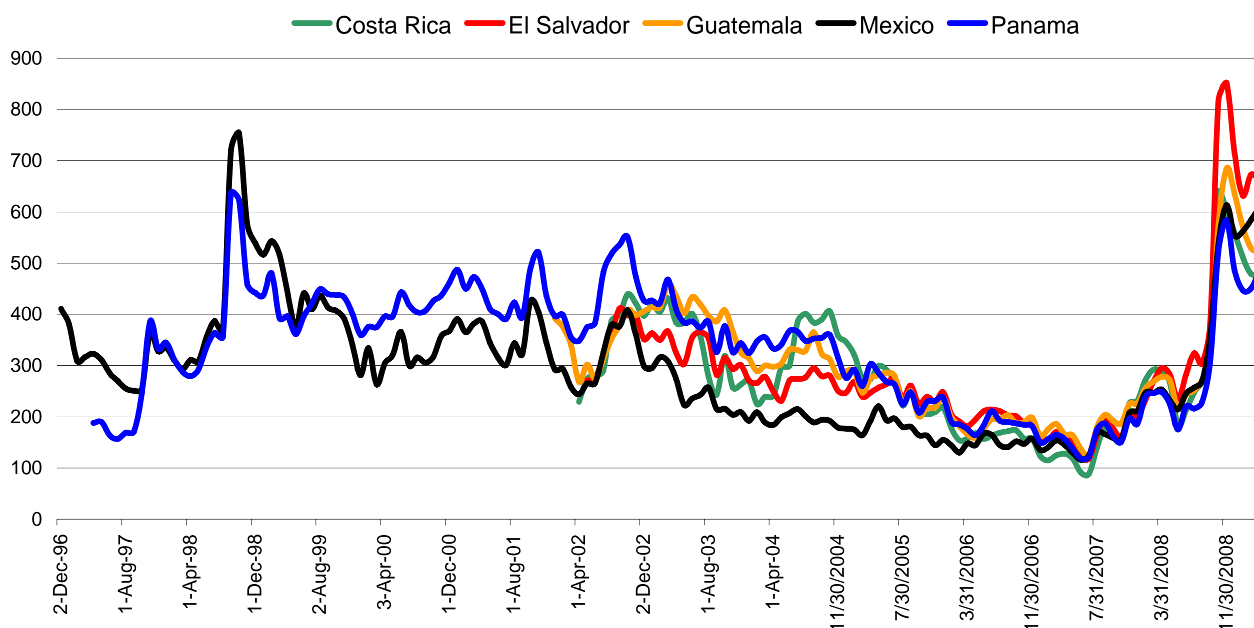
CABEI Central American Fund Investment Policy for the Second Quarter of 2009

April 2009

DWS
INVESTMENTS

Relative Value Analysis



Source: JP Morgan

Central American economic situation and outlook

On the back of worsening global economic conditions, Central America and the Caribbean is about to show increasing signs of contagion and hence weakness. The recessionary US economy poses the biggest challenge to the region. Negative transmission forces on the region primarily include slowing remittance and trade flows, declining tourism revenues and subdued foreign direct investment. On average, about 40-50% of the countries' exports are directed to the United States.

Economies across the region have already started printing record low levels of economic indicators. Costa Rica and Guatemala are the "frontrunners", but El Salvador's and Panama's growth momentum is also losing steam. Reduced exports and declining tourism flows explain a large part of the significant economic slowdown. Family remittances and hence private consumption also feel the pinch. In this context, Costa Rica and Panama are not immune, but are less affected as these countries were not so much dependent on remittance inflows during past years. Foreign direct investment inflows are also expected to slow down over coming months because of dropping global demand and tighter credit conditions making financing of projects for companies difficult.

Significantly lower energy and food prices have started providing substantial relief to inflation figures and current accounts of all the net-commodity-importers in Central America and the Caribbean.

