1. RISK RATING

This report analyzes the CABEI Central American Portfolio, with unaudited information through June and September 2019. Based on this information, the following risk rating was awarded:

<table>
<thead>
<tr>
<th>CABEI Central American Portfolio</th>
<th>Previous</th>
<th>Current*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rating</td>
<td>Outlook</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>SCR AA3 (CR)</td>
<td>Stable</td>
</tr>
<tr>
<td>Honduras</td>
<td>SCR AA3 (HND)</td>
<td>Stable</td>
</tr>
<tr>
<td>Panama</td>
<td>SCR AA3 (PAN)</td>
<td>Stable</td>
</tr>
</tbody>
</table>

**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 (IMF), global growth was estimated to have increased 3.7% in 2018, as previously projected. On the other hand, global growth is forecast at 3.2% for 2019, picking up to 3.5% in 2020. Such percentages decrease regarding estimates for previous periods, reflecting a weaker than anticipated global activity.

In Latin America, growth is projected in 0.6% in 2019, rising to 2.3% in 2020.

Regarding the Fund, the total assets under management as of September 2019 amounted to $157.05 million, a figure that increased by 9% annually and by 5% semi-annually.

The Fund’s portfolio has invested 14% of its assets in Panamanian securities, followed by 13% in Costa Rican securities, and 12% in Dominican securities, on average, for the six-month period being analyzed. In addition, investments in amounts approximate to 11% of the fund’s overall assets have been made in Guatemala, Honduras and Mexico, respectively.

In terms of relative significance, the portfolio’s composition showed some variations, as investments in El Salvador were reduced, and investments in countries such as the Dominican Republic, Panama and Mexico were increased, and new investments were established in countries such as Chile and Argentina.

"This risk rating represents the opinion of the Rating Company based on objective analyzes carried out by professionals. It is not a recommendation to buy, sell, or hold certain instruments, nor it guarantees an investment, issuance, or its issuer. We hereby recommend analyzing the prospectus, financial information, and relevant facts of the qualified entity available at the issuer’s offices, in the Office of the Superintendent General of Securities, Stock Exchanges, and other relevant offices."

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 (April 2019-September 2019) regarding the immediately preceding six-month period (October 2018-March 2019). If the variation is not semiannual, it will be noted.
After a series of negative results during the last months of 2018, the Fund’s profitability shows signs of recovery during 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.

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.

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\textsuperscript{1}), the global growth was estimated at 3.7% in 2018, as in the previous forecast. In addition, a 3.2% growth is forecast for 2019, picking up to 3.5% in 2020. Such percentages decrease in relation to previous estimates, reflecting a weaker than anticipated global economy.

Internationally, several factors have affected world economic growth, including the increase in commercial disputes, especially between the US and China, the uncertainty about how the UK will exit the EU, and a soft momentum of global activity.

The 2019 growth forecast considers the increase in tariffs from 10% to 25% enforced by the US in May 2019 on USD 200 billion of Chinese exports, and retaliation by China. On the other hand, downward revisions of growth forecasts for China and Asian emerging economies generally agree on the impact of the intensification of commercial tensions, and their subsequent effects on market confidence.

In the US, 2019 growth is expected to be 2.6%, decreasing to 1.9% in 2020, as the fiscal stimulus is withdrawn. To this date, growth has been strong in response to the strength of exports and inventory accumulation. However, domestic demand and imports were somewhat weaker than expected, partly due to the effect of tariffs.

Meanwhile, the euro area projects a 1.3% growth in 2019 and 1.6% in 2020. The euro area is expected to experience growth in what is left of 2019 and until 2020, as external demand is expected to recover.

Latin America saw a significant slowdown of activities at the beginning of the year in several economies, mainly due to idiosyncratic factors. The region is expected to grow at 0.6% in 2019, recovering to 2.3% in 2020. The considerable downward revision for 2019 reflects Brazil’s and Mexico’s reduction of their credit ratings. Argentina’s economy contracted during the first quarter of the year, although at a slower pace than in 2018. Contraction were also seen in the economies of Venezuela and Nicaragua, the latter with a considerable impact on Costa Rica; as well as the slowdown in the rest of Central America, Chile and Colombia.

\textsuperscript{1} International Monetary Fund: Word Economic Outlook. July 2019.

4.3. Assets Managed

Total assets under management as of September 2019 amounted to $157.05 million, a figure that increased by 9% annually and by 5% semi-annually. The behavior of assets, both annually and semi-annually, is directly related to the positive variation recorded in the value of shares.

On the other hand, the number of shares held by the Fund have not shown major variations during the last year. As of September 2019, a total of 62,952 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, Panama represented 14% of the Fund’s assets during the six-months period being analyzed, followed by Costa Rica with 13%, and Dominican Republic with 12%. Investments in amounts approximate to 11% of the fund's overall assets have been made in Guatemala, Honduras and Mexico, respectively.

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. The foregoing is carried out always under the framework of the Portfolio 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.

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.

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.

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.

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.

<table>
<thead>
<tr>
<th>Rating Agency</th>
<th>Long Term Previous</th>
<th>Current</th>
<th>Outlook</th>
<th>Update</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard &amp; Poor’s</td>
<td>BBB</td>
<td>BBB+</td>
<td>Stable</td>
<td>04/29/19</td>
</tr>
<tr>
<td>Moody’s</td>
<td>Baa2</td>
<td>Baa1</td>
<td>Stable</td>
<td>03/08/19</td>
</tr>
<tr>
<td>Fitch Ratings</td>
<td>BBB</td>
<td>BBB</td>
<td>Stable</td>
<td>02/25/19</td>
</tr>
</tbody>
</table>

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.

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 shares reached an amount of $2,494.75 at the closing of September 2019, increasing by 9% annually and by 5% semi-annually. Such valuation is highly related to the behavior of securities of countries in which the Fund invests.

As the Fund is focused on investments in securities of Central American countries, the valuation of its portfolio is highly correlated with the behavior of these markets. Thus, the current economic 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 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 return was 7.24% during the six-months period being analyzed, a significant improvement compared to the previous period.

According to Management, the upward trend of the Fund’s 2019 performance may be explained by the US lowering interest rates and the improvement of market confidence regarding emerging markets equity investments.
The Fund’s portfolio is made up of investments in issuers with investment grade as well as speculative-grade (39% and 61% 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 period 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.

Likewise, members of the Rating Board have stated that it is necessary to pay special attention to the downward revisions to risk ratings of some of the countries in which the Fund invests, as well as the impact that these 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-reward ratio. In this case, the Fund’s return increased with respect to values recorded during the previous period, and, on the other hand, volatility was slightly lower.

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The modified duration (MD) measures the impact of a 1% variation in the average return on the portfolio’s change in value. On average, for the period under analysis, the portfolio’s MD was 4.93, a slight increase compared to the average of the previous six-months period (4.23).

Similar to the behavior of the MD, the average Spread Duration (SD), understood as the percentage change in portfolio prices resulting from a change in the sovereign spread, increased semi-annually, reaching an average of 5.05 (4.32 the previous period).

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.”