenues, fuelled by strong growth, let the government report its lowest budget deficit in more than two decades. Estimates point to 0.4% of GDP in 2007. Notwithstanding, a structural fiscal reform is indispensable in order to reduce vulnerabilities and increase flexibility.
- Rising global energy and food prices drove Costa Rican inflation up 10.8% yoy in 2007, hence significantly exceeding the official target of 8%. The recently implemented system of crawling exchange-rate bands is expected to mitigate the negative impact of imported inflation to some extent in 2008. Nevertheless, an inflation target of 6% seems too ambitious. Given the economy's dynamic momentum, FX appreciation pressures are expected to increase. Costa Rica will adopt a free-floating/inflation-targeting system by 2009/10.
- Costa Rica's sound fundamental story makes external debt quite attractive. In addition, the local bond market becomes increasingly interesting due to the smoothly appreciating Colón. Hence, we hold external and local bonds.

Risk factors

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

Spread forecast	01/25/08	A	B	C
BSCAX Costa Rica	288 bps	230 bps	260 bps	370 bps



Dominican Republic (B2/B+/B)

Ebner

Economic Indicators	2006	2007e	2008f	2009f
Real change in GDP, in percent	10.7	8.0	6.0	4.5
Nominal GDP, in USD billion	38.0	44.0	46.0	49.0
Inflation rate (year-end), in percent	5.0	7.0	6.0	5.5
Budget balance, in percent of GDP	-1.2	0.2	-0.5	-1.0
Foreign debt, in percent of GDP	20.9	20.3	20.0	19.7
Current account balance, in percent of GDP	-2.1	-2.7	-4.8	-4.4
Foreign direct investment, in percent of GDP	3.1	3.3	3.2	3.0

Economic and political developments

- Recent positive rating actions basically reflect 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.
- In 2007, Dominican Republic showed strong growth coupled with single-digit inflation due to tight monetary policy, downward trending public sector debt and rising international reserves. Solid remittance flows, prosperous tourism revenues and foreign direct investment were key contributors of hard currency to the country. Economic dynamism was primarily driven by communications, financial services and retail. On the demand side, sizeable credit growth to the private sector and a substantial upsurge in workers' remittances supported consumption.
- Although fundamentals are not expected to deteriorate significantly, 2008 will bring along some challenges. As most Dominican immigrants work in services industries, the country is not that much affected by the slowdown in the US construction/housing sector. However, external demand and tourism are likely to suffer a setback. Domestically, uncertainties in relation to next May's presidential elections as well as the renewal of the stand-by agreement with the IMF linger.
- The oil importing country, where 81% of electricity generation is fuel-dependent, is severely hit by accelerating international energy prices. 2007 inflation was pushed past the 4-6% official target and the 2008 outlook does not foresee substantial relief.
- Based on solid fundamentals and the positive rating dynamics, we still consider DomRep an interesting credit, but are a bit more cautious given potential near-term noise.

Risk factors

- Conflicts with the IMF.
- Energy sector crisis (subsidies around USD 750 million).

Spread forecast	01/25/08	A	B	C
BSCAX Dominican Republic	372 bps	300 bps	390 bps	550 bps



El Salvador (Baa3/BB+/BB+)

Ebner

Economic Indicators	2006	2007e	2008f	2009f
Real change in GDP, in percent	4.2	4.7	4.3	4.0
Nominal GDP, in USD billion	19.0	20.0	22.0	24.0
Inflation rate (year-end), in percent	4.9	6.0	5.2	5.0
Budget balance, in percent of GDP	-2.9	-2.1	-2.0	-2.0
Foreign debt, in percent of GDP	40.3	38.3	35.9	33.5
Current account balance, in percent of GDP	-4.5	-4.6	-4.4	-4.4
Foreign direct investment, in percent of GDP	1.4	2.6	2.7	2.7

