

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

For the one-month period, through June 30, 2011, the MXE's net asset dollar gain per share of 0.62% registered a monthly underperformance of 0.36% compared to the Morgan Stanley Capital International Mexico Index's 0.98% gain (MSCI Mexico). The Mexbol Index's total return increased 1.00% in June. (Source: Bloomberg).

For the year-to-date period, through June 30, 2011, the MXE's 1.72% net asset dollar gain per share outperformed the MSCI Mexico Index's 0.08% gain by 164 basis points. The Mexbol Total Return Index gained 0.82% for the same period. (Source: Bloomberg).

For the second quarter 2011, the MXE's 1.81% net asset dollar gain per share outperformed the MSCI Mexico Index by 2.33% for the quarter. The Mexbol Total Return Index lost -0.08% for the same period. (Source: Bloomberg).

The Mexican peso closed June at \$11.71 pesos per U.S. dollar, appreciating 5.24% against the U.S. Dollar for the period January to June 2011.

The MXE's de-indexed asset class allocation at end June was as follows: 90% invested in equities, 4% in the Mexican Real Estate Investment Trust, 3% in Private Equity, 2% in fixed-income instruments (corporate dollar-denominated bond and UMS bond) and 1% in cash and equivalents.

June was characterized by risk aversion and market volatility related to Greece's austerity measures as well as the increasing likelihood of the US borrowing limit being raised before the August 2nd deadline.

While the sustained growth of the Mexican economy is clearly dependent on a stable external environment, it has not yet been affected by the inflation shocks and asset bubbles present in other emerging markets such as China and Brazil. It is becoming increasingly clear that these countries have reached a level of economic expansion that cannot be sustained in the long run without posing serious risks to macroeconomic stability.

In this regard, we are convinced that it is better to grow at a sustainable growth rate, which is presently the case in

Mexico. In the long run, a healthy pace of economic growth reduces the likelihood of major impacts on price stability and is compatible with liberalized markets and the free movement of capital.

**I. PERFORMANCE AND INVESTMENT STRATEGY**

For the one-year period through June 30, 2011, the MXE's 30.90% (Source: U.S. Bancorp) net asset dollar gain per share registered a 72 basis point outperformance of the MSCI Mexico Index's 30.18%. The Mexbol Total Return Index increased 30.71% for the same period (See chart 1 on page 3. Source: Bloomberg).

At end-June, the Fund's discount to NAV narrowed 145 bps to -10.43% compared to -11.88% at the end of May 2011 (Source: Bloomberg).

During the year-to-date period ending June 30, 2010, the MXE continued to maintain its de-indexed investment strategy compared to the MSCI Mexico Index.

Top-ten stocks  
 MSCI Mexico Index vs MXE  
 As of June 30, 2011

Issuer	MSCI Mexico Index (% weight)	MXE (% weight)
Amxl	21.92	10.90
Walmexv	10.82	8.58
Gmexicob	6.84	2.67
Femsaubd	6.76	3.18
Tlevicpo	4.62	0
Cemexcpo	4.26	0
Gfnorte	4.04	0
Telmexl	3.51	0
Gmodeloc	2.95	0
Gfinburo	2.91	0

Others within MXE's top ten stocks

Mexchem*	2.05	8.90
Livpolc	0	6.47
Labbb	0.92	6.06
Kimbera	2.40	4.32
Qcpo	0	4.04
Pinfra*	0	3.97
AC*	0.80	3.41

Total Net Assets 06/30/2011	NAV 06/30/2011	Common Share Market Price 06/30/2011
US\$	US\$	US\$
88,533,086.84	13.04	11.68

**MXE US Dollar Returns**

As of	NAV	Common Share Market Price	Mexbol	MSCI Mexico
06/30/2011	%	Price %	%	%
June	0.62	2.28	1.00	0.98
Y-t-d	1.72	3.09	0.82	0.08
1 YEAR	30.90	32.39	30.71	30.18

Average Annual Dollar Return with Dividends Reinvestment

5 YEAR	13.41	16.67	12.87	9.84
10 YEAR	15.41	17.75	15.52	13.53
* Since MXE's inception in 1990	14.50	14.90	N/A	13.61

\* Period: 08/31/1990-06/30/2011.

