

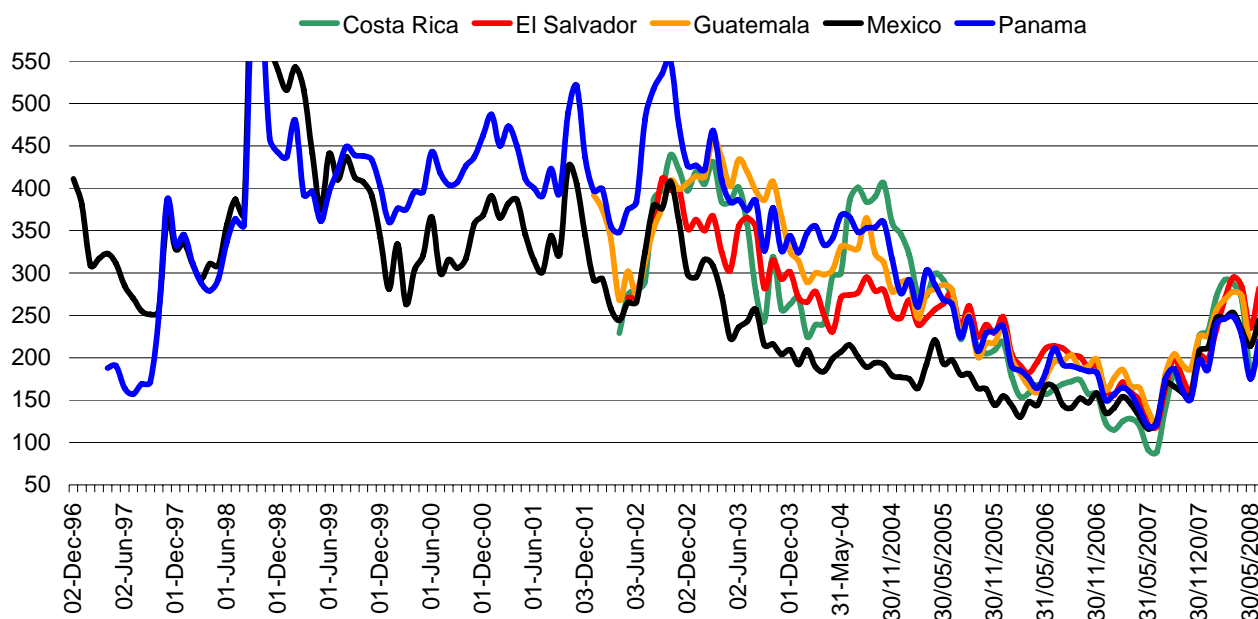
CABEI Central American Fund Investment Policy for the Third Quarter of 2008

July 2008



Relative Value Analysis





Source: JP Morgan

Note:

So far, Central America has held up quite well in economic terms. However, the second half of 2008 will prove more challenging. Domestic Inflation will continue to rise on the back of accelerating international energy and food prices. At the same time, lower US growth will find its way through to the region, resulting in weaker export performance and subdued remittance flows. Just to mention a handful of examples, inflation rates in Costa Rica, Panama and Guatemala see strongest increases, pushing the figures above any policy targets. Finally, also El Salvador got hit, with inflation trending up significantly. Some central banks (like Guatemala, Costa Rica and Dominican Republic) already increased overnight rates to contain inflation expectations. Dollarised economies face a bigger challenge in coping with price pressures. As a number of governments, like El Salvador, Guatemala and Dominican Republic, provide substantial subsidies to private households in order to attenuate the inflation burden, fiscal accounts will also be put to test. Concerning growth, we do not see a sharp deceleration in economic activity, but the weakening US economy will leave its mark on the Central America. Beside exports and consumption, foreign direct investment and tourism inflows are also likely to suffer some setback. Finally, the upcoming hurricane season needs to be taken into account. While Central American and Caribbean countries have made considerable progress in terms of infrastructure development, building codes and disaster preparedness, tropical storms still pose downside risks to growth and fiscal accounts.

