

**MONTHLY REPORT**  
**August 2009**

**THE MEXICO EQUITY AND INCOME FUND, INC.**

**SUMMARY**

For the month ended August 31, 2009, the MXE NAV per share gained 5.83% outperforming the Mexbol Index's 3.12% gain.

As the market expected, on August 24th, 2009, CONSAR, the AFORES' governing body, modified their equity investment regime by permitting a divergence of +/- 4 percentage points from the weight of each stock within the trackers from a +/- 1 percentage point deviation previously. Following this change, heavily-weighted Mexbol constituents with low floats registered price decreases in August.

The MXE's NAV narrowed its return lag relative to the Mexbol Index posting the same year-to-date gain of 31%.

Starting in June 2009, our reading of a likely economic recovery led us to tactically increase the Fund's Beta-growth category and Special Situations weighting.

President Calderon's 2010 budget proposals which seek to boost public revenue in a bid to contain fiscal pressure in 2010 and 2011 and put fiscal accounts on the right track, are ambitious and still need to be approved.

Against this backdrop, the MXE will most likely maintain a balanced and diversified investment strategy, including ALPHA-defensive companies, highly competitive international companies, BETA-growth companies with access to financing, as well as SPECIAL SITUATION companies with low market caps and low floats but solid balance sheets and consolidating business niches.

**I. PERFORMANCE AND INVESTMENT STRATEGY**

For the month ended August 31, 2009, the MXE's NAV per share gained 6.76% in nominal terms. The Mexican Peso lost -1.3% versus the U.S. dollar, closing at 13.36 pesos/U.S. dollar.

The Fund's NAV discount narrowed 109 basis points as at end-August to -16.41% from -17.50% the previous month. As at end-August, 95% was invested in equities and, 5% in 8.5% dollar coupon corporate bonds.

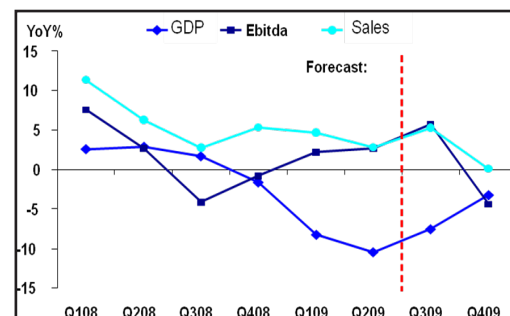
We believe that the main reasons the MXE posted a return 271 basis points above the Mexbol's August gain and narrowed the gap vis-à-vis the Mexbol for the year-to-date period were:

- i. Lagging MXE infrastructure stocks for the January-June period began to rebound in July and August vis-à-vis some Mexbol Index constituents which dropped for the first time since March as a result of the new Pension Funds investment regime.
- ii. Our tactical call to overweight the Fund's asset allocation in Beta-growth companies.
- iii. Our consistent search for Special Situation companies in consolidating business niches

**II. THE MEXBOL INDEX**

The Mexbol Index rose 4.02% in dollar terms in August, outperforming every other LatAm market except for Argentina, on the back of increasing confidence that the U.S. economic recovery is accelerating.

Accival's graph of Mexbol-listed companies reporting 2Q EBITDA growth of approximately 3% vs. minus -5% in 3Q08, compares favorably with a recessionary 2Q'09 GDP of -10% and confirms that heavily-weighted Mexbol constituents and some small caps do not correlate with the economy due to their strong market positioning flexibility to deal with suppliers, power to increase prices and efficiencies as well as their experience in dealing with extreme macroeconomic stress.



**III. THE MEXICAN ECONOMY**

According to Mexico National Institute of Statistics, Geography, and Informatics (INEGI), economic activity slumped 10.3% year-on-year (yoy) during the 2Q'09.