Economic and political developments

- Dynamic sectors like agriculture and financial services made El Salvador reach higher than expected growth in 2007 (roughly 4.7% yoy). Primarily, higher international prices of traditional agricultural export products (coffee and sugar) supported export revenues. Non-traditional exports also performed well and significantly surpassed maquiladora exports, which suffered from increased Chinese competition. In addition, robust flows of workers' remittances and solid credit growth provided boost to domestic consumption.
- El Salvador's solid fundamental story is expected to persist, with the tourism sector gaining importance. Official forecasts project the number of visitors and tourism revenues going up 8% in 2008. Nevertheless, slower growth in the US and tighter immigration controls represent substantial challenges to the country's economy due to negatively 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.
- In 2007, elevated international oil prices also boosted El Salvador's inflation number above the official target of 3% yoy. Last November's figure of 6.2% yoy presented the highest annual level in more than a decade. On the back of energy prices remaining pressured, inflation is unlikely to come down significantly this year.
- The country's strong commitment to fiscal responsibility started to pay dividends. Stronger tax collections and conservative spending enabled the government to produce a fiscal deficit of 2.1% of GDP in 2007, compared to 2.9% in 2006. Given that the government sticks to its fiscal blueprint, further improvement is projected for 2008.
- El Salvadoran bonds look less attractive compared to peers like Guatemala and Costa Rica. Hence, we maintain our underweight position.

Risk factors

- Political noise and economic uncertainty ahead of Q1 2009 elections.

Spread forecast	01/25/08	A	B	C
BSCAX El Salvador	246 bps	200 bps	250 bps	370 bps



Guatemala (Ba2/BB/BB+)

Ebner

Economic Indicators	2006	2007e	2008f	2009f
Real change in GDP, in percent	5.0	5.7	5.3	4.9
Nominal GDP, in USD billion	36.0	42.0	48.0	55.0
Inflation rate (year-end), in percent	4.9	8.5	7.2	5.4
Budget balance, in percent of GDP	-1.9	-1.8	-1.6	-1.3
Foreign debt, in percent of GDP	14.2	13.3	12.0	11.0
Current account balance, in percent of GDP	-5.3	-4.9	-4.6	-4.4
Foreign direct investment, in percent of GDP	1.0	1.2	1.1	1.0

Economic and political developments

- Narrowly defeating Otto Perez Molina, left-leaning Alvaro Colom became president-elect of Guatemala last November. Colom inherits an expanding economy with solid base and is not expected to significantly change the current policy course. The issue of political violence and authorities' response remain major topics of the new government.
- Economic agents managed to maintain the dynamic rhythm of the economy, Guatemala grew well above trend in 2007. Strong exports and increased workers' remittances supporting private consumption added to a broad-based expansion. DR-CAFTA in full force now definitely played an important role in generating trade and FDI flows. Tourism also progressed well in Guatemala, tourist arrivals went up 7.7% between January and November 2007, leading to a 16.7% increase in tourism revenues.
- 2008 will be marked by continuously strong performance on the back of mounting FDI and tourism flows, but also robust domestic demand. Besides, a free trade agreement with Chile, coming into force in 2008, is an important route of entry into the South American Market. On the negative side, tighter US immigration laws and a weakening US economy will present a drag on the economy due to less 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 4.9% yoy in 2006, its lowest year-end level since 2000. In order to moderate recent increases in inflation due to higher-than-expected global oil and food prices, the Central Bank hiked rates a 150 bps to 6.5% in 2007. Despite monetary action, though, 2008 inflation is likely to remain above the 4-5% target.
- 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 and look cheap compared to peers like El Salvador.

Risk factors

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

Spread forecast	01/25/08	A	B	C
BSCAX Guatemala	273 bps	220 bps	250 bps	350 bps



Mexico (Baa1/BBB+/BBB+)

Ebner / Schlotthauer

Economic Indicators	2006	2007e	2008f	2009f
Real change in GDP, in percent	4.8	3.1	2.9	3.6
Nominal GDP, in USD billion	780.0	839.0	876.0	900.0
Inflation rate (year-end), in percent	4.0	3.9	3.5	3.2
Budget balance, in percent of GDP	-0.9	-1.6	-1.5	-1.0
Foreign debt, in percent of GDP	21.7	20.4	19.7	19.3
Current account balance, in percent of GDP	-0.2	-1.0	-1.3	-1.4
Foreign direct investment, in percent of GDP	2.3	2.4	2.1	2.1

