



THE MEXICO EQUITY & INCOME FUND, INC.

RETURNS

As of September 30, 2017	Total Annual Average U.S. Dollar Return through Sept 30, 2017 (Reinvested Dividends)						
	1 Month	Y-T-D	1 Year	3 Years	5 Years	10 Years	Since MXE Inception in 08/30/90
MXE NAV*	-4.08% <sup>1</sup>	23.71% <sup>1</sup>	10.23% <sup>1</sup>	-5.70% <sup>1</sup>	4.15% <sup>1</sup>	2.43% <sup>1</sup>	12.24% <sup>2</sup>
MXE NAV (Returns in Mexican Pesos "MXN")	-2.34% <sup>3</sup>	8.69% <sup>3</sup>	3.52% <sup>3</sup>	4.37% <sup>3</sup>	11.63% <sup>3</sup>	7.79% <sup>3</sup>	20.14% <sup>3</sup>
MXE Market Price	-3.58% <sup>1</sup>	26.39% <sup>1</sup>	11.98% <sup>1</sup>	-5.88% <sup>1</sup>	4.35% <sup>1</sup>	3.59% <sup>1</sup>	12.62% <sup>2</sup>
MXN Appreciation/ Depreciation	-1.78% <sup>3</sup>	13.82% <sup>3</sup>	6.48% <sup>3</sup>	-9.65% <sup>3</sup>	-6.70% <sup>3</sup>	-4.97% <sup>3</sup>	-6.58% <sup>3</sup>
MEXBOL Index	-3.70%	27.12%	15.22%	-4.48%	-1.05%	1.72%	10.17%
MXF NAV	-3.47%	23.68%	11.59%	-4.98%	0.08%	-1.01%	8.56%
MXF Market Price	-3.37%	17.22%	11.36%	-7.92%	-0.67%	2.17%	9.21%
MXE NAV Excess Return vs. MEXBOL Index	-38	-341	-499	-122	520	71	207

Cumulative to Sept 30, 2017	YTD	(Dividends Reinvested)					Since MXE Inception 8/30/90	Discount to NAV, as of September 30, 2017
		1 Year	3 Years	5 Years	10 Years			
MXE Common Share Market Price	26.39% <sup>1</sup>	11.98% <sup>1</sup>	-16.62% <sup>1</sup>	23.73% <sup>1</sup>	42.29% <sup>1</sup>	2399.73% <sup>3</sup>	-11.87%	
MXF Common Share Market Price	17.22%	-11.36%	-21.93%	-3.32%	23.92%	987.06%	-11.19%	

Source: U.S. Bancorp<sup>1</sup>; Thomson<sup>2</sup>; PAM<sup>3</sup>, Bloomberg.

\*The NAV accretion that resulted from share repurchases, for the 1, 3, and 5-year period ended September 30, 2017, was 0.01, 0.04, and 0.09 respectively. For the purpose of performance calculation, U.S. Bancorp assumes that MXE's dividends and distributions are reinvested at the closing market price on the dividend ex-date and takes into account the dilution effect resulting from fund's stock dividend. This calculation of MXE's performance figures may differ from other financial sources, such as Bloomberg.

MXE's ratio of expenses to average net assets=1.71% for the annual period ended July 31, 2017.

MXF's ratio of expenses to average net assets=1.69% for the semi-annual ended April 30, 2017.

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.

MXE RELEVANT DATA

	As of Sept. 30, 2017	As of Dec 31, 2016	As of Sept 30, 2016
Total Net Assets USD	\$96,619,446	\$ 78,104,718	\$88,262,276
NAV per Share USD	\$13.15	\$10.63	\$11.93
Common Share Market Price USD <sup>1</sup>	\$11.59	\$9.17	\$10.35
Premium/Discount to NAV <sup>1</sup>	-11.87%	-13.43%	-13.23%
MXE's Shares Repurchased	0	192,577	146,565
MXE's Preferred Shares Redeemed	0	48,535	48,535
Total Outstanding Shares	7,349,716	7,349,716	7,399,471

Source: U.S. Bancorp<sup>1</sup>

## THE MEXICO EQUITY & INCOME FUND, INC.

### MXE RELEVANT DATA

As of Sept 30, 2017	1 Month	Y-T-D	1 Year
MXE's Shares Repurchased	0	0	46,012

Source: U.S. Bancorp

### MXE Top Ten Stock Weightings as of September 30, 2017

Issuer	%	Industry
FEMSAUBD	7.92%	Beverages
AMXL	6.57%	Wireless Telecommunication
GFNORTEO	6.20%	Banks
ALFAA	5.33%	Industrial Conglomerates
CEMEX	4.99%	Construction Materials
AC*	4.49%	Beverages
GMEXICOB	4.33%	Materials
GRUMAB	4.17%	Food Products
MEXCHEM*	4.06%	Chemicals
PINFRA*	3.80%	Transportation

Source: U.S. Bancorp

Fund holdings and sector allocations are subject to change and are not a recommendation to buy or sell any security.

