CABEI CENTRAL AMERICAN PORTFOLIO

Risk Rating Assessment Report

Ordinary Meeting: Nº 1122019 (CR), Nº 5022019 (HND), Nº 2072019 (PAN)
Ratification Date: June 7, 2019
Financial Information: unaudited as of March 31, 2019, considering information audited as of December 2018.

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1. RISK RATING

This report analyzes the CABEI Central American Portfolio, with unaudited information through March 2019, considering audited information as of December 2018.

Based on this information, the following risk rating was awarded:

	Previous		Current*	
	Rating	Outlook	Rating	Outlook
CABEI Central American Portfolio	Costa Rica			
	scr AA3 (CR)	Stable	scr AA3 (CR)	Stable
CABEI Central American Portfolio	Honduras			
	scr AA3 (HND)	Stable	scr AA3 (HND)	Stable
CABEI Central American Portfolio	Panama			
	scr AA3 (PAN)	Stable	scr AA3 (PAN)	Stable

**Current rating remained unchanged regarding the previous one.*

Explanation of the rating awarded:
scr AA (CR, HND and PAN): *"The quality and diversification of the fund's assets and the management's strengths suggest a high probability of meeting their investment objectives; subject to a good management to limit their risk exposure due to factors inherent to the fund's assets and those related to its environment. Very good grade."*

Ratings from "scr AA (CR)" to "scr C (CR)" and from "SCR 2 (CR)" to "SCR 5 (CR)"[1] may be modified by adding the positive (+) or negative (-) sign to indicate the relative position within the different categories.

Regarding market risk, **Category 3** is assigned to funds with "high sensitivity to changing market conditions".

Investment funds under Category 3 are considered with high sensitivity to changing market conditions. The fund is expected to have a significant variability through changes in market scenarios, in addition to a high exposure to the market risks they entail according to the nature of the fund.

In terms of Outlook, Category of **Stable** means that "There is a low probability that the rating would vary in the medium term".

2. EXECUTIVE SUMMARY

According to the International Monetary Fund, global growth for 2018 is estimated at 3.7%, as in the outlook forecast that it had previously issued, despite weaker performance in some economies during the second semester of the year, notably Europe and Asia. The global economy is projected to grow at 3.5% and 3.6% in 2019 and 2020, respectively.

Growth in Latin America is projected to increase in the next two years, from 1.1% in 2018 to 2.0% in 2019 and 2.5% in 2020.

In relation to the Fund, the total assets managed at the closing of March 2019 amounted to $150.28 million, which represented a 2% year-to-year growth.

The Fund has invested 16% of its assets in Costa Rican securities, as well as an additional 13% and 12%, respectively, in securities issued by the Dominican Republic and Panama. Investments in amounts approximate to 10% of the fund's overall assets have also been made in El Salvador, Guatemala, Honduras and Mexico. In terms of relative importance, the portfolio's composition showed some variations, as investments in El Salvador were reduced, investments in countries such as the Dominican Republic, Panama and Mexico were increased, and new investments were established in countries like Chile and Argentina.

[1] *Details of the whole rating scale used by the Rating Company are available on our website www.scriesgo.com*
This report examines the variations of the six-month period being analyzed (October 2018-March 2019) regarding the immediately preceding six-month period (April 2018-September 2018). If the variation is not semiannual, it will be noted.

After a series of negative results during the last months of 2018, the profitability of the Fund shows signs of recovery at the start of 2019.

Although the Fund has faced a rigid economic context, its management has proven to be able to react to it (varying investment proportions in the countries where it invests), as well as making investments with shorter terms and keeping a high percentage in investment grade issuers.

3. FUNDAMENTALS

The Fund's rating is based on the following elements:

- The Fund was awarded the UCITS designation, updated in October 2015, which provides the Fund greater prestige by being subject to high-levels of European control.

- An adequate portfolio management, which is reflected in the timely variations in investment proportions according to the economic context of each country, the cash level, and the combination of investments with investment grade and speculative grade issuers.

- The Fund has an adequate asset diversification, since the portfolio is invested in sovereign securities of eight countries, as well as in bonds of supranational and corporate organizations.

- The Fund's challenge is to manage its investments, mainly those in sovereign securities of El Salvador and Costa Rica, given the portfolio's concentration of such securities, coupled with the economic situation in both countries.

