

MONTHLY REPORT
August 2011
THE MEXICO EQUITY AND INCOME FUND, INC.
EXECUTIVE SUMMARY

For the one-month period through August 31, 2011, the MXE's net asset dollar loss per share of -4.83% was a monthly underperformance of 0.50% compared to the Morgan Stanley Capital International Mexico Index's -4.33% loss (MSCI Mexico). The Mexbol Index's total return decreased -5.50% in August. (Source: *Bloomberg*). The Mexican Peso depreciated 5.16% to the U.S. dollar in August.

Stocks that had the biggest negative impact on the Fund's performance were Beta companies related to OTC-generic products and petrochemicals, as well as special situations, specifically, department stores and car insurance. The MSCI Mexico benchmark's overweight in a few stocks and distortion caused by a very speculative and relatively less liquid constituent related to specialty retailing continues to benefit the Index's overall performance.

The MXE's de-indexed asset class allocation at end August was as follows: 90% invested in equities, 3% in the Mexican Real Estate Investment Trust, 3% in a Private Equity Fund, 2% in fixed-income instruments (corporate dollar-denominated bond and sovereign debt) and 2% in cash and equivalents.

The MXE's net asset dollar return per share continues to outperform the Morgan Stanley Capital International Mexico Index for both the year-to-date and one-year periods, through end-August, 2011:

- i. +345 basis points for the year-to-date period registering a return of -1.56% (source: *USBancorp*) vs. -5.01% MSCI Mexico Index.
- ii. +126 basis points for the one-year period gaining 24.19% in dollar terms vs. 22.93% MSCI Mexico Index. The MXE's one-year market share price registered a 24.15% return. (source: *USBancorp*).

The MXE's non-indexed portfolio registered marginal changes in asset class diversification compared to July 2011. The consumption sector continues to be the Fund's main overweight position (30%), followed by Telcos (20%), and infrastructure (12%). At end-August, the MXE's core holdings can be divided into three types: (i) companies with strong balance sheets, most of which have low Net Debt to Ebitda ratios; (ii) companies with high profitability and high growth rates; and (iii) small & mid cap stocks, which in our view have high intrinsic value that is not yet reflected in their market prices.

While the Mexican economy continued to perform relatively well up to August, with exports still growing at a double-digit pace on the back of strong manufacturing exports (vehicle sales, mostly), and oil prices close to US\$90 per barrel, recent leading indicators reflect an economy that is cooling down due to an ongoing sluggish US economy, and supply-chain disruptions in Japan. The Mexican Purchasing Managers Index is at its lowest level since August 2009, and consumer confidence remains below where it was during the post-2001 recession. (Source: *Santander*).

Santander has revised down its GDP growth forecast to 3.9% y/y from 4.5% y/y for 2011 and to 3.2% from 3.7% for 2012, and is expecting less vigorous expansion in exports and investment in the 2H11.

August was a month characterized by a strong bout of volatility in markets due to: (i) a lack of consensus among US politicians which threatened to wreck the recovery through irresponsible fiscal brinkmanship; (ii) Europe's leaders continuing to drag their feet on how to save the euro, and (iii) gloomy prospects for the world economy as the rich world's fiscal austerity intensifies and slowing emerging economies provide less of a cushion for global growth.

We will continue to search for value in small and mid caps.

I. PERFORMANCE AND INVESTMENT STRATEGY

For the one-year period through August 31, 2011, the MXE's 24.19% (Source: *U.S. Bancorp*) net asset dollar gain per share constituted a 126 basis points outperformance of the MSCI Mexico Index's 22.93%. The Mexbol Total Return Index gained 22.66% for the same period. (Source: *Bloomberg*).

At end-August, the Fund's discount to NAV narrowed 96 bps to -11.25% compared to -12.217% at the end of July 2011 (Source: *Bloomberg*).

The MXE's -1.56% NAV year-to-date performance ending August 31, 2011, continues to be more defensive compared with the MSCI Mexico Index's -5.01% loss. We believe that our discipline in adhering the Fund to its investment strategy based on fundamental analysis, and more importantly adequate stock picking, has so far proven effective in outperforming the MSCI Mexico benchmark. The top-three best contributors

Total Net Assets 08/31/2011	NAV 08/31/2011	Common Share Market Price 08/31/2011
US\$	US\$	US\$
84,953,443.77	12.62	11.20

MXE US Dollar Returns

As of	NAV	Common Share Market Price %	Mexbol	MSCI Mexico
08/31/2011	%		%	%
August	-4.83	-3.78	-5.50	-4.33
Y-t-d	-1.56	-1.15	-6.12	-5.01
1 YEAR	24.19	24.15	22.66	22.93

Average Annual Dollar Return with Dividends Reinvestment				
5 YEAR	9.48	12.20	10.38	8.50
10 YEAR	16.11	18.54	17.33	13.59
*Since MXE's inception in 1990	14.19	14.55	N/A	13.20

* Period: 08/31/1990-08/31/2011.

As of Sept. 30, 2011	MXE NAV %	MXE Price %
1 year	-5.49	-2.64
5 years	4.67	7.36
10 years	18.09	16.57
Since inception in 1990 as of 09/30/11	11.08	16.28

Source:
 MXE's NAV and Common Share Market Price Returns:
 I) Monthly, year-to-date, 1 and 5-year: *USBancorp*.
 II) 10-year: *Bloomberg*.
 III) Since MXE's inception: *Thomson*.
 Mexbol and MSCI Mexico indexes' returns: *Bloomberg*.

Fund's gross expense ratio = 1.55% for the six months ended January 31, 2011 (unaudited).

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.

MXE Discount/Premium to NAV

As of August 31, 2011.	Low (1 yr) 09-17-2010	High (1 yr) 12-11-2010
-11.25	-12.57	-8.765

Source: Bloomberg

Mexbol Index Best Performing Constituents in US Dollar terms in August 2011

Company	MXE weight %	One month ending 08/31/2011 %	Year-to-date ending 08/31/2011 %	1 year 08/31/10-08/31/11 %
ELEKTRA	0.00	14.36	97.64	161.62
PE&OLES	3.68	10.82	33.86	134.38
TELMEXL	0.00	6.09	8.73	29.94
AMXL	19.43	-0.56	-10.18	11.06
TLEVICPO	0.00	-0.63	-13.96	20.12
ASURB	0.00	-1.30	8.60	51.29
CHEDRAUIB	0.00	-2.41	-1.80	8.28
LIVEPOLC	9.53	-3.46	14.79	58.01
WALMEXV	4.40	-3.70	-5.91	20.85
KIMBERA	0.00	-4.06	0.15	8.34

Source: Bloomberg

Stock Exchanges Performance in US Dollar terms

Ticker	One month ending 08/31/2011 %	Year-to-date ending 08/31/2011 %	1 year 08/31/10-08/31/11 %
IPSA (Chile)	-3.67	-11.60	3.63
IBVC (Venezuela)	11.69	71.17	81.28
IGBC (Colombia)	-4.43	-6.07	-0.48
INDU (Dow Jones, U.S.A.)	-3.96	2.15	19.03
CCMP (Nasdaq, U.S.A.)	-6.28	-2.15	23.32
MEXBOL (Mexico)	-5.58	-7.14	20.85
MSCI Mexico	-4.42	-6.95	20.98
MEXBOL Total Return Index *	-5.50	-6.12	22.66
MSCI Mexico 1*	-4.33	-5.01	22.93
MERVAL (Argentina)	-11.19	-17.55	23.88
IBOV (Brazil)	-6.01	-14.51	-4.00
IGBVL (Peru)	-5.38	-8.83	40.19

Source: Bloomberg

*1 With dividends reinvested into index.

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to the Fund's performance have been companies related to toll road concessions, silver production, and beverages.

Our decision to diversify the portfolio by including alternative assets, such as the Mexican REIT, has also made a significant contribution to the fund, which has proven defensive. For the rest of the year, we would highlight the importance of making precise and structured stock choices in order to obtain attractive returns while minimizing the potential risk in a market dominated by uncertainty.

II. THE MORGAN STANLEY CAPITAL INTERNATIONAL MSCI-MEXICO INDEX

The MSCI Mexico Index's 22.93% one-year to end-August dollar gain ranked it as the best performing Latam related equity market. The other MSCI related indexes registered the following gains: Argentina (14.83%), Chile (5.90%), Colombia (4.37%), Peru (10%) and Brazil (0.76%). (Source: Bloomberg).

The year-to-date performance of Mexico's equity market through end-August (-6.12% in dollars) remains defensive compared with Latam markets, especially Brazil (-14.51%). While the Mexbol Index has not gone unscathed by market turmoil, the country continues to have a solid so-vereign balance. In terms of valuation, the Mexican Bolsa has returned to its 5-year average in both EV/EBITDA and P/E terms. The Mexican Bolsa is trading at 16.87x P/E with a 12.10x 1-yr forward multiple and at 7.79x EV/EBITDA with a 6.60x 1-yr forward multiple.

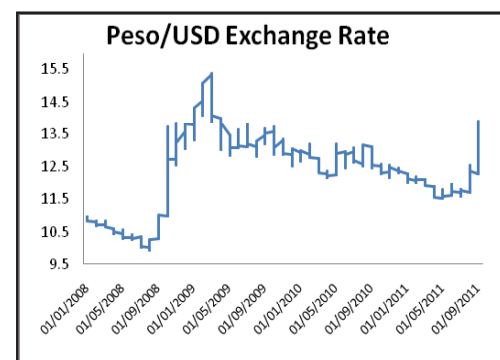
III. THE MEXICAN ECONOMY

While there have been recent downwards revisions to Mexico's projected 2011 GDP growth rate (from 4.0-4.5% to 3.5-4.0%), it should be noted that one of the economy's strengths is related to Gross Fixed Investment, which grew 8.6% YoY during 1H11 (Source INEGI). In July 2011, the construction industry grew 4.4% YoY, with its major components, heavy construction and civil engineering, posting YoY growth rates of 3.9% and 5.3%, respectively. The construction industry's annual growth rate is above that of the economy as a whole, while employment in the sector continues to rise.

Despite the creation of 414 thousand formal jobs year-to-date through August (source IMSS), there are signs that the Mexican labor market is being negatively impacted by global

uncertainty and slower growth. Thus, the unemployment rate rose to 5.79% in August, the highest since January 2010, as a weak US recovery along with tougher immigration policies has swelled the ranks of the working age population in Mexico.

Regarding recent market volatility, the chart below shows its impact on the Peso/USD exchange rate, indicating that problems in developed economies are having a clear impact on countries such as Mexico, which despite healthy government finances and a strong banking sector, are being affected by global uncertainty and lack of leadership.



IV. CLOSING REMARKS

We are pleased to reiterate that the MXE did not hold companies with high debt and no free cash flow visibility, especially cement, housing and heavy construction stocks, over the past eight months of high volatility. We confirm that the MXE remained primarily invested (33%) in so-called Beta stocks, as classified by PAM, and 32% in Alpha stocks as at end-August.

We will continue to search for small and mid caps with an investment edge.

*Yours sincerely,
 Eugenia Pichardo
 Portfolio Manager*

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ECONOMIC DATA
Economic Activity Index

In **June**, according to INEGI, economic activity (IGAE -a Gross Domestic Product proxy) reported a variation of -0.21% month over month (m/m). This proxy increased 3.6% y/y in the referred month. In seasonally-adjusted terms, the service sector's activities increased 0.10% and the industrial ones decreased -0.57% m/m, while the agricultural sector's activities decreased -1.48% m/m .

Industrial Activity

In **July**, industrial production increased 0.51% m/m, and increased 3.2% y/y. Seasonally adjusted data show an increase in Manufacturing of 1.21%, Construction increased 0.71%, while Mining decreased -1.32%, and Utilities decreased -0.36% m/m.

Gross Fixed Investment

In **June**, gross fixed investment (GFI) increased 0.56% m/m. Expenses in machinery and equipment increased 2.68%, and the construction subcomponent decreased -0.61% m/m. GFI posted a 11.6% y/y growth.

Trade Balance

The trade balance of **July** posted a USD\$1,107 m surplus. Total exports increased 19.4% y/y on a 32.2% increase in oil exports and a 17.2% increase in non-oil exports. This last figure was due to an increase in exports of 15.5% to the US, and of 23.3% to the rest of the world. Imports grew in this month 19.2% y/y.

Mexican Oil Mix

As of **end-August**, the price of the Mexican oil mix was of USD\$102.40 per barrel, translating into a -2.54% decrease in a month, and 54.07% in one year.

Retail Sales

In **June**, retail sales registered an increase of 4.8%, compared to the same month of 2010. Retail sales recorded a increase of 0.73% in relation to the previous month.

Unemployment

In **July**, the unemployment rate came in at 5.27%. By gender, unemployment in men decreased from 5.66% to 5.50% y/y, and that in women increased from 5.78% to 5.83% y/y, in the same month.

Monetary Policy

Banco de México left its benchmark rate unchanged at 4.5% in **August**.

Inflation

CPI of **August** came in at 0.16% month-over-month. General annual inflation came in at 3.42%. General prices registered an annual variation of 3.22% versus the previous month's print of 3.19%

Source: UBS, INEGI, SANTANDER.

ECONOMIC PROJECTIONS

	2008	2009	2010	2011e	2012e	2013e
National Accounts						
Real GDP growth (y/y)	1.2%	-6.1%	-5.4%	3.9%	3.2%	3.5%
GDP (US \$bn.)	1104.2	882.4	1035.6	1146.5	1171.8	1281.5
Consumption (Chg. y/y)	1.8%	-7.2%	5.0%	4.6%	4.2%	4.4%
Investment (Chg. y/y)	5.9%	-11.9%	2.4%	8.4%	5.0%	6.3%
Exports (Chg. y/y)	0.5%	-13.7%	25.6%	7.7%	6.3%	8.2%
Imports (Chg. y/y)	2.8%	-18.6%	23.5%	12.9%	8.1%	9.0%
Monetary and Exch. Rate Ind.						
CPI Inflation (Year-end)	6.5%	3.6%	4.4%	3.4%	3.7%	3.6%
US\$ Exchange Rate (Year-End)	11.2	13.5	12.6	12.3	12.9	12.7
28day Cetes Int. Rate (Year-End)	7.9%	5.6%	4.5%	4.5%	4.8%	4.6%
Balance of Payments						
Trade Balance (US\$bn.)	-17.3	-4.6	-3.0	-2.6	-7.6	-9.3
Exports (US\$bn.)	291.3	229.8	298.5	349.8	371.4	401.3
Imports (US\$bn.)	308.6	234.4	301.5	352.3	379.0	410.6
Transfers (US\$bn.)	25.5	21.5	21.5	23.0	23.9	25.1
Current Account (US\$bn.)	-16.3	-6.4	-5.7	-11.6	-16.2	-16.6
Foreign Direct Inv. (US\$bn.)	25.9	15.6	19.6	20.6	22.3	24.6
Debt Profile						
International Reserves (US\$bn.)	85.4	90.8	113.6	140.3	146.0	150.5
Public Debt (gross % of GDP)	25.6	33.2	28.6	25.8	28.9	29.0
External Debt (US\$bn.)	129.9	163.8	155.1	147.7	142.0	142.0

Source: INEGI, SANTANDER estimates.

PAM's investment team

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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.

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 Economic and Political Factors. As of November 2011, the Mexican economy is running a healthy economic growth after more than a decade of prudent and responsible fiscal and monetary policies. The country has strong fundamentals: (i) 30% total debt as a percentage of GDP and low fiscal deficit, (ii) a flexible foreign exchange rate regime that has led to a relative undervalued Mexican currency, which is key to maintaining the competitiveness of Mexican exports despite the surge of capital flows to emerging markets, (iii) a solid banking system with a capitalization level double that of the regulatory minimum and the commitment of Mexican development banks to continue granting credit to infrastructure, (iv) contained inflationary pressures that are also determined by Mexico's labor market difficulties, while on the positive side leaving Mexico in a good position to cut rates if the international environment deteriorates further. The main economic risks are: the high correlation of its exports to the U.S. economy and the ongoing crime-related problems.

Mexican Securities Laws and Accounting Rules. All companies in the Mexican Stock Exchange have adopted International Financial Reporting Standards (IFRS). Information provided by Mexican public companies may not be current or accurate and is likely to be in Spanish and English. 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.*
- *MSCI MEXICO: The Morgan Stanley Capital International Index Mexico is a capitalization weighted index that monitors the performance of stocks from Mexico.*

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

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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.

Alpha-defensive companies: 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-growth companies: is 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.

Special Situation companies: is an asset classification created by PAM and is based on the following criteria: High discount to companies' valuation.

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

Growth stocks typically are more volatile than value stocks; however, value stocks have a lower than expected growth rate in earnings and sales.

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.

Earnings per share (EPS) is calculated by taking the total earnings divided by the number of shares outstanding.

Consumer Price Index: measures monthly changes in the general level of prices of goods and services that households acquire for consumption. This index is calculated and published on a monthly basis by Banco de México, the Central Bank.

Free cash flow is revenue less operating expenses including interest expenses and maintenance capital spending. It is the discretionary cash that a company has after all expenses and is available for purposes such as dividend payments, investing back into the business or share repurchases.

Fund holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security.

Current and future portfolio holdings are subject to risk.

Mexican Purchasing Managers Index: An indicator of the economic health of the Mexican manufacturing sector. The Index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

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

Enterprise value-to-Ebitda (EV/EBITDA): A ratio used to determine the value of a company. The enterprise multiple looks at a firm as a potential acquirer would, because it takes debt into account - an item which other multiples like the P/E ratio do not include.