



MONTHLY REPORT
September 2011

THE MEXICO EQUITY AND INCOME FUND, INC.

EXECUTIVE SUMMARY

After seven consecutive months of outperformance during 2011, August and September were the first months the MXE's net asset dollar per share underperformed the Morgan Stanley Capital International Mexico Index "MSCI" Mexico Index, by 50 basis points (bps) and 128 bps, respectively. The month of September 2011 the Mexican Bolsa registered the largest dollar monthly loss (-16%) since October 2008 (-32%) on strong risk aversion and consequent outflows into safer assets. Higher volatility in global stocks increased due mainly to concerns about the lack of a solution to insolvency and sovereign debt concerns in the Euro Zone as well as the risk of a U.S. recession.

The MSCI Mexico lost -15.44%, the Mexbol Total Return Index -16.29%, and the MXE -16.72%. In Peso Terms the MXE's net per share asset return was -6.66% for the month of September while the MSCI Mexico lost -5.22%.

The Mexican Peso, one of the world's 24-hour trading currencies, is presently under pressure due to outflows linked to unwinding carry trades. Monetary policy tools implemented by Banco de Mexico (Central Bank), as reflected in the 3-month Mexican Treasury Bill yield of 4.1%, suggest that the Central Bank is comfortable about achieving its 2011 inflation target (in a 3.5%-4.0% range), and GDP growth forecast of 3.5-4.0%. At the long end of the curve, 10-year Mexican Bonds are yielding 6/7%, and continue to provide a comfortable cushion of more than 400 basis points above U.S. 10-year Notes.

We believe the Peso's 11% devaluation in the month of September should ease as soon as the Euro Zone returns to a sounder footing.

The main reason why the MXE underperformed its benchmark in September was our reading of fears of a U.S. recession that led PAM's investment committee to change approximately 11% of the MXE portfolio's stocks into cash and readily available instruments prior to the market rebounding on the upside trend in the Dow Jones Index.

The MXE portfolio ended September with 83% weight in equities, 11% in Mexican government treasury bills, 3% in the Mexican REIT, and 3% in the Private Equity Fund.

For the year-to-date period, through September 30, 2011, the MXE's (-18.02%) net asset

dollar per share loss outperformed the MSCI Mexico's (-19.67%) loss by 165 basis points and for the one-year period the MXE's (-5.49%) loss outperformed the MSCI Mexico's (-6.27%) by 78 basis points. (Source: US Bancorp and Bloomberg).

We have remained fairly conservative in our stock picking on general uncertainty and a still complex global political situation, while the U.S. economy is growing at a moderate pace and emerging markets are being impacted by Foreign Exchange volatility.

At end-September consumption related stocks continued to constitute the MXE's main overweight position (32% of total assets under management), followed by cyclicals, mainly petrochemical (14%) and telcos (13%).

I. PERFORMANCE AND INVESTMENT STRATEGY

For the one-year period through September 30, 2011, the MXE's -5.49% (Source: Bloomberg) net asset dollar loss per share outperformed the MSCI Mexico Index's -6.27% loss by 78 basis points. The Mexbol Total Return Index dollar loss was -6.95% for the same period. (Source: Bloomberg).

At end-September, the Fund's discount to NAV narrowed 250 bps to -8.75% compared to -11.25% at the end of August 2011 (Source: Bloomberg).

In an environment of renewed cyclical risks we favor companies with valuations that are not too stretched; we are placing relatively greater importance on earnings visibility, strong balance sheets (sustainable dividends + repurchases), pricing power, free cash flow generation, and low financial leverage.

We confirm that MXE has not included the housing sector and cement sectors during the year due to low to zero accounting visibility.

II. THE MORGAN STANLEY CAPITAL INTERNATIONAL MSCI-MEXICO INDEX

The MSCI Mexico Index's -19.67% one-year to end-September dollar loss ranked it as the third best performing Latam-related equity market after MSCI Colombia (-11.95%) and Peru (-18.15%). The other MSCI related Indexes registered the following losses: Argentina (-20.77%), Chile (-21.69%), and Brazil (-25.66%). (Source: Bloomberg).

Total Net Assets 09/30/2011	NAV 09/30/2011	Common Share Market Price 09/30/2011
US\$	US\$	US\$
70,797,300.27	10.51	9.59

MXE US Dollar Returns

As of	NAV	Common Share Market Price %	Mexbol	MSCI Mexico
09/30/2011	%		%	%
Sept.	-16.72	-14.38	-16.29	-15.44
Y-t-d	-18.02	-15.36	-21.41	-19.67
1 YEAR	-5.49	-2.64	-6.95	-6.27
Average Annual Dollar Return with Dividends Reinvestment				
5 YEAR	4.67	7.36	5.82	3.93
10 YEAR	18.09	16.57	17.43	13.63
*Since MXE's inception in 1990	11.08	16.28	N/A	12.24

* Period: 08/31/1990-09/30/2011.
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 = 1.51% 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 Sept.	Low (1 yr)	High (1 yr)
30, 2011.	06-03-2011	09-30-2011
-8.75	-12.49	-8.75

Source: Bloomberg

Mexbol Index Best Performing Constituents in US Dollar terms in September 2011

Company	MXE weight %	One month ending 09/30/2011 %	Year-to-date ending 09/30/2011 %	1 year 09/30/10-09/30/11 %
GMODELO	0.00	-0.53	-4.35	7.76
BIMBO	1.87	-2.58	-8.53	6.60
FEMSA	0.00	-4.93	17.41	30.43
ELEKTRA	0.00	-8.12	81.59	119.30
TVAZTECA	0.00	-9.02	-24.22	-21.50
GRUMA	0.00	-10.00	-6.07	23.63
MFRISCO	0.00	-12.21	N/A	N/A
TELMEX	0.00	-12.38	-3.48	6.07
WALMEX	2.64	-12.98	-18.12	-6.26
AMERICA MOVIL	12.64	-13.54	-22.34	-15.90

Source: Bloomberg

Stock Exchanges Performance in US Dollar terms

Ticker	One month ending 09/30/2011 %	Year-to-date ending 09/30/2011 %	1 year 09/30/10-09/30/11 %
IPSA (Chile)	-19.69	-29.01	-24.56
IBVC (Venezuela)	-0.29	70.68	73.36
IGBC (Colombia)	-10.76	-16.18	-16.23
INDU (Dow Jones, U.S.A.)	-5.91	-3.89	3.84
CCMP (Nasdaq, U.S.A.)	-6.31	-8.32	3.00
MEXBOL (Mexico)	-16.32	-22.29	-8.30
MSCI Mexico	-15.47	-20.62	-7.72
MEXBOL Total Return Index *	-16.29	-21.41	-6.95
MSCI Mexico 1*	-15.44	-19.67	-6.27
MERVAL (Argentina)	-16.99	-31.56	-8.86
IBOV (Brazil)	-21.07	-32.52	-31.32
IGBVL (Peru)	-12.95	-20.64	3.13

Source: Bloomberg

*1 With dividends reinvested into index.

THE MEXICO EQUITY AND INCOME FUND, INC.

III. THE MEXICAN ECONOMY

Despite the recent high volatility, we believe that there are several mitigating factors that should help sustain growth in Mexico going forward:

- i. The country has little exposure to European productive activity due to the reduced trade volume between Mexico and Europe; and while relatively higher, any loss of financial investment can be offset by investment from other countries;
- ii. Mexico has been able to increase its share of the US export market to which it is virtually tied along with Canada, and ranks second after China. This phenomenon can be attributed to two factors: the real depreciation of the peso and genuine gains in competitiveness in some manufacturing sectors (for example, the automotive industry, some branches of electronics, appliances, and food, etc.,
- iii. The recent recession has put macro stability to the test from which the country has emerged unscathed, due to the authorities' prudent handling of fiscal and monetary tools;
- iv. The absence of inflationary pressures, mainly due to relative weakness in demand in conjunction with a slack labor market; and
- v. A positive environment for credit, albeit subject to more stringent criteria.

IV. CLOSING REMARKS

In accordance with our investment strategy, we will continue to select companies with, in our opinion, attractive total annual returns (dividends + share repurchases), and solid balance sheets as well as maintain a diversified asset portfolio consisting of equities, REITs, private equity, Mexican sovereign debt, and cash & readily available instruments.

*Yours sincerely,
Eugenia Pichardo
Portfolio Manager*

THE MEXICO EQUITY AND INCOME FUND, INC.
ECONOMIC DATA
Economic Activity Index

In **August**, according to INEGI, economic activity (IGAE -a Gross Domestic Product proxy) reported a variation of -0.42% month over month (m/m). This proxy increased 4.4% y/y in the referred month. In seasonally-adjusted terms, the service sector's activities decreased -0.261% and the industrial ones decreased -1.08% m/m, while the agricultural sector's activities increased 8.32% m/m .

Industrial Activity

In **August**, industrial production decreased -1.08% m/m, and increased 3.1% y/y. Seasonally adjusted data show a decrease in Manufacturing of -1.46%, Construction increased 0.10%, while Mining decreased -0.08%, and Utilities increased 0.40% m/m.

Gross Fixed Investment

In **August**, gross fixed investment (GFI) increased 1.37% m/m. Expenses in machinery and equipment increased 0.21%, and the construction subcomponent increased 1.40% m/m. GFI posted a 9.3% y/y growth.

Trade Balance

The trade balance of **July** posted a USD\$806 m deficit. Total exports increased 17% y/y on a 41.4% increase in oil exports and a 13.4% increase in non-oil exports. This last figure was due to an increase in exports of 10.7% to the US, and of 24.2% to the rest of the world. Imports grew in this month 16.9% y/y.

Mexican Oil Mix

As of **end-August**, the price of the Mexican oil mix was of USD\$93.7 per barrel, translating into a -8.33% decrease in a month, and 27.94% in one year.

Retail Sales

In **August**, retail sales registered an increase of 2.7%, compared to the same month of 2010. Retail sales recorded a decrease of -0.30% 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 **September**.

Inflation

CPI of **September** came in at 0.25% month-over-month. General annual inflation came in at 3.14%. General prices registered an annual variation of 3.12% versus the previous month's print of 3.22%.

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	-3-163.8	155.1	147.7	142.0	142.0

Source: INEGI, SANTANDER estimates.

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

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. As of November 2011, the Mexican economy is running a healthy economic growth after more than a decade of prudent and responsible fiscal and monetary policies. The country has strong fundamentals: (i) 30% total debt as a percentage of GDP and low fiscal deficit, (ii) a flexible foreign exchange rate regime that has led to a relative undervalued Mexican currency, which is key to maintaining the competitiveness of Mexican exports despite the surge of capital flows to emerging markets, (iii) a solid banking system with a capitalization level double that of the regulatory minimum and the commitment of Mexican development banks to continue granting credit to infrastructure, (iv) contained inflationary pressures that are also determined by Mexico's labor market difficulties, while on the positive side leaving Mexico in a good position to cut rates if the international environment deteriorates further. The main economic risks are: the high correlation of its exports to the U.S. economy and the ongoing crime-related problems.

Mexican Securities Laws and Accounting Rules. All companies in the Mexican Stock Exchange have adopted International Financial Reporting Standards (IFRS). Information provided by Mexican public companies may not be current or accurate and is likely to be in Spanish and English. 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.*
- *MSCI MEXICO: The Morgan Stanley Capital International Index Mexico is a capitalization weighted index that monitors the perfor-*

THE MEXICO EQUITY AND INCOME FUND, INC.

mance 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.