The Fund's risk rating is kept in scr AA3 (CR, HMD and PAN) and continues to be supported by the deterioration in the quality of its assets, given the concentration of its portfolio in sovereign bonds of Costa Rica and El Salvador. The sovereign risk rating in these countries has been reviewed to the downside by the main international rating agencies several times in the last 3 years. Given the above, there is an increase in the risk of non-payment of securities invested in the event of default in any of the countries in which there are active positions.

Therefore, considering the above, the rating is a reflection of the Fund's risk, given the decrease in asset quality as a result of the worsening of the tax situation in countries in the area, with a special, but non-exclusive, emphasis on the cases of Costa Rica and El Salvador.

4. CABEI CENTRAL AMERICAN PORTFOLIO

4.1. Fund Description

CABEI Central American Portfolio (CABEI Portfolio or the Fund) is an open fund authorized to trade in Costa Rica since July 31, 2003 by the General Superintendence of Securities (SUGEVAL).

The Fund is the first portfolio of CABEI Central American Fund PLC, a limited liability company with variable capital, incorporated on March 12, 1999 as an investment company in the Republic of Ireland, under the regulations established in this country and the European Union, therefore, it is supervised by the Central Bank of Ireland.

In Panama, on April 11, 2007, the National Securities Commission of the Republic of Panama approved the commercialization of the CABEI Portfolio. Likewise, in Honduras, on August 28, 2007, the National Commission of Banks and Insurance of Honduras, based on the "Rules for the Commercialization of Investment Funds Incorporated and Managed Abroad," approved the commercialization of the CABEI Portfolio.

On July 1, 2011, the Central Bank of Ireland issued the UCITS (Undertakings for Collective Investment in Transferable Securities) regulation, which applies regulations with high-levels of control to investment funds, guaranteeing more reliable and secure information to investors, financial transparency, and increase in cross-border operations. Also, such designation allows funds to be sold publicly through the European Union.

The CABEI Central American Portfolio is administered by the Northern Trust International Fund Administration Services (Ireland) Limited. DWS Investment GmbH, an indirect affiliate of Deutsche Bank AG, has been appointed as the investment manager.

The Fund seeks to generate positive return rates for investors, mainly by investing in debt securities of issuers located in Central America. The Fund expects to achieve this objective by investing mainly in a diversified portfolio of fixed and variable rate securities issued by sovereign issuers, their agents and intermediaries, corporate issuers, supranational issuers, quasi-government issuers, and any other issuer deemed suitable for investment.

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The Fund keeps assets under management in the region; providing financial support to sovereign and corporate entities through their debt issuances. The Fund's objective is to invest most of its assets in the founding member countries of the Central American Bank for Economic Integration (i.e. Guatemala, Honduras, Nicaragua, El Salvador, and Costa Rica); being also able to invest in countries such as Mexico, Colombia, Argentina, Panama, the Dominican Republic, Belize, Spain and the Republic of China (which are existing members of the CABEI). In addition, the Fund can invest in any other countries that become members of the CABEI and which are deemed fit for investment by the Investment Manager.

Subject to investment restrictions in the Prospectus, there will be no limit as to the amount or proportion invested in the issuers of any one country, and there will be no sectoral bias. The portfolio will be diversified by country, currency, and issuer, but may hold concentrated positions in currencies, countries and issuers from time to time.

4.2. International Market Events that could have an Impact on the Fund

According to the International Monetary Fund (IMF[1]), global growth for 2018 is estimated at 3.7%, as in the outlook forecast that it had previously issued, despite weaker performance in some economies during the second semester of the year, notably Europe and Asia.

The global economy is projected to grow at 3.5% and 3.6% in 2019 and 2020, respectively. This forecast for 2019 and 2020 has been revised downward in response to the negative effects of tariff increases enacted in the United States and China.

Several events have affected the global economy, including the weakening financial market sentiment, trade policy uncertainty, and concerns about China's outlook. While the December 2018 announcement to put on hold tariff hikes for 90 days in the US-China trade dispute is welcome, the possibility of tensions resurfacing in the spring casts a shadow over global economic prospects.

Growth in advanced economies is projected to slow from an estimated 2.3% in 2018 to 2.0% in 2019 and 1.7% in 2020 These estimated growth rates are lower than those included in previous forecasts made by the IMF, mostly due to downward revisions for the euro area.