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 June	Low (1 yr)	High (1 yr)
30, 2011.	09-07-2010	12-11-2010
-10.43	-14.004	-8.765

Source: Bloomberg

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

Company	MXE weight %	One month ending 06/30/2011 %	Year-to-date ending 06/30/2011 %	1 year 06/30/10-06/30/11 %
ARCA CONTINENTAL	3.41	16.02	48.81	110.90
TVAZTECA	0.00	15.75	16.38	52.43
GRUMAB	0.00	15.32	10.29	33.60
MFRISCO	0.00	14.20	N/A	N/A
KIMBERLY	4.32	12.20	8.49	18.11
ELEKTRA	0.00	11.64	21.96	28.11
FEMSA UBD	3.18	7.73	19.44	54.91
HOMEX	0.00	6.45	-25.99	-1.42
TELEVISA	0.00	5.59	-4.40	40.84
URBI	0.00	5.24	-6.57	17.91

Source: Bloomberg

**Stock Exchanges Performance in  
US Dollar terms**

Ticker	One month ending 06/30/2011 %	Year-to-date ending 06/30/2011 %	1 year 06/30/10-06/30/11 %
IPSA (Chile)	-1.48	-2.59	38.05
IBVC (Venezuela)	0.03	37.38	45.28
IGBC (Colombia)	-1.81	-1.38	23.89
INDU (Dow Jones, U.S.A.)	-1.10	8.58	30.37
CCMP (Nasdaq, U.S.A.)	-2.11	5.01	32.87
MEXBOL (Mexico)	0.94	-0.02	28.87
MSCI Mexico	0.91	-0.78	28.21
MEXBOL Total Return Index *	1.00	0.82	30.71
MSCI Mexico 1*	0.98	0.08	30.18
MERVAL (Argentina)	2.79	-5.33	51.65
IBOV (Brazil)	-2.03	-4.14	17.90
IGBVL (Peru)	-11.82	-17.56	38.73

Source: Bloomberg

\*1 With dividends reinvested into index.

**THE MEXICO EQUITY AND INCOME FUND, INC.**
**II. THE MSCI MEXICO INDEX**

The MSCI Mexico Index registered a 30.18% gain for the one-year period, through June 30, 2011. In our view, the MSCI's 0.98% June dollar increase is mainly related to its less liquid stock constituents, which have registered strong returns as a consequence of the Mexican Pension Funds hitting the Naftac – the Mexbol tracker.

For the year to date period, through June 30, 2011, the MSCI Mexico Index's 0.08% gain positioned it as the second best performing index within the Latam region after Venezuela 37.38%. The other Latam markets lost -1.38% Colombia, -2.59% Chile, -4.14% Brazil, -5.33% Argentina and -17.56% Peru.

**III. THE MEXICAN ECONOMY**

In its last monetary policy meeting, Banco de México softened its tone on internal price pressures as annual inflation has evolved favorably, reaching 3.25% Year over Year (YoY) in May and is likely to be below 4% for 2011. A benign price environment should allow the central bank to hold the benchmark rate steady in 2H11.

The employment picture continues to improve as the number of insured workers at the Social Security Institute grew by 55,409, reaching 382,490 new jobs in the first half of 2011.

We believe that the relatively lower risk of investing in Mexico is reflected in the reduced yield of the M10 bond (see chart 2 on page 3), which has seen a drop of around 80 bps in 2011.

**IV. CLOSING REMARKS**

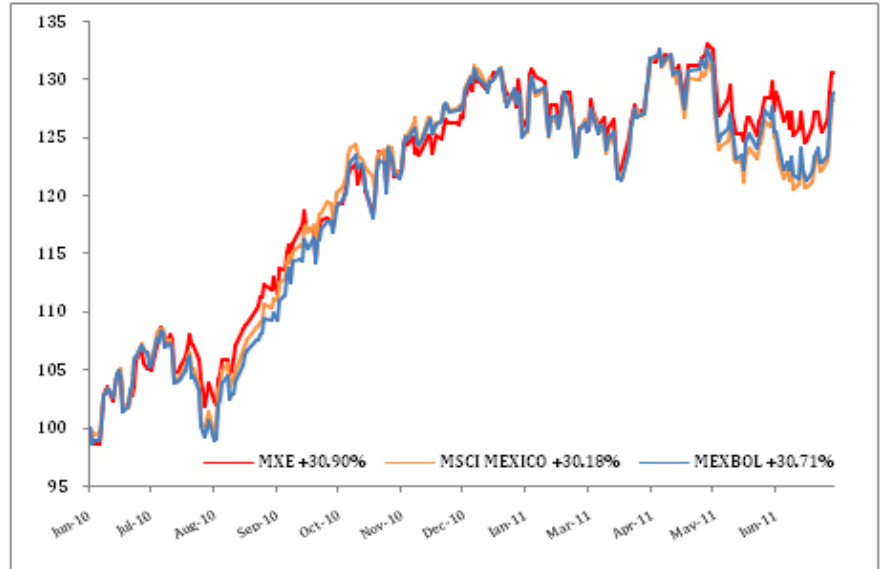
Based on our macro and fiscal summary on the previous section, we are of the view that domestic risk factors relative to the macro outlook are reasonably contained, with external fiscal imbalances in the U.S. and Europe posing the biggest threat to the Mexican economy. We believe that our bottom-up investment strategy helps us to steer the fund through market pressures and high volatility.

We will continue to work with extreme caution for the benefit of MXE's long term investors.

