

# CABEI Central American Fund Investment Policy for the First Quarter of 2009

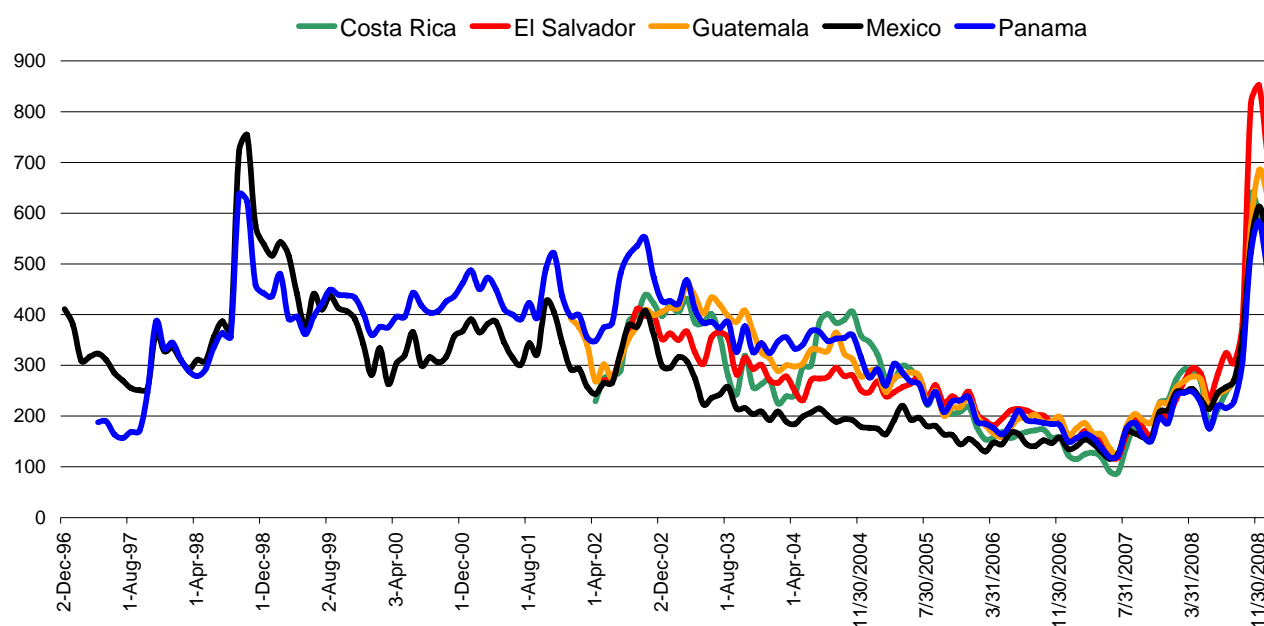
January 2009





# Relative Value Analysis





Source: JP Morgan

### Central American economic situation and outlook

Over the course of 2008, the deepening global financial turmoil increasingly clouded the economic outlook for Central America and the Caribbean. Intense linkages with the global economy still make the region vulnerable to contagion. Growth is expected to slow markedly on the back of US economy stuck in recession. The latter absorbs most of the region's exports and accounts for most of its foreign direct investment, tourism and remittance flows.

With energy and food prices falling sharply, inflation concerns no longer dominate headlines. Net-commodity-importers in Central America and the Caribbean experience significant relief, as many of them allowed full pass-through of higher international commodity prices to domestic prices. However, not only inflation is set to moderate, also lower import bills are bound to narrow current account deficits. In general, focus has clearly shifted to worries about growth and authorities' ability to balance the impact of negative external and internal developments. A number of countries in the region already started to print record low levels of economic indicators. Costa Rica's and Guatemala's monthly economic activity index recently saw weakest rates in six and three years, respectively. In El Salvador, Panama and Dominican Republic growth momentum is also about to lose steam. Reduced exports, declining tourism flows and less foreign direct investment re-present the main factors leading to a significant economic slowdown. Foreign direct investment inflows not only slow down because of economic deceleration, but also due to tighter credit conditions, which makes financing of projects for companies much more difficult. Family remittances and hence private consumption also start to feel the pinch. 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. Within the region of Central America and the Caribbean, Guatemala, Costa Rica and Panama seem to be best-prepared to weather a severe global slowdown. Guatemala's and Costa Rica'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. Authorities in El Salvador and Dominican Republic have less fiscal resources available. Consequently, fiscal deficits will deteriorate significantly in order to finance measures stimulating faltering economies.

