



THE MEXICO EQUITY AND INCOME FUND, INC.

REPORT TO MEMBERS OF  
THE BOARD OF DIRECTORS OF  
THE MXE

January 2009

(1) MXE Average Annual Dollar Returns

As of 1/30/09	NAV	Common Share Market Price	Mexbol
1 YEAR	(60.45%)	(55.05%)	(48.47%)
3 YEAR	(11.10%)	(6.85%)	(8.87%)
5 YEAR	8.27%	12.72%	9.87%
10 YEAR	12.31%	15.75%	13.37%
Since Inception through Jan*	11.95%	NA	10.96%

Source: Bloomberg, reinvesting gross dividend in security.  
\*Thomson . Inception Date 08/30/1990

As of 12/31/08	NAV	Common Share Market Price	Mexbol
1 YEAR	(52.89%)	(47.46%)	(40.48%)
3 YEAR	(0.39%)	5.60%	(1.38%)
5 YEAR	15.94%	19.73%	15.47%
10 YEAR	14.25%	18.22%	14.94%
Since Inception through Dec*	12.73%	10.87%	11.99%

Source: Bloomberg, reinvesting gross dividend in security.  
\*Thomson . Inception Date 08/30/1990

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.

PERFORMANCE IN US\$

NAV per share

Ticker	One month ending 1/30/2009	1/31/08-1/30/09
MXE	(15.15%)	(58.42%)

Source: U.S. Bancorp

Common Share Market Price

Ticker	One month ending 1/30/2009	1/31/08-1/30/09	Discount/Premium to NAV
MXE	(18.05%)	(55.05%)	(6.38%)
MEXBOL	(14.89%)	(48.47%)	

Source: Bloomberg

Beta

Ticker	1/31/08-1/31/09
MXE	1.69

Source: Thomson

FOR THE ONE-MONTH PERIOD ENDING JANUARY 30, 2009, the Mexico Equity and Income Fund's NAV per share lost -15.15% in dollar terms compared with a -14.89% loss for the Mexbol Index. In nominal terms, the MXE's NAV per share lost -10.11%. The Mexican currency devalued 4.68% in January.

During January, the MXE's High Beta-related stocks, specifically infrastructure and housing, registered a negative average return of -16.89%.

FOR THE ONE-MONTH PERIOD ENDING DECEMBER 31, 2008, the Mexico Equity and Income Fund's NAV per share lost -0.25% in dollar terms, compared with a 4.98% gain for the Mexbol Index. In nominal terms, the MXE's NAV per share gained 1.55%.

FOR THE ONE-YEAR PERIOD ENDING JANUARY 30, 2009, the MXE's NAV per share lost -58.39% in dollar terms (-19.66 % in nominal terms) following a 32.39% currency devaluation in the period.

The Fund's common share market price decreased -50.24% in dollar terms for the same period.

The Fund's discount narrowed 823 basis points from January 30, 2008, closing at -6.39% as of January 30, 2009.

FOR THE FIVE-YEAR PERIOD ENDING JANUARY 30, 2009, the MXE's NAV per share registered a 9.88% average annual dollar return.

Performance figures in the narrative were provided by U.S. Bancorp and performance figures in table #1 were provided by Bloomberg and Thomson. The two sets of performance figures differ because the Bloomberg and Thomson returns were impacted by the issuance of new common shares related to the Fund's January 27, 2009 dividend distribution.

INVESTMENT STRATEGY

Following the US\$9,143,190.00 dividend pay-out on January 27th, which accounted for 19.79% of the Fund's total assets as of January 26th, the Fund set up a 6% allocation in cash and equivalent instruments by decreasing its weight in High Beta-related stocks.

At end-January, the MXE had Beta and Alfa-related stock allocations of approximately 41% and 30%, respectively, compared to 47% and 16% at December-end, 20.14% in America Movil, 1.82% in Naftrac and 6% in cash and equivalent instruments, as mentioned above.