Past improvement in fiscal discipline should pay off in current crisis. In Central America and the Caribbean, the governments of Guatemala and Costa Rica show solid fiscal balances and hence have most resources to undertake countercyclical policies to stimulate the faltering economies. Besides, a number of countries have received assistance from international financial institutions. El Salvador and Guatemala recently negotiated precautionary stand-by agreements with the IMF. Dominican Republic is expected to receive more than USD 2 bil-

lion in external financing over the course of 2009, main providers being CABEI, WB, IADB and CAF. All these international credits will to some extent shield Central America and the Caribbean from adverse effects of the global economic downturn.

Overall, Panama continues to be the best-supported economy in the region due to having kind of its individual growth story, to a large degree related to the Canal expansion project.

Global economic situation and outlook

Governments and central banks in developed countries continue to deliver strong action to support for ailing financial markets. Latest market movers were announcements by the US Federal Reserve and the Bank of England about broad-based quantitative easing. In addition, the US Treasury talks about setting up a fund that could take so-called “toxic assets” out of banks’ balance sheets. While this sounds promising if successful, a failure of such a plan might be a major setback in the government’s attempt to fight the financial crisis.

Across the board, economic indicators stay on the negative side, pointing to severe growth slump. Consequently, both the US and the European Union have unveiled additional large fiscal stimulus packages. Many emerging market economies also started to switch to massive counter-cyclical policies, ranging from interest rate cuts to significant fiscal measures. Some of them have enough financial resources available due to fiscal discipline in past years, others have received credits from international financial institutions like the IMF and regional development banks. Still, even in the best-case scenario, economic activity is likely to remain weak in 2009.

Sovereign spreads

Investor sentiment generally improved in the first quarter of 2009, also helping riskier assets to gain attention and post positive returns. Accordingly, issuers from Central America and the Caribbean saw significant spread compression over the past months. Spreads of El Salvador and Guatemala tightened most (180 bps). In the case of El Salvador, bonds came under substantial pressure in the fourth quarter of 2008. However, local as well as international investors started to consider the risk premium as quite attractive and built up positions. Some months ago, spreads of Guatemala traded extremely wide to Costa Rica, unjustified given the solid fiscal position of Guatemala‘s government. Investors discovered interesting opportunities in shorter-dated paper of the country, leading to tighter spreads. Finally, spreads of Panama and Costa Rica also compressed. In Mexico and Colombia, the rapidly deteriorating economic outlook weighed on USD-denominated bonds, resulting in spreads moving sideways.

Investment strategy

Increased risk appetite supported Central American and Caribbean bond markets in the first quarter of 2009. The fund management continued to follow a cautious investment strategy, but also built up some tactical positions. In El Salvador, for example, we considered massive spread widening as overdone and increased exposure there. As we approached presidential elections in March, the position was reduced again, especially via selling long-dated bonds.

Mexican local market exposure was sold after yields compressed significantly on the back of monetary easing. Strategic exposure is held in USD bonds of Panama because of the country's positive economic outlook. In Costa Rica and Guatemala, fund management increased holdings, as these two countries also show sound fundamentals and moreover solid fiscal balances to undertake countercyclical policies. Furthermore, exposure in Colombia's local market was cut since performance of global COP-denominated TES bonds was negatively influenced by sharp depreciation of the currency. The fund did not hold a position in Argentina during the past 9 months and fund management does not intend to touch this name, as political and economic 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 CABEI-security that pays a nice spread over Libor and has an appealing amortizing structure. In February 2009, exposure to Nicaragua dropped by one third due to the bond's amortizing structure.

Overall, fund management reduced spread duration in external debt as short and middle parts of the countries' credit curves appeared much more attractive than longer dated bonds. On the back of the financial crisis spilling over into the real economy, we will stick to our cautious investment approach, focusing on bonds of countries with a comparatively better fundamental outlook.