### **Global economic situation and outlook**

Governments in developed countries have delivered strong support for ailing financial systems in order to avoid repetition of a negative event like the Lehman collapse in September 2008. Market focus has shifted towards crisis impact on global economic growth. Across the board, economic indicators come out on the negative side, pointing to severe economic downturn. Consequently, both the US and the European Union are about to unveil additional large fiscal stimulus packages. A number of emerging market economies also started to switch to massive counter-cyclical policies, ranging from interest rate cuts to significant fiscal measures. Still, even in the best-case scenario, economic activity is likely to remain weak through much of 2009.

### **Sovereign spreads**

Spreads of Central American sovereign debt widened significantly in the 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 strongest spread widening (470 bps), followed by Guatemala (400 bps) and Costa Rica (315). Spreads of Panama and Mexico increased by relatively moderate 230 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. Starting in mid-December 2008 and continuing into January 2009, primarily local but also international investors started to show increased interest in Central American and Caribbean paper. After the washout of previous months, a number of bonds offered attractive value. Investors have built up substantial positions, leading to tighter spreads.

### **Investment strategy**

After bond markets in Central and South America had severely suffered from global financial market turmoil, deteriorating investor sentiment and worries about global growth outlook since summer 2008, last December brought some relief for fund performance. Investors not only took positions in bigger Latin American countries like Brazil, Mexico, Colombia and Peru, but also looked at attractive opportunities in Central American and the Caribbean.

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. Nevertheless, exposure was tactically increased in December 2008 and reduced again in January 2009, after the bonds saw a huge rally. Strategic exposure is held in

USD bonds of Panama, Costa Rica and Guatemala, as these countries show the strongest fundamentals in the region. Despite recent spread tightening, Guatemala’s bonds continuously trade around 100-150 bps wide to Costa Rica and Panama. This still makes them look attractive and lets us increase allocation to this country. In case of Colombian and/or Mexican external debt experiencing a setback, positions will be added. In Mexico, increased concerns about economic slowdown have made market participants start to price in aggressive rate cuts. Hence, we built up Mexican local market positions in late 2008. If the currency comes under renewed pressure, tactical FX-hedges will be executed. Furthermore, exposure in COP-denominated assets was taken as Colombia’s central bank is expected to massively loosen monetary conditions. The fund did not hold a position in Argentina during the past 6 months and fund management does not intend to touch this name, as default risk is considered very high. Corporate exposure is low and primarily focused on less-correlated names (like ICE-linked note or Guatemala’s electricity company). Furthermore, the fund holds a defensive CABEL-security that pays a nice spread over Libor and has an appealing amortizing structure. In February 2009, exposure to Nicaragua automatically drops by one third due to the bond’s amortizing structure. Depending on market situation, proceeds will either be held in cash or invested in attractive CentAm paper. 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, and will actively allocate between different regional names.