**MXE NAV US Dollar Return**

As of	US\$ 6.77531 Dividend Reinvestment		Mexbol
	Ex-Date Bloomberg	Payment Date	
8/31/09	12/23/08	01/27/09	
As of 1Q'09	-16.08%	-8.81%	-13.83%
As of 2Q'09	5.75%	14.92%	14.93%
August	5.83%	5.83%	3.12%
Y-t-d	20.77%	31.24%	31.06%
1 YEAR	-38.19%	-30.92%	-17.48%
Average Annual Dollar Return with Dividends Reinvestment			
3 YEAR	-0.74%	NA	2.99%
5 YEAR	16.27%	NA	18.54%
10 YEAR	13.90%	NA	14.54%
Since Inception in 1990*	13.66%	NA	13.14%

Source: Bloomberg, reinvesting gross dividend in security.  
 \*Thomson. Inception Date 08/30/1990. Not yet adjusted by Thomson on payment date due to the dilution effect on January 27, 2009.

As of	US\$ 6.77531 Dividend Reinvestment		Mexbol
	Ex-Date Bloomberg	Payment Date	
9/30/09	12/23/08	01/27/09	
1YEAR	-24.91%	-16.08%	-4.34%
Average Annual Dollar Return with Dividends Reinvestment			
5 YEAR	14.63%	NA	17.61%
10 YEAR	14.50%	NA	14.90%

Source: Bloomberg, reinvesting gross dividend in security.

**MXE Common Share Market Price US Dollar Return**

As of	Y-t-d	Average Annual Return			Since Inc.*
		1 YEAR	3 YEAR	5 YEAR	
8/31/2009	4.15	-40.91	-1.58	17.30	15.41
7.24					11.28

As of 1Q'09	-32.11%
As of 2Q'09	-10.06%

Source: Bloomberg, reinvesting gross dividend in security.

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data to the most recent month end may be obtained by calling U.S. Bancorp Fund Services, LLC, (414) 765-4255.

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### MXE Discount/Premium to NAV

As of	High (Ytd)	Low (Ytd)
8/31/2009		
-16.41%	-20.83%	-4.16%

Source: Bloomberg

### Mexbol Index Best Performing Constituents in US Dollar terms in August 2009

Company	One month ending 8/31/2009	Year-to-date ending 8/31/2009	1 year 8/31/08-8/31/09
CEMEX	40.39%	48.17%	-31.67%
COMERCIAL MEXICANA	23.05%	276.21%	-67.20%
BOLSA MEXICANA	19.24%	61.20%	3.94%
AXTEL	19.20%	18.39%	-47.29%
BANORTE	18.83%	61.42%	-27.20%
TELMEX	17.28%	-11.38%	-24.62%
GRUPO SIMEC	15.71%	64.99%	-38.30%
ICA	15.45%	26.92%	-53.08%
ALFA	15.32%	101.63%	-16.59%
CONSORCIO ARA	12.53%	46.84%	-27.12%

Source: Bloomberg

### Stock Exchanges Performance in US Dollar terms

Ticker	One month ending 8/31/2009	Year-to-date ending 8/31/2009	1 year 8/31/08-8/31/2009
MEXBOL (Mexico)	3.12%	31.05%	-17.48%
Mexbol-Total Return Index	3.13%	32.54%	-16.41%
MSCI Mexico	4.99%	33.87%	-17.21%
IPSA (Chile)	-3.88%	55.13%	1.60%
MERVAL (Argentina)	2.99%	47.77%	-21.21%
IBOV (Brazil)	2.76%	87.41%	-11.47%
IBVC (Venezuela)	10.55%	43.98%	24.11%
IGBVL (Peru)	0.16%	110.52%	5.01%
IGBC (Colombia)	1.96%	53.70%	6.99%
INDU*1 (U.S.)	3.54%	8.20%	-17.74%
CCMP*2 (U.S.)	1.54%	27.39%	-15.14%

\*1 Dow Jones, \*2 Nasdaq.

Source: Bloomberg.

Industrial production fell -6.5% in July on an annual basis and grew 2.84% on seasonally adjusted terms. This figure represents a good signal that industrial activity may be coming to a turning point.

Gross fixed investment declined -12.7% yoy in June and -0.02% in seasonally adjusted terms, representing the lowest decline since the flu outbreak in May.

Mexico's unemployment rate ended August at 6.28%, which in turn is above the level of 4.15% observed in August 2008, as well as the highest reading for the year so far.