For the emerging market and developing economy group, growth is expected to tick down to 4.5% in 2019 (from 4.6% in 2018), before improving to 4.9% in 2020.

Global perspectives are determined by the following factors, namely:

- Growth in the euro area is set to moderate from 1.8% in 2018 to 1.6% in 2019 and 1.7% in 2020. Growth rates have been marked down for many economies, notably Germany (due to soft private consumption, weak industrial production following the introduction of revised auto emission standards, and subdued foreign demand); Italy (due to weak domestic demand and higher borrowing costs as sovereign yields remain elevated); and France (due to the negative impact of street protests and industrial measures).
- In the case of the United Kingdom, growth projections for 2019-20 remain unchanged at 1.5%. This unchanged projection reflects the offsetting negative effect of prolonged uncertainty about the Brexit outcome and the positive impact from fiscal stimulus announced in the 2019 budget.
- The growth forecast for the United States also remains unchanged. Growth is expected to decline to 2.5% in 2019 and further soften to 1.8% in 2020. The projected pace of expansion is above the US economy's potential growth rate in both years. Strong domestic demand growth will support rising imports and contribute to a widening of the US current account deficit.
- The economy of Japan is set to grow by 1.1% in 2019. This upwards revision mainly reflects additional fiscal support to the economy this year, including measures to mitigate the effects of the planned consumption tax rate increase in October 2019.
- Growth in emerging and developing Asia will dip from 6.5% in 2018 to 6.3% in 2019 and 6.4% in 2020. Despite fiscal stimulus that offsets some of the impact of higher US tariffs, China's economy will slow due to the combined influence of needed financial regulatory tightening and trade tensions with the United States.
- Growth in emerging and developing Europe in 2019 is now expected to weaken more than previously anticipated, to 0.7% (from 3.8% in 2018), despite generally buoyant growth in Central and Eastern Europe, before recovering to 2.4% in 2020.

[1] International Monetary Fund: World Economic Outlook: Updates. January 2019

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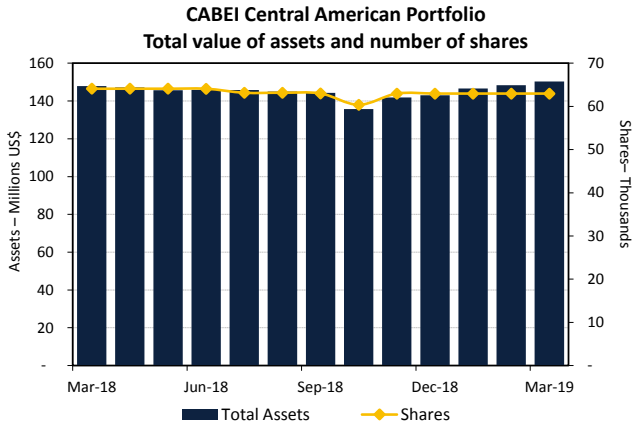
- Growth in Latin America is projected to recover over the next two years, from 1.1% in 2018 to 2.0% in 2019 and 2.5% in 2020 (0.2 percentile points weaker for both years than previously expected). The revisions are due to a downgrade in Mexico's growth prospects in 2019-20, reflecting lower private investment and an even more severe contraction in Venezuela than previously anticipated. The downgrades are only partially offset by an upward revision to the 2019 forecast for Brazil, where the gradual recovery from the 2015–16 recession is expected to continue. Argentina's economy will contract in 2019 as tighter policies aimed at reducing imbalances slow domestic demand, before returning to growth in 2020.
- Growth in the Middle East, North Africa, Afghanistan, and Pakistan region is expected to remain subdued at 2.4% in 2019 before recovering to about 3% in 2020.
- Growth is projected to strengthen from 2.9% in 2018 to 3.5% in 2019 and to 3.6% in 2020 in sub-Saharan Africa.

4.3. Assets Managed

Total assets under management as of March 2019 amounted to $150.28 million, a figure that increased by 2% annually and by 4% semi-annually. The behavior of assets, both annually and semi-annually, is directly related to the positive variation recorded in the value of the shares.