**Performance of “CABEL Central American Fund”**

	<b>2009 ytd</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Performance</b>	4.00 %	-13.78 %	4.72 %	9.02 %	7.30 %

As at 26 January 2009; Sources: Bank of Ireland, DWS

# Country Views





## Argentina (B3/B-/B-)

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	8.5	8.7	5.9	-0.9
Nominal GDP, in USD billion	209	256	342	434
Inflation rate (year-end), in percent	10.0	17.9	23.0	17.0
Budget balance, in percent of GDP	1.8	0.4	1.3	0.6
Foreign debt, in percent of GDP	52.0	48.2	35.7	34.0
Current account balance, in percent of GDP	3.7	2.8	2.1	-0.2
Foreign direct investment, in percent of GDP	1.3	1.0	0.4	0.3

### Economic and political developments

- Argentina faces the doubly whammy of sharp global economic slowdown feeding into the domestic economy and international financial markets being shut since it defaulted on its bonds in 2001. That mix sets the pace for dramatically dropping demand in 2009. President Fernández de Kirchner announced some stimulus measures, mostly financed via assets received from nationalized pension funds. With economic climate deteriorating further, financing issues are highly likely to turn into a severe problem. In addition, the government is not successful in convincing investors of their ability to stabilize macroeconomic performance.
- On the back of weakening economic growth, “actual” inflation is expected to decrease to around 17% in 2009. Official inflation is reported at about 8-10%. Notwithstanding, all inflation indicators showed last December to be one of the lowest monthly rates recorded in two years.
- Over the past weeks, authorities managed to stabilize the currency after a period of significant peso depreciation. Peso deposit lately started to grow again, partly reflecting tighter capital controls reducing corporates’ ability to hoard US dollars. However, the measures are unlikely to have a sustainable character, as the basic need for peso devaluation, without triggering a run on the currency, remains in place.
- We remain very cautious on debt of Argentina, as the country will face extremely difficult economic and political conditions over coming months. In our view, probability of another default on its bonds has increased significantly amid global financial and economic crisis.

### Risk factors

- 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.
- Weak political framework.

Spread forecast	01/22/09	A	B	C
EMBI Global Diversified Argentina	1535 bps	1200 bps	2500 bps	4000 bps



## Colombia (Ba1/BBB-/BB+)

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	6.8	7.6	3.5	2.0
Nominal GDP, in USD billion	136.0	172.8	187.0	194.9
Inflation rate (year-end), in percent	4.5	5.7	7.7	5.0
Budget balance, in percent of GDP	-1.0	-0.9	-1.8	-2.3
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	-2.5	-3.5
Foreign direct investment, in percent of GDP	3.8	4.0	3.7	2.1

### Economic and political developments

- On the back of collapsing global growth and oil prices, Colombia started to show signs of severe economic slowdown in the second half of 2008. The country's strong linkage to the US economy and Venezuela increases risks of further deterioration of activity, primarily via faltering exports.
- Most part of last year, deteriorating inflation and especially inflation expectations were the biggest concern of the government and central bank. However, with more and more indicators pointing to a declining trend in economic growth, the central bank switched to monetary easing mode, lowering the benchmark rate 50 bps in December 2008. While Asian and Eastern European central banks had already earlier started to loosen monetary conditions, Colombia gave starting shot for rate cut cycles in Latin America, followed by Chile, Mexico and Brazil.
- FDI inflows (USD 9 billion), primarily going to the mining and oil sector, managed to finance Colombia's growing current account deficit (USD 5 billion) in 2008. On the back of global recession and financial market crisis, foreign direct investment will likely turn more subdued while the current account deficit is expected to widen.
- The country's cloudy fundamental outlook makes us take a cautious stance on Colombian external debt. In contrast, we see value in global COP-denominated TES bonds, as expect the central bank to lower the overnight rate at least another 200 bps over the coming months.