Spreads of Central American sovereign debt showed a choppy development in the second quarter of 2008. Some countries still saw a net decline of its spread (Costa Rica, Guatemala, Panama), with Costa Rica (-74 bps) performing best. But other markets had to give up first gains in the horrible month of June (El Salvador, Mexico). Compared to performance in the region of Latin America, Costa Rica, Guatemala and Panama are somewhere in the middle, doing much better than Argentina, Chile and Peru, but lagging Venezuela, Uruguay

and Brazil. Mexico and El Salvador are among the worst performing issuers in the second quarter of 2008, which already looks like an incredible exaggeration (especially for Mexico, where fundamentals are still strong).

As bond markets in Central and South America suffered from deteriorating investor sentiment and worries about inflation outlook, fund performance took a hit and slightly slipped into negative territory late in June 2008. In April and May, rising yields of US Treasuries (up by 60 bps in the 10-year sector) did also not bode well for overall return. The fund management has been more cautious in its investment strategy in the second quarter: we had an “underweight” in the worst-performing markets (El Salvador), the fund did hardly invest in local bonds of the region (which suffered even more amid deteriorating inflation outlook), positioning was switched to less volatile instruments, and spread duration was reduced. Nevertheless, the fund could not fully escape the general negative market development.

Performance of “CABEI Central American Fund”

	2008 ytd	2007	2006	2005	2004
Performance	-0.41 %	4.72 %	9.02 %	7.30 %	2.20 %

As at 30 June 2008; Sources: Bank of Ireland, DWS

Future outlook

As we highlighted in the last strategy piece, the economic outlook for the US is not benign – and further potential deceleration could additionally weigh on emerging economies as a whole and Central America especially. Thus, the current period will separate the wheat from the chaff via different channels: first, those financial assets will suffer where any kind of negative domestic news (politics, economic policy) would weigh on investor sentiment. Second, only those countries with reasonable domestic growth momentum should be able to weather the negative impact arising from weak US growth. Third, fiscal accounts, debt situation and the rating development might soon take center stage, as more countries around the world (including Central America) are relying on higher fiscal spending to partially offset impact of rising commodity prices on domestic population.

With regards to portfolio strategy, the fund management is convinced that some Central American issuers still offer value, especially after latest spread widening. Thus, we will actively allocate between different regional names. Furthermore, we will cautiously consider investing in local bond markets, but this might be more of a strategic theme.

Chart: New home sales in US (Ouch!)