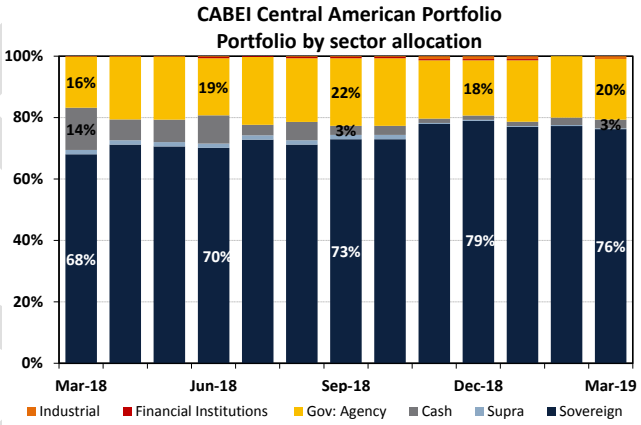
That said, that number of shares in the Fund has remain unchanged during the last year, after experiencing growth in early 2018 with the subscription of the fund in Germany and Switzerland. As of March 2019, a total of 62,973 shares were accounted for.



As mentioned in the Fund's profile, investments are directed to fixed-income securities of Central American countries or BCIE partners. In the case of corporate securities, the Fund's policy establishes that they must have government sponsorship or be entities characterized as quasi-governmental.

During the six-month period under analysis, on average, 77% of the investments made by the Fund were in sovereign debt securities, while 20% were in securities of government agencies. A 1% corresponded to investments in supranational securities, and the remaining 2% was kept in cash.

The cash kept by the Fund varies according to the liquidation needs of certain investment positions and to the strategy that the Fund's management wishes to follow in terms of placement of resources.



Investments by country show that, on average, Costa Rica occupies 16% of the fund's assets. Following closely are the Dominican Republic and Panama, with 13% and 12%, respectively. Investments in amounts approximate to 10% of the fund's overall assets have also been made in El Salvador, Guatemala, Honduras and Mexico.

In terms of relative importance, the composition of the portfolio changed slightly with respect to the previous year; transferring some of the resources invested in countries such as Costa Rica and El Salvador to countries such as the Dominican Republic, Mexico, and Panama, which have a better sovereign rating than the former. In addition, during the last year investments in Chile (on average, an investment of 5%) and Argentina (2%) have been made.

The variations in the portfolio composition are due to the strategy of decreasing the relative weight of securities in countries with a more pessimistic economic behavior, and increasing it in those that benefit from the context. Changes made in the portfolio are made after the portfolio managers have issued their opinions regarding the assessment of assets and the risk involved in investing in certain markets.

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The foregoing is carried out always under the framework of investments established in the Fund's prospectus, so they will continue with a regional focus and mainly focusing on founding members of the CABEI.

The Fund's Management closely follows political and economic events that could affect the countries in which it has investments.

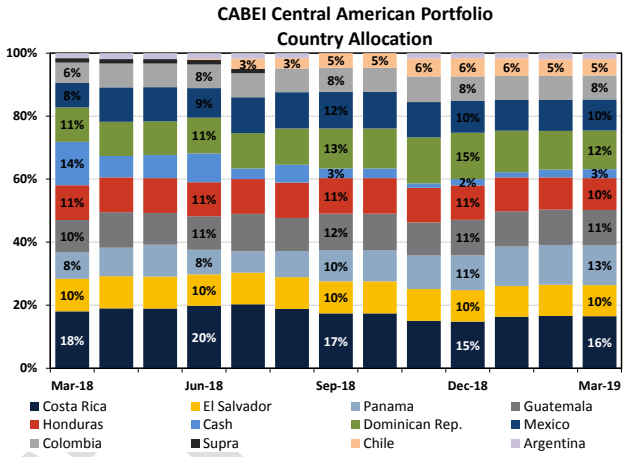
In the case of Costa Rica, the Management is closely following the country's fiscal situation, the Government's funding, and the downgraded sovereign ratings at the end of 2018 and beginning of 2019. According to the Management, it hopes to hold its position in the country despite downgraded sovereign ratings, as the investments it made have maturities of 4 to 5 years, and it does not expect a default as a result of the country's current situation. Furthermore, it is not expecting to liquidate any positions in the short term, hence, any losses that could happen at present would not be realized. Recent events in Costa Rica made the market react and this was reflected in the yields offered by the country's sovereign bonds, which are improving in relation to others in the region.

On the other hand, the Dominican Republic has shown a strong economic growth in recent years. Its GDP registered a 6.7% year-on-year growth during the first semester of 2018, thus continuing with the strong performance it had in 2017.