### Risk factors

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

Spread forecast	01/22/09	A	B	C
CACI Colombia	495 bps	400 bps	550 bps	800 bps



## Costa Rica (Ba1/BB/BB)

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	8.2	6.8	3.3	3.0
Nominal GDP, in USD billion	22.2	25.8	28.4	30.0
Inflation rate (year-end), in percent	9.4	10.8	15.2	10.0
Budget balance, in percent of GDP	-0.5	0.6	2.7	1.9
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	-8.0	-6.8
Foreign direct investment, in percent of GDP	6.2	6.1	3.8	2.5

### 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 nearly financed the current account deficit.
- In 2008, the picture changed massively and the outlook for 2009 is by no means brighter. Looking at the monthly index of economic activity, growth is on a clear downward-path. Tighter monetary policy has reduced credit availability, hence significantly contributing to growth slowdown. In addition, global, especially US, slowdown is already being felt in export performance. Intra-regional demand will also turn weaker.
- Inflation will remain a challenge. Compared to other countries in the region, it is expected to consolidate more slowly. Nevertheless, lower commodity prices, tighter monetary conditions and weaker overall demand will take out price pressures. In January 2009, the central bank hiked the overnight rate again, arguing that real interest rates are still in negative territory. Amid sharp global slowdown, we expect monetary officials to become more cautious and likely stay away from additional tightening.
- The central bank resumed its course to move to a more flexible exchange rate regime. It decided to let the ceiling of the FX-band crawl up 20 céntimos a day, versus 6 céntimos before. The new band is also likely aimed at preventing further losses in competitiveness.
- Despite the absence of an anticipated reform, fiscal performance surprised to the upside in 2008. Reasonable economic growth led to increased tax collection, while expenditures grew at a more moderate and prudent pace. While revenue growth will moderate, the government has resources to stimulate the faltering economy.
- Costa Rica's relatively flexible fiscal situation makes us feel confident for the country and USD bonds. On the local debt front, we are cautious due to some uncertainty related to monetary policy actions.

### Risk factors

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

Spread forecast	01/22/09	A	B	C
CACI Costa Rica	556 bps	350 bps	480 bps	700 bps



## Dominican Republic (B2/B/B)

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	10.7	8.5	4.5	3.0
Nominal GDP, in USD billion	38.0	44.0	46.0	49.0
Inflation rate (year-end), in percent	5.0	8.9	10.0	7.0
Budget balance, in percent of GDP	-1.2	0.2	-1.2	-0.7
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	-10.2	-6.0
Foreign direct investment, in percent of GDP	3.1	3.3	2.3	1.5

### Economic and political developments

- Global economic slowdown coupled with tighter monetary conditions led to significant moderation of economic growth in 2008. Continuously difficult conditions are likely to put additional pressure on the economy in 2009.
- Deteriorating tourism revenues and declining remittances flows shall turn out to be the main drags on Dominican Republic. The weak US labor market will let transfer payments shrink in 2009, and tourist arrivals will also see a setback.
- Overall current account deficit is likely to narrow this year, as lower commodity prices provide huge relief to import bills. In contrast, foreign direct investment flows are not expected to reach levels seen in 2008, as project financing has generally become much more difficult.
- Stimulation of the domestic economy is quite a challenge for the government, as it does not have ample fiscal resources available. Non-financial public sector balance slipped into negative territory in 2008.
- Inflation already started to fall in the second half of 2008. Sharply lower international food and energy prices and dropping domestic demand will continue to ease pressure on consumer prices. The central bank will thus likely loosen monetary conditions over the course of this year.
- Less supportive external economic conditions make us keep a cautious stance on Dom-Rep. Shorter-dated USD bonds offer most interesting value. Given expectations of lower inflation and monetary easing, local debt might become more attractive again.

### Risk factors

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

Spread forecast	01/22/09	A	B	C
CACI Dominican Republic	936 bps	700 bps	880 bps	1500 bps



## El Salvador (Baa3/BB+/BB+)

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	4.2	4.7	3.0	2.5
Nominal GDP, in USD billion	19.0	20.0	22.0	24.0
Inflation rate (year-end), in percent	4.9	4.9	6.8	5.8
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	-6.2	-6.1
Foreign direct investment, in percent of GDP	1.4	2.6	2.7	1.3