Performance of "CABEI Central American Fund"

	2009 ytd	2008	2007	2006	2005
Performance	4.75 %	-13.78 %	4.72 %	9.02 %	7.30 %

As at 31 March 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	4.4	-1.5
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

- Political and social tensions are about to rise again. After some months of relative silence, farmers have re-started protests against government policies related to export taxes. In order to prevent further slide of approval-rating, President Fernandez de Kirchner decided to move up congressional elections to June from October. Ahead of the elections, the government is expected to adopt a more populist stance, front loading spending and making periodic announcements of public works and subsidies. In addition, authorities will only allow small peso devaluation. The outcome of the election will be crucial for future policy direction. In case of Kirchners losing majority in Congress, investors could see some positive development, e.g. restoration of quality of institutions, IMF deal.
- In general, Argentina faces effects of sharp global economic slowdown feeding into the domestic economy and international financial markets being shut since it defaulted on its bonds in 2001. Exports have been declining at an alarming rate. 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.
- More rapid peso devaluation is expected to take place after June elections, improving competitiveness in the tradable sector. Farmers will likely postpone exports until then.
- 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, weak political framework, 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	03/31/09	A	B	C
EMBI Global Diversified Argentina	1894 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	7.5	2.5	-0.2
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

- Real GDP decelerated sharply during Q4 2008, bringing the full year figure down to a disappointing 2.5%, versus 7.5% in 2007. On the demand side, consumption saw the strongest setback, but also hitherto sound investment spending slowed. Due to imports significantly outpacing exports, the external sector's contribution to growth was negative. Supply side weakness was primarily driven by sluggish industrial and construction activity. Colombia's strong linkages to the US economy and Venezuela will lead to continued decline in economic activity. Room for countercyclical policy is constrained given the government's structural fiscal fragility.
- 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 an aggressive monetary easing mode, lowering the benchmark rate by 200 bps between December 2008 and February 2009. The monetary easing cycle is bound to continue in coming months.
- On the back of lower revenue growth and the government's inability to cut spending because of heavy earmarking of revenues, Colombia will face noticeable deterioration in its fiscal deficit in 2009/10.
- 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 widening.
- The country's cloudy fundamental outlook makes us take a cautious stance on Colombian external debt. The central bank's easing cycle actually bodes well for the local bond market. However, performance of global COP-denominated TES bonds is negatively influenced by sharp depreciation of the currency. We hence sold our exposure.

Risk factors

- Severe growth slowdown, vulnerability to economic conditions in Venezuela.

Spread forecast	03/31/09	A	B	C
CACI Colombia	468 bps	400 bps	510 bps	800 bps

Costa Rica (Ba1/BB/BB)

Economic Indicators	2006	2007	2008	2009f
Real change in GDP, in percent	8.2	6.8	4.0	1.6
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

- Costa Rica's real GDP annual growth rate closed at 4% in 2008. Most sectors lost strength, but construction and mining saw the strongest contraction. 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 reduces credit availability, and US slow-down feeds into Costa Rica's export performance. Intra-regional demand is also about to turn significantly weaker.
- Inflation has showed some deceleration because of lower oil and food prices as well as weaker overall demand. However, compared to other countries in the region, consumer prices are expected to consolidate more slowly. Some inertia and exchange rate pass-through due to CRC depreciation could explain the weaker reduction to a large extent. Monetary policy turned very restrictive over the course of 2008. In January 2009, the central bank hiked the overnight rate again, arguing that real interest rates are still in negative territory. Amid sharp economic slowdown and inflation starting to moderate, we expect monetary conditions to become looser over coming months.
- The central bank resumed its course to move to a more flexible exchange rate regime. Earlier this year, 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	03/31/09	A	B	C
CACI Costa Rica	503 bps	300 bps	450 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	1.0
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

