

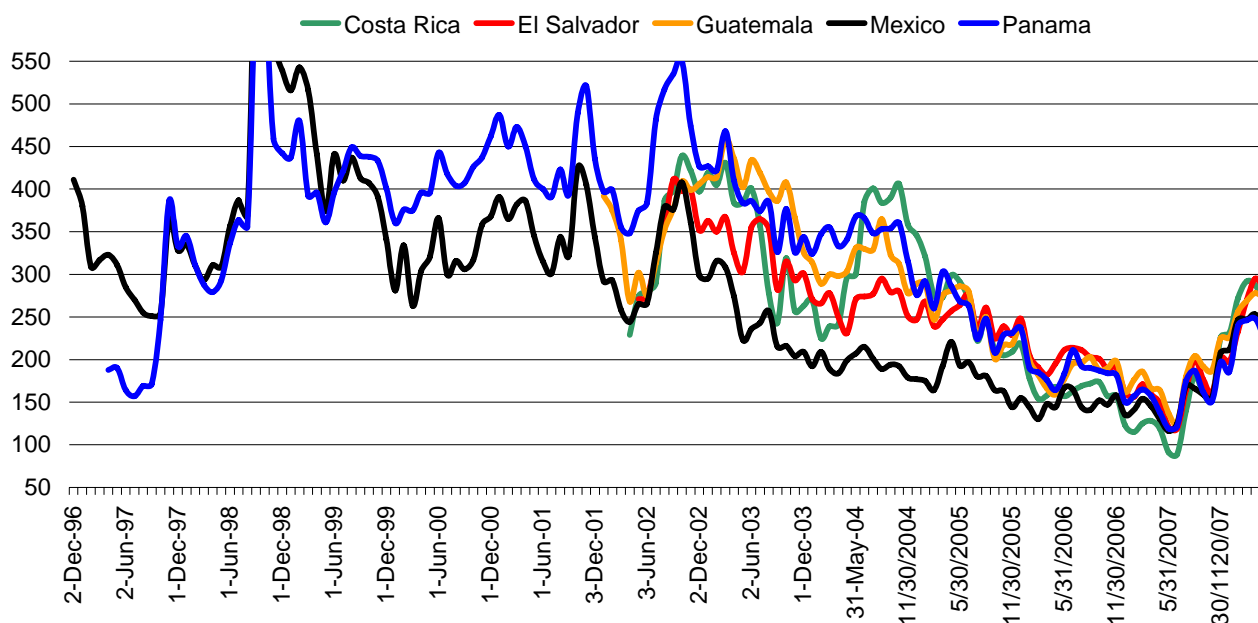
CABEI Central American Fund Investment Policy for the Second Quarter of 2008

April 2008



Relative Value Analysis





Source: JP Morgan

Note:

After almost all Central American countries reported final 2007 economic figures, we can easily say that it was a good year for the region. It was not only real GDP growth surprising on the upside in a number of states, moreover, economic expansion managed to follow a broad-based path. Sound structural reforms over the past couple of years helped the economies moving away from export being the main source of income and put more focus on strengthening domestic demand. Panama and Costa Rica turned out to be the most dynamic economies, but El Salvador and Guatemala also performed stronger than expected. However, last year's solid economic outcome also had a flip side, namely inflation. Accelerating international food and energy prices put significant upward pressure on domestic inflation rates. Just to mention a handful of examples, inflation in Costa Rica, Panama and Guatemala experienced strongest increases, pushing the figures above any policy targets. Some central banks, like Guatemala's, immediately reacted by hiking overnight rates, while others (like Costa Rica) allowed currency appreciation to contain inflationary pressure. Dollarised economies face a bigger challenge in coping with price pressures. In general, we expect world commodity prices to remain on elevated levels in 2008. Concerning the growth outlook for the region, we see some moderation but no sharp deceleration in economic activity. With the external environment proving tougher on the back of US slowdown, workers' remittances, tourism and merchandise trade will suffer most. Family transfers already started to weaken in 2007 as year-on-year growth fell into single-digit area.

Spreads of Central American sovereign debt saw mixed developments over the past three months. While sovereign spreads of Guatemala and Panama roughly moved sideways, Costa Rican spreads tightened about 30 bps. The spread of El Salvador, on the other hand, increased a 35 bps. The underperformance was driven by a combination of political concerns and the country's vulnerability in the face of a US slowdown, already mirrored in shrinking

growth of ever-important workers' remittances. Compared to **performance in the region of Latin America**, Costa Rica and Guatemala have delivered above-average performance in the first quarter of 2008, while bonds of El Salvador were among the worst-performing assets. The only bonds that delivered slightly better or similar performance (like Costa Rica and Guatemala) were sovereign bonds of Chile, Ecuador and Mexico. Chile and Mexico benefited from their status as high-rated issuers, which causes a close correlation of their bonds to moves in US Treasuries. Ecuadorian bonds have rallied on the back of improving fiscal data and less worries about government willingness to honor external debt.

As bond markets were generally supported by weaker economic conditions in the US, the **fund** had good **performance** year-to-date. Except some setback in February, return was stable and grew steadily. The fund management took a more cautious stance throughout the first quarter of 2008, which is reflected by little exposure to local bond markets and low positions in lower-rated issuers. For local bond markets, there is negative impact from both weaker US economic growth (via external accounts) and from rising inflation (which drives yields of domestic bonds up). Lower-rated issuers (like Argentina and DomRep) suffered from temporary spikes in risk aversion.

Performance of “CABEI Central American Fund”

	2008 ytd	2007	2006	2005	2004
Performance	2.01 %	4.72 %	9.02 %	7.30 %	2.20 %

As at 10 April 2008; Sources: Bank of Ireland, DWS

Future outlook

The outlook for the US economy is still deteriorating, and one cannot rule out that it will slip into recession. This will also affect Central American countries via various channels (see country section). US financial institutions might have proceeded in their attempts to write down non-performing assets, but the impact of this problem should be felt in the “real economy” for some time (mostly via credit channels).

Good news for the global economy is still coming from Asia. We might see a slowdown in economic activity there, too, but this should still be contained to a moderate extent. Domestic demand is still good in countries like China, which should provide support for many other economies (although it will not fully offset impact of weaker US economy). Thus, we are optimistic that we are far away from seeing a meltdown in global growth.

Chart: China's import demand

Total imports by end use

% 3m / 3m, year



Source: JP Morgan

Country Views





Argentina (B3/B+/B)

Schlotthauer

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	8.5	8.7	6.2	3.8
Nominal GDP, in USD billion	209	252	294	337
Inflation rate (year-end), in percent	10.0	17.0	19.6	17.0
Budget balance, in percent of GDP	1.8	0.4	1.5	1.0
Foreign debt, in percent of GDP	107.9	113.7	113.5	114.5
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

- The new president Christina Fernandez has seen her Argentine honeymoon come to a halt when farmers disputed over increasing export taxes. Farmers installed roadblocks across the country that were choking food supplies and affected trade. As the farmers announced a 30-day truce, the final outcome of the dispute is still open.
- Besides of having political effects the protest also has negative economic implications: inflation will rise even stronger. Newspapers report that consumer prices might have risen in March at the fastest pace in almost six years (3.5-4% mom vs. 0.5 mom in February).
- Not only shortages in food supply, also electricity and energy shortages as well as insufficient infrastructure (ports, airports) intensify the inflation problem. The high commodity prices from which Argentina's export sector profits at the moment helps to keep the economy in a (fragile) equilibrium. However, imbalances are accumulating, public sector spending is still too high, and the economic situation is far from being self-sustaining.
- As the new president promised to keep the budget under control, the government is confronted with rolling over debt and financing the 2008 budget. However, if Fernandez misses out to send clear signs of a change in (economic) policy, the country will face tough times in financial markets.
- Argentina was one of the worst performers in the last quarter and risks to remain bottom of the league. The new government so far has shown little enthusiasm to prove long term sustainability. We still favor the shorter bonds (Bodens, Bonars) as the longer bonds in risk/reward perspective are – despite the further drop in prices – not attractive.

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	04/09/08	A	B	C
EMBI Global Diversified Argentina	544 bps	400 bps	560 bps	780 bps



Colombia (Ba2/BBB-/BB+)

Ebner

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	6.8	7.6	5.5	5.3
Nominal GDP, in USD billion	136.0	172.8	187.0	194.9
Inflation rate (year-end), in percent	4.5	5.7	4.7	3.7
Budget balance, in percent of GDP	-1.0	-0.9	-0.8	0.0
Foreign debt, in percent of GDP	28.9	25.1	24.6	24.7
Current account balance, in percent of GDP	-2.1	-3.8	-4.0	-3.8
Foreign direct investment, in percent of GDP	3.8	4.0	3.7	4.1

Economic and political developments

- Colombia exhibited another year of strong growth. 2007 real GDP expanded a higher than expected 7.6% yoy. Activity remains solid, but a marked slowdown in the US and weaker growth in Venezuela (Colombia's main trading partners) will lead to a pronounced deceleration in the pace of expansion in 2008/09. Monetary tightening since April 2006 has already succeeded in moderating growth, but the latter is not yet compatible with sustainably lower inflation levels. Domestic demand continues to be the main engine, due to gains in employment and wages and improved consumer and investment confidence.
- Strong FDI inflows (USD 8.5 billion), primarily going to the mining and oil sector, managed to finance Colombia's growing current account deficit (USD 8 billion) in 2007. Investment commitment and announced M&A operations suggest similar FDI data in 2008. Besides, there is a good chance that US Congress will soon approve the free trade agreement, leading to additional foreign direct investment. Uribe's recent progress in the fight against the FARC (Raul Reyes, second in chief of the FARC, was killed) is likely to be a decisively positive factor in the Congress' decision.
- As expected, the central bank left the overnight rate unchanged at an already slightly restrictive level of 9.75% at the last meeting. Notwithstanding the persistence of inflation pressures, the deterioration of the external outlook favored waiting to obtain more information before taking additional monetary policy measures. In addition, the committee stated that available information show recent monetary policy measures having been generating the sought effect to some degree, e.g. credit growth has moderated.
- On the back of solid fundamentals, material exposure in Colombian external debt pays off well. 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. Due to inflation risks in place, shorter-dated paper is preferred. Solid FDI inflows continue to support COP strength.

Risk factors

- Severe deterioration of current account deficit.

Spread forecast	04/09/08	A	B	C
BSCAX Colombia	273 bps	200 bps	250 bps	380 bps



Costa Rica (Ba1/BB/BB)

Ebner

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	8.2	6.8	4.8	5.3
Nominal GDP, in USD billion	22.2	25.8	28.4	30.0
Inflation rate (year-end), in percent	9.4	10.8	9.0	8.0
Budget balance, in percent of GDP	-0.5	0.6	-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	-6.0	-5.8	-5.0
Foreign direct investment, in percent of GDP	6.2	6.1	4.8	5.5

Economic and political developments

- Costa Rica was granted a seven-month extension of deadline to pass implementation laws necessary to bring the DR-CAFTA into full force. The extension is likely to buy the government enough time to both approve the required laws and implement the agreement before year-end. Nevertheless, the length of the process implies significant delays of other pending reforms, especially on the fiscal front.
- Costa Rica continues to enjoy growth above trend. On the back of well performing exports and strong domestic demand coupled with robust credit growth, real GDP expanded 6.8% yoy in 2007. Additional engines of country's economic expansion are increasing tourism activity and robust FDI inflows, mostly directed to the real estate sector. In 2007, FDI comfortably financed the current account deficit. Foreign direct investment amounted to 7.5% of GDP, while the current account deficit was 6% of GDP. DR-CAFTA and the related opening-up of state-owned monopolies like electricity, telecom and insurance are expected to attract additional foreign direct investment.
- Rising global energy and food prices drove inflation up to 10.8% yoy in 2007, significantly exceeding the official target of 7-9%. A 150 bp cut of the benchmark rate, pushing real rates into negative territory, has likely incubated additional demand-side inflationary pressures. The central bank actually aimed at slowing FX appreciation, but the Colón was indifferent to the aggressive cuts. Hence, the stronger currency is likely to mitigate the negative impact of imported inflation.
- Higher than expected fiscal revenues let the government report a budget surplus of 0.6% of GDP last year. Notwithstanding, a structural fiscal reform is indispensable in order to reduce vulnerabilities and increase flexibility.
- 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 keep our exposure in external and local bonds.

Risk factors

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

Spread forecast	04/09/08	A	B	C
BSCAX Costa Rica	296 bps	250 bps	275 bps	370 bps



Dominican Republic (B2/B+/B)

Ebner

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	10.7	8.5	5.5	5.0
Nominal GDP, in USD billion	38.0	44.0	46.0	49.0
Inflation rate (year-end), in percent	5.0	8.9	6.5	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	2.7	3.1

Economic and political developments

- Passage and implementation of structural reforms bear fruits. According to the central bank, GDP growth reached a better-than-expected 8.5% yoy in 2007. Expansion was driven by strong performance in financial, communications and commerce sectors. 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, DomRep will not be able to escape negative impacts of slower US growth in 2008. External demand and tourism are likely to suffer a significant setback. On the other hand, the weakening US construction sector is less a risk as most Dominicans work in services industries.
- Albeit still in single-digit area, inflation trended up significantly last year. High international commodity prices and special effects related to tropical storms pushed inflation up to about 8.9% yoy, hence past the 4-6% official target. The central bank already tightened monetary conditions, increasing the overnight rate a 200 bps to 9%.
- DomRep is an oil-importing country, 81% of electricity generation is fuel-dependent and the electricity sector is generally weak with frequent blackouts. Hence, accelerating international energy prices are especially painful. Subsidies budgeted for the electricity sector are unlikely to be sufficient to keep the country well-lit. Another negative effect of high oil prices is a continuously widening current account deficit.
- Concerning May 16 elections, opinion polls point to President Fernández boasting a commanding lead. A new IMF stand-by agreement is unlikely to be signed before the new government is confirmed.
- Less favorable economic fundamentals made us take a more cautious stance on Dom-Rep. However, the country still appears attractive compared to peers like Jamaica. Shorter-dated USD bonds offer most interesting value.

Risk factors

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

Spread forecast	04/09/08	A	B	C
BSCAX Dominican Republic	455 bps	300 bps	430 bps	600 bps



El Salvador (Baa3/BB+/BB+)

Ebner

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	4.2	4.7	3.7	4.0
Nominal GDP, in USD billion	19.0	20.0	22.0	24.0
Inflation rate (year-end), in percent	4.9	4.9	5.2	5.0
Budget balance, in percent of GDP	-2.9	-2.1	-2.0	-1.6
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 of 4.7% yoy in 2007. Elevated international prices of traditional agricultural export products (coffee and sugar) supported export revenues. In addition, maquiladora exports went up 9.6% yoy to USD 1.8 billion last year, after registering negative rates of growth in 2005/06. Inflows 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 negative impact on remittances. The Temporary Protection Status program, allowing 220,000 Salvadorans to work in the US until 2009, underpins flows only to a certain degree. 2007 figures already showed a clear reduction in the growth rate of remittance inflows.
- Albeit also feeling the squeeze of high international oil prices, El Salvador's inflation number managed to remain the lowest in the Central American region in 2007. After last November's figure of 6.2% yoy presented the highest annual level in more than a decade, subsequent monthly readings turned out more subdued. On the back of continuously high energy prices, another spike in inflation cannot be ruled out, though.
- 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 Costa Rica. In addition, political noise ahead of March-2009 elections is likely to weigh on the credit. Hence, we maintain our underweight position.

Risk factors

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

Spread forecast	04/09/08	A	B	C
BSCAX El Salvador	297 bps	210 bps	275 bps	400 bps



Guatemala (Ba2/BB/BB+)

Ebner

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	5.0	5.7	4.0	4.6
Nominal GDP, in USD billion	36.0	42.0	48.0	55.0
Inflation rate (year-end), in percent	4.9	8.8	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	-5.1	-4.6
Foreign direct investment, in percent of GDP	1.0	1.2	1.1	1.0

Economic and political developments

- Economic agents managed to maintain the dynamic rhythm of the economy: Guatemala grew well above trend in 2007. Exports saw the highest rate of expansion in a decade, soaring 15.2% yoy. In addition, increased workers' remittances supported private consumption and hence added to a broad-based expansion. DR-CAFTA in full force now definitely played an important role in generating trade and FDI flows.
- 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.
- Despite gradually declining after last November's peak of 9.1% yoy, inflation remains well above the 4-7% official target. High electricity prices, telephone fees as well as corn and wheat prices are key contributors to inflation readings. The central bank hiked the policy rate six times up to 6.5% in 2007. Unless another inflation spike occurs or private sector credit growth starts to accelerate again, no additional monetary tightening is expected.
- Net international reserves saw heavy accumulation and exceeded public external debt the third consecutive year. The ratio settled at an impressive 102.2% in 2007 and is expected to stay above the 100% mark this year.
- 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. Recent fiscal reforms and efforts to crack down on tax evasion supported an increase in the country's tax take. Together with the IMF, the government works on a reform of the tax code, resulting in additional tax revenues. Based on stable fundamentals, Guatemala's bonds are still attractive, even though trading inside El Salvador and converging with Panama meanwhile.

Risk factors

- Political noise and potential electricity shortfalls.

Spread forecast	04/09/08	A	B	C
BSCAX Guatemala	300 bps	240 bps	290 bps	400 bps



Mexico (Baa1/BBB+/BBB+)

Ebner / Schlotthauer

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	4.8	3.3	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	3.8	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	19.4	18.5	18.0
Current account balance, in percent of GDP	-0.3	-0.9	-1.4	-1.1
Foreign direct investment, in percent of GDP	2.3	2.4	2.1	2.8

Economic and political developments

- After unexpectedly accelerating in Q4 2007, led by transportation and communication, Mexico's economy expanded 3.3% yoy last year. The government succeeded in its plan to boost domestic demand as a second growth engine beside exports. Concerning 2008, economic activity is expected to reflect the negative impact of lower US growth. In particular, flows of workers remittances will continue to slow down on the back of the US housing slump, weighing on private consumption. In addition, a deceleration in the US manufacturing sector is likely to become a drag on external accounts, as around 75% of the country's auto(-related) exports go to the US.
- Mexico's biggest oil field Cantarell continued its steep decline in 2007, oil production dropped 18% yoy. Hence, President Calderón recently sent an energy reform package to Congress. Basically, the government intends to open transportation, storage and distribution of hydrocarbons to private investment. The proposal also includes issuance of bonds linked to Pemex' performance and available to the Mexican public. Passage of the reform is expected in autumn as the current Congress session ends at the end of April.
- After leaving the overnight rate unchanged, Banxico recently released a less hawkish statement, emphasizing negative effects of a US slowdown over high agricultural prices pushing up inflation. However, it is too early to talk about rate cuts as inflation is still at elevated levels. Only later in 2008, weaker economic activity is expected to dampen price pressures, resulting in monetary easing.
- Prudent liability management made the government sell another series of warrants, allowing investors to swap foreign-currency debt for local bonds. All in all, more than USD 4bn of external debt got exchanged for peso bonds in the last two years. Nevertheless, Mexican foreign debt still appears attractive (especially the middle part of the USD curve) as the country shows solid FX reserves and moderate current account deficit. At the same time, local currency bonds also offer attractive value.