THE MEXBOL INDEX

Stock Exchanges Performance in US\$

Ticker	One month ending 1/30/2009	1/31/08-1/30/09
MEXBOL (Mexico)	(14.89%)	(48.47%)

## (2) NAV Performance in US\$

Ticker	12/31/08-2/26/09	Discount/Premium to NAV
MXE	(28.42%)	(15.02%)
MEXBOL	(25.12%)	

Source: Bloomberg

## (3) Top Ten Stock Weighting/US\$ Returns (as of 1/30/09)

Company	Weighting	One month ending 1/30/2009	1/31/08-1/30/09
AMERICA MOVIL	20.14%	(7.89%)	(52.48%)
CIDMEGA	10.57%	4.95%	(49.80%)
Promotora y Operadora de Infraestructura	9.32%	(14.32%)	(62.77%)
EMPRESAS ICA	8.08%	(0.92%)	(74.49%)
WALMEX	4.69%	(22.62%)	(41.70%)
TELEVISA	4.67%	(6.15%)	(37.46%)
URBI	3.98%	(25.88%)	(70.86%)
BIMBO	3.85%	(15.79%)	(39.98%)
GRUPO MODELO	2.99%	(17.34%)	(42.87%)
INDUSTRIAS CH	2.95%	9.92%	(20.93%)

Source: Bloomberg

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

## (4) Mexbol Index Best Performing Members (Performance in US\$)

Company	One month ending 1/30/2009	1/31/08-1/31/09
INDUSTRIAS CH	9.92%	(20.93%)
BANCO COMPARTAMOS	2.26%	(57.04%)
EMPRESAS ICA	(0.92%)	(74.49%)
COMERCIAL MEXICANA	(1.90%)	(91.44%)
CASAS GEO	(2.06%)	(65.68%)
KIMBERLY CLARK	(2.68%)	(20.07%)
GRUPO FINANCIERO INBURSA	(5.29%)	(4.06%)
GRUPO SIMEC	(5.99%)	(55.69%)
TELEVISA	(6.15%)	(37.46%)
MINERA AUTLAN	(6.94%)	5.83%

Source: Bloomberg

## THE MEXICO EQUITY AND INCOME FUND, INC.

IPSA (Chile)	11.70%	(31.18%)
MERVAL (Argentina)	(1.26%)	(51.40%)
IBOV (Brazil)	5.87%	(49.67%)
IBVC (Venezuela)	1.00%	0.60%
IGBVL (Peru)	(3.31%)	(57.51%)
IGBC (Colombia)	(4.82%)	(31.90%)
INDU*1 (U.S.)	(8.84%)	(36.75%)
CCMP*2 (U.S.)	(6.38%)	(38.22%)

\*1 Dow Jones, \*2 Nasdaq

Source: Bloomberg

The Mexbol Index dropped -14.89% in dollars and -12.58% in peso terms in January. It has turned out to be the worst performing market in the Latam region through February amid a strong bout of volatility stemming from the destructive power of value caused by the bursting of the U.S. housing sector and collapse of the U.S. financial sector.

Historically Mexico had maintained a valuation premium to Brazil. Year-to-date through end-February, however, the Bovespa Index has outperformed the Mexbol Index by 2,789 basis points, mainly due to a global manufacturing slump.

For the one year period through end-February, the Bovespa Index lost -57.16% and the Mexbol Index -56.40% in dollar terms.

### THE MEXICAN ECONOMY

As expected, economic conditions continued to deteriorate: in the 4Q08 real Mexican GDP decreased -1.6% year-over-year (y-o-y) for the first time since 2002 (a -2.69% decrease on a seasonally-adjusted basis) and the

industrial sector slumped -4.2% year-over-year.

Mexico's 4Q08 GDP decline was mostly related to the -4.2% y-o-y slide in the industrial sector, which saw all of its components (manufacturing, construction, utilities and mining) decline.

Mexico's GDP grew 1.3% in 2008. Taking a look at the breakdown, production of agricultural goods increased 3.2% with respect to 2007, while industrial activity fell 0.7% year-over-year. The services sector grew only 2.1%, after having observed growth rates above 3% - 4% in the past few years.

In January, the Mexican Automotive Industry Association (AMIA) published weak production and sales figures for cars and light trucks on the back of technical stoppages in January driven by weak demand, and a decline in consumer confidence accelerated the downturn. Sales to consumers declined 28% y-o-y to 69,664 units, the lowest figure since September 2002. Sales to distributors also declined sharply, dropping 36.5% y-o-y. Sales to the export market plummeted 56.9% y-o-y in January. Total production in January fell 50.9% y-o-y driven by a 55% decline in production for the export market, which represents 73% of total production and by a 34% drop in production for the domestic market.

Banco de Mexico's ongoing interventions in the foreign exchange market have had a much smaller-than-expected impact on the peso.

### CONCLUSION

The MXE's net asset value per share posted an 11.95% average annual dollar return (with dividends reinvested) since inception in August

Banco de Mexico's Foreign Exchange Market Operations

Last week Banco de Mexico bought \$620 million of pesos directly from banks in a bid to contain the peso's slide (the currency has lost around 30% of its value since September). Expectations that the deepening U.S. recession will further depress Mexican exports and dry up remittances from the US to Mexico have been weighing on the currency of late. As a result, at the end of last week the country's international reserves had decreased by 1.1% to \$80 billion. Over the last six months the Mexican central bank has used around \$19.5 billion of its foreign reserves to defend the peso; reserves have dropped 8% over the same period.