Economic and political developments

- 2007 turned out as quite an active year for Mexico. Congress passed a reform of the public pension system (ISSTE) as well as a broad fiscal reform. Main components 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 and will push the country on a more dynamic growth path. Given continuously declining production at Mexico's biggest oil field Cantarell, the next step should definitely be an energy reform, including authorization of private investment in the sector.
- Economic activity is expected to reflect the negative impact of lower US growth in 2008. In particular, flows of workers remittances will continue to slow down 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, Banxico released a less hawkish statement, emphasizing negative effects of a US slowdown over high agricultural prices pushing up inflation. Probability of another rate hike hence decreased significantly. During the early part of 2008, inflation is likely to accelerate due to new taxes and still elevated food prices. Over the course of the year, though, weaker economic activity is expected to dampen inflation pressures. After staying pat in the coming months, a rate cut cannot be ruled out later in 2008.
- Mexican foreign debt still appears attractive (especially the middle part of the USD curve) as the country shows favorable external accounts (solid FX reserves, moderate current account deficit). After the central bank's more bearish statement, local institutional investors (Afores) as well as international accounts also re-gained appetite for MXN-denominated paper. We participated in the MBonos' rally, too, and stay "overweight".

Risk factors

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

Spread forecast	01/25/08	A	B	C
BSCAX Mexico	168 bps	90 bps	130 bps	230 bps



Nicaragua (B3/NR/NR)

Ebner

Economic indicators	2006	2007e	2008f	2009f
Real change in GDP, in percent	3.7	2.9	3.0	3.1
Nominal GDP, in USD billion	5.0	6.0	7.0	7.0
Inflation rate (year-end), in percent	9.5	17.0	13.0	9.0
Budget balance, in percent of GDP	-4.1	-5.4	-5.6	-5.7
Foreign debt, in percent of GDP	73.9	59.0	47.8	40.3
Current account balance, in percent of GDP	-16.1	-13.1	-10.9	-9.0
Foreign direct investment, in percent of GDP	5.3	4.9	5.7	5.3

Markets, economy, politics

- Last year's economic performance was primarily driven by external trade, transport and communications as well as livestock and fishing activities. Although the Central Bank maintained its official 2007 growth forecast of 3.9% yoy, the economy likely suffered from hurricane Félix seriously damaging agricultural production, destroying access roads and flattening areas of forest.
- The positive export development (food, beverages and rum) can definitely be put down to DR-CAFTA that went into effect in 2005 and is expected to support trade further. Otherwise, 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.
- The IMF approved a Growth and Poverty Reduction Service Agreement for the period 2007-10. Central objective consists of creating conditions necessary to reduce poverty, sustain economic growth and ensure macroeconomic stability.
- Albeit 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 Partido Liberal Constitucionalista (PLC). Disputes between the two parties might occasionally lead to political impasse.
- The 2008 budget is currently fine-tuned, the government plans to increase expenditure in social sectors. After substantial debt relief (HIPC, IADB, G8) as well as a debt buyback, Nicaragua's debt sustainability indicators improved somewhat. Good relations with IFIs may lead to additional debt forgiveness.

Risk factors

- Conflicts with the IMF and political instability.

Market forecasts	01/25/08	A	B	C
Sovereign debt	n/a	no market levels available		



Panama (Ba1/BB/BB+)

Ebner

Economic Indicators	2006	2007e	2008f	2009f
Real change in GDP, in percent	8.1	10.0	8.7	8.9
Nominal GDP, in USD billion	17.0	20.0	23.0	26.0
Inflation rate (year-end), in percent	2.5	5.6	5.2	3.2
Budget balance, in percent of GDP	0.5	0.2	-0.3	-0.7
Foreign debt, in percent of GDP	57.5	53.1	47.2	43.1
Current account balance, in percent of GDP	-2.2	-4.5	-7.5	-6.7
Foreign direct investment, in percent of GDP	14.8	8.0	8.1	8.6

Economic and political developments

- Panama's excellent economic performance remains on track. The economy likely grew 10% yoy in 2007, hence continuing one of the most prolonged expansion cycles in the past two decades. Primarily, it was capital investment as well as goods and services exports causing the solid outcome. Additionally, robust port and tourism activity and the country's booming construction sector fuelled the economy. Construction is broad-based, including private and public residential investment, Autoridad del Canal de Panamá project and highway construction. In 2008, growth is likely to remain rapid, as benefits of the Canal expansion keep underpinning the economy.
- The government demonstrated substantial fiscal discipline. In 2007, the fiscal balance turned positive due to increased revenue collection. Public debt ratios are also expected to profit from solid economic development, projected to fall to about 50% of GDP this year.
- Inflation is clearly moving up. Higher food and oil prices and strong domestic demand let consumer prices increase substantially over the last couple of months. Also, the weakness of the USD boosted prices of imports from Asia and Europe. Latest figures showed inflation rising 6.3% yoy. The upward trend is unlikely to reverse in 2008, as prices of agricultural commodities and oil are expected to remain elevated by historical standards.
- On 3 September 2007, construction on the Panama Canal expansion started officially, with completion expected in 2014. As the project is extremely transparent and well-structured, the likelihood of negative surprises concerning costs and/or completion dates is low. To finance the upgrade, the authority plans to issue around USD 1.5-2.3 billion debt in 2009. It would not surprise us if bonds received investment grade status, versus the sovereign being sub-investment grade.
- 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

- Inflation trending up significantly.