*Yours sincerely,  
Eugenia Pichardo  
Portfolio Manager*

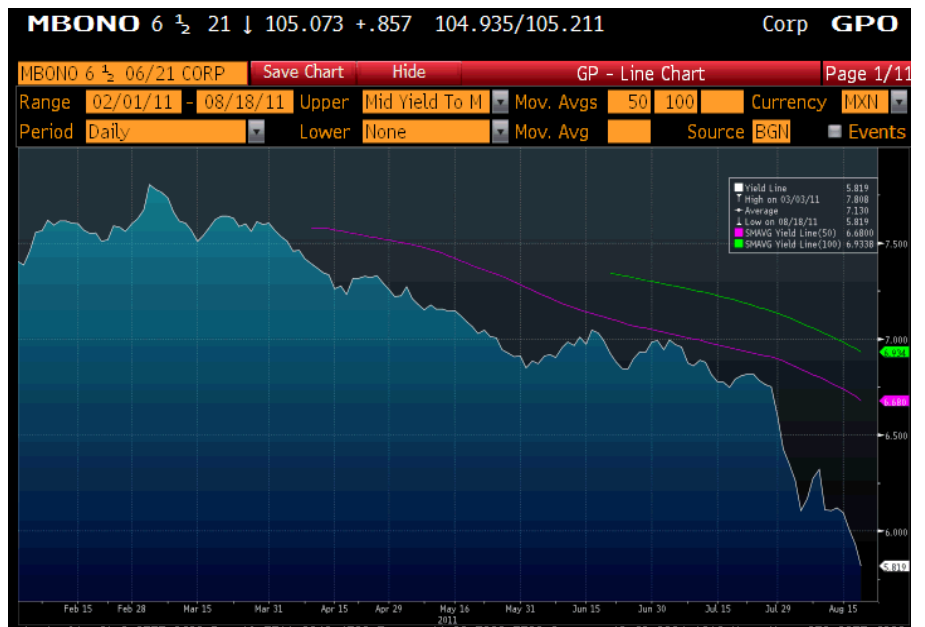
THE MEXICO EQUITY AND INCOME FUND, INC.

Chart 1. MXE's Net per Share Dollar Asset Value Return vs  
MSCI Mexico and Mexbol Indexes  
One-year to June 30, 2011



Source: Bloomberg

Chart 2. 10-yr Mexican Bond  
(Mid Yield to Maturity Graph)



Source: Bloomberg



THE MEXICO EQUITY AND INCOME FUND, INC.

ECONOMIC DATA

Economic Activity Index

In **April**, according to INEGI, economic activity (IGAE -a Gross Domestic Product proxy) reported a variation of 0.35% month over month (m/m). This proxy increased 2.4% y/y in the referred month. In seasonally-adjusted terms, the service sector's activities increased 0.39% and the industrial ones decreased -0.14% m/m, while the agricultural sector's activities decreased -2.04% m/m .

Industrial Activity

In **May**, industrial production increased 1.41% m/m, and increased 4.6% y/y. Seasonally adjusted data show an increase in Manufacturing of 1.01%, Construction 0.23%, Mining 0.15%, and Utilities increased 0.02% m/m.

Gross Fixed Investment

In **April**, gross fixed investment (GFI) increased 1.41% m/m. Expenses in machinery and equipment increased 2.06%, and the construction subcomponent increased 0.46% m/m. GFI posted a 7.1% y/y growth.

Trade Balance

The trade balance of **May** posted a USD\$555 m surplus. Total exports increased 25.4% y/y on a 32.2% increase in oil exports and a 24.2% increase in non-oil exports. This last figure was due to an increase in exports of 23.3% to the US, and of 27.6% to the rest of the world. Imports grew in this month 24% annual.

Mexican Oil Mix

As of **end-June**, the price of the Mexican oil mix was of USD\$106.36 per barrel, translating into a -5.29% decrease in a month, and 63.73% in one year.

Retail Sales

In **April**, retail sales registered an increase of 4.9%, compared to the same month of 2010. Retail sales recorded an increase of 1.13% in relation to the previous month.

Unemployment

In **May**, the unemployment rate came in at 5.54%. By gender, unemployment in men increased from 5.03% to 5.22% y/y, and that in women decreased from 5.30% to 5.15% y/y, in the same month.

Monetary Policy

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

Inflation

CPI of **May** came in at 0.00% month-over-month. General annual inflation came in at 3.25%. General prices registered an annual variation of 3.12% versus the previous month's print of 3.18%.

ECONOMIC PROJECTIONS

	2006	2007	2008	2009	2010	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

PAM's investment team

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The information contained herein reflects the opinion of Pichardo Asset Management and as such does not constitute fundamental research. Nor should it be construed as a solicitation of business or a buy/sell recommendation with regard to any of the securities mentioned. Furthermore, it is subject to change without prior warning and estimates cannot be guaranteed. Past returns are no guarantee of future earnings.

## 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.*

## THE MEXICO EQUITY AND INCOME FUND, INC.

- *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 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.*