

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

After losing -16.72% in the month of September, the MXE's net asset dollar value per share (US\$11.50) registered a 9.42% gain for the month of October, mainly reflecting a rebound in the Mxn. Peso of approximately 4% for the month (*Source: USBancorp and Bloomberg*). In comparison, the Morgan Stanley Capital International "MSCI" Mexico Index gained 13.89% in dollars for the same month. (*Source: Bloomberg*).

In Peso terms the MXE's net per share asset value return was 5.09% for the month of October while the MSCI Mexico Index's was 9.26%. (*Source: Bloomberg*).

As at end-October, the -8.96% Fund's discount to NAV remained around the same level as end-September and even improved versus -11.62% end-2010 (*Source: Bloomberg*).

The main reasons the MXE underperformed its benchmark (MSCI Mexico Index) in October were:

- i. Our decision to switch approximately 11% of the portfolio's stocks into cash and readily available instruments during September when the Dow Jones Index and the MSCI Mexico Index rebounded. The Fund continued to hold this percentage in cash until the first half of October.
- iii. The Fund's underweight position in America Movil (approximately 12%), vs. the benchmark's (32%), which registered a 16.40% dollar return during the month of October.

The MXE portfolio ended October with an 87.70% weight in equities, 3.30% in Mexican treasury bills, 0.63% in a US dollar-denominated bond, 1.68% in Mexican sovereign bonds, 4.05% in the Mexican REIT, and 2.64% in Private Equity Fund (which has been subject to a 15% illiquidity haircut in the Fund's valuation as end-October).

Banxico seems to be signaling that despite the peso's depreciation, inflation expectations have remained anchored, suggesting that the currency's weakness

is overdone relative to its fundamentals (i.e. it should strengthen over time) and that the pass-through to inflation is expected to be low.

Throughout this year, PAM has continued to adhere the Fund to its investment strategy supported by an in-house rating and valuation methodology along with qualitative analysis. At end-October, Alfa-high total annual yield companies accounts for 37% of total assets under management, Beta-high growth 31% and Special Situation-discounted 24%.

I. PERFORMANCE AND INVESTMENT STRATEGY

For the one-year period through October 30, 2011, the MXE's -3.27% (*Source: USBancorp*) net asset dollar loss per share underperformed the MSCI Mexico Index's -1.35% loss by 192 basis points. The Mexbol Total Return Index dollar loss was -3.35% for the same period (*Source: Bloomberg*).

The MXE's portfolio comprises quality companies with solid fundamentals and strong growth prospects. Our main bets within each asset class are:

- i. Alfa-high total annual yield: one of the largest integrated telcos in the world and the 3rd largest wireless operator with an unusually high Return on Invested Capital (20% approximately), strong Free Cash Flow generation—an approximate 13% yield—, strong data growth potential, and a solid balance sheet.
- ii. Beta-high growth: one of Mexico's two largest departmental stores with an investment edge operating in the high-end and mid segments, with 2.6 million credit card holders growing at 5% per annum and Non Performing Loans of 3%.
- iii. Special Situation-discounted: an auto insurance company, which ranks first in the Mexican market with an approximate 20% share, has attractive potential growth, returns on equity of above 24% and an attractive dividend yield.

Total Net Assets 10/31/2011	NAV 10/31/2011	Common Share Market Price 10/31/2011
US\$	US\$	US\$
77,415,275.12	11.50	10.47

MXE US Dollar Returns

As of	NAV	Common Share	Mexbol	MSCI Mexico
10/31/2011	%	Market Price %	%	%
October	9.42	9.18	13.24	13.89
Y-t-d	-10.30	-7.59	-11.01	-8.51
1 YEAR	-3.27	-0.65	-3.35	-1.35

Average Annual Dollar Return with Dividends Reinvestment

5 YEAR	4.80	7.21	6.98	5.27
10 YEAR	18.23	18.54	18.31	14.42
*Since MXE's inception in 1990	14.19	14.55	n/a	12.88

* Period: 08/31/1990-10/30/2011.