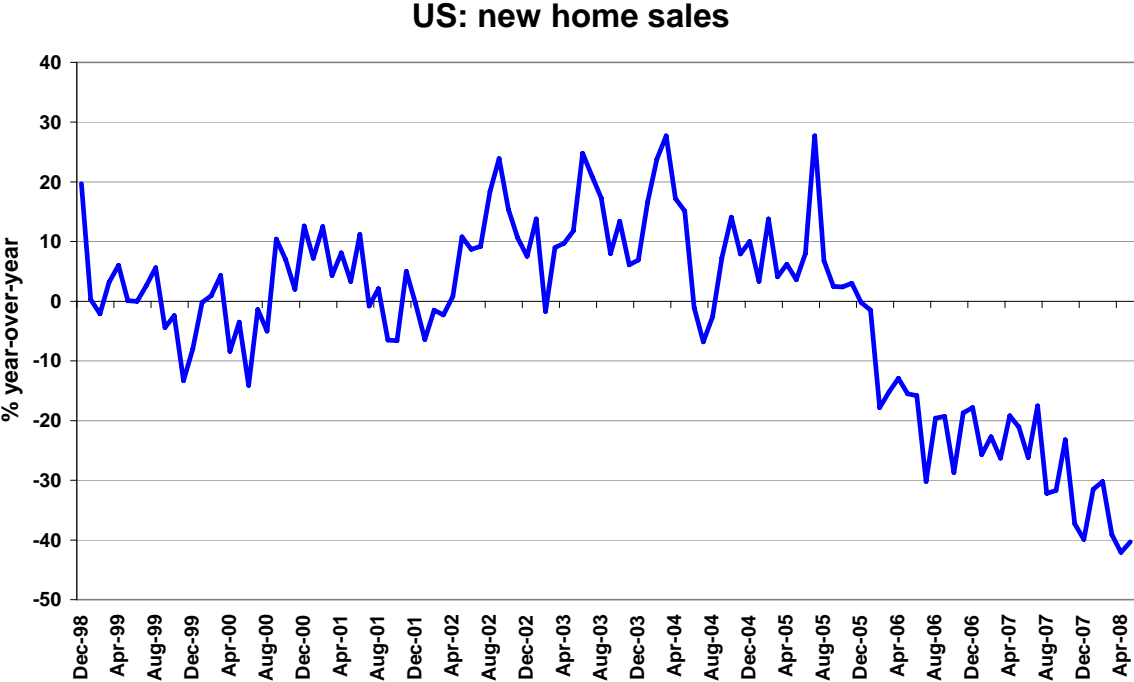
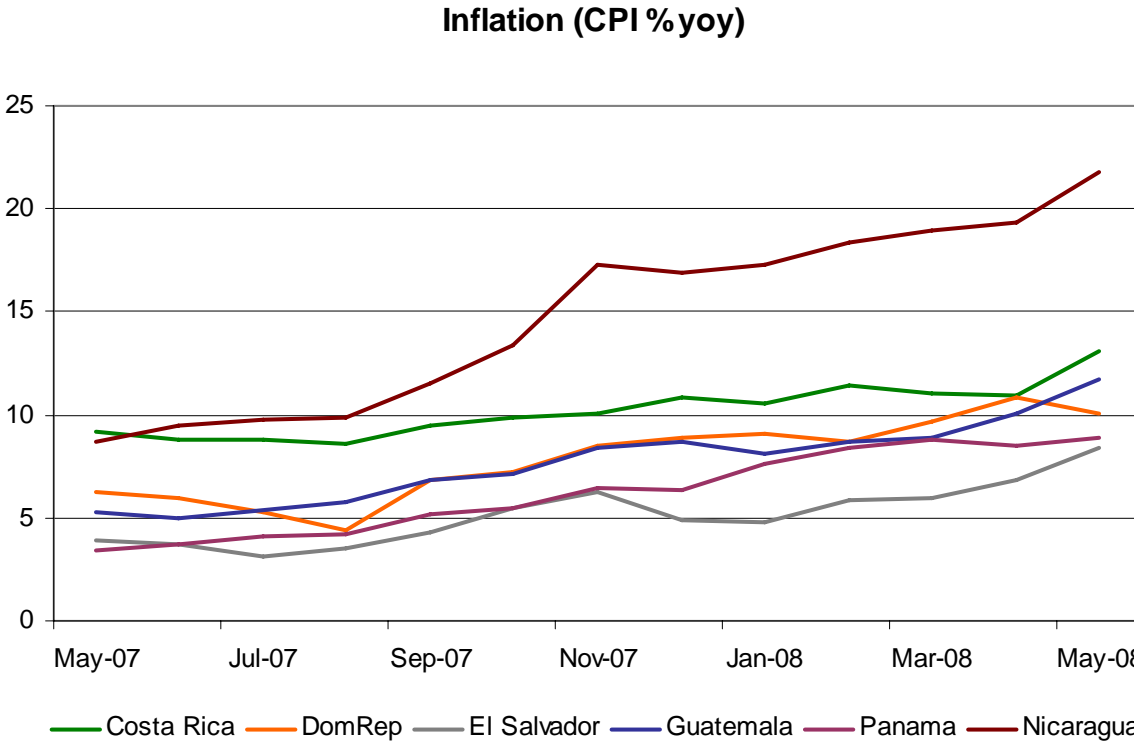


Chart: Inflation development in Central America



Country Views





Argentina (B3/B+/B)

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	8.5	8.7	5.9	3.5
Nominal GDP, in USD billion	209	256	342	434
Inflation rate (year-end), in percent	10.0	17.9	23.7	18.6
Budget balance, in percent of GDP	1.8	0.4	1.3	0.8
Foreign debt, in percent of GDP	52.0	48.2	34.5	27.0
Current account balance, in percent of GDP	3.7	2.8	0.6	-0.2
Foreign direct investment, in percent of GDP	1.3	1.0	0.4	0.3