Risk factors

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

Spread forecast	04/09/08	A	B	C
BSCAX Mexico	167 bps	100 bps	150 bps	210 bps



Nicaragua (B3/NR/NR)

Ebner

Economic indicators	2006	2007e	2008f	2009f
Real change in GDP, in percent	3.7	2.9	1.9	2.3
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	-15.0	-11.9	-10.0
Foreign direct investment, in percent of GDP	5.3	4.9	3.7	4.2

Markets, economy, politics

- Last year, the economy suffered from hurricane Félix seriously damaging agricultural production, destroying access roads and flattening areas of forest. Besides, inflation soared to roughly 17% yoy, the highest level since Hurricane Mitch in 1998 and the highest level in the Central American region. In general, engines of 2007 growth were external trade, transport and communications as well as livestock and fishing activities.
- The positive export development (food, beverages and rum) can definitely be put down to DR-CAFTA that went into effect in 2005. Full implementation of the FTA will continue to stimulate both export and investment flows. Nevertheless, a high oil import bill prevents Nicaragua from improving its current account deficit of around 15% of GDP.
- Otherwise, the outlook for Nicaragua is not too promising given that political uncertainty and institutional weakness still pose a 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. Finally, a US slowdown is likely to negatively affect family remittances, Nicaragua's main source of foreign currency inflows.
- In October 2007, the IMF approved a three year USD 111 million arrangement under its Poverty Reduction and Growth Facility low-interest program. Central objective involves creation of 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. Moreover, as the ruling Sandinista party does not control a legislative majority, significant risk of political impasse is in place.
- After substantial debt relief (HIPC, IADB, G8) as well as a debt buyback, Nicaragua's debt sustainability indicators have improved somewhat. Hence, good relations with IFIs remain of high importance in order to eventually undergoing additional debt forgiveness.

Risk factors

- Conflicts with international financial institutions and political instability.



Panama (Ba1/BB+/BB+)

Ebner

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	8.1	11.2	8.7	9.7
Nominal GDP, in USD billion	17.0	20.0	23.0	26.0
Inflation rate (year-end), in percent	2.5	6.4	6.1	4.2
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	-8.0	-7.5	-6.7
Foreign direct investment, in percent of GDP	14.8	9.2	8.1	8.6

Economic and political developments

- After posting record-breaking growth of 11.2% yoy in 2007, Panama will likely be one of the region's outperformers again this year. Main engines of expansion continue to be booming construction, financial intermediation, transportation (ports, canal) and tourism. Growth is now more of a domestic demand story on the back of impressive investment expenditure directed to development of roads, oil refineries and tourist resorts. Nevertheless, the economy is not fully resistant against US slowdown, as especially tourism and Canal transits are functions of US demand.
- The brisk pace of economic expansion has a dark side, too. Amid robust local demand, inflation reached a record 7.6% yoy in January. Gasoline, food prices and the underperformance of the USD exerted most significant pressure on the CPI. The upward trend is unlikely to reverse in 2008, as prices of agricultural commodities and energy are expected to remain at elevated levels.
- According to preliminary figures, the country recorded a budget surplus of 3.2% of GDP due to increased revenue collection. Public debt ratios also saw some improvement, declining to roughly 50% last year. Nonetheless, public debt remains a serious drag constraining fiscal flexibility and a breakthrough to investment grade status.
- In 2007, FDI inflows greatly financed the country's current account deficit. FDI reached a remarkable figure of 9.2% of GDP, the current account deficit was 8% of GDP. The situation is unlikely to change in 2008.
- Construction on the Panama Canal expansion is underway, 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 2 billion debt in 2009.
- 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	04/09/08	A	B	C
BSCAX Panama	223 bps	160 bps	225 bps	320 bps