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 October	Low (1 yr)	High (1 yr)
31, 2011.	06-03-2011	10-14-2011
-8.96	-12.49	-8.55

Source: Bloomberg

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

Company	MXE weight %	One month ending 10/31/2011 %	Year-to- date ending 10/31/2011 %	1 year 10/31/10- 10/31/11 %
ALSEA	2.64	43.23	1.78	4.82
CEMEX	0.00	36.91	-57.07	-47.77
G. LAB	5.14	25.62	-11.95	-3.03
ICA	1.28	20.65	-47.20	-48.71
BOLSA	0.00	19.14	-18.33	-5.64
GMEXICO	0.00	18.01	-29.50	-11.68
TVAZTECA	0.00	16.97	-11.36	-18.50
TELEVISIA	0.00	16.80	-15.92	-3.16
A M E R I C A MOVIL	11.87	16.45	-9.57	-9.01
ASUR	0.00	16.19	7.19	20.90

Source: Bloomberg

**Stock Exchanges Performance in
US Dollar terms**

Ticker	One month ending 10/31/2011 %	Year-to-date ending 10/31/2011 %	1 year 10/31/10- 10/31/11 %
IPSA (Chile)	17.90	-16.30	-12.16
IBVC (Venezuela)	12.31	91.69	87.13
IGBC (Colombia)	6.75	-10.52	-15.92
INDU (Dow Jones, U.S.A.)	9.72	5.45	10.39
CCMP (Nasdaq, U.S.A.)	11.20	1.94	8.14
MEXBOL (Mexico)	13.12	-12.09	-4.75
MSCI Mexico	13.77	-9.69	-2.89
MEXBOL Total Return Index *	13.24	-11.01	-3.35
MSCI Mexico 1*	13.89	-8.51	-1.35
MERVAL (Argentina)	17.04	-19.89	-6.36
IBOV (Brazil)	22.53	-17.32	-17.20
IGBVL (Peru)	9.76	-12.89	5.61

Source: Bloomberg

*1 With dividends reinvested into index.

THE MEXICO EQUITY AND INCOME FUND, INC.
II. THE MORGAN STANLEY CAPITAL INTERNATIONAL MSCI-MEXICO INDEX

The MSCI Mexico Index's 13.89% dollar gain for the month of October was the result of positive increases in its heaviest weighted constituents: America Movil (32% weight, +16% in dollars), Walmex (10%, +13%), Gmexico (6%, +18%) and Televisa (6%, +17%). The MSCI Mexico Index bounced back in October, due to an increase in global risk appetite ending at 5,846.23 compared to a high of 5,963.39 in October 28th, 2011.

III. THE MEXICAN ECONOMY

At its October 14th meeting, Mexico's central bank (Banxico) left interest rates unchanged. The meeting was held against a backdrop of a slowing global economy and uncertainty about the European crisis. All board members agreed that the risks to growth had worsened, as explicitly expressed in the policy statement. Furthermore, the overall view of global growth prospects reflected in the minutes is both skeptical and cautious, with the board especially worried about tail-risk events.

By contrast, the view that the outlook for inflation has improved marginally -- also expressed in the policy statement-- did not meet with the support of the whole board. Those dissenting on this point essentially made reference to the weakness in the currency and the fact that long-term inflation expectations remain anchored well above the Banxico's target.

On the issue of the peso, most board members appear to expect the peso to strengthen from current levels based on fundamentals. They also expect the pass-through to inflation from a weaker peso to remain low in this cycle. Growth indicators will be key in the coming months, especially those released in the US and Mexico (Source: *Banxico Minutes and UBS*). The Peso appreciated 4.09% in October, closing at \$13.3516 MXN to 1 USD. For the period January to October the peso has depreciated -7.58%.

IV. CLOSING REMARKS

Throughout this year the MXE has continued to maintain its de-indexed investment strategy compared to the MSCI Mexico Index. Needless to say, PAM's stock picking is and will continue to be a high bet due to the distortion caused by the MSCI Mexico Index's so-called illiquid constituents and its over-concentration in a few stocks (America Movil weighs 32%, Walmex 10%, GMexico 6% and Televisa 6%).

Our commitment is to keep working with extreme caution for the benefit of the MXE's long-term stockholders.

*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-October**, the price of the Mexican oil mix was of USD\$103.91 per barrel, translating into a 10.69% increase in a month, and 40.36% 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 **September**, the unemployment rate came in at 5.26%. By gender, unemployment in men decreased from 5.70% to 5.41% y/y, and that in women increased from 5.69% to 6.11% y/y, in the same month.

Monetary Policy

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

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

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.*

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.