### Economic and political developments

- According to the monthly economic activity index, the slowdown is in full swing. Strong linkages to the faltering US economy translate into weaker export performance, sliding remittance flows and less foreign direct investment.
- International Monetary Fund and World Bank both gave approval to precautionary loans for El Salvador. Primary aim is to provide adequate liquidity to the country. In addition, uncertainty over economic policies around March elections should be reduced. This is very positive news for the country.
- Like in other commodity importing countries, inflation entered a clear downward path in the second half of 2008 and will continue to moderate in 2009. In particular, declining energy prices already resulted in lower transportation costs.
- The outcome of presidential elections is still uncertain. According to latest polls, left-wing FMLN is the frontrunner. Candidate Funes currently tries to ease concerns about a potential radical and anti-business stance. FMLN already had a strong showing in latest congressional elections.
- Last November, Congress eliminated uncertainty related to the repayment of the global 2011 bond and financing pressures in 2010. It will use loans from Inter-American Development Bank and World Bank to pay back the outstanding amount of USD 650 million.
- El Salvadoran bonds significantly suffered over the past months. Based on IMF/WB loans and a moderate policy stance of a possible leftist president, we expect spreads to compress somewhat. Hence, we will look for opportunities to increase exposure there.

### Risk factors

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

Spread forecast	01/22/09	A	B	C
CACI El Salvador	679 bps	480 bps	580 bps	900 bps



## Guatemala (Ba2/BB/BB+)

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	5.0	5.7	3.8	3.2
Nominal GDP, in USD billion	36.0	42.0	48.0	55.0
Inflation rate (year-end), in percent	4.9	8.8	11.5	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	-5.5	-5.4
Foreign direct investment, in percent of GDP	1.0	1.2	1.1	0.7

### Economic and political developments

- The second half of 2008 was marked by deteriorating economic performance. US recession started to take a toll on Guatemala via lower export demand and remittances. Challenging conditions are expected to remain in place this year. Subdued transfer payments are likely to translate into weaker private consumption. In addition, moderating tourism revenues might become a severe drag on external accounts.
- Fiscal accounts look 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. Consequently, the government has room to provide stimulus to the economy in order to avoid too sharp a slowdown.
- Talking about inflation, the latter started to see moderation along with falling international commodity prices. Monetary authorities showed strong commitment to fighting inflation in 2007/08, significantly increasing the benchmark rate. Given worsening economic conditions and less consumer price pressures, it is likely finished with tightening. Over the course of 2009, we might even see rate cuts.
- Net international reserves, a lot coming via tourism, saw heavy accumulation and exceeded public external debt the fourth consecutive year. The ratio might have reached an impressive 110% in 2008 and is expected to stay high. 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. Difficult project financing conditions will be another barrier in 2009.
- The public debt ratio of roughly 19% of GDP remains the lowest in the CentAm region. Based on its advantageous fiscal situation, Guatemala is well prepared to cushion negative effects of global crisis. Shorter-dated Guatemalan bonds look most attractive. The country spread is expected to converge towards the level of Costa Rica. On the back of looser monetary conditions, local paper might become appealing again.

### Risk factors

- Political noise and potential electricity shortfalls.

Spread forecast	01/22/09	A	B	C
CACI Guatemala	571 bps	350 bps	480 bps	700 bps



## Mexico (Baa1/BBB+/BBB+)

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	4.8	3.3	1.8	0.5
Nominal GDP, in USD billion	780.0	839.0	876.0	900.0
Inflation rate (year-end), in percent	4.0	3.8	6.5	4.0
Budget balance, in percent of GDP	-0.9	-1.6	-1.8	-1.9
Foreign debt, in percent of GDP	21.7	19.4	23.7	23.3
Current account balance, in percent of GDP	-0.3	-0.9	-1.4	-2.6
Foreign direct investment, in percent of GDP	2.3	2.4	2.1	1.8