Economic and political developments

- After more than three months of conflict with farmers over export taxes the government has reinforced its non-negotiable stance. President Fernandez announced she would wait for Congress, which her coalition controls, to decide on the new taxation.
- The government might try to push through the tax increase thereby inflicting a loss in investment and harming farmers' profitability. Farmers will increase prices and further fuel the soaring inflation. Investor and consumer confidence is plunging already.
- Whereas private sector estimates point to inflation in the 20-30% range, official inflation is reported at about 8-10%. The introduction of a new consumer price index (based in April 2008) continues (and even seems to exacerbate) the underreporting of inflation.
- The silver-lining of recent weeks was the central bank that started selling USD to prevent the peso from weakening in a "mini-crisis". The (temporary) run on bank deposits as well as inflation concerns seem behind the decision to intervene. Although only part of the reserves (USD 3 bn from 51) was used, currency substitution might become a topic again. However, one might not assume a policy shift towards a strong peso from the central bank.
- Inflation linked assets should be avoided (underreporting). External bonds have again been one of the worst performers last quarter. The low level of the paper might make them look attractive, but one should remain cautious as Argentina is facing tough times ahead as growth will slow significantly or inflation might accelerate (depending on policy choice). If We continue to prefer short term paper (as e.g. Boden 12).

Risk factors

- Inflation pressures, growth slowdown, continued 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	06/30/08	A	B	C
EMBI Global Diversified Argentina	614 bps	400 bps	580 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	5.9	4.7
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

- After a year of strong economic expansion, reflecting higher wages and credit growth, 2008/09 will prove more difficult. Increased interest rates and reserve requirements are the main factors leading to a deceleration in consumption and investment. Q1 2008 data already show weaker industrial production, retail sales, energy consumption and construction licenses. On the external front, slower growth in the US and Venezuela (Colombia's main trading partners) will negatively affect the country's export performance, only partly offset by elevated commodity prices. All in all, Colombia is unlikely to experience a significant slowdown but rather a healthy soft landing.
- Deteriorating inflation and especially inflation expectations have turned into the biggest concern of the government and central bank. Headline inflation hovers well above the 3.5-4.5% target band, with accelerating food prices being the main culprit. Inflation expectations also seem to have lost their anchor after jumping to 5.3% in May. The political context for additional rate hikes is difficult, given the strong currency appreciation. Nevertheless, persistent inflationary pressures still keep the possibility of further monetary tightening alive and meaningful.
- 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.
- On the back of still solid fundamentals, material exposure in Colombian external debt pays off well. Although global COP-denominated TES bonds basically offer attractive yield pickup, we stay away from investing there as the central bank and government recently started an (irrational) initiative to weaken the peso. FX volatility increased heavily, and as long as there is no clear sign that central bank intervention comes to an end or at least becomes more predictable, we do not intend to build up positions in local paper.

Risk factors

- Severe deterioration of current account deficit.
- Vulnerability to commodity prices and economic conditions in Venezuela.

Spread forecast	06/30/08	A	B	C
BSCAX Colombia	217 bps	170 bps	195 bps	350 bps



Costa Rica (Ba1/BB/BB)

Ebner

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	8.2	6.8	5.3	5.2
Nominal GDP, in USD billion	22.2	25.8	28.4	30.0
Inflation rate (year-end), in percent	9.4	10.8	11.5	9.0
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

- 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 the country's economic expansion were increasing tourism activity and robust FDI inflows, mostly directed to the real estate sector. FDI mostly financed the current account deficit.
- DR-CAFTA and the related opening-up of state-owned monopolies like electricity, telecom and insurance are expected to attract additional FDI. Nevertheless, Costa Rica will likely register lower growth in 2008, due to a weaker US economy but also less intra-regional demand, both resulting in subdued export activity. In addition, private consumption will be affected by lower remittance inflows.
- Despite the absence of an anticipated reform, fiscal performance surprised to the upside. Solid economic growth led to increased tax collection, while expenditures grew at a more moderate and prudent pace. Notwithstanding, a structural fiscal reform is indispensable in order to reduce vulnerabilities and increase flexibility.
- Rising international energy and food prices drove domestic inflation way above the central bank's official target of 8% yoy. Instead of tightening monetary conditions, though, the central bank decreased the policy rate. The intention of that action was to keep investors speculating on the huge interest rate differential to the US out of the country. However, on the back of a continuously worsening inflation outlook, that policy course turned out to be unsustainable and the central bank raised rates again. At the same time, the central bank obviously intervened in the FX market, pushing the colón close to the upper end of its intervention bands. That should prevent the currency from immediate massive appreciation when moving to a free floating FX regime.
- Costa Rica's sound fundamental story makes external paper still appear attractive. On the local debt front, we are cautious due to the worrisome inflation outlook and hence more policy rate hikes ahead.