Spread forecast	01/25/08	A	B	C
BSCAX Panama	229 bps	150 bps	200 bps	320 bps

Scenario Analysis



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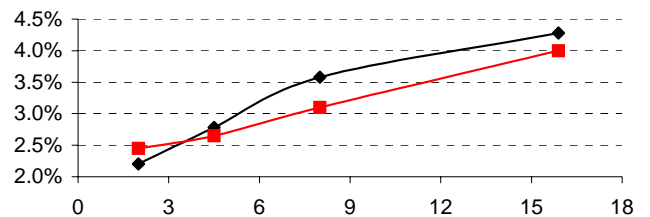




Time of Analysis		Risk-free Rate	Probabilities		
Start	Horizon		A	B	C
25/01/2008	24/01/2009	3.50%	10%	70%	20%

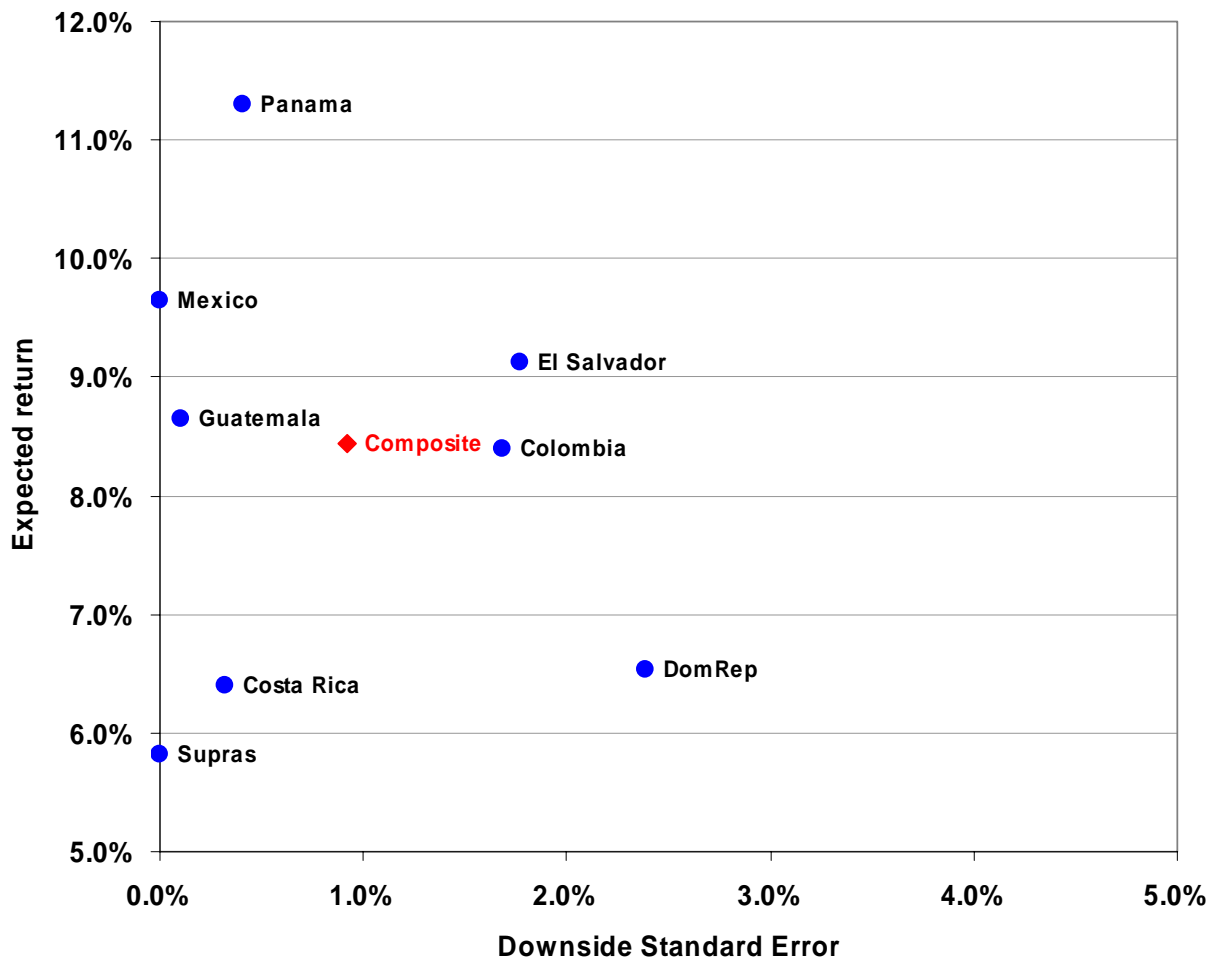
Country	BSCAX Weight	Stripped Spread	Spread Forecast			Expected Total Return			DSSE
			A	B	C	A	B	C	
Belize	0.2%	620 bps	600 bps	770 bps	1000 bps	16.6%	1.9%	-18.2%	9.8%
Colombia	5.2%	266 bps	210 bps	235 bps	400 bps	12.0%	10.4%	-0.3%	1.7%
Costa Rica	19.5%	288 bps	230 bps	260 bps	370 bps	8.3%	7.1%	2.8%	0.3%
Dominican_F	0.8%	372 bps	300 bps	390 bps	550 bps	13.4%	7.9%	-1.8%	2.4%
El Salvador	40.9%	246 bps	200 bps	250 bps	370 bps	15.7%	10.9%	-0.5%	1.8%
Guatemala	12.6%	273 bps	220 bps	250 bps	350 bps	11.7%	9.7%	3.3%	0.1%
Mexico	13.0%	168 bps	90 bps	130 bps	230 bps	13.6%	10.8%	3.7%	0.0%
Panama	3.1%	229 bps	150 bps	200 bps	320 bps	17.3%	12.9%	2.6%	0.4%
Supranation	4.7%	167 bps	100 bps	130 bps	190 bps	7.4%	6.2%	3.8%	0.0%
Composite	100.0%	246 bps	190 bps	230 bps	342 bps	12.9%	9.8%	1.4%	0.9%

