

November 26, 2002

THE MEXICO EQUITY AND INCOME FUND, INC.

POLICY FOR VALUATION OF PORTFOLIO SECURITIES

PREAMBLE

The Investment Company Act of 1940 (the "Act") requires registered investment companies to value portfolio securities for which market quotations are readily available at current market value, and other securities at fair value as determined in good faith by the Board of Directors (the "Board"). The Board of The Mexico Equity and Income Fund, Inc. ("MXE") has accordingly developed the following Policy for determining the value of securities at the time prescribed in the prospectus of the Fund (the "Valuation Time").

The Fund's accounting agent or administrator, its investment adviser (the "Adviser"), and valuation committee of the Board (the "Valuation Committee") shall determine the value of the Fund's portfolio securities in accordance with this Policy.

For securities in which the market quotation used is expressed in a non-U.S. currency, the Fund's accounting agent or administrator shall convert the value into U.S. dollars at the prevailing exchange rates as quoted by the WM Reuters London Close on the day of the valuation.

1. PUBLICLY-TRADED SECURITIES

1.1 Equity Securities

Listed equity securities (including securities held "long" or "short") shall be valued at the closing price on the exchange or market on which the security is primarily traded (the "Primary Market") at the Valuation Time. If the security did not trade on the Primary Market, it shall be valued at the closing price on another exchange where it trades at the Valuation Time.

If there are no such sale prices, the value shall be the most recent bid quotation as of the Valuation Time or the lowest asked quotation in the case of a short sale of securities. If there is no such bid quotation, the security shall be valued at the most recent asked quotation at the Valuation Time.

Closing prices and bid/asked quotations indicated above shall be supplied by one or more independent pricing services approved by the Board (a "Pricing Service"). If a Pricing Service is not able to provide such closing prices and bid/asked quotations, the value shall be determined as follows:

- 1) If there are two (2) or more dealers, brokers or market makers in the security, the mean between the highest bid and the lowest asked quotations obtained from at least

two dealers, brokers or market makers. If those only provide bid quotations, the value shall be the mean between the highest and the lowest bid quotations provided.

- 2) If there is only one (1) broker, dealer or market maker, the value shall be the mean between the bid and the asked quotations provided, unless this one can only provide a bid quotation, in which case the value shall be such bid quotation.

If it is not possible to value a particular security pursuant to this Section 1.1, the security shall be valued in accordance with Section 2.

1.2 Debt Securities

Foreign debt securities with a remaining maturity greater than sixty (60) days as of the Valuation Time shall be valued in accordance with the procedures for equity securities listed above.

U.S. debt securities with a remaining maturity greater than sixty (60) days shall be valued in accordance with the price supplied by a Pricing Service.

Prices supplied by a Pricing Service may use a matrix, formula or other objective method that takes into consideration market indexes, matrices, yield curves or other specific adjustments. If a Pricing Service is not able to provide a price for either foreign or U.S. debt securities, the value shall be the highest bid quotation obtained from at least two dealers, brokers or market makers.

Debt securities with a remaining maturity of sixty (60) days or less as of the Valuation Time shall generally be valued by the amortized cost method (i.e. valuation at acquisition cost increased each day by an amount equal to the daily accretion of the discount or amortization of premium) unless it is determined that the amortized cost method would not represent fair value. The creditworthiness of the issuer and the likelihood of full repayment at maturity will be among the factors considered in the determination to utilize the amortized cost method.

If it is not possible to value a particular security pursuant to this Section 1.2, the security shall be valued in accordance with Section 2.

1.3 Options

Option contracts on securities, currencies, indexes, futures contracts, commodities and other instruments shall be valued at their most recent sale price on the Primary Market on which the instrument is traded at the Valuation Time. If the contract did not trade on the Primary Market, it shall be valued at the most recent sale price on another exchange or market where it did trade at the Valuation Time.

If there are no such sale prices, the option shall be valued as follows:

- 1) If there are two (2) or more dealers, brokers or market makers in the security, the mean between the highest bid and the lowest asked quotations obtained from at least

two dealers, brokers or market makers. If those only provide bid quotations, the value shall be the mean between the highest and the lowest bid quotations provided.

- 2) If there is only one (1) broker, dealer or market maker, the value shall be the mean between the bid and the asked quotations provided, unless this one can only provide a bid quotation, in which case the value shall be such bid quotation.

OTC currency options are valued by uploading implied volatility from Reuters. The other inputs are either uploaded (interest rates, spots) or are specified when the ticker symbols are set up (expiration date, strike). The currency options are then priced by using the Garman-Kohlhagen modified Black-Scholes formula which adjusts for a constant yield versus a fixed dividend.