Remittances fell -12.6% yoy during the first seven months of the year compared to the same period of 2008, going from 14,767 to 12,912 million dollars.

Retail sales declined 4.8% y/y in July.

Mexico's trade balance posted a deficit of -US\$ 1.3bn in July, above market expectations (-US\$551m). Compared to July 2008, exports and imports contracted -34.7% and -33.1%, respectively.

August inflation rose 0.24% with respect to July. Core inflation came in at 0.21%. These monthly increments left 12-month inflation at 5.08%, a significant lower figure compared to July's 5.44%.

Banxico maintained its interest rate at 4.5%, but did not provide any insight into the direction of monetary policy, nor did it comment on risks to the inflation outlook in the coming months.

### IV. CONCLUSION

We remain tactically invested in equities to the maximum average percentage of the last five years. We will monitor the macro variables in an effort to anticipate the possibility of a faster recovery for the Mexican economy due to its high correlation with the US; and, thus make the appropriate percentage allocations among our Beta, Alpha and Special Situation asset mix during the remainder of the year in accordance with the MXE's investment strategy.

Starting this month, we are also adding the Morgan Stanley Capital International -MSCI- Mexico Index as a second benchmark, as well as the Mexbol-Total Return Index.

We appreciate your confidence in the ability of PAM's team to manage the MXE as we seek to deliver stockholders a good return.

*Yours sincerely,  
Eugenia Pichardo,  
Portfolio Manager*

**ECONOMIC DATA**

**Economic Activity Index**

- Gross Domestic Product decreased 10.3% y/y during the **second quarter of 2009**. There was an overall contraction of the economy, with the exception of agricultural, which actually expanded marginally by 1.1% y/y. This contraction was led by the service sector (down 10.4% y/y) which is still suffering from the effects of the swine flu outbreak.

**Industrial Activity**

- Industrial production fell -6.5% y/y in **July**. Taking a look at the plunge, manufacturing production fell -9.9% year-over-year, construction declined -5.3%, mining activity increased 1.3%, and production of electricity, water, and gas grew 2.0%.

**Gross Fixed Investment**

- Gross Fixed Investment fell -12.7% y/y in **June**. The construction subcomponent came in at -3.2% year-over-year, while machinery and equipment declined -24.8% on the back of decreases in the domestic (-29.0%) and the imported components (-23.3%).

**Trade Balance**

- Mexico's trade balance posted a deficit of -US\$ 1.3bn in **July** beyond market expectations (-US\$551m). Compared to July 2008, exports and imports contracted -34.7% and -33.1%, respectively.

**Mexican Oil Mix**

- The price of the Mexican oil mix closed **August** at US\$68.58 per barrel translating into a 4.22% increase in the month and 100.41% increase during 2009. Amid for the one year trailing the Mexican mix still -36.23% below a year ago in 2008.

**Retail Sales**

- Retail sales declined 4.8% y/y in **July**, less than expected. The decline was led by sales of computers (-29.6% y/y), appliances (-21.4% y/y), and cars (-24.3% y/y), while sales of food and beverages remained flat with respect to the same month last year and supermarket sales were up 3.2% y/y.

**Unemployment**

- According to INEGI, Mexico's unemployment rate ended **August** at 6.28%, which in turn is above the level of 4.15% observed in August 2008, as well as the highest reading for the year so far. As a result, Mexico's unemployment rate has averaged 5.4% on a YTD basis, which is just 40 bps below the average reading observed in the same period of 1996.

**Monetary Policy**

- Banxico maintained the pause in monetary policy. As expected by the market, the Central Bank maintained its interest rate at 4.5%, but did not provide any insight on the direction of monetary policy, nor did it comment on risks to the inflation outlook in the coming months.

