

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

In the month of November, the MXE's net per share dollar asset value return of -1.13% regained some ground when compared to the Morgan Stanley Capital International "MSCI" Mexico Index's -1.42% loss for the same month. (Source: USBancorp and Bloomberg).

MXE's US\$11.37 NAV at end-November compares to US\$11.50 at end-October. US\$13.30 month-end high (04/30/11) and US\$10.51 (09/30/11) low for the last 12-months. US\$ 76,448,634.86 total net assets under management at end-November.

In Peso terms the MXE's net per share dollar asset value return was 2.40% for the month of November while the MSCI Mexico Index's was 1.61%. The Mexican Peso reached its lowest level in the year of Mxn. Pesos \$14.24 to 1 USD on November 28th, closing the month at \$13.95 to 1 USD. The peso closed December 2nd at \$13.59 at increase liquidity into the world's financial system.

We believe the main reasons the MXE outperformed its benchmark were: 1) our stock picking in the consumption sector (mainly department stores and retailing); and 2) our decision to avoid the homebuilding sector, mainly due to structural changes, low accounting visibility, and steep losses (-17% on average for the month).

The MXE portfolio ended November 30, 2011, with a 90.45% weight in equities, 0.77% in Mexican government treasury bills, 0.61% in a US dollar denominated bond, 1.73% in Mexican bond (sovereign debt), 3.96% in the Mexican REIT, and 2.48% in the Private Equity Fund

On the economic front, Mexico's Foreign Exchange Commission (made up of officials from the Ministry of Finance and Banxico), announced its decision to cancel until further notice the \$600mn monthly auction of US dollar puts used since March 2010 to buy US dollars from the market during times of peso strength. At the same time, the Commission

announced that it will auction \$400mn daily whenever the MXN deviates by more than 2% from the previous day's fix rate in order to supply dollar liquidity to the market during times of peso weakness. (Source: Credit Suisse).

The Mexican peso will likely benefit from these measures in two ways: 1) There will be less demand for dollars when the peso rallies, thanks to the cancellation of the dollar puts; and, 2) there will be a bigger supply of dollars coming from Banxico when the currency is under pressure (2% or weaker on the day). (Source: Credit Suisse).

We believe the Fund's MXE stock picking has been structured on strong fundamentals (avoiding short-term trading because of MSCI Index semiannual rebalancing or distortions of the MSCI Mexico Index weight of its constituents, i.e. AMX 32%), and we believe has the potential to be effective to deliver MXE's stockholders an appropriate wealth preservation strategy given the tail risks currently present in world's stock markets.

**I. PERFORMANCE AND INVESTMENT STRATEGY**

For the one-year period through November 30, 2011, the MXE's -6.48% (Source: USBancorp) net per share dollar asset value loss underperformed the MSCI Mexico Index's -5.07% loss by 141 basis points. The Mexbol Total Return Index dollar loss was -7.32% for the same period (Source: Bloomberg).

At end-November, the Fund's discount to NAV widened 63 basis points to -9.59% from -8.96% the previous month. (Source: Bloomberg).

During the period January to November 2011, the MXE has maintained an approximate 92% weight in equities with 8% in alternative assets. The portfolio allocation has on average been balanced between Alfa-defensive and Beta-high growth companies. Defensive stocks outweighed Beta stocks at end-November 2011.

Total Net Assets 11/30/2011	NAV 11/30/2011	Common Share Market Price 11/30/2011
US\$	US\$	US\$
76,448,634.86	11.37	10.28

**MXE US Dollar Returns**

As of	NAV	Common Share Market Price %	Mexbol	MSCI Mexico
11/30/2011	%		%	%
November	-1.13	-1.81	-1.42	-1.89
Y-t-d	-11.31	-9.27	-12.27	-10.24
1 YEAR	-6.48	-6.36	-7.32	-5.07

**Average Annual Dollar Return with Dividends Reinvestment**

5 YEAR	3.53	4.94	5.33	3.96
10 YEAR	17.32	17.91	17.46	13.78
*Since MXE's inception in 1990	13.46	13.90	n/a	12.71

\* Period: 08/31/1990-11/30/2011.

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 years: USBank.

II) 10-year: Bloomberg.

III) Since MXE's inception: Thomson.

Mexbol and MSCI Mexico indexes' returns: Bloomberg.