Treasury Benchmark bonds	Yield at Start	Yield at Horizon	Modified Duration
2yr On-the-run Treasury	2.21%	2.45%	2.0
5yr On-the-run Treasury	2.78%	2.65%	4.5
10yr On-the-run Treasury	3.58%	3.10%	8.0
30yr On-the-run Treasury	4.28%	4.00%	15.9



Note:

This table shows the expected return of CABEL Fund's benchmark over a twelve-month horizon under three different spread scenarios. We expect US Treasury yields to move sideways in the next 12 months, which would result in a positive return contribution of 3.0% on average. This positive return will add to the running yield and, in some cases, to return from expected spread tightening.



Belize was left out, as it has a high outcome for DSSE (9.8 %) and a negative expected return (-0.7 %), which would distort the whole chart.



Currency forecasts (6 months)

Currency	A (10 %)	B (70 %)	C (20 %)
EURUSD	1.60	1.48	1.38
USDJPY	100.00	110.00	122.00
USDMXN	10.70	11.05	11.50
USDCOP	1750	1900	2300

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 2008:

Country	Index	01/29/08	Minimum*	Maximum*
Argentina**	0.0 %	4.3 %	0 %	10 %
Belize	0.2 %	0.0 %	0 %	5 %
Colombia external	5.2 %	4.4 %	0 %	10 %
Colombia domestic	0.0 %	0.0 %		
Costa Rica external	19.5 %	21.5 %	15 %	30 %
Costa Rica domestic	0.0 %	3.2 %		
Dominican Republic**	0.8 %	2.5 %	0 %	10 %
El Salvador	40.9 %	20.8 %	20 %	40 %
Guatemala	12.6 %	17.2 %	10 %	30 %
Mexico external	13.0 %	7.7 %	5 %	15 %
Mexico domestic	0.0 %	4.9 %	0 %	10 %
Nicaragua**	0.0 %	2.5 %	0 %	5 %
Panama	3.1 %	6.0 %	5 %	15 %
Cash	0.0 %	5.0 %		

* 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)	7.3 yrs	6.4 yrs	3.0 yrs	9.0 yrs
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