- The 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.
- 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 already into negative territory in 2008. However, the country expects to receive more than USD 2 billion in external financing over the course of 2009. Main providers are international financial institutions like CABEI, WB, IADB and CAF, but bilateral sources like BNDES and Petrocaribe are also on the list.
- Overall current account deficit is likely to narrow this year, as lower commodity prices provide huge relief to the import bill. In contrast, foreign direct investment flows are not expected to reach levels seen in 2008, as project financing has generally become much more difficult. Nevertheless, FDI and the USD 2 billion in international credits will likely cover the current account deficit and external debt amortizations due in 2009.
- Inflation already started to fall in the second half of 2008. Lower food and energy prices and decelerating economic activity will continue to ease pressure on consumer prices. The central bank is hence expected to loosen monetary conditions over the course of this year.
- Less supportive external economic conditions make us keep a cautious stance on DomRep. 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	03/31/09	A	B	C
CACI Dominican Republic	879 bps	750 bps	950 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	1.3
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

- The Central Bank's monthly economic activity index IVAE dropped 1.7% yoy in December 2008, indicating that slowdown is in full swing. Strong linkages to the faltering US economy translate into weaker export performance, sliding remittance flows and less FDI. The poor performance is expected to be widely spread across economic sectors.
- International Monetary Fund, World Bank and IADB have approved precautionary loans for El Salvador. Primary aim is to provide adequate liquidity to the country's financial markets. Lending rates have been climbing lately, reflecting tight credit conditions initiated by commercial banks. In addition, the multilateral loans shall reduce uncertainty related to the repayment of the global 2011 bond and financing pressures in 2010.
- Like in other commodity-importing countries, inflation entered a clear downward path in the second half of 2008. In particular, declining energy prices resulted in lower transportation costs. Low oil and food prices coupled with decelerating domestic demand point to further moderation in inflation rates in 2009.
- Overall, the current account deficit is expected to narrow somewhat. On the back of weakening external demand exports will decline. At the same time, though, imports will be dampened by lower family remittances directed to the country.
- In March's presidential elections, the opposition left-wing candidate Funes won over the ruling right-wing party ARENA. Funes has pledged to consolidate and maintain macroeconomic stability, implement sound fiscal policies, remain a member of DR-CAFTA, and honor public debt. Nevertheless, we expect political headline risk to increase over coming months driven by the more radical party behind Funes.
- El Salvadoran bonds performed well over the past months. Based on a more uncertain outlook after presidential elections, we cut exposure primarily via selling longer-dated paper. Shorter-dated securities are still well supported and pay an attractive premium.

Risk factors

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

Spread forecast	03/31/09	A	B	C
CACI El Salvador	648 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	2.0
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

- Development of the monthly economic activity index submits strong evidence of a significant growth slowdown. US recession has started taking a toll on Guatemala via lower export demand and remittances. Challenging conditions are expected to remain in place this year. Subdued remittances are likely to translate into weaker private consumption. Finally, moderating tourism revenues might become a severe drag on external accounts.
- Fiscal accounts performed well between 2006 and 2008, supported by substantial revenues and disciplined spending. 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 faltering economy.
- Talking about inflation, the latter started to see moderation along with consolidating international commodity prices and decelerating domestic demand. After four years of monetary tightening, the central has cut its benchmark rate by 75 bps to 6.5% so far this year, with further easing due.
- 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. On the back of looser monetary conditions, local paper might become appealing as well.

Risk factors

- Political noise and potential electricity shortfalls.

Spread forecast	03/31/09	A	B	C
CACI Guatemala	497 bps	350 bps	450 bps	700 bps

Mexico (Baa1/BBB+/BBB+)

Economic Indicators	2006	2007	2008	2009f
Real change in GDP, in percent	4.8	3.2	1.3	-2.5
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