Risk factors

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

Spread forecast	06/30/08	A	B	C
BSCAX Costa Rica	237 bps	180 bps	210 bps	330 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	9.0	7.5
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 fruit, growth reached 8.5% yoy in 2007. Especially financial intermediation, supported by a strengthened institutional framework, saw an impressive surge. Another driver was communications, where increased competition in the wireless phone segment led the expansion. On the demand side, sizeable private credit growth and surging remittances supported consumption.
- In 2008, the economy will continue to grow considerably, at a slower pace though. Exports are primarily seen to weaken in response to a US economic slowdown, but private consumption will also lose momentum. Tourism, on the other hand, could see some improvement again, supported by a depreciating currency. After tourism stalled last year, the central bank started intervening to stem against significant peso appreciation.
- A combination of international supply shocks and domestic demand pressures pushed inflation up significantly. Higher transportation fares in response to elevated oil prices explain quite a portion of inflation. Food prices are the other part of the story. The central bank already tightened monetary conditions, increasing the overnight rate 200 bps to 9%.
- President Fernández' re-election is good news in terms of continuation of a good policy mix. However, local rates failed to rally on the positive outcome, as inflation concerns currently dominate the market. Fiscal performance continues to be favorable, supported by nickel export revenues. Nevertheless, some more work needs to be done in terms of broadening the tax base. The IMF and the Dominican government concluded not to renew the stand-by agreement but rather negotiate an economic monitoring program. Obviously, the IMF feels comfortable with DR's economic standing.
- Less supportive external economic conditions made us take a more cautious stance on DomRep. However, the country still appears attractive compared to peers like Jamaica. Shorter-dated USD bonds offer most interesting value. Given the critical inflation outlook, local debt does not look attractive at the moment.

Risk factors

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

Spread forecast	06/30/08	A	B	C
BSCAX Dominican Republic	458 bps	420 bps	440 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	3.5
Nominal GDP, in USD billion	19.0	20.0	22.0	24.0
Inflation rate (year-end), in percent	4.9	4.9	5.5	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 register the highest growth rate in 11 years in 2007. Elevated international prices of traditional agricultural export products (tuna, coffee, sugar) supported export revenues. Inflows of workers' remittances and solid credit growth provided boost to domestic consumption.
- 2008 will prove more difficult. Lower US demand will likely lead to a decrease in export growth. In addition, tighter US immigration controls and the housing sector slump represent substantial challenges to remittance flows and consequently private consumption. High international energy and food prices are about to increase both the trade deficit and domestic inflation. So far, remittances have well financed the commercial gap, but given the less favorable outlook, this will unlikely be the case in 2008 as a whole.
- After having temporarily escaped the specter of inflation, increases in global energy and food prices finally also fed into El Salvador's domestic inflation rate. Some groups, like bakers and carriers, have already demanded higher subsidies to make up for the increased input prices. In order to attenuate the inflation burden on private households, the government has implemented the "alliance for the family" program. The latter includes, among others, income tax deductions for education and health and gas subsidies. Without any doubt, the inflation development poses significant challenges to public finances.
- Ahead of presidential elections in March 2009, political headline risk and public expenditure both are likely to rise. The rightist ARENA party chose a former director of the National Civil Police as its candidate, while the leftist FMLN decided on a recognized journalist to run for presidency. Currently, the FMLN outpolls ARENA.
- El Salvadoran bonds suffered significantly over the past weeks and political noise ahead of the elections shall put further pressure on the credit. Hence, we expect spreads to remain at substantially wider levels compared to other Central American countries and maintain our underweight position.