### Economic and political developments

- 2009 will be a challenging year for Mexico. The country's close connection to the recessionary US economy is likely to result in severe growth slump. In the first place, deceleration in the US manufacturing sector is about to become a heavy drag on auto(-related) exports. Secondly, weak flows of workers remittances will weigh on private consumption. The outlook for foreign direct investment is not too promising either, as the main source of FDI is the US.
- President Calderón announced a series of policy measures to support the economy. The program includes fuel and gas price freeze for private households, public infrastructure investment and financial stimulus for small and medium sized firms.
- The country is struggling with sliding oil production. Pemex extracted 31% less crude last year from Cantarell, Mexico's biggest oil field. Overall oil output dropped 9% yoy in 2008. There is an energy reform package underway. Basically, the government intends to open transportation, storage and distribution of hydrocarbons to private investment. In addition, Pemex should receive more resources to increase infrastructure expenditure. The measures are definitely a step in the right direction, but it will take some time until positive results can materialise.
- Along with other central banks, Banxico also entered a monetary easing cycle. In January, the overnight rate was lowered a 50 bps. How aggressively the central bank will cut rates will depend on upcoming economic indicators. We currently expect the target rate to be slashed to 6.25% over the next months.
- After latest spread tightening, Mexican foreign debt appears relatively expensive. On the local front, we see potential for rates falling further. In case of the peso being hit by a new wave of risk aversion, FX exposure should be hedged.

### Risk factors

- US recession and rapidly fall of oil prices.

Spread forecast	01/22/09	A	B	C
CACI Mexico	373 bps	280 bps	410 bps	600 bps



## Nicaragua (B3/NR/NR)

Economic indicators	2006	2007e	2008f	2009f
Real change in GDP, in percent	3.7	2.9	1.9	1.3
Nominal GDP, in USD billion	5.0	6.0	7.0	7.0
Inflation rate (year-end), in percent	9.5	17.0	19.0	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	-19.9	-20.0
Foreign direct investment, in percent of GDP	5.3	4.9	3.2	2.0

### Markets, economy, politics

- Nicaragua faces a large number of problems in 2009. Declining remittance inflows, the primary source that keeps consumption up, will heavily weigh on the economy. In addition, lower exports to the US will hardly be 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 US recession.
- Rising international prices for energy and food had a hugely negative impact on the import bill and prevented the current account deficit of around 15% of GDP from declining. Dropping international commodity prices will bring about some relief, but inflation is likely to stay in double-digit area.
- 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+)

Economic Indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	8.1	11.2	8.5	6.7
Nominal GDP, in USD billion	17.0	20.0	23.0	26.0
Inflation rate (year-end), in percent	2.5	6.4	9.0	5.5
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	-10.5	-11.7
Foreign direct investment, in percent of GDP	14.8	9.2	8.1	8.6

### Economic and political developments

- Once again, Panama will likely be one of the region's outperformers this year. Main engines of expansion continue to be construction, 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 resistant against US slowdown, as especially tourism and Canal transits are functions of US demand.
- Domestic demand is expected to be more subdued due to less financing available for consumers. Furthermore, international commodity prices decreased sharply. Nevertheless, inflation is unlikely to moderate as fast as in other countries in the region, as the buoyant economy will still require much energy.
- According to government, the country recorded a healthy non-financial public sector surplus of 1.5% of GDP in 2008. Public debt ratios also saw some improvement, declining to roughly 45% last year. Nonetheless, public debt remains a serious drag constraining fiscal flexibility and a breakthrough to investment grade status.
- 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. The ACP secured USD 2.3 billion from five international lending institutions to finance part of the upgrade project. Debt issuance in 2009, as initially planned, is thus highly unlikely. 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	01/22/09	A	B	C
CACI Panama	469 bps	200 bps	300 bps	650 bps