**Inflation**

- Mexico's **August** inflation rose 0.24% with respect to July, below market expectations for a rise of 0.27%. Core inflation came in at 0.21%. These monthly increments left 12-month inflation at 5.08%, a significant lower figure compared to July's 5.44%



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ECONOMIC PROJECTIONS

Structure of GDP:  
70%  
24%  
29%  
(32%)

	2004	2005	2006	2007	2008	2009e
<b>National Accounts</b>						
Real GDP growth (y/y)	4.4%	3.0%	4.8%	3.2%	1.3%	<b>(2.4%)</b>
GDP (US \$bn.)	676.5	769.4	843.6	886.0	1,099.0	<b>903.0</b>
Consumption (Chg. y/y)	5.5%	5.4%	6.0%	4.3%	2.2%	<b>(1.0%)</b>
Investment (Chg. y/y)	7.5%	7.6%	11.5%	7.4%	4.4%	<b>(-2.6%)</b>
Exports (Chg. y/y)	11.5%	6.9%	10.3%	6.2%	1.3%	<b>(6.1%)</b>
Imports (Chg. y/y)	10.2%	8.7%	13.1%	7.1%	5.5%	<b>(2.5%)</b>
<b>Monetary and Exch. Rate Ind.</b>						
CPI Inflation (Dec. cumulative)	5.2%	3.3%	3.8%	3.8%	6.5%	<b>3.5%</b>
US\$ Exchange Rate (Year-End)	11.1	10.6	10.9	10.9	13.40	<b>13.50</b>
28day Cetes Int. Rate (Year-End)	8.5%	8.2%	7.1%	7.4%	7.9%	<b>5.75%</b>
<b>Balance of Payments</b>						
Trade Balance (US\$bn.)	(8.8)	(7.6)	(6.1)	(12.4)	(16.8)	<b>(26.0)</b>
Exports (US\$bn.)	188.0	214.2	253.9	270.6	291.8	<b>232.5</b>
Imports (US\$bn.)	196.8	221.8	260.0	283.0	308.6	<b>258.5</b>
Transfers (US\$bn.)	17.0	20.5	24.0	24.3	25.5	<b>24.0</b>
Current Account (US\$bn.)	(7.3)	(4.6)	(2.4)	(9.0)	(15.5)	<b>(20.9)</b>
Current Account (%GDP)	(1.1)	(0.7)	(0.3)	(1.0)	(1.4)	<b>(2.3)</b>
Foreign Direct Inv. (US\$bn.)	17.9	18.8	17.9	21.6	27.2	<b>18.6</b>
<b>Debt Profile</b>						
International Reserves (US\$bn.)	61.5	68.7	71.5	76.5	85.4	<b>93.6</b>

Source: Banamex.

MAIN MARKET STATISTICS

Global Value Traded (08/31/09)	
Index	Volume (U.S. \$ Million)
Mexico Stock Exchange	500.53
Brazil-Bovespa	3007.702
Chile-Santiago Stock Exchange	437.718
Peru-Lima Stock Exchange	12.86
US-NYSE	27713.0
US-NASDAQ	13352.8

Source: Bloomberg

Commodities (08/31/09)				
US\$, %	Last	1M	3M	Y-T-D
Silver	14.90	7.0	-5.3	30.8
Gold	951.25	-0.3	-2.8	7.8
Copper	6464.00	13	34.2	112.5
Crude (WTI)	69.96	0.7	5.5	56.9
Crude (MIX)	68.58	4.2	10.0	100.4

Source: UBS Pactual

Currencies (08/31/09)				
(per US\$ %)	Last	1M	3M	Y-T-D
MXN (Mexico)	13.36	-1.3	-1.6	2.3
ARS (Argentina)	3.85	-0.6	-2.8	-10.4
BRL (Brazil)	1.88	-0.8	4.8	23.1
EUR (European Union)	0.70	0.5	1.2	2.6
JPY (Japan)	93.12	1.7	2.4	-2.7
PEN (Peru)	2.95	1.1	1.1	6.1
CLP (Chile)	553.65	-2.3	1.5	15.3

Source: UBS Pactual

Debt Securities (08/31/09)	
	Last
28-day Cetes	4.55
M10Y Bond	8.16
M20Y Bond	8.71
30Y Treasury Bond	4.18

Source: Bloomberg

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## Disclosures and Definitions

*The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling U.S. Bancorp Fund Services, LLC, (414) 765-4255. Read it carefully before investing.*