The peso subsequently rallied (it is currently trading at 15.3/USD) partly in response to possible International Monetary Fund assistance in the form of short-term loans. This could be one of the few options available at this time to shore up the beleaguered peso, which as of 03/05/2009 closed at 15.4/USD. Extending the limit on such loans to more than 5x member nations' quota contributions is being considered. Banco de Mexico also has a \$30 billion "liquidity swap facility" with the Fed (as does Brazil and South Korea) with a view to preventing difficulties in obtaining U.S. dollar funding from spreading.

Source: Bulltick Capital Markets

1990, through January 2009, according to Thomson. (See page 1 for explanation regarding the differences in the Bloomberg and Thomson and the U.S. Bancorp performance figures).

If the Mexican government and Banxico had not made significant improvements to the country's macroeconomic policy framework over the last decade, including a flexible exchange rate and credible monetary policy, contained inflation, a balanced budget, low public sector borrowing requirements and high international reserves, the contraction may have been far more severe.

Finally, like other governments, the Mexican government is also pursuing an extraordinary fiscal stimulus and using countercyclical policies to respond to the downturn along with responsible monetary policy with a view to maintaining macroeconomic stability.

In this context of continuing uncertainty in terms of the global economic and financial outlook with volatility remaining at historically high levels, we have tactically increased the MXE's portfolio diversification in cash and readily available instruments, debt, gold-related and defensive stocks and lowered its allocation in high-beta related stocks.

*Yours sincerely,  
Eugenia Pichardo  
Portfolio Manager*



## THE MEXICO EQUITY AND INCOME FUND, INC.

### ECONOMIC DATA

#### Economic Activity Index

- IGAE (Mexico's monthly GDP proxy), declined 2.4% year-over-year in December 2008, slightly above the market expectations of -2.8%. Taking a look at the breakdown, industrial activity fell 5.9% mainly due to lower oil and manufacturing production. On the other hand, production of agricultural goods increased 15.8%, and last, but not least, the services sector declined 1.8%, way below the year-to-date average of 2.1%.

#### Industrial Activity

- Industrial production declined 6.7% year-over-year in December, well below market expectations for a drop of 5.7%. Taking a look at the breakdown, manufacturing production declined 6.6% mostly because of Mexico's auto production slowdown, while construction and utilities came down 7.1% and 5.3%, respectively. Mining production came down 6.7%, mainly due to lower oil production on a year-over-year basis

#### Gross Fixed Investment

- Gross fixed investment declined 2% year-over-year in November, way below market expectations for a decline of 0.2%. In seasonally-adjusted terms, investment declined 3.5% with respect to October 2008. Taking a look at the breakdown, investment in machinery and equipment rose 1.5%, in which expenditures in domestic and foreign capital goods fell 5.1% and increased 3.9%, respectively. Investment in construction was revised up to -4.6%, from -5.1%.

#### Trade Balance

- Mexico's trade balance registered a deficit of -US\$2.07 bn. in December. Exports decreased -19.7% year-over-year, while imports decreased -12.8%. Non-oil exports decreased -11.3%, whereas oil exports declined -58.2%. Consumption goods imports decreased -17.2% year-over-year, intermediate goods decreased -16.5% and capital goods increased 13.8%.

#### Mexican Oil Mix

- The price of the Mexican oil mix closed January at US\$40.09 per barrel translating into a 17.15% increase in the month and -48.70% decrease in one year.

#### Retail Sales

- November retail sales fell 2.6% year-over-year, way below market expectations for a decline of 1.8%. In seasonally-adjusted terms, retail sales declined 0.7% with respect to October. According to INEGI's (National Institute of Statistics and Geography) report, while sales of health care products as well as food and beverages rose during this month, they did not help to overcompensate for the large decline in sales of durable goods, such as appliances, computers, auto engines, and auto parts –among others.

#### Unemployment

- December unemployment rate came in at 4.32%, below market consensus of 4.47%. In seasonally-adjusted terms, the jobless rate came in at November's level of 4.7%.