OTC equity/index options are priced according to the contract specifications (days to expiration, current spot index level, interest rates, dividends, strike price) using the Black-Scholes pricing model, modified for dividends. The volatility input assumption is interpolated from the previous day's price. On a weekly basis and at month end, the Adviser receives a price indication sheet from the street and inputs these prices to update the volatility.

1.4 Futures

Futures contracts shall be valued at the most recent settlement price at the Valuation Time.

1.5 Forward Contracts

The Adviser obtains the WM Company London (or if not available, Reuters) closing spot rates and the Reuters forward interest rates on a daily basis. The currency forward contract pricing model derives the differential in interest rates to the expiration date of the forward and calculates its present value. The forward is valued at the net of the present value and the spot rate.

If it is not possible to value a particular forward contract pursuant to this Section 1.5, the forward contract shall be valued in accordance with Section 2.

1.6 Warrants, Rights and Similar Instruments

If there is a trading market for such instruments, these shall be valued in accordance with the procedures for equity securities listed above. If there is no market, the Adviser shall determine the value in accordance with the Black-Scholes pricing model. If it is not possible to value the securities in accordance with the Black-Scholes pricing model, the Adviser shall determine the intrinsic value (i.e. the market value of the underlying security minus the costs to acquire the security).

1.7 Swaps and Other Derivatives

Swaps and other derivative or contractual type instruments shall be valued in accordance with Section 1 if such instruments trade on an exchange or market. If such instruments do not trade

on an exchange or market, such instruments shall be valued at a price at which the counterparty to such contract would repurchase the instrument.

If a price cannot be obtained from the counterparty, the instrument shall be valued at the mean between the prices at which two (2) or more brokers, dealers or market makers in the instrument would purchase such instrument or, if there is only one (1) broker, dealer or market maker which will provide such a price, the price provided by such broker, dealer or market maker.

If it is not possible to value such an instrument pursuant to this Section 1.7, the instrument shall be valued in accordance with Section 2.

2. FAIR VALUATION DETERMINATIONS

The Adviser has the responsibility to determine the fair value of securities in any of the cases mentioned below. Unless otherwise specified, the Adviser shall value the security at the amount each Fund might reasonably expect to realize upon current disposition of the security. In its determination, the Adviser shall consider all relevant factors, including but not limited to the ones described in Exhibit B. The Adviser may obtain and take into consideration any expert advice that it considers relevant.

2.1 Non-publicly-Traded Securities (with no readily available current market value)

Except as otherwise provided in this Section 2.1, the Adviser shall initially value non-publicly-traded securities (for which a current market value is not readily available) at their acquisition cost less related expenses, where identifiable, unless and until the Adviser determines that such value does not represent fair value.

a) Private Placements held by each Fund

Private placements held by each Fund shall be valued according to the procedures described in Appendix 1.

2.2 Restricted Securities

The Adviser shall initially value restricted securities (which have legal or contractual restrictions on resale) at their acquisition cost less related expenses, where identifiable, unless and until the Adviser determines that such value does not represent fair value. Furthermore, specific rules shall apply in the following cases:

a) 144A Securities

If a 144A security is deemed to be liquid¹, such 144A security shall be valued pursuant to section 1.

If a put feature allows each Fund to demand repurchase by a dealer or the issuer on seven (7) days' notice maximum, such security shall be valued at the greater of (i) the value determined in accordance with these procedures or (ii) the price at which such dealer or issuer must repurchase it.

b) **Other Restrictions**

Shares of a publicly traded company in which the Adviser owns shares and whose sole restriction on resale is that it is subject to a lockup period shall generally be valued at a 20% discount to the price of the publicly traded stock if the lockup is for more than 60 days and a 10% discount for shares subject to a 60 day or less lockup, subject to review by the Pricing Committee (as defined in Section 4.2) of the liquidity and volatility of the unrestricted shares.

2.3 **Stale Securities**

If the price of a security (sale price, Mean, bid or asked quotation) remains unchanged, each Fund's accounting agent or administrator may, with the approval of the Adviser, keep the value determined at the previous Valuation Time for **five (5) consecutive business days maximum**.

During that period, the Adviser shall consider any event or developments that could have a material impact on the value of the security. In such a case, the Adviser shall determine if a fair valuation is required by the circumstances.

In any event, the Adviser shall determine the fair value of the security after five (5) consecutive business days and document as appropriate.

2.4 **Delisting, Suspension of trading and default in payment of interest or principal on debt security**

In any such event, the Adviser shall immediately determine the fair value of the security.