- In 2008, real GDP significantly slowed to 1.3% yoy, compared to 3.2% yoy a year earlier. While all sectors contracted on a sequential basis, the services sector saw the strongest setback. Preliminary indications for 2009 point to downturn severely intensifying. INEGI, Mexico’s GDP monthly proxy, declined 9.5% yoy in January, once again showing that the service sector suffers most.
- Mexico's close connection to the recessionary US economy is likely to result in massive growth slump. In the first place, deceleration in the US manufacturing sector becomes a heavy drag on auto(-related) exports. Secondly, weak flows of workers remittances weigh on private consumption. The outlook for FDI is not too promising either. Based on deteriorating conditions across the board, a rating downgrade cannot be ruled out.
- Mexico's central bank surprised markets already twice in 2009. After some hawkish guidance provided in February, Banxíco suddenly cut the overnight rate by 75 bps (against consensus of 25 bps) to 6.75% in March. Gloomy economic estimates on global growth, recently released by the IMF, significantly influenced the central bank's decision. The press statement clearly emphasised growth risks over inflation pressures. We expect additional monetary easing going forward. At the same time, though, we do not undifferentiatedly rely on the central bank moving in such big steps, as the latest one, over coming months. We rather believe that Banxíco will enter a data dependent decision period.
- 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. Pemex basically needs to receive more resources to increase infrastructure expenditure.
- On the back of deteriorating economic outlook, we stay cautious on external debt of Mexico. With respect to the local market, we sold our position in short-dated bonds after latest yield compression. The Mexican peso is expected to remain highly vulnerable to developments in external markets.

Risk factors

- US recession and rapidly fall of oil prices.

Spread forecast	03/31/09	A	B	C
CACI Mexico	372 bps	280 bps	420 bps	600 bps

Nicaragua (B3/NR/NR)

Economic indicators	2006	2007	2008f	2009f
Real change in GDP, in percent	3.7	3.8	1.9	0.8
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. The latest event that illustrates political fragility was municipal elections, where fraud accusations were widespread. In addition, business confidence is very low.
- 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	2008	2009f
Real change in GDP, in percent	8.1	11.2	9.2	4.5
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

- Albeit also feeling the impact of global recession, Panama will likely be the region's top-performer again this year. In particular, investment associated to the canal expansion will offer a comfortable floor. Another engine of expansion continues to be tourism. In general, Panama's 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. Against that, slowing global trade activity may dampen Canal traffic in 2009/10.
- Inflation starts showing signs of moderation. In January, consumer prices printed a monthly decline, bringing annual inflation to 4.9% vs 6.8% in December 2008. Both, lower international commodity prices and deceleration of economic activity explain the figure. Nevertheless, inflation is unlikely to decline as fast as in other countries of the region, as investment projects will continue requiring a significant amount of energy.
- The country likely recorded a non-financial public sector surplus of 1.5% of GDP in 2008. Public debt dynamics will remain favorable, after declining from 54% in 2007 to roughly 45% last year. Nonetheless, public debt remains a serious drag constraining fiscal flexibility and a breakthrough to investment grade status.
- In February, Fitch affirmed Panama's "BB+" rating and positive outlook, arguing that the country's macroeconomic and structural strengths will continue to set it apart from "BB" peers.
- 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.
- Based on sound economic fundamentals, we consider Panama an attractive credit with the middle part of the curve bearing most value.

Risk factors

- Inflation trending up significantly.

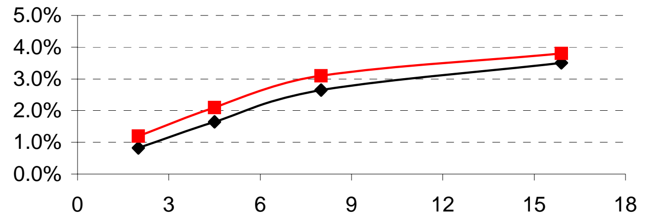
Spread forecast	03/31/09	A	B	C
CACI Panama	471 bps	200 bps	400 bps	650 bps

Scenario Analysis

Time of Analysis		Risk-free	Probabilities		
Start	Horizon	Rate	A	B	C
3/31/2009	3/31/2010	0.25%	10%	70%	20%