Risk factors

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

Spread forecast	06/30/08	A	B	C
BSCAX El Salvador	294 bps	290 bps	310 bps	420 bps



Guatemala (Ba2/BB/BB+)

Ebner

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	5.0	5.7	4.2	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	9.2	8.0
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

- 2007 brought Guatemala's sharpest economic expansion in the past seven years. Exports soared and increased workers' remittances supported private consumption. DR-CAFTA definitely played an important role in generating trade and FDI flows. However, 2008 looks a bit more complicated, especially due to less favorable external conditions. A softer US economy will hit the country via lower remittances and weaker export demand. According to central bank calculations, a 1% reduction in US economic activity leads to a 0.36 pp decrease in Guatemalan GDP growth.
- Talking about inflation, the latter started to pick up significantly in the second half of last year. As in neighbor countries, inflationary pressures primarily come from rising international energy and food prices. In an effort to get a grip on worsening inflation expectations, the central bank raised the policy rate up to 6.75% in March 2008, up a 125 bps over the past year. Monetary policy is expected to remain restrictive throughout 2008. The government currently works on initiatives to minimize the burden of higher prices on households. One of the ideas is about lowering taxes on fuel.
- Net international reserves, a lot coming via tourism, 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 also tries to attract foreign direct investment to improve infrastructure, but the worrisome public safety situation is an important concern for many international companies.
- The 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. Based on stable fundamentals, shorter-dated Guatemalan bonds are still attractive. Local paper looks less appealing on the back of high inflation.

Risk factors

- Political noise and potential electricity shortfalls.

Spread forecast	06/30/08	A	B	C
BSCAX Guatemala	258 bps	210 bps	240 bps	360 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	4.5	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

- First quarter GDP growth came out well below expectations, 2.6% yoy versus consensus of 3.3% yoy. The disappointing number was largely due to Easter week falling into March and not April. In terms of composition, external demand benefited from strong auto exports. Furthermore, the government succeeded in its plan to boost domestic demand as second growth pillar.
- Concerning the rest of 2008, we expect lower US growth to find its way through to Mexico. In particular, weaker flows of workers remittances will weigh on private consumption. A deceleration in the US manufacturing sector is likely to become a drag on external accounts, especially with respect to auto(-related) exports. The outlook for foreign direct investment is not too promising either, as the main source of FDI is 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. Passage of the reform is expected in autumn.
- At its last meeting, Banxico raised the overnight rate a 25 bps to 7.75%. According to the press statement, it was a pre-emptive move to anchor inflation expectations. Over the past few months, inflation moved out of the target band, reaching 4.95% yoy in May. Basically, we do not expect additional rate hikes, as weaker economic activity will likely dampen price pressures. However, in case inflation increases significantly above 5% yoy, more rate hikes are possible.
- 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. On the local front, we turned a bit more cautious after inflation fears and rate hike speculation gained momentum again. In addition, domestic pension funds, who are the main players in the market and hence an important guidance, also started to decrease positions.

Risk factors

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

Spread forecast	06/30/08	A	B	C
BSCAX Mexico	162 bps	90 bps	120 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	18.0	16.0
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. On top of that, inflation soared to roughly 17% yoy, the highest level since Hurricane Mitch in 1998 and the highest level in the region. 2008 looks even worse. Declining remittance inflows, the primary source that keeps consumption up, will heavily weigh on the economy. In addition, lower exports to the US will only be partially offset by intra-regional trade. In general, the most dynamic sectors are also the most export-oriented ones. Taking all these factors into account, Nicaragua probably appears as the most vulnerable country to a US slowdown.
- Rising international prices for energy and food have a hugely negative impact on the import bill and prevent the current account deficit of around 15% of GDP from declining. Transportation and shipping costs have already increased significantly and will see additional upside pressure. The strategy of letting the currency depreciate 5% against the USD makes the monetary authorities inflexible in fighting inflation.
- 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.
- Political uncertainty and institutional weakness also pose a drag on the economy. Albeit Ortega is 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	10.0	8.7
Nominal GDP, in USD billion	17.0	20.0	23.0	26.0
Inflation rate (year-end), in percent	2.5	6.4	8.6	6.2
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 8.8% yoy in May and this trend is expected to continue. The buoyant economy will require increasingly more energy. In addition, Panama imports most of the goods that rise in international markets, like wheat, grains, rice and milk.
- In 2007, 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.
- 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, especially driven by the expansion of the Canal.
- 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. The only risk connected to the expansion project is a potential shortage of electricity.
- 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	06/30/08	A	B	C
BSCAX Panama	206 bps	150 bps	170 bps	290 bps