Scenario Analysis

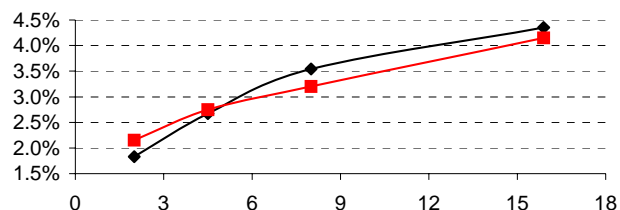




Time of Analysis		Risk-free Rate	Probabilities		
Start	Horizon		A	B	C
4/11/2008	4/11/2009	2.25%	10%	70%	20%

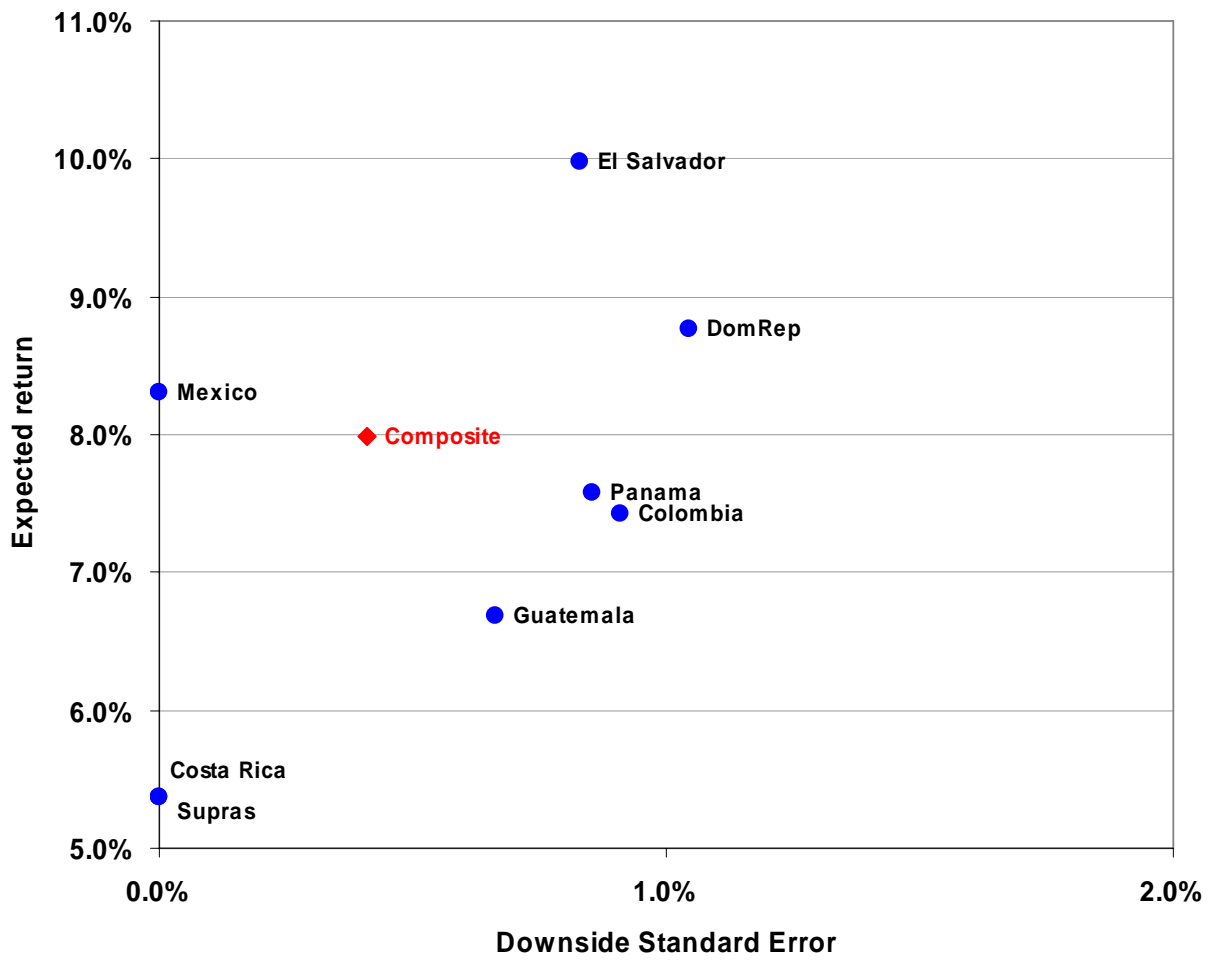
Country	BSCAX Weight	Stripped Spread	Spread Forecast			Expected Total Return			DSSE
			A	B	C	A	B	C	
Belize	0.2%	649 bps	640 bps	700 bps	1000 bps	14.4%	9.2%	-16.9%	8.6%
Colombia	5.8%	273 bps	200 bps	250 bps	380 bps	12.1%	8.8%	0.2%	0.9%
Costa_Rica	19.6%	296 bps	250 bps	275 bps	370 bps	7.0%	6.0%	2.3%	0.0%
Dominican_F	0.8%	455 bps	300 bps	430 bps	600 bps	17.7%	10.0%	-0.1%	1.0%
El Salvador	40.4%	297 bps	210 bps	275 bps	400 bps	17.5%	11.6%	0.4%	0.8%
Guatemala	12.6%	300 bps	240 bps	290 bps	400 bps	11.0%	7.8%	0.8%	0.7%
Mexico	12.7%	167 bps	100 bps	150 bps	210 bps	12.9%	8.9%	4.1%	0.0%
Panama	3.2%	223 bps	160 bps	225 bps	320 bps	14.4%	8.7%	0.3%	0.9%
Supranationa	4.8%	207 bps	130 bps	160 bps	250 bps	7.1%	5.9%	2.5%	0.0%
Composite	100.0%	274 bps	203 bps	255 bps	361 bps	13.1%	9.1%	1.3%	0.4%