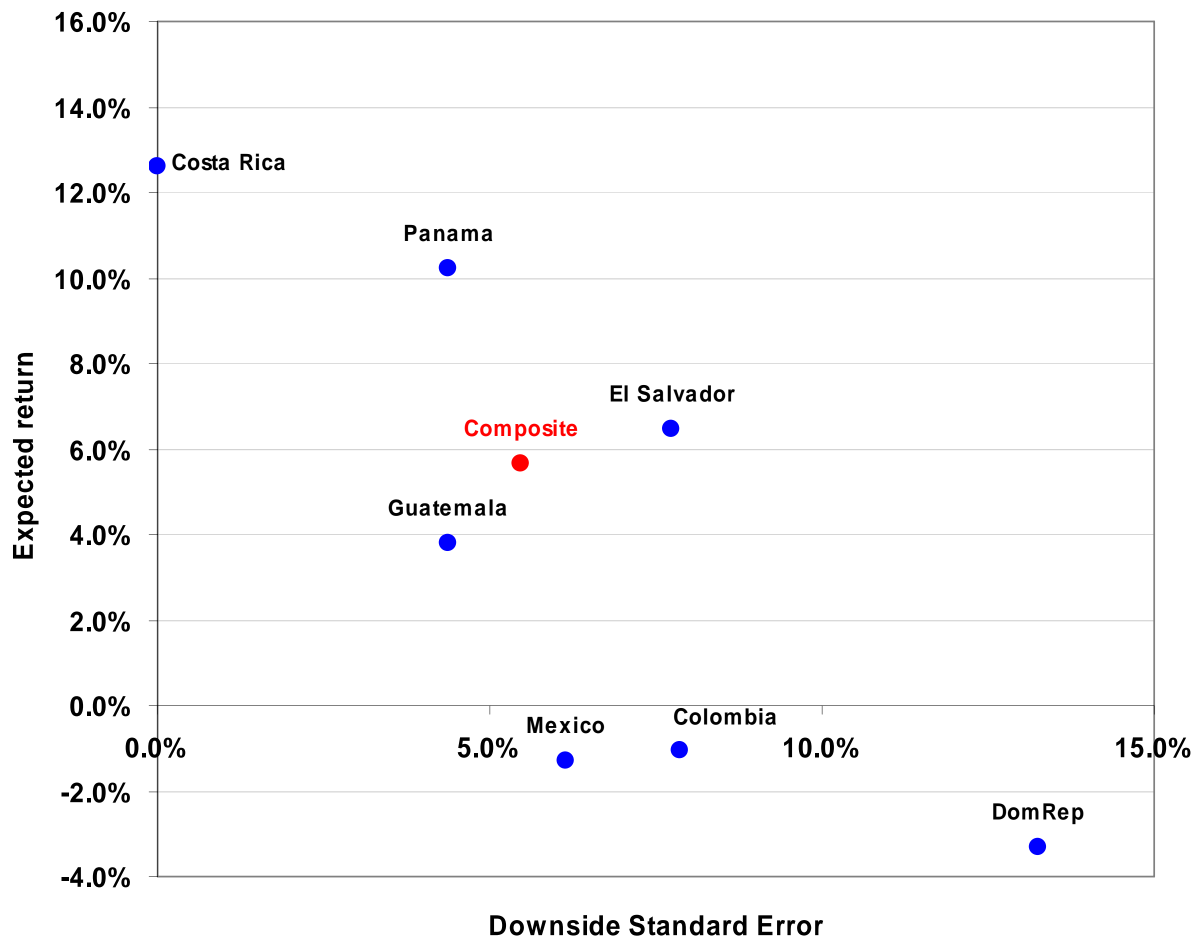
Country	CACI Weight	Stripped Spread	Spread Forecast A	Spread Forecast B	Spread Forecast C	Expected Total Return A	Expected Total Return B	Expected Total Return C	DSSE
Belize	0.3%	1691 bps	1400 bps	2100 bps	3100 bps	27.6%	-31.2%	-115.2%	57.9%
Colombia	5.5%	468 bps	400 bps	510 bps	800 bps	9.5%	2.1%	-17.3%	7.9%
Costa_Rica	19.0%	503 bps	300 bps	450 bps	700 bps	20.6%	14.1%	3.2%	0.0%
Dominican_R	1.0%	879 bps	750 bps	950 bps	1500 bps	13.1%	1.8%	-29.4%	13.2%
El Salvador	42.0%	648 bps	480 bps	580 bps	900 bps	20.1%	11.3%	-17.1%	7.7%
Guatemala	15.5%	497 bps	300 bps	450 bps	700 bps	15.3%	6.0%	-9.5%	4.4%
Mexico	13.0%	372 bps	280 bps	420 bps	600 bps	11.2%	0.4%	-13.5%	6.1%
Panama	3.8%	471 bps	200 bps	400 bps	650 bps	30.9%	12.9%	-9.6%	4.4%
Composite	**100.0%**	**599 bps**	**386 bps**	**512 bps**	**778 bps**	**18.0%**	**8.9%**	**-12.0%**	**5.5%**