# Scenario Analysis

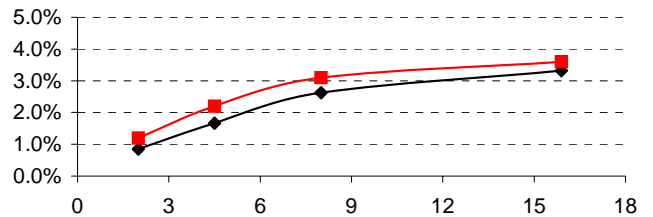




Time of Analysis		Risk-free	Probabilities		
Start	Horizon	Rate	A	B	C
1/22/2009	1/22/2010	0.25%	10%	70%	20%

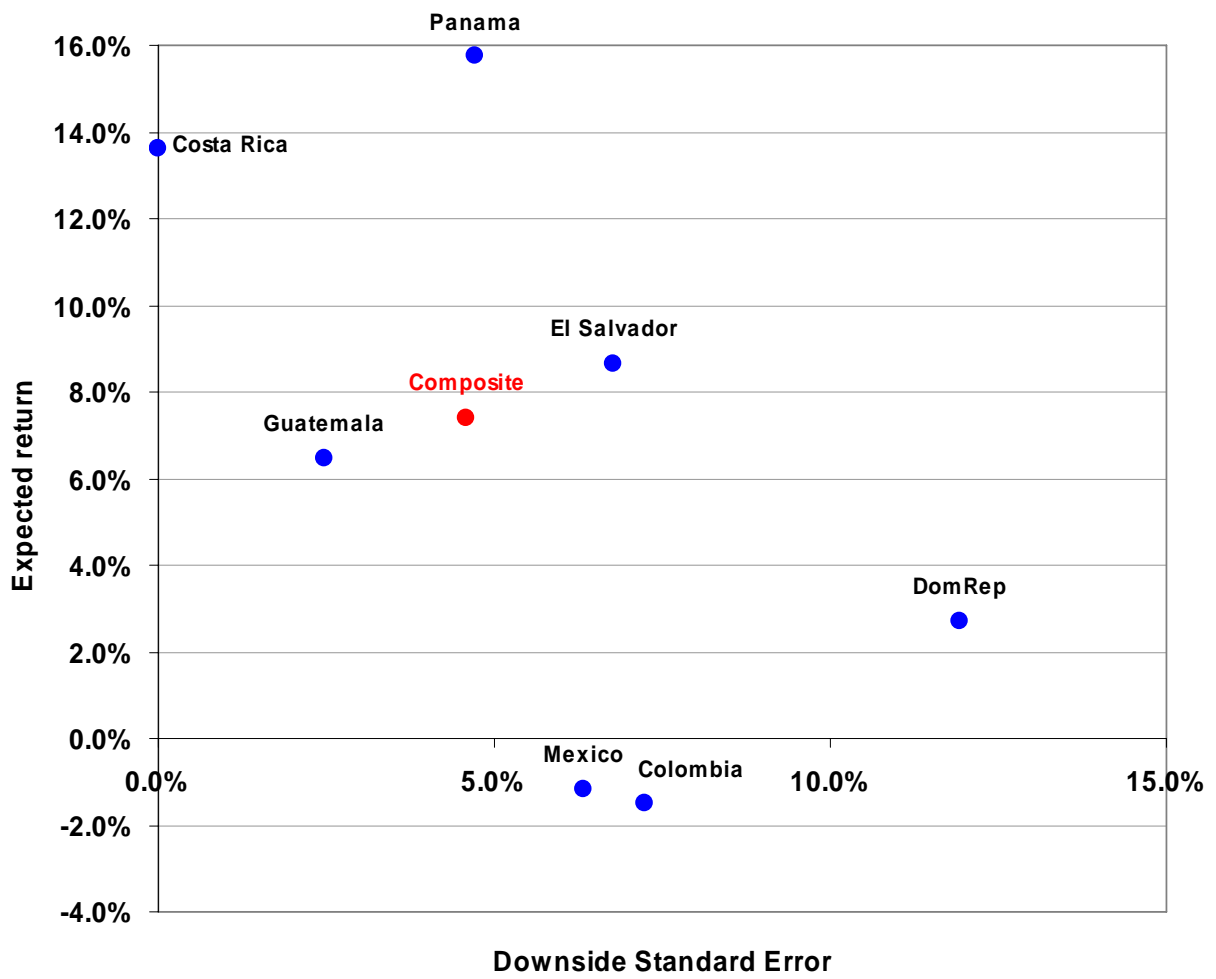
Country	CACI Weight	Stripped Spread	Spread Forecast			Expected Total Return			DSSE
			A	B	C	A	B	C	
Belize	0.3%	1681 bps	1400 bps	2100 bps	3100 bps	26.3%	-32.5%	-116.5%	59.0%
Colombia	5.5%	495 bps	400 bps	550 bps	800 bps	10.9%	0.8%	-15.9%	7.2%
<b>Costa Rica</b>	19.0%	556 bps	350 bps	480 bps	700 bps	20.6%	15.0%	5.4%	0.0%
Dominican_R	1.0%	936 bps	700 bps	880 bps	1500 bps	18.9%	8.7%	-26.4%	11.9%
El Salvador	42.0%	679 bps	480 bps	580 bps	900 bps	22.3%	13.4%	-14.9%	6.8%
<b>Guatemala</b>	15.5%	571 bps	350 bps	480 bps	700 bps	16.5%	8.4%	-5.3%	2.5%
Mexico	13.0%	373 bps	280 bps	410 bps	600 bps	10.8%	0.8%	-13.9%	6.3%
<b>Panama</b>	3.8%	469 bps	200 bps	300 bps	650 bps	30.2%	21.2%	-10.3%	4.7%
<b>Composite</b>	<b>100.0%</b>	<b>599 bps</b>	<b>402 bps</b>	<b>519 bps</b>	<b>779 bps</b>	<b>19.2%</b>	<b>10.7%</b>	<b>-10.0%</b>	<b>4.6%</b>