Treasury Benchmark bonds	Yield at Start	Yield at Horizon	Modified Duration
2yr On-the-run Treasury	1.83%	2.15%	2.0
5yr On-the-run Treasury	2.67%	2.75%	4.5
10yr On-the-run Treasury	3.54%	3.20%	8.0
30yr On-the-run Treasury	4.35%	4.15%	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 1.7% 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 (8.6 %) and low expected return (4.5 %), which would distort the chart.



Currency forecasts (6 months)

Currency	A (10 %)	B (70 %)	C (20 %)
EURUSD	1.70	1.58	1.42
USDJPY	97.00	108.00	122.00
USDMXN	10.40	10.90	11.50
USDCOP	1750	1850	2300

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 2008:**

Country	Index	04/11/08	Minimum*	Maximum*
Argentina**	0.0 %	1.4 %	0 %	10 %
Belize	0.2 %	0.0 %	0 %	5 %
Colombia external	5.2 %	4.5 %	0 %	10 %
Colombia domestic	0.0 %	0.0 %		
Costa Rica external	19.5 %	23.8 %	15 %	30 %
Costa Rica domestic	0.0 %	3.2 %		
Dominican Republic**	0.8 %	4.2 %	0 %	10 %
El Salvador	40.9 %	24.2 %	20 %	40 %
Guatemala	12.6 %	13.9 %	10 %	30 %
Mexico external	13.0 %	12.2 %	5 %	15 %
Mexico domestic	0.0 %	0.0 %	0 %	10 %
Nicaragua**	0.0 %	1.5 %	0 %	5 %
Panama	3.1 %	7.4 %	5 %	15 %
Cash	0.0 %	3.9 %		

* 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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