In general, the Management considers that Central America is highly dependent on remittances sent from the United States, and therefore, a growing American economy should benefit the region.

The Fund's Management mentions that even when investments in certain countries that are considered riskier have decreased in comparison to previous years, it does not expect to radically shift its position in such countries. The foregoing due to the regional focus that the Fund has, and to the investment policies that were previously set in the prospectus.

It is worth mentioning that since mid-2018, the bonds of the Dominican Republican and Panama are also treated as those from founding members and thus, the positions in both countries have grown more relevant within the Fund's portfolio. In addition to the sovereign bonds held by the Fund, its portfolio also includes securities from quasi-governmental issuers (ICE, PEMEX, Ecopetrol), as the yield differentials that these offer in contrast with the respective government bonds are highly attractive.



4.3.1 Sovereign Ratings of the Main Countries in the Portfolio.

As can be observed in the previous section, the Fund focused its investments during this semester in Costa Rica, the Dominican Republic, and Guatemala, respectively. The risk rating of each of them reflects, to some extent, the level of susceptibility to which the Fund is subject. Although it is true that countries with lower ratings must offer a higher level of return (risk-return ratio), it cannot be ignored that the probability of defaulting increases, which increases the exposure level of the Fund and its investors.

In the case of Costa Rica, the three international risk rating agencies have downgraded the country's sovereign rating in their last revisions of December 2018 and January 2019, mostly in response to the prevailing fiscal deficit that the country faces and its need of short-term financing. These downgrades came after the approval of the Law on the Strengthening of Public Finances (No. 9635) on December 2018.

Republic of Costa Rica - International risk rating through May 2019				
Rating Agency	Long Term		Outlook	Update
	Previous	Current		
Standard & Poor's	BB-	B+	Negative	12/21/18
Moody's	Ba2	B1	Negative	12/05/18
Fitch Ratings	BB	B+	Negative	01/15/19

Among the factors that explain the downgrading of Costa Rica's rating, the risk rating agencies have included:

- The continued weakening of Costa Rica's tax profile, which is reflected in the growing burden of public debt and the persistent fiscal deficit.

- Despite the approval of Act 9635, the rating agencies also consider that an already high deficit coupled with rising interest, will lead to a rising debt ratio.
- The Government might find it difficult to approve new fiscal reforms with a highly divided Legislative Assembly.
- Adverse macroeconomic consequences caused by the country's fiscal deterioration could render the country's economy more vulnerable to external shocks.
- The rating agencies have also highlighted the high percentage of credits in foreign currency issued to the private sector to non-generators of foreign currency, which could increase the credit risk of financial entities.
- Difficulties that the Government might face to obtain funding now that it is dealing with higher interest rates and a high demand given shorter debt maturities.

The negative outlook is a reflection that, despite the approval of Law 9635, considerable risks of its implementation still exist, and these could increase the fiscal problems that the country is already facing. In addition, rising international interest rates are exerting pressure upon the country's debt, given higher funding costs.

On the strengths side, rating agencies mention that the Costa Rican government has a stable political system, the country's social development is relatively high, and the outlooks for long-term economic growth are favorable. Likewise, the diversification of Costa Rica's economy makes it more resistant than that of its peers in the region. The gradual change in its economic profile has sustained growth and contributed to the country's macroeconomic stability.

Regarding the Dominican Republic, the latest revisions of its rating confirm the country's risk rating in BB- and Stable perspective, in the case of Fitch Ratings and Standard & Poor's, and Ba3 with a Stable perspective in the case of Moody's.

Dominican Republic - International risk rating through May 2019				
Rating Agency	Long Term		Outlook	Update
	Previous	Current		
Standard & Poor's	BB-	BB-	Stable	04/19/18
Moody's	Ba3	Ba3	Stable	02/27/19
Fitch Ratings	BB-	BB-	Stable	10/10/18

Ratings issued reflect that rating agencies believe that, despite the slowdown in growth in recent years, an average GDP growth of 5% is expected over the next three years, surpassing the growth outlooks of its peers. Ratings also reflect the monetary policy framework of the Dominican Republic, which includes inflation targets, with a record of increasing effectiveness. They consider that the country's sovereign rating is limited by institutional weaknesses and the increase in government debt and interest charges.