#### Monetary Policy

- Mexico's Central Bank reduced its benchmark interest rate for the first time in almost three years to bolster a slumping economy hurt by the U.S. recession. In its post-meeting communiqué, the monetary authority's board expressed that: (1) The recession in the US is having a significant negative effect on Mexico's economic activity; (2) President Calderon's measures to freeze gasoline price increments as well as cutting domestic gas prices will curb inflationary pressures; (3) Inflation might have already reached its peak in December; and (4) according to UBS, Banxico's board also signaled that they will lift their inflation projection intervals on Jan. 28 when they release their Quarterly Inflation Report, and that their decisions in the upcoming meetings would have to take place if observed inflation remains within the (new) intervals.

#### Inflation

- January CPI came in at 0.23%, way below market expectations for a rise of 0.32%. Core inflation came in at 0.43%, slightly above market expectations of 0.42%. These figures brought 12-month inflation up to 6.28%, significantly lower from December's 6.53%. The rise in inflation was mainly influenced by higher prices of low-grade gasoline, chicken, zucchini, bananas, and soft drinks –among other items.



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ECONOMIC PROJECTIONS

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

	2003	2004	2005	2006	2007	2008e not revised down
<b>National Accounts</b>						
Real GDP growth (y/y)	1.4%	4.4%	3.0%	4.8%	3.2%	3.4%
GDP (US \$bn.)	639.0	676.5	769.4	843.6	886.0	930.8
Consumption (Chg. y/y)	2.3%	5.5%	5.4%	6.0%	4.3%	4.5%
Investment (Chg. y/y)	0.4%	7.5%	7.6%	11.5%	7.4%	10.2%
Exports (Chg. y/y)	2.7%	11.5%	6.9%	10.3%	6.2%	5.5%
Imports (Chg. y/y)	0.7%	10.2%	8.7%	13.1%	7.1%	6.1%
<b>Monetary and Exch. Rate Ind.</b>						
CPI Inflation (Dec. cumulative)	4.0%	5.2%	3.3%	3.8%	3.8%	3.7%
US\$ Exchange Rate (Year-End)	11.2	11.1	10.6	10.9	10.9	11.2
28day Cetes Int. Rate (Year-End)	6.0%	8.5%	8.2%	7.1%	7.4%	7.5%
<b>Balance of Payments</b>						
Trade Balance (US\$bn.)	(5.8)	(8.8)	(7.6)	(6.1)	(12.4)	(15.4)
Exports (US\$bn.)	164.8	188.0	214.2	253.9	270.6	289.2
Imports (US\$bn.)	170.5	196.8	221.8	260.0	283.0	304.6
Transfers (US\$bn.)	13.9	17.0	20.5	24.0	24.3	24.8
Current Account (US\$bn.)	(8.6)	(7.3)	(4.6)	(2.4)	(9.0)	(13.2)
Current Account (%GDP)	(1.3)	(1.1)	(0.7)	(0.3)	(1.0)	(1.4)
Foreign Direct Inv. (US\$bn.)	12.3	17.9	18.8	17.9	21.6	22.0
<b>Debt Profile</b>						
International Reserves (US\$bn.)	56.1	61.5	68.7	71.5	76.5	78.0

Source: Santander Investment.

MAIN MARKET STATISTICS

Global Value Traded (1/30/08)	
Index	Volume (U.S. \$ Million)
Mexico Stock Exchange	347.59
Brazil-Bovespa	2,042.68
Chile-Santiago Stock Exchange	92.95
Argentina Stock Exchange	8.24
Peru-Lima Stock Exchange	23.60
US-NYSE	27,099.40
US-NASDAQ	16,446.70

Source: Bloomberg

Commodities (1/30/08)				
US\$, %	Last	1M	3M	Y-T-D
Silver	12.67	11.2	28.6	11.2
Gold	927.85	5.2	28.1	5.2
Copper	3,119	2.5	(23.9)	2.5
Crude (WTI)	41.68	(6.5)	(38.5)	(6.5)
Crude (MIX)	40.09	17.2	(22.5)	17.2

Source: UBS Pactual

Debt Securities (1/30/08)	
	Last
28-day Cetes	7.320
M10Y Bond	7.753
M20Y Bond	7.991
30Y Treasury Bond	3.707

Source: Bloomberg

Currencies (1/30/08)				
(per US\$ %)	Last	1M	3M	Y-T-D
MXN (Mexico)	14.33	(4.5)	(10.5)	(4.5)
ARS (Argentina)	3.49	(0.9)	(2.8)	(0.9)
BRL (Brazil)	2.32	(0.2)	(6.8)	(0.2)
EUR (European Union)	0.78	(8.3)	0.6	(8.3)
JPY (Japan)	89.92	0.8	9.5	0.8

Source: UBS Pactual

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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.*
- *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.*
- *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 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.*