Scenario Analysis

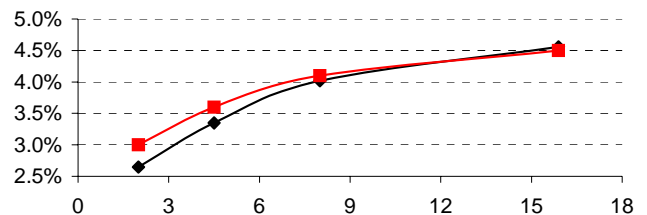




Time of Analysis		Risk-free	Probabilities		
Start	Horizon	Rate	A	B	C
7/2/2008	7/2/2009	2.00%	10%	70%	20%

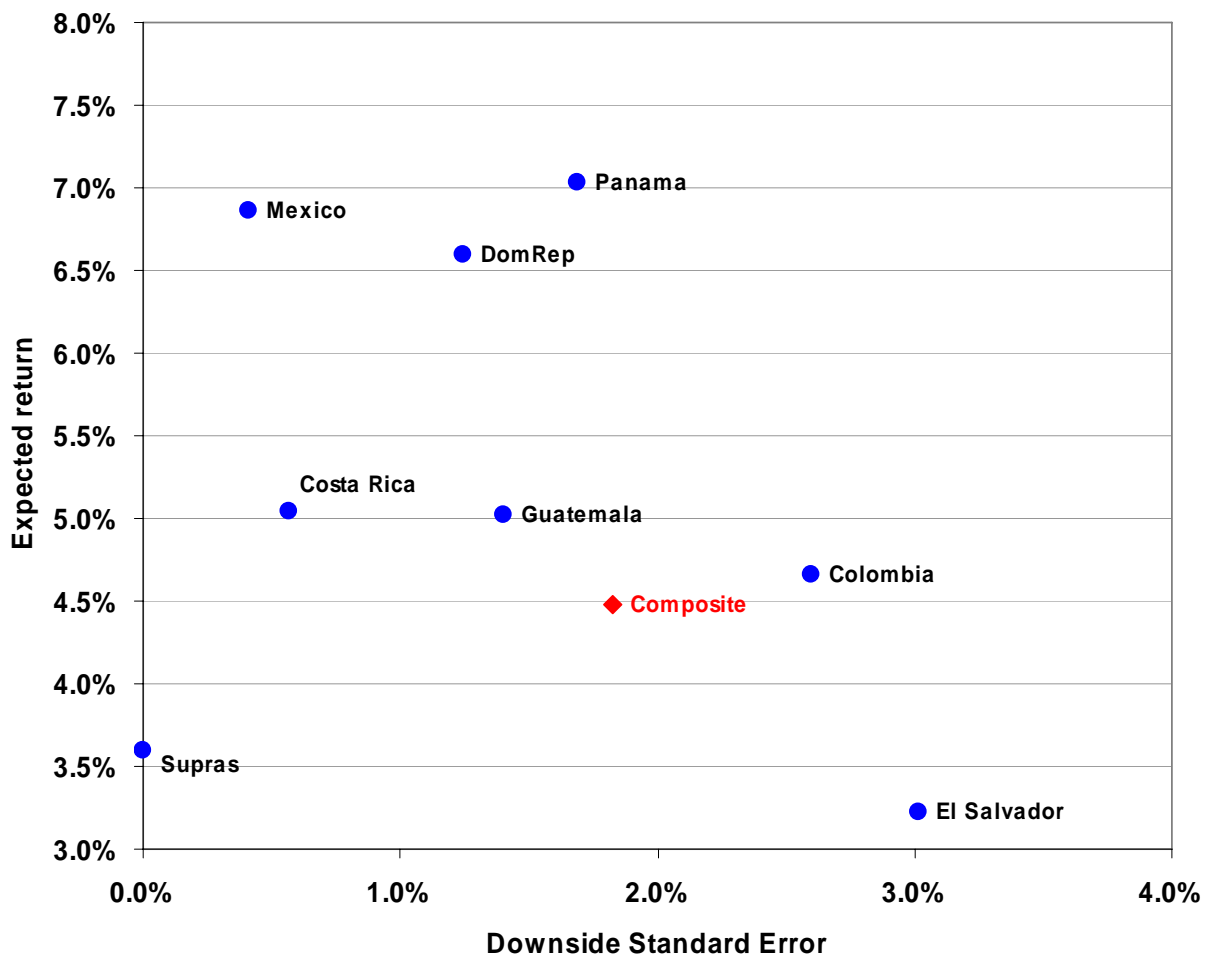
Country	BSCAX Weight	Stripped Spread	Spread Forecast			Expected Total Return			DSSE
			A	B	C	A	B	C	
Belize	0.2%	633 bps	610 bps	780 bps	1000 bps	12.2%	-2.1%	-20.5%	10.6%
Colombia	5.8%	217 bps	170 bps	195 bps	350 bps	8.2%	6.6%	-3.8%	2.6%
Costa_Rica	17.0%	237 bps	180 bps	210 bps	330 bps	7.3%	6.0%	0.7%	0.6%
Dominican_	0.9%	458 bps	420 bps	440 bps	600 bps	9.4%	8.3%	-0.8%	1.2%
El Salvador	41.5%	294 bps	290 bps	310 bps	420 bps	6.8%	5.0%	-4.7%	3.0%
Guatemala	13.2%	258 bps	210 bps	240 bps	360 bps	8.2%	6.3%	-1.1%	1.4%
Mexico	12.8%	162 bps	90 bps	120 bps	210 bps	10.3%	8.0%	1.1%	0.4%
Panama	3.5%	206 bps	150 bps	170 bps	290 bps	10.8%	9.0%	-1.8%	1.7%
Supranation	5.2%	150 bps	100 bps	120 bps	170 bps	4.6%	3.9%	2.1%	0.0%
Composite	100.0%	245 bps	215 bps	239 bps	349 bps	7.6%	5.9%	-2.1%	1.8%