### I. BACKGROUND

While for most Mexicans, September 2017 will be remembered as month of sorrow caused by two deadly earthquakes, it will also be remembered for the extraordinary outpouring of pride and nationalistic passion that has since helped the country rebound, partly thanks to a young and dynamic population. Markets were volatile in the month, with the Índice de Precios y Cotizaciones (MEXBOL Index) registering a retreat of -3.70% in U.S. dollars ahead of third quarter earnings reports and North American Free Trade Agreement (NAFTA) negotiation rounds taking place in October and November, while US equities trended higher on expectations regarding fiscal reform, despite the reduction of the Fed's balance sheet, ongoing tension with North Korea, and relatively rich U.S. stock market valuations. (Source: Bloomberg)

### II. MXE PERFORMANCE

The Fund's Net Asset U.S. Dollar Value per share, "NAV," registered a return of 23.71% for the year-to-date period ended September 30, 2017 (8.69% in local terms), and

10.23% for the last-12-month period, an underperformance of 499 basis points versus its benchmark, the IPyC, which posted year-to-date return and last-12-month returns of 27.12% and 15.22%, respectively. (Source: U.S. Bancorp, Bloomberg, PAM). The reasons for the Fund's underperformance were our underweight in stocks such as ELEKTRA and AMX and our overweight in ALFA and ALPEK.

The Fund's common share market price of US\$11.59 on the New York Stock Exchange rose 26.39% for the year-to-date period ended September 30, 2017, registering a discount of -11.87% to the Fund's NAV of US\$ 13.15, compared to a discount of -13.23% at the end of September 31, 2016. The Fund's common share market price increased 11.98% for the one-year period ended September 30, 2017. (Source: U.S. Bancorp)

There were no share repurchases in September as reported by U.S. Bancorp.

The Fund's total net assets amounted to US\$96,619,446 as of September 30, 2017, compared to US\$88,262,276 as of September, 2016, as reported by U.S. Bancorp.

### III. THE MEXICAN ECONOMY

The IPyC Index lost -1.7% in pesos in September, while the spot exchange rate closed September at \$18.25 pesos to the dollar, which is a year-to-date gain of 13.55% against the dollar. However, we believe that a tougher NAFTA renegotiation scenario along with FED monetary policy normalization could temporarily weaken the currency to above MX\$19.00 pesos per dollar. Two counterbalancing factors that should support the peso are: (i) a trade deficit of US\$9.051 billion, 36% below the US\$12.290 billion recorded in the same 2016 period, and (ii) remittances totaling US\$18.875 billion at the end of August, above the same year-earlier period's US\$17.686 billion. Banco de México's September survey of private sector analysts sees the year-end peso/dollar exchange rate at MX\$ 18.14. (Source: Bloomberg; Banxico)

The September survey of private sector analysts also showed virtually no deterioration in growth expectations: real growth is seen at 2.10% in 2017 and a slightly higher 2.22% in 2018. These forecasts appear to confirm investors' confidence in the Mexican economy's resilience. Indeed, the October survey could reflect even higher growth rates driven by impetus from housing reconstruction efforts following the earthquake and new infrastructure projects. Sectors in the portfolio that could gain from that impetus are: Materials and Industrials. (Source: Banxico)

### IV. THE MXE's INVESTMENT STRATEGY

During the month, the Fund posted an underperformance of -38 basis points compared to the MEXBOL Index return.



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While most sectors made a negative contribution to the Fund's performance, the main detractor for the month was the private equity allocation, due to the Initial Public Offering of Traxion, which lowered the fair value of this position, detracting -0.50% for the month. (Source: PAM; Bloomberg)

During the month, the only positive sector contribution to the Fund's performance came from Utilities with 0.05%, while the largest detractors were Industrials, -0.82%, Consumer Staples, -0.79%, and Consumer Discretionary, -0.70%. The largest allocