

**MONTHLY REPORT**  
**February 2011**

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

**SUMMARY**

For the one-month period ended February 28, 2011, the MXE's net asset dollar value per share decreased -0.40% (0.05% in local currency) compared with the Mexbol Total Return Index's 0.43% gain and the MSCI Mexico Index's 0.85% gain. The Fund's 83 basis points underperformance relative to Mexbol's TRI and MSCI Mexico was due mainly to the Fund's de-indexed investment strategy.

Equities accounted for 94% of the Fund's total assets, while 3% was invested in debt and cash equivalents, and 3% in private equity.

At end-February, the portfolio allocation included a balance between Alfa-defensive (39%) and Beta-high growth companies (39%). The former comprised 8 quality companies mainly in the retail, consumer staples, cell telephony and food and beverages sectors. The latter included 10 high growth companies in cyclical industries mainly related to copper mining, petrochemical, infrastructure and over-the-counter/generics products.

Companies' 4Q10 reports were positive overall, confirming the recovery trend in the Mexican economy, with total sales increasing 9.1% Y/Y, EBITDA up 10.8%, and net earnings +3.4%. Results were generally in line with analysts' expectations. The focus this quarter was on Free Cash Flow generation with airports, fixed telephony and the retail sector registering the strongest figures. The homebuilding and infrastructure sectors registered significant year-over-year increases in net debt.

The Mexican Economy remains on a strong growth track, as 2010 GDP grew 5.5% YoY. The consensus estimate for 2011 has been revised up from about 3.6% at the beginning of the year to the current 4-5% private consensus. Gross fixed investment and private consumption (the two major components of GDP) are leading the recovery, as close to 900,000 jobs have been created over the last 14 months. The positive trend in the labor market has encouraged banks to resume lending, especially in the household and durable goods segments. However, consumer loans are still far off pre-crisis levels.

We do not anticipate any major changes in the asset allocation for the remainder of the year.

**I. PERFORMANCE AND INVESTMENT STRATEGY**

For the one-year period ending February 28, 2011, the MXE's 30.13% net asset dollar value per share increase (*Source: USBancorp*) continued to outperform the Mexbol Index's gain by 501 bps and the MSCI Mexico Index by 221 bps. The MXE's common share market price increased 38.46% in dollar terms for the same period. At end-February, the discount to NAV stood at -10.95% compared to 10.75% at end-January 2011 (*Source: Bloomberg*).

The MXE's 20-year net asset dollar value per share registered a 14.56% average annual return, with dividends reinvested, since the Fund's inception in August 1990 through February 28, 2011. The Fund's common share market price registered a 13.99% average annual dollar gain for the same period. (*Source: Thomson*).

At end-February, the Fund's portfolio comprised quality companies with strong fundamentals and a balanced risk/reward ratio:

- i. Alfa companies accounting for 39% of the Fund's total assets seek to generate high total returns and operate in defensive sectors. They have the following attributes:
  - » A weighted average dividend yield of 2.58% for the 8 Alfa stocks in the portfolio, ranging from a high of 4.5% for Consumer Staples to a low of 0.62% for Food & Beverages.
  - » Total buybacks of US\$2.4 billion for the 12-mos. trailing period (Cell telephony accounted for US\$1.7 bn.)
  - » Stable earnings growth estimated at 11% on average for the next 3-4 years (the retailer with the best corporate governance in the world with a 3-year estimated EPS CAGR as high as 22%).
  - » An average EBITDA margin of 23%.
  - » Net Debt/EBITDA ratio of below 1 or negative.

Total Net Assets 02/28/2011	NAV 02/28/2011	Common Share Market Price 02/28/2011
US\$	US\$	US\$
88,032,332.55	12.60	11.22

MXE US Dollar Returns as of February 28, 2011

As of	NAV	Common Share Market Price %	Mexbol	MSCI Mexico
02/28/2011	%		%	%
February	-0.40	-0.62	0.43	0.85
Y-t-d	-1.72	-0.97	-2.00	-201
1 YEAR	30.13	38.46	25.12	27.92

Average Annual Dollar Return with Dividends Reinvestment

5 YEAR	11.25	14.15	12.86	10.16
10 YEAR	17.15	18.12	19.10	15.00
Since Inception in 1990	14.56	14.94	7.66	13.77

MXE US Dollar Returns as of March 31, 2011

As of	NAV	Common Share Market Price %	Mexbol	MSCI Mexico
03/31/2011	%		%	%
1 YEAR	20.29	24.63	18.16	19.05

Average Annual Dollar Return with Dividends Reinvestment

5 YEAR	12.28	15.13	14.17	11.04
10 YEAR	17.68	19.20	19.78	15.71
Since MXE's inception in 1990	14.67*	15.02*	NA	NA

\* Period: 08/31/1990-04/21/2011.

Source:

MXE's NAV and Common Share Market Price Returns:

I) Monthly, year-to-date, 1- and 5-year: US Bancorp.

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 25/02/2011	Low (1 yr) 11/06/2010	High (1 yr) 12/11/2010
-11.155	-16.507	-8.765

Source: Bloomberg

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ii. Beta companies, accounting for 39% of the Fund's total assets, are high growth stocks in cyclical industries with healthy balance sheets, with the following attributes:

- » A high expected 3-year EPS CAGR of at least 15% for the 10 Beta stocks in the portfolio.
- » High profitability with an average EBITDA margin of 32%.
- » Healthy balance sheets with an average Net Debt to EBITDA ratio of 1.2x.

Contributing to the strong pace of economic growth, total loans to the private sector reached US\$145 bn in January, posting a y-o-y growth rate of 6.4%. The market consensus calls for continued expansion in banking credit, as the Loan-to-GDP ratio in Mexico is still below 20%, lower than Chile, Brazil, Costa Rica, Nicaragua, Colombia and Peru. (Source: World Bank). The entry of new players into the banking industry, such as Wal-Mart and Banco Azteca, should extend coverage to the underserved segments of the population living in smaller urban areas and provide a stronger consumption base going forward.

iii. Special Situations: stocks trading at a discount with respect to the intrinsic value calculated by PAM:

- » An average P/BV ratio of 0.5 times.

We will continue to closely monitor the Fund's performance with the goal of generating positive Alpha for MXE's stockholders.

**Earnings Growth is not a measure of the fund's future performance.**

*Yours sincerely,  
Eugenia Pichardo,  
Portfolio Manager*

**Mexbol Index Best Performing Constituents in US Dollar terms in February 2011**

Company	MXE weight %	One month ending 02/28/2011 %	Year-to-date ending 02/28/2011 %	1 year 02/28/10-02/28/11 %
ALFA	0	14.38	23.55	87.42
GCARSOA1	1.77	11.19	3.17	86.10
COMERCI	0	9.73	12.57	58.16
TVAZTECA	0	6.17	0.20	30.98
FEMSAUBD	1.9	5.97	0.08	32.46
KIMBER	3.12	5.41	-5.13	14.38
SORIANA	0	5.29	2.93	23.28
ASUR	0	5.14	-3.80	5.74
PEÑOLES	3.05	4.94	-4.64	86.90
TELMEXL	0	4.74	11.96	21.96

Source: Bloomberg

**II. THE MEXBOL INDEX**

The Mexbol Total Return Index gained 0.17% in nominal terms in February and +18.63% for the one-year period ending February 28, 2011. The Mexbol Index's 0.43% February dollar return ranked it third among the best performing Latam equity markets after Venezuela (4.33%), Brazil (2.01%), Peru (-0.45%), Colombia (-2.55%), Chile (-3.43%) and Argentina (-4.34%).

The Mexican peso closed February at 12.10 pesos per U.S. dollar, registering a 2.09% appreciation year-to-date to end-February. For the moment, robust economic data remains supportive of equities.

**III. THE MEXICAN ECONOMY**

Annualized inflation in February 2011 was 3.51%, confirming that global increases in the prices of agricultural commodities and energy are not yet having an impact on general prices in the Mexican economy. Banxico's Board of Governors met on March 4 and kept the benchmark rate unchanged at 4.5%. In its communiqué, the central bank said that the output gap is a major factor in keeping inflation at bay, although there is clear evidence that the gap is narrowing at a fast pace, as aggregate demand grew 9.3% in 2010. Industrial production also registered growth of 6.6% year-over-year (y-o-y) (Source: Banco de México).

**Stock Exchanges Performance in US Dollar terms**

Ticker	One month ending 02/28/2011 %	Year-to-date ending 02/28/2011 %	1 year 02/28/10-02/28/11 %
IBVC (Venezuela)	4.33	5.54	37.30
IBOV (Brazil)	2.01	-2.75	10.08
MSCI Mexico	0.78	-2.08	26.22
MSCI Mexico*1	0.85	-2.01	27.92
MEXBOL-Total Return Index	0.43	-2.00	25.12
MEXBOL (Mexico)	0.17	-3.91	18.63
IGBVL (Peru)	-0.45	-1.15	67.46
IGBC (Colombia)	2.55	-3.13	31.52
IPSA (Chile)	-3.43	-11.30	28.06
MERVAL (Argentina)	-4.34	-3.16	51.54
INDU (Dow Jones, U.S.A.)	3.16	6.10	21.60
CCMP (Nasdaq, U.S.A.)	3.16	5.03	25.59

Source: Bloomberg

\*1 With dividends reinvested into index.

**ECONOMIC DATA**

**Economic Activity Index**

In **December 2010**, according to INEGI, economic activity (IGAE -a Gross Domestic Product proxy) increased 0.07% m/m. This proxy increased 4.1% y/y in the referred month. In seasonally-adjusted terms, the industrial sector's activities increased 0.72%, while the agricultural sector's activities decreased -1.201%, and the services ones -0.11%.

**Industrial Activity**

In **December 2010**, industrial production increased 0.72% m/m, and 4.9% y/y. Construction decreased -0.59%, while Utilities increased 0.47%, Manufacturing Industries 1.26%, and Mining 0.46% m/m.

**Gross Fixed Investment**

In **December 2010**, gross fixed investment (GFI) increased 0.71% m/m. Expenses in machinery and equipment increased 1.93%, and the construction subcomponent 0.02% m/m. GFI posted a 5.4% y/y growth.

**Trade Balance**

The trade balance of **January** posted a USD69 m surplus. Total exports increased 28.2% y/y on a 40.8% increase in oil exports and a 25.8% increase in non-oil exports. This last figure was due to an increase in exports of 25.6% to the US, and of 26.5% to the rest of the world. Imports grew in this month 25.0% y/y.

**Mexican Oil Mix**

As of end-**February**, the price of the Mexican oil mix was of USD\$97.72 per barrel, translating into a 12.05% increase in a month, and 36.66% in one year.

**Retail Sales**

In **December 2010**, retail sales registered an increase of 2.6%, compared to the same month of 2009.

**Unemployment**

In **January**, the unemployment rate came in at 5.23%. By gender, unemployment in men decreased from 6.16% to 5.61% y/y, and that in women decreased from 5.41% to 5.11% y/y, in the same month.

**Monetary Policy**

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

**Inflation**

CPI of **February** came in at 0.38% month-over-month. General annual inflation came in at 3.57%. Core prices increased 0.40% during the month. General prices registered an annual variation of 3.26% versus the previous month's print of 3.27%.



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ECONOMIC PROJECTIONS

	2006	2007	2008	2009	2010e	2011e
<b>National Accounts</b>						
Real GDP growth (y/y)	4.8%	3.2%	1.3%	-6.5%	4.4%	4.0%
GDP (US \$bn.)	843.6	886.0	1,099.0	877	1034	1120
Consumption (Chg. y/y)	6.0%	4.3%	2.2%	-5.0%	3.0%	3.3%
Investment (Chg. y/y)	11.5%	7.4%	4.4%	-18.0%	10.2%	8.9%
Exports (Chg. y/y)	10.3%	6.2%	1.3%	-14.8%	17.4%	8.9%
Imports (Chg. y/y)	13.1%	7.1%	5.5%	-18.2%	16.6%	10.1%
<b>Monetary and Exch. Rate Ind.</b>						
CPI Inflation (Year-end)	3.8%	3.8%	6.5%	3.6%	4.80%	3.7%
US\$ Exchange Rate (Year-End)	10.9	10.9	13.40	13.09	12.80	12.60
28day Cetes Int. Rate (Year-End)	7.1%	7.4%	7.9%	NA	NA	NA
<b>Balance of Payments</b>						
Trade Balance (US\$bn.)	-6.1	-12.4	-16.8	-4.3	-10.0	-20.4
Exports (US\$bn.)	253.9	270.6	291.8	230.1	288.4	281.0
Imports (US\$bn.)	260.0	283.0	308.6	234.4	298.4	301.4
Transfers (US\$bn.)	24.0	24.3	25.5	21.5	22.1	23.1
Current Account (US\$bn.)	-2.4	-9.0	-15.5	-5.2	-11.4	-23.0
Current Account (GDP %)	-0.3	-1.0	-1.4	-0.6	-1.1	-2.1
Foreign Direct Inv. (US\$bn.)	17.9	21.6	27.2	12.5	21.0	20.0
<b>Debt Profile</b>						
International Reserves (US\$bn.)	71.5	76.5	85.4	90.8	109.7	125.1

Source: Banamex.

**PAM's investment team**

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## THE MEXICO EQUITY AND INCOME FUND, INC.

### 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.*

*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.*

*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: 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: 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.*