2.5 **Discretionary Determination of the Adviser**

In the event that the Adviser believes that the value of a security as determined pursuant to this entire Policy and guidelines does not represent the fair market value, the Adviser shall determine the fair value.

¹ A security is deemed to be liquid if (a) in the Adviser's judgment, considering the factors described in Appendix 2, it may be disposed of within seven (7) days at approximately such value as determined in accordance with Section 1; or (b) if two or more dealers are currently willing to purchase the security at value.

3. DOCUMENTATION AND REVIEW OF FAIR VALUATION

3.1 Initial Fair Valuation

Each initial fair value pricing of a portfolio security must be documented in a written memorandum prepared by the Adviser on the date of such pricing action (e.g., at the time of purchase, suspension of trading, etc.). Exhibit B sets forth the form of the memorandum.

3.2 Daily Review

The Adviser shall review daily the portfolio's fair valued securities. The factors having influenced the fair valuation of each security shall be reviewed to determine if there has been any change which would require consideration of a change in fair valuation of the security. At a minimum the factors considered in the initial valuation of the security or its previous valuation shall be considered.

The Adviser shall document its daily review as appropriate.

3.3 Monthly Review

Monthly, each investment officer of the Adviser shall document in a memorandum his or her review of each Fund for any fair valued securities. The memorandum must include:

- 1) Reason for using fair value methods;
- 2) Documentation of the manner in which the portfolio security was valued, including factors considered in the determination;
- 3) The factors (general and specific, see Exhibit A) considered in the price determination;
- 4) An indication (when possible) of the accuracy of the valuation by disclosing the next available reliable price quotation, whether from a public or private market, and sales prices received by either other holders or each Fund.

The Adviser shall document its monthly review as appropriate.

3.4 Quarterly Review

Each regular Board meeting (at least every quarter) the Adviser shall deliver a written report (the "Quarterly Report") to the Board regarding any determinations of fair valuation during the past quarter, including fair valuations which have not changed. The Quarterly Report shall be substantially in the form set forth as Exhibit C and shall include:

- 1) a list of all such securities and their valuation as determined by the Adviser;
- 2) the reason for using fair valuation methods;
- 3) documentation of the manner in which the securities were valued, including factors considered in the determination;

- 4) an indication, when possible, of the accuracy of the valuation by disclosing the next available reliable public price quotation or the disposition price of such securities;
- 5) any additional information that the Board and/or Valuation Committee deem necessary;
- 6) a representation of the Adviser that these valuation procedures were complied with during the prior quarter;
- 7) any 144A securities which in the Adviser's judgment, applying the factors described in Appendix 2, are deemed to be liquid, including the factors considered by the Adviser in such determination; and
- 8) any action or approval taken by the Valuation Committee during the quarter.

The Board and/or Valuation Committee shall request any other additional information it deems necessary.

4. COMPOSITION, FUNCTIONS AND RESPONSIBILITIES

4.1 The Board

The Board shall review the Quarterly Report and discuss the valuation of the fair valued securities.

4.2 The Valuation Committee of the Board

The Valuation Committee of the Board shall consist of at least two non-interested Directors, as defined by the Act.

The Valuation Committee shall review and approve the valuation of all fair valued securities whose fair valuations individually change each Fund's net asset value (NAV) by greater than 1%. This review shall include a review and discussion of an updated fair valuation summary with appropriate levels of representatives of the Adviser's management.

4.3 The Pricing Committee of the Adviser

The Responsibilities of the Adviser under this Policy may be performed by the Adviser's Pricing Committee (the "Pricing Committee") which shall generally consist of the following representatives:

- 1) a member of the legal/compliance department;
- 2) a member of the security file administration;
- 3) a member of the audit reconciliation department; if appropriate,
- 4) a portfolio manager, assistant portfolio manager or research analyst of the Fund holding the investment; and
- 5) any other persons as deemed relevant by the Adviser.

The Pricing Committee shall generally meet at least monthly and otherwise as necessary to perform the Adviser's responsibilities hereunder. It shall obtain the prior approval of the Valuation

Committee for all fair valuations which individually change a Fund's net asset value (NAV) by greater than 1%. Exhibit C sets forth the suggested form of the memorandum.

5. REVIEW OF THE POLICY AND RECORDKEEPING

5.1 Review of the Policy

The Board, including a majority of the Directors who are not "interested persons" as defined in the Act, shall review and approve this Policy at least annually.

5.2 Recordkeeping

A copy of the materials reviewed in determining the fair valuation of portfolio securities shall be maintained and permanently preserved in an easily accessible place with the records of each Fund.

