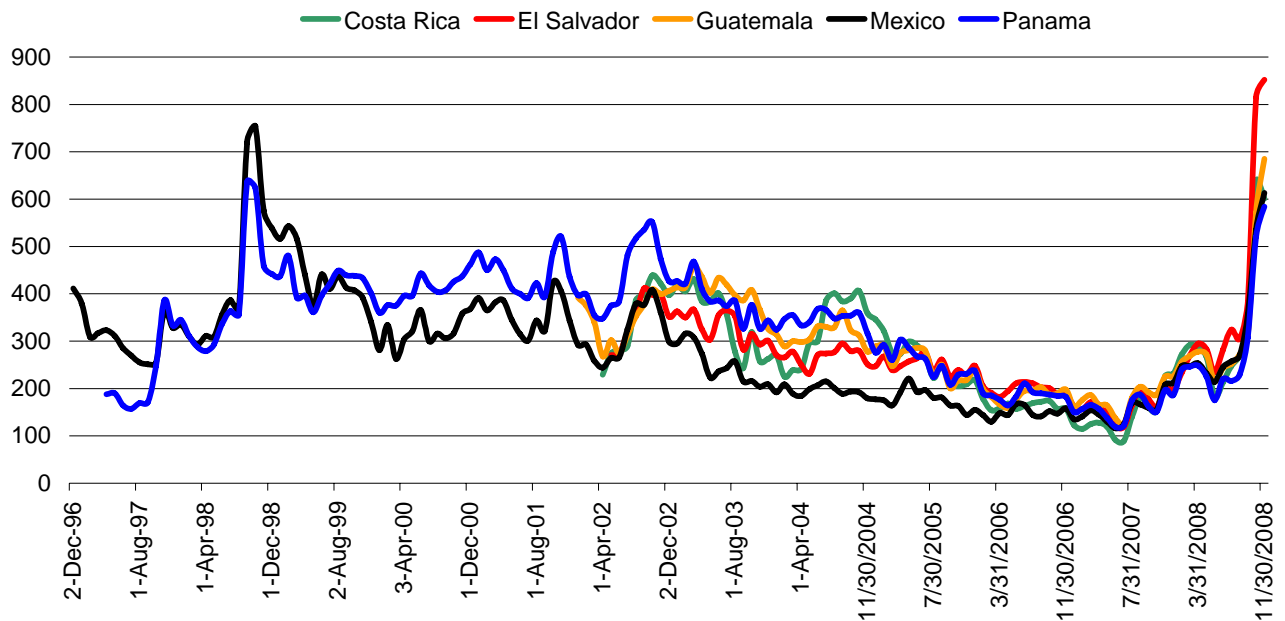


CABEI Central American Fund Investment Policy for the Fourth Quarter of 2008

December 2008





Source: JP Morgan

Central American economic situation and outlook

In the first half of 2008, Central American and Caribbean countries showed solid economic performance, albeit growth dynamism started to lose steam. Domestic demand played an important role, being supported by workers' remittances flows coming from the US. Panama and DomRep experienced relatively similar growth rates last year, while Costa Rica and El Salvador already started to decelerate. Until summer, inflation dominated the news. Significantly surging international energy and food prices sent domestic inflation rates up and strongly weighed on import bills. Over the past few weeks though, commodity prices slumped, which shall bring some relief to consumer prices and trade balance over coming months. External trade and foreign direct investment also performed well, to some extent also resulting from DR-CAFTA free trade agreement. Regarding 2009, there is lower growth on the horizon: important economic and financial linkages with the global economy make Central America vulnerable to contagion. The main transmission channel will primarily be through reduced exports. Trade imbalances with the US as well as within the region will arise. Lower family remittances will weigh on private consumption. In this context, Costa Rica and Panama are not immune, but are less affected as these countries showed less dependence on remittance inflows during past years. Foreign direct investment inflows will slow down, not only because of economic deceleration, but also due to tighter credit conditions, which makes financing of projects for companies much more difficult. On the positive side, slumping international commodity prices will provide relief to domestic inflation rates and

import bills. Within the region of Central America and the Caribbean, Guatemala and Panama seem to be best-prepared to weather a severe global slowdown. Guatemala's solid fiscal balances equip the government with that flexibility eventually necessary to stimulate the economy. Panama has kind of its individual growth story, which is to a large degree related to the Canal expansion project. Costa Rica will likely see the sharpest decrease in growth. Restrictive monetary policy and tighter lending standards will especially dampen construction, financial services and retail. El Salvador underperformed peers over past years of solid average growth. Conditions in 2009 will get even more difficult. Upcoming elections pose an additional factor of uncertainty. The main downside risk for Mexico and Colombia continues to come from abroad, given the high share of exports destined to the US.