**Mutual fund investing involves risk. Principal loss is possible.**

### Investing in Foreign Securities

Investment in Mexican securities involves special considerations and risks that are not normally associated with investments in U.S. securities, including (1) relatively higher price volatility, lesser liquidity and small market capitalization of the Mexican securities markets; (2) currency fluctuations and the cost of converting Mexican pesos into U.S. dollars; (3) restrictions on foreign investment and potential restrictions on repatriation of capital invested in Mexico and remittance of profits and dividends accruing thereon; (4) political, economic and social risks and uncertainties, including risks of confiscatory taxation and expropriation or nationalization of assets; (5) higher rates of inflation, unemployment and interest rates than in the United States; and (6) less stringent disclosure requirements, less available information regarding Mexican public companies and less active regulatory oversight of Mexican public companies.

**Mexican Economic and Political Factors.** Although Mexico's economy has strengthened in recent years and Mexico's sovereign debt was recently upgraded to an "investment-grade" rating by the three most prominent rating agencies, including Standard and Poor's, Mexico continues to be characterized as a developing economy and investments in developing countries are subject to certain economic risks. Mexico has experienced widespread bank failures, currency devaluations, high levels of inflation and interest rates. Mexico is also dependent on certain industries and exports for the health of its economy. The Portfolio Securities are denominated in pesos. As a result, the Portfolio Securities must increase in market value at a rate in excess of the rate of any decline in the value of the peso against the U.S. dollar in order to avoid a decline in their equivalent U.S. dollar value.

**Mexican Securities Laws and Accounting Rules.** There is less publicly available information about the issuers of Mexican securities, such as the Portfolio Securities, than is regularly published by issuers in the United States. Information provided by Mexican public companies may not be current, accurate or easily obtainable and, to the extent available, is likely to be in Spanish. Also, there is generally less governmental supervision and regulation of exchanges, brokers and issuers in Mexico than there is in the United States. U.S. holders of Portfolio Securities may also experience difficulties enforcing U.S. laws or obtaining service of process against the issuers of the Portfolio Securities.

- *MEXBOL-Mexico Bolsa Index: The Mexican Bolsa Index, or the IPC (Indice de Precios y Cotizaciones), is a capitalization-weighted index of the leading stocks traded on the Mexican Stock Exchange. The index was developed with a base level of 0.78 as of October 30, 1978.*
- *Mexbol-total return index. The Mexican Bolsa index that calculates the performance of their constituents assuming that all dividends and distributions are reinvested.*
- *IPSA-Chile Stock Market Select: The IPSA Index (Indice de Precios Selectivo de Acciones) is composed of the 40 stocks with the highest average annual trading volume in the Santiago Stock Exchange (Bolsa de Comercio de Santiago). On the last trading day of the year, the index is re-based back to 1000. The index has been calculated since 1977 and is revised on a quarterly basis.*
- *MERVAL-Argentina Merval Index: The Argentin Merval Index, a basket weighted index, is the market value of a stock portfolio, selected according to participation in the Buenos Aires Stock Exchange, number of transactions and trading value. The index has a base value of \$0.01 as of June 30, 1986. The index is revised every 3 months, taking into account trading volumes over the past 6 months.*
- *IBOV-Brazil Bovespa Stock Exchange Index: The Bovespa Index is a total return index weighted by traded volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Bovespa Index has been divided 10 times by a factor of 10 since January 1, 1985, those dates are: 12/02/85, 04/14/89, 05/28/91, 01/26/93, 02/10/94, 08/29/88, 01/12/90, 01/21/92, 08/27/93, 03/03/97.*
- *IBVC-Venezuela Stock Market Index: The IBC Index from the Caracas Stock Exchange (Venezuela), also known as the General Index, is a capitalization-weighted index of the 15 most liquid and highest capitalized stocks traded on the Caracas Stock Exchange (Bolsa de Valores de Caracas). The index was modified from a previous existing index on August 28, 1997, but essentially continues to be the same.*
- *IGBVL-Peru Lima General Index: The IGBVL Index is a value weighted index that tracks the performance of the largest and most actively traded stocks on the Lima Exchange. The index was developed with a base value of 100 as of December 31, 1981.*
- *IGBC-IGBC General Index: The IGBC Index from the Colombia Stock Exchange, also known as the General Index, is Price-weighted index of the liquid and highest capitalized stocks traded on the Colombia Stock Exchange (Bolsa de Valores de Colombia). This index was merged with Medellin and Occidente since 7/3/01.*
- *INDU-Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.*
- *CCMP-Nasdaq Composite Index: The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three Nasdaq tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.*

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- *MSCI MEXICO: The Morgan Stanley Capital International Index Mexico is a capitalization weighted index that monitors the performance of stocks from Mexico.*
- *M10Y Bond: The Underlying Asset is the Fixed Interest Rate Federal Government Development Bonds, issued or to be issued by the federal government, through the Ministry of Finance and Public Credit, and placed by the Central Bank (Banco de Mexico), in its capacity as financial agent of the federal government, at a par value of 100 (one hundred) Mexican pesos, and for a term of 10 (ten) years.*
- *M20Y Bond: The Underlying Asset is the Fixed Interest Rate Federal Government Development Bonds, issued or to be issued by the federal government, through the Ministry of Finance and Public Credit, and placed by the Central Bank (Banco de Mexico), in its capacity as financial agent of the federal government, at a par value of 100 (one hundred) Mexican pesos, and for a term of 20 (twenty) years.*

*You cannot invest directly in an index.*

*Beta measures the volatility of the fund, as compared to that of the overall market. The Market's beta is set at 1.00; a beta higher than 1.00 is considered to be more volatile than the market, while a beta lower than 1.00 is considered to be less volatile.*

*Basis point (bps) is one hundredth of a percentage point ( 0.01%).*

*The net asset value per share (NAV) is calculated as the total market value of all the securities and other assets held by a fund minus the total liabilities, divided by the total number of common shares outstanding. The NAV of an investment company will fluctuate with the changes in the market prices of the underlying securities. However, the market price of a closed-end fund is determined in the open market by buyers and sellers. This public market price is the price at which investors may purchase or sell shares of a closed-end fund. The market price of a closed-end fund fluctuates throughout the day and may differ from its underlying NAV, based on the supply and demand for a fund's shares on the open market. Shares of a closed-end fund may trade at a premium to (higher than) or a discount to (lower than) NAV. The difference between the market price and the NAV is expressed as a percentage that is either a discount or a premium to the NAV, or underlying value.*

*Free Cash Flow: a measure of financial performance calculated as operating cash flow minus capital expenditures. Free cash flow (FCF) represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. Price to Book Value ratio (P/BV): a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.*

*Price to Earnings ratio (P/E): a valuation ratio of a company's current share price compared to its per-share earnings.*

*Earnings before interest, taxes, depreciation and Amortization (EBITDA): an indicator of a company's financial performance and it is essentially Net Income with interest, taxes, depreciation, and amortization added back to it. EBITDA can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions. However, this is a non-GAAP measure that allows a greater amount of discretion as to what is (and is not) included in the calculation.*

*Net Debt/EBITDA: A measure of a company's ability to pay off its incurred debt. This ratio gives the investor the approximate amount of time that would be needed to pay off all debt, ignoring the factors of interest, taxes, depreciation and amortization.*

*Alpha stocks: is an asset classification created by PAM and is based on the following criteria: high total annual yield, clean balance sheet, market share dominance and pricing power.*

*Beta stocks: in an asset classification created by PAM and is based on the following criteria: oversold stocks with consistent sales and EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) growth, especially in the infrastructure and housing sectors.*

*Return on Equity (ROE) is a measure of a corporation's profitability. It represents the average return on equity on the securities in the portfolio, not the actual return on equity on the portfolio.*

*Moody's Baa1 Bonds-Bonds which are rated Baa are considered medium grade obligations, i.e. they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great period of time. The modifier "1" indicates that the security ranks in the higher end of its generic rating category.*

*Diversification does not assure a profit or protect against loss in a declining market.*