Any document mentioned in section 3 and 4 shall be maintained and preserved for a period of at least six (6) years from the end of the fiscal year during which any covered valuation occurs, the first two (2) years in an easily accessible place.

Dated: November 26, 2002

Valuation of Private Placements Held by the Fund

A valuation memo is prepared for each private placement held by the Fund at each calendar quarter end and on an as needed basis by the Fund's investment personnel (the "Preparer").

The memo is signed by the Preparer and sent to fund administration for their review.

In the fund administration department, it is checked for completeness and either sent back to the Preparer (if incomplete) or forwarded to the portfolio manager for signature and the Pricing Committee for review.

The valuation is reviewed by the portfolio manager (who may not be the Preparer) who can either sign the valuation (if he is in agreement) or return it to fund administration for clarification from the Preparer.

If the portfolio manager is in agreement with the proposed valuation, it should be signed and sent back to fund administration.

Fund administration sends the new valuation to the fund accounting agent and the security file administration department in order for the price to be updated.

The Board of Directors approves all of the valuations at their next quarterly meeting.

Liquidity Determinations with Respect to 144A Securities

In reaching liquidity decisions with respect to 144A securities, the Adviser may consider the following factors:

- 1) the unregistered nature of the security;
- 2) the frequency of trades and quotes for the security;
- 3) the number of dealers wishing to purchase or sell the security and the number of other potential purchasers;
- 4) dealer undertakings to make a market in the security; and
- 5) the nature of the security and the nature of the marketplace trades (e.g., the time needed to dispose of the security, the method of soliciting offers and the mechanics of the transfer).

Fair Valuation Factors

General Factors:

The fundamental analytical data relating to the investment; the nature and duration of restrictions in the market in which they are traded (including the time needed to dispose of the security, methods of soliciting offers and mechanics of transfer); the evaluation of the forces which influence the market in which these securities may be purchased or sold, including the economic outlook and the condition of the industry in which the issuer participates.

Specific Factors:

- the type of security;
- the cost at the date of acquisition;
- size of the Fund's holding, including the size of the holding compared to other securities of the same type or class, as applicable;
- the liquidity, including but not limited to, the nature and frequency of trades and quotes for the security;
- the number of dealers willing to purchase or sell the security and the number of other potential purchasers or any information as to any transactions or offers with respect to the security;
- special reports prepared by analysts and/or reports published in the financial press;
- the registered nature of the security and the nature and duration of any restrictions on disposition;
- the existence of a shelf registration or registration rights for unregistered securities;
- the market price of comparable securities (of the issuer or a related issuer or of comparable companies in the same industry having similar financial and credit characteristics);
- the discount from market value of unrestricted securities of the same class at time of purchase;
- the financial condition and prospects of the issuer, as indicated by financial statements received by the Adviser or otherwise publicly available, considering any recent

management or capital structure changes or other recent events that may impact the price of the security, including but not limited to the existence of merger proposals or tender offers affecting the securities;

- the earning capacity and dividend-paying capacity of the issuer;
- maturity, coupon, creditworthiness and current yields for the security, including the value of any collateral;
- Public Security Association prepayment rates;
- currency exchange ratios and their fluctuation;
- currency restrictions and investment repatriation restrictions;
- a country's or geographic region's political and economic environment; and
- a country's liquidity and settlement issues.

To:
From: Gerald Hellerman
Subject: Initial Fair Value Pricing
Date:

1. Security Name and Company Description

2. Proposed Valuation and Effect on current NAV of Fund

3. Factors considered in valuation

4. Reason for using Fair Value Pricing Method

Signature of Person Who Prepared the Pricing Recommendation: _____

Date: _____

Reviewed by: _____
(investment officer)

Reviewed by: _____
(Adviser's Pricing Committee)

This valuation was prepared in accordance with the Policy for Valuation of Portfolio Securities.

Exhibit C

To: Valuation Committee or Board of Directors

From: Gerald Hellerman

Subject: Fair Value Pricing

Date:

Please be advised that the following fair value pricing action requires Valuation Committee or Board of Directors approval:

1. Security Name and Company Description

2. Proposed Valuation and Effect on current NAV of Fund

3. Factors considered in valuation

4. Reason for using Fair Value Pricing Method

5. Impact of changes in foreign currency rates (if applicable)

6. Valuation history (include all changes and most recent valuation)

Signature of Person Who Prepared the Pricing Recommendation on behalf of the Pricing Committee:

Name: _____

Date: _____

This valuation was prepared in accordance with the Policy for Valuation of Portfolio Securities.