Global economic situation and outlook

After many governments in developed countries have delivered strong support for ailing financial systems by providing huge rescue packages, market focus has shifted towards crisis impact on global economic growth. Unwinding of US housing and credit bubble has sparked a vicious cycle of retrenchment and disengagement from risk-taking at financial intermediaries that is severely constricting the arteries of credit flow to households and businesses. There are some glimmers of hope, though. Policymakers have shown that they will do whatever it takes, and they have considerable ammunition left in the form of central bank liquidity and public funds to deploy. Also, not the entire housing boom was a bubble that needs to be unwound; much of the rise in home prices was a justified response to lower real long-term interest rates, so home prices may not need to fall that much further to realign with fundamentals. Finally, the decline in energy prices should help avert a sharper retrenchment in spending and, together with increasing slack in labor and product markets caused by the ongoing sluggishness in global demand, will cause inflation pressures to recede, affording central banks more scope to ease monetary policy. Still, even in the best-case scenario, economic activity is likely to remain decidedly sub-par over the balance of this year and through much of 2009. Though the advanced economies most exposed to the housing and credit shocks may suffer the worst, even emerging economies will not escape unscathed, damaged by weaker export demand and by reduced capital inflows. In the usual, knee-jerk thinking, many investors regarded emerging economies as vulnerable to a global slowdown (not taking into account the increased share of domestically driven growth in EM countries). Support arises from global financial packages provided for those emerging markets which are looking for aid. The IMF has already started to support countries, and several governments (China, India, Japan) are willing to share some of their resources (for emerging markets only).

Spreads of Central American sovereign debt showed a negative development in the third and fourth quarter of 2008. De-leveraging within the investor base put significant pressure on riskier assets. Many investors from core markets (US, Western Europe) cut positions in all risky asset classes, this also weighed on USD bonds of Central America and the Caribbean. El Salvador saw most massive spread widening (625 bps), followed by Guatemala (483 bps) and Costa Rica (428). Spreads of Panama and Mexico increased by relatively more moderate 365 bps. Compared to the region of Latin America, Central America did much better than Argentina, and most countries also outperformed Venezuela. In contrast, apart from Costa Rica, Central America lagged performance of higher rated names like Brazil and Peru.

Investment strategy

As bond markets in Central and South America suffered from global financial markets turmoil, deteriorating investor sentiment and worries about global growth outlook, fund performance took a severe hit in October 2008. The fund management has generally been cautious in its investment strategy: economic and political challenges in El Salvador have let us keep the underweight position versus the reference index. Strategic exposure is held in USD bonds of Panama, Costa Rica and Guatemala, as these countries show the strongest fundamentals in the region. With global turmoil intensifying, local market positions in Mexico were reduced significantly, and duration was shortened. Tactical positions in local debt of “high beta” countries like Colombia had been closed long before currency and bonds started to get under massive pressure. Spread duration was reduced, especially in Mexico and Colombia. The fund did not hold a position in Argentina during the past 6 months. Corporate exposure is low and primarily focused on less-correlated names (like ICE-linked note structured by CABEI or Guatemala’s electricity company). On the back of the financial crisis spilling over into the real economy, the fund management will continue to follow a cautious investment approach, especially in the near term. In general, fund management is convinced that some Central American issuers offer attractive value, especially after latest spread widening, and will actively allocate between different regional names.

Performance of “CABEI Central American Fund”

	2008 ytd	2007	2006	2005	2004
Performance	-17.03 %	4.72 %	9.02 %	7.30 %	2.20 %

As at 8 December 2008; Sources: Bank of Ireland, DWS

Allocation Ranges



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

Country	Index	12/11/08	Minimum*	Maximum*
Argentina**	0.0 %	0.0 %	0 %	10 %
Belize	0.2 %	0.0 %	0 %	5 %
Colombia external	6.3 %	3.4 %	0 %	10 %
Colombia domestic	0.0 %	0.0 %		
Costa Rica external	19.0 %	19.3 %	15 %	30 %
Costa Rica domestic	0.0 %	3.1 %		
Dominican Republic**	0.7 %	3.7 %	0 %	10 %
El Salvador	34.3 %	27.9 %	15 %	40 %
Guatemala	15.0 %	17.0 %	10 %	30 %
Mexico external	14.9 %	5.0 %	5 %	15 %
Mexico domestic	0.0 %	3.0 %	0 %	10 %
Nicaragua**	0.0 %	1.9 %	0 %	5 %
Panama	3.5 %	7.7 %	5 %	15 %
Supranationals	6.5 %	7.9 %		
Cash	0.0 %	0.3 %		

* 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)	5.5 yrs	5.6 yrs	3.0 yrs	9.0 yrs
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