Treasury Benchmark bonds	Yield at Start	Yield at Horizon	Modified Duration
2yr On-the-run Treasury	2.65%	3.00%	2.0
5yr On-the-run Treasury	3.35%	3.60%	4.5
10yr On-the-run Treasury	4.02%	4.10%	8.0
30yr On-the-run Treasury	4.56%	4.50%	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 slightly move higher in the next 12 months, which would result in a negative return contribution of 0.9% on average. This will lower the positive return delivered by the running yield and, in some cases, by expected spread tightening.



Belize was left out, as it has a high outcome for DSSE (10.6 %) and negative expected return (-4.3%), which would distort the chart.



Allocation Ranges



The investment committee has agreed on the following policy ranges for the country allocation of the CABEL Fund for the third quarter of 2008:

Country	Index	07/02/08	Minimum*	Maximum*
Argentina**	0.0 %	0.0 %	0 %	10 %
Belize	0.2 %	0.0 %	0 %	5 %
Colombia external	5.8 %	4.6 %	0 %	10 %
Colombia domestic	0.0 %	0.0 %		
Costa Rica external	17.0 %	24.6 %	15 %	30 %
Costa Rica domestic	0.0 %	3.0 %		
Dominican Republic**	0.9 %	4.5 %	0 %	10 %
El Salvador	41.5 %	22.8 %	15 %	40 %
Guatemala	13.2 %	15.4 %	10 %	30 %
Mexico external	12.8 %	6.6 %	5 %	15 %
Mexico domestic	0.0 %	3.0 %	0 %	10 %
Nicaragua**	0.0 %	1.6 %	0 %	5 %
Panama	3.5 %	8.0 %	5 %	15 %
Cash	0.0 %	6.0 %		

* The policy ranges were changed last time in July 2008 (lower policy range of El Salvador was decreased from 20 % to 15 %).

** The combined allocation to Argentina, the Dominican Republic, and Nicaragua should not exceed 20 % of the fund's assets.

Duration (after hedge)	7.2 yrs	5.7 yrs	3.0 yrs	9.0 yrs
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