Treasury Benchmark bonds	Yield at Start	Yield at Horizon	Modified Duration
2yr On-the-run Treasury	0.85%	1.20%	2.0
5yr On-the-run Treasury	1.66%	2.20%	4.5
10yr On-the-run Treasury	2.62%	3.10%	8.0
30yr On-the-run Treasury	3.32%	3.60%	15.9



**Note:**

This table shows the expected return of CABEI Fund's benchmark over a twelve-month horizon under three different spread scenarios. We expect US Treasury yields to slightly move higher in the next 12 months, which would result in a negative return contribution of 3.7 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 (59%) and negative expected return (-44%), 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 first quarter of 2009:**

<b>Country</b>	<b>Index 01/22/09*</b>	<b>01/28/09</b>	<b>Minimum**</b>	<b>Maximum**</b>
Argentina***	0.0 %	0.0 %	0 %	10 %
Belize	0.3 %	0.0 %	0 %	5 %
Colombia external	5.5 %	0.0 %	0 %	10 %
Colombia domestic	0.0 %	0.9 %		
Costa Rica external	19.0 %	16.8 %	15 %	30 %
Costa Rica domestic	0.0 %	2.8 %		
Dominican Republic***	1.0 %	3.8 %	0 %	10 %
El Salvador	42.0 %	31.7 %	15 %	40 %
Guatemala	15.5 %	18.2 %	10 %	30 %
Mexico external	13.0 %	4.5 %	5 %	15 %
Mexico domestic	0.0 %	2.6 %	0 %	10 %
Nicaragua***	0.0 %	1.2 %	0 %	5 %
Panama	3.8 %	7.7 %	5 %	15 %
Supranationals	0.0 %	7.3 %		
Cash	0.0 %	2.6 %		

\* JP Morgan's customised version of its new Central America and Caribbean Index which is very similar to the modified BSCAX.

\*\* 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	5.4 yrs	3.0 yrs	9.0 yrs
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