Fund's gross expense ratio = 1.51% for the year ended July 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 November 30, 2011.	Low (1 yr) 07-29-2011	High (1 yr) 09-30-2011
-9.59	-12.21	-8.75

Source: Bloomberg

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

Company	MXE weight %	One month ending 11/30/2011 %	Year-to-date ending 11/30/2011 %	1 year 11/30/10-11/30/11 %
ELEKTRA	0.00	26.70	133.27	145.51
PE&OLES	2.46	11.85	27.31	49.70
SORIANA	0.00	10.05	-24.66	-22.45
OHLMEX	0.00	5.74	-13.32	-16.46
CEMEX	0.00	5.54	-54.70	-46.85
GRUMA	0.00	3.85	9.24	10.82
LIVERPOOL	8.94	3.66	5.59	22.91
WALMEX	9.89	3.54	-4.34	-2.66
BOLSA	0.00	2.27	-16.48	-15.91
TVAZTECA	0.00	1.81	-9.75	-10.76

Source: Bloomberg

**Stock Exchanges Performance in US Dollar terms**

Ticker	One month ending 11/30/2011 %	Year-to-date ending 11/30/2011 %	1 year 11/30/10-11/30/11 %
IPSA (Chile)	-8.45	-23.38	-20.71
IBVC (Venezuela)	9.82	110.51	108.77
IGBC (Colombia)	-7.17	-16.94	-12.06
INDU (Dow Jones, U.S.A.)	1.18	6.70	12.38
CCMP (Nasdaq, U.S.A.)	-2.18	-0.28	5.99
MEXBOL (Mexico)	-1.66	-13.55	-8.73
MSCI Mexico	-2.16	-11.64	-6.60
MEXBOL Total Return Index *	-1.42	-12.27	-7.32
MSCI Mexico 1*	-1.89	-10.24	-5.07
MERVAL (Argentina)	-12.32	-29.76	-23.81
IBOV (Brazil)	-8.83	-24.62	-20.45
IGBVL (Peru)	1.29	-11.77	-0.15

Source: Bloomberg

\*1 With dividends reinvested into index.

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

The main sectors were telecommunication- mainly wireless (19%), consumption related to multiline retailing and department stores (19%), industrial groups (13%) mainly related to specialized construction steel (autoparts), PVC, Florine and Vinyl resins (construction products) and an industrial conglomerate (consumption and construction).

**II. THE MORGAN STANLEY CAPITAL INTERNATIONAL MSCI-MEXICO INDEX**

The MSCI Mexico Index's one-year to November -5.07% dollar loss ranked it as the best performing Latam-related equity market. The other MSCI related indexes registered the following losses: Colombia (-5.41%), Brazil (-14.52%), Peru (-16.71%), Chile (-17.84%) and Argentina (-32.98%). (Source: Bloomberg).

The MSCI Mexico's November performance was favored by Elektra's 26.70% gain (an illiquid stock with a 4.5% weight).

The stock that benefited the most from the MSCI's semiannual rebalancing review was Liverpool (+3.66% return in November), while the most negatively impacted stocks were Arca Continental (-5.72%), America Movil (-7.68%) and Minera Frisco (-8.20%).

**III. THE MEXICAN ECONOMY**

The Mexican economy registered growth of 4.5% in the third quarter, above analyst's expectations of around 3.5%. This figure indicates that growth for 2011 will be very close to 4%. In the U.S., GDP growth for the same period was corrected downwards from 2.5% to 2.0%. The outperformance of the Mexican economy vis-à-vis the U.S. is a good sign of a strengthening domestic market, which will be key in achieving a healthy degree of decoupling from the difficulties currently faced by the U.S. economy.

As a measure to incentivate domestic consumption, during the weekend of November 18 to 21 the federal government and the private sector implemented a

seasonal shopping initiative called "The Good Weekend", boosting sales at retail and department stores. This project lifted consumer confidence as the continued expansion of banking credit played a major role in the project's success. Thus, in October 2011 total bank loans to the private sector rose 14.2% YoY and accumulated 19 months of continued growth. Consumption loans grew at a 21.8% YoY rate, while corporate loans increased 12.4%YoY and mortgage loans grew 8.3% YoY.

The auto sector has continued to register above 20% growth year-over-year and the output gap has continued to close as industrial production registered a consistently good pace with the manufacturing sector, its largest component (70%), growing approximately 7%.