Also, the Stable perspective is granted pending that economic growth remains solid and that the balance of payments risks are contained, however, it is not expected that in the short or medium term there will be significant reductions in the levels of government debt or the implementation of structural reforms that further strengthen tax frameworks.

In the case of Panama, the last revisions made by Standard & Poor's on April 2019 and by Moody's on March 2019 upgraded the country's sovereign risk rating. These ratings are the result of sustained growth of the Panamanian economy and its indexes, which have surpassed the growth rates of its peers. Furthermore, the rating agencies recognize the efforts made by the Government to strengthen the fiscal policy framework. Growth outlook for Panama in the coming years is expected to remain strong, as its GDP is expected to grow more than 5% as of 2022. The buoyancy of the Panamanian economy will remain linked to the investments and activities related to the Canal and the logistics sector.

On the other hand, Fitch Ratings, in its February 2019 revision, ratified Panama's investment grade in BBB with a stable outlook for the country's solid and sustainable macroeconomic performance, which has driven a continuous increase in per capita income. This is counterbalanced by a relatively narrow government revenue base and an uneven track record of meeting fiscal consolidation targets that has kept the government debt burden on an upward trend.

Panama- International risk rating through May 2019				
Rating Agency	Long Term		Outlook	Update
	Previous	Current		
Standard & Poor's	BBB	BBB+	Stable	04/29/19
Moody's	Baa2	Baa1	Stable	03/08/19
Fitch Ratings	BBB	BBB	Stable	02/25/19

The stable outlook reflects the expectation that the economic growth will continue supporting Panama's credit profile, which will continue stronger than that of its peers. Likewise, debt indexes are expected to remain unchanged during the next few years inasmuch as the government complies with its new fiscal rules.

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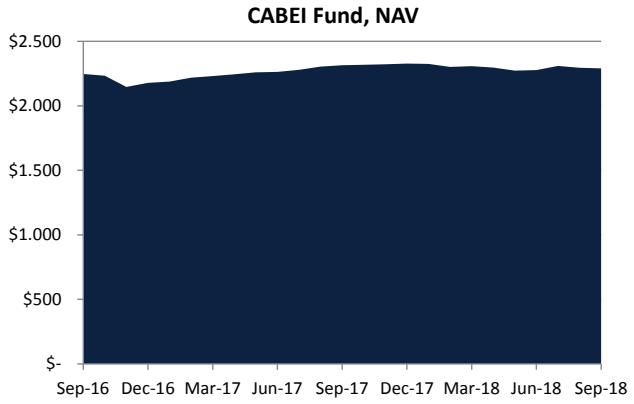
It should be noted that the Fund has been increasing its investments in countries such as Mexico, Colombia, and Chile, where sovereign ratings exceed those previously described.

4.4. Fund's Performance

The value of the Fund's share reached an amount of $ 2,386.46 at the closing of March 2019, increasing by 3% annually and by 4% semi-annually. Such valuation is highly related to securities of countries in which the Fund invests.

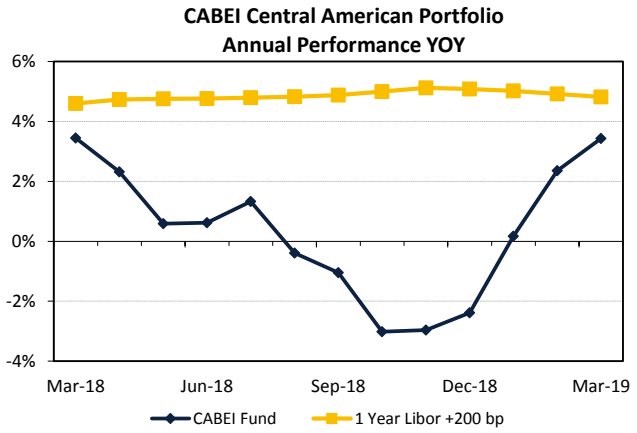


Despite the vulnerabilities shown by emerging markets, the CABEI Portfolio has proven to be able to adapt its strategy to the circumstances which arise in these markets.

As the Fund is focused on investments in securities of Central American countries, the valuation of its portfolio is highly correlated with what happens in these markets. Thus, the structural situation of high fiscal deficits, high vulnerability to external shocks, and low economic growth, raise the need that the choice of countries in which to invest is done carefully, in order to achieve higher returns with an acceptable risk level.

The Fund itself does not have a minimum return goal, however, the investment manager may obtain a "bonus" if operating above the minimum established rate.

During the first quarter of 2019, the year-on-year performance has shown a clear recovery, in contrast with several months with negative results after the closing of 2018. On average, the fund's performance was -0.40% during the semester under analysis. Nevertheless, as of March 2019, it had performed at a rate of 3.43%, a value that is similar to the one shown for the same period of the previous year.



According to the Management, the upward trend in the performance of the Fund 2019 could be explained due to the decrease in the rates in the United States, and the improved in the market sentiment towards emerging fixed income markets.

The Fund's portfolio is made up of investments in issuers with investment grade as well as speculative grade (36% and 64% on average, respectively). This responds to a management that is trying to take advantage of returns offered by riskier securities, but at the same time, combining with safer investments to mitigate the greater risk acquired. It should be noted that during the semester under analysis, the Fund relocated part of its investments according to their risk rating, moving resources from CCC/CC/C/SD to B rated securities.

It should be noted that the members of the Rating Board mention that it is necessary to pay special attention to the downward changes to risk ratings of some of the countries in which it is invested, as well as the impact that this could have on the Fund's performance.

Using the average performance and standard deviation of the Fund during the last 12 months, the Management is able to calculate its risk-performance ratio. In this case, both the performance of the Fund, as well as its volatility, increased slightly in relation to the values registered during the first semester.

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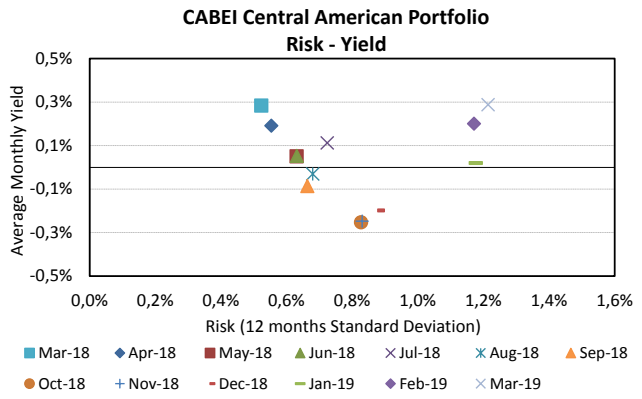
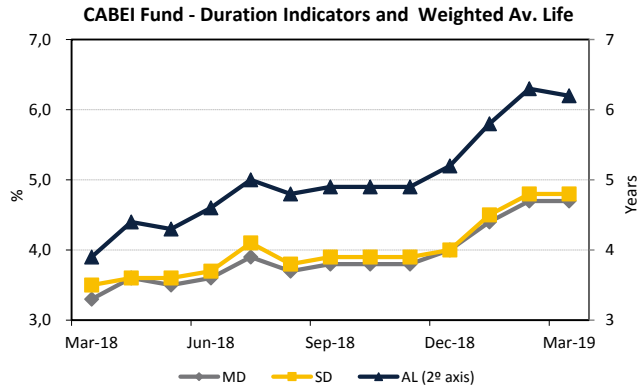


The modified duration (MD) measures the impact of a 1% variation in the average yield on the portfolio's change in value. On average, for the semester under analysis, the portfolio's MD was 4.23, a slight increase in comparison to the average of the previous semester (3.68).



Similar to the behavior of the MD, the average Spread Duration (SD), understood as the percentage change in portfolio prices resulting from a given change in the sovereign spread, increased semiannually, reaching an average of 4.32 (3.78 the previous semester).

The foregoing denotes that the portfolio has a greater exposure to changes in the credit risk ratings of emerging markets, which was caused by a readjustment of the investment portfolio's structure.

Ratings awarded have not undergone an appeal process by the qualified entity. The Investment Funds rating methodology used by SCRiesgo was updated in the regulator in February 2018. SCRiesgo granted a risk rating to this issuer for the first time since 2009. All the information included in this report on rating fundamentals is based on information obtained from issuers and subscribers, as well as other sources considered reliable by SCRiesgo. SCRiesgo does not audit or verify the veracity or accuracy of this information and does not consider the liquidity that the different securities may have, both in primary and secondary markets. The information included in this document is presented as it comes from the issuer or manager, without assuming any guarantee.

"SCRiesgo considers that the information received is sufficient and satisfactory for the corresponding analysis."

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