Treasury Benchmark bonds	Yield at Start	Yield at Horizon	Modified Duration
2yr On-the-run Treasury	0.82%	1.20%	2.0
5yr On-the-run Treasury	1.65%	2.10%	4.5
10yr On-the-run Treasury	2.65%	3.10%	8.0
30yr On-the-run Treasury	3.51%	3.80%	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 2.8 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 (58%) and negative expected return (-42%), which would distort the chart.

Allocation Ranges

The investment committee has agreed on the following policy ranges for the country allocation of the CABEI Fund for the second quarter of 2009:

Country	Index 03/30/09*	04/01/09	Minimum**	Maximum**
Argentina***	0.0 %	0.0 %	0 %	10 %
Belize	0.3 %	0.0 %	0 %	5 %
Colombia external	5.5 %	0.7 %	0 %	10 %
Colombia domestic	0.0 %	0.0 %		
Costa Rica external	19.0 %	17.0 %	15 %	30 %
Costa Rica domestic	0.0 %	2.9 %		
Dominican Republic***	1.0 %	3.2 %	0 %	10 %
El Salvador	42.0 %	25.2 %	15 %	40 %
Guatemala	15.5 %	22.6 %	10 %	30 %
Mexico external	13.0 %	8.8 %	5 %	15 %
Mexico domestic	0.0 %	2.6 %	0 %	10 %
Nicaragua***	0.0 %	1.2 %	0 %	5 %
Panama	3.8 %	10.8 %	5 %	15 %
Supranationals	0.0 %	5.8 %		
Cash	0.0 %	1.8 %		

* 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)	6.2 yrs	4.3 yrs	3.0 yrs	9.0 yrs

Contacts

Dr. Nicolas Schlotthauer, CEFA
DWS Finanz-Service GmbH
Mainzer Landstrasse 178-190
60612 Frankfurt, Germany
Phone +49 69 71909-3485
Fax +49 69 71909-3006
Email nicolas.schlotthauer@dws.com

Stefanie Ebner
DWS Finanz-Service GmbH
Mainzer Landstrasse 178-190
60612 Frankfurt, Germany
Phone +49 69 71909-8554
Fax +49 69 71909-3006
Email stefanie.ebner@dws.com

This report contains an assessment of medium-term market prospects for the sovereign debt issued by countries in the investment universe of the CABEI Central American Fund. The information in this report is meant to guide and explain investment decisions by portfolio management. Information contained in this report does not represent a credit opinion by CABEI and / or DWS.

This report may contain confidential and / or privileged information. It is intended solely for members of the Investment Committee of the CABEI Central American Fund plc. and it is not meant to be distributed to the public. Any unauthorized copying, disclosure or distribution of the material in this report is strictly forbidden.

The information contained in this assessment is based on the DWS Group's figures or publicly accessible sources that we consider reliable. We cannot guarantee the correctness or completeness of this information, and no statements made in this report are to be understood as such a guarantee. All opinions given reflect the current assessment of the DWS Group. The opinions expressed in this assessment are subject to change without prior notice. The information given here is based on our assessment of the current legal and tax position. Past performance is not necessarily indicative of future returns. The sole binding basis for the purchase of fund units is the latest sales prospectus in conjunction with any performance reports or half-yearly reports.