The Peso's depreciation of approximately 28% from August 2008 to Nov. 25th 2011 (source: Bloomberg), coupled with productivity gains, has increased the competitiveness of Mexican exports. Over the last 3 years, Toyota, Honda and Mazda have announced new automobile plants to be built in Mexico and U.S. automakers are increasing production capacity and producing more auto parts in Mexico. Bombardier has established an airplane plant in the country and Mexico is the main producer and exporter of durables such as plasma TVs and mobile phones. We believe that an increased market share in higher-value-added products makes Mexican exports more defensive amid a global slowdown.

At the end of November Banxico (Mexico's Central Bank) intervened to stem the Mxn. Peso's depreciation and met with International Monetary Fund (IMF) Managing Director, Christine Lagarde. Madam Lagarde said Mexico had taken timely measures to protect its financial system, although it must remain alert to the crisis. She also said Banxico had been one step ahead of global central banks in guaranteeing market liquidity in the face of financial uncertainty. Finally, she said the IMF welcomed the decision by main central banks to take coordinated action to inject liquidity into



the financial system.

At the time of writing, Banxico and the federal government have sent a bill to the Mexican Congress requesting authorization of special budget item to increase the country's IMF quota.

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#### IV. CLOSING REMARKS

Economic stabilization throughout the year, particularly credit, employment and consumption growth and a prudent budget for 2012 point to sustained economic growth in 2012 (3.2% estimated), also driven by government expenditure ahead of the July 2012 presidential elections.

Percentage allocation by stock has consistently been the most relevant element in our investment decision-making process throughout this year.

We will continue to closely monitor the Fund's performance with a view to generating positive Alpha amid de-indexation and targeting Small and Mid caps.

*Yours sincerely,  
Eugenia Pichardo  
Portfolio Manager*



## THE MEXICO EQUITY AND INCOME FUND, INC.

### ECONOMIC DATA

#### Economic Activity Index

In **September**, according to INEGI, economic activity (IGAE -a Gross Domestic Product proxy) reported a variation of 0.95% month over month (m/m). This proxy increased 4.5% y/y in the referred month. In seasonally-adjusted terms, the service sector's activities increased 1.03% and the industrial ones increased 1.75% m/m, while the agricultural sector's activities decreased -6.53% m/m.

#### Industrial Activity

In **September**, industrial production increased 1.75% m/m, and increased 3.6% y/y. Seasonally adjusted data show a increase in Manufacturing of 1.46%, Construction increased 2.53%, while Mining decreased -1.20%, and Utilities decreased -0.17% m/m.

#### Gross Fixed Investment

In **August**, gross fixed investment (GFI) decreased -0.44% m/m. Expenses in machinery and equipment decreased -0.05%, and the construction subcomponent increased 1.40% m/m. GFI posted a 9.3% y/y growth.

#### Trade Balance

The trade balance of **September** posted a USD\$1.803 bn deficit. Total exports increased 13.7% y/y on a 31.8% increase in oil exports and a 11% increase in non-oil exports. This last figure was due to an increase in exports of 6.2% to the US, and of 30.2% to the rest of the world. Imports grew in this month 18.5% y/y.

#### Mexican Oil Mix

As of **end-November**, the price of the Mexican oil mix was of USD\$107.64 per barrel, translating into a 3.59% increase in a month, and 39.92% in one year.

#### Retail Sales

In **September**, retail sales registered an increase of 4.7%, compared to the same month of 2010. Retail sales recorded an increase of 0.95% in relation to the previous month.

#### Unemployment

In **October**, the unemployment rate came in at 4.83%. By gender, unemployment in men decreased from 5.98% to 5.08% y/y, and that in women decreased from 5.24% to 4.88% y/y, in the same month.

#### Monetary Policy

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

#### Inflation

CPI of **October** came in at 0.68% month-over-month. General annual inflation came in at 3.20%. General prices registered an annual variation of 3.19% versus the previous month's print of 3.12%

Source: UBS, INEGI, SANTANDER.

### ECONOMIC PROJECTIONS

	2008	2009	2010	2011e	2012e	2013e
<b>National Accounts</b>						
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%
<b>Monetary and Exch. Rate Ind.</b>						
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%
<b>Balance of Payments</b>						
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
<b>Debt Profile</b>						
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

#### PAM's investment team

**Eugenia Pichardo: Lead Portfolio Manager**

epichardo@paminversion.com

**Juan Carlos Maussan: Investment Strategist. CFA.**

jcmaussan@paminversion.com

**Kathia Reynoso: Portfolio Manager Assistant**

kreynoso@paminversion.com

**Laura García: Trading Director**

lgarcia@paminversion.com

**Luis Calzada: Compliance Director**

lcalzada@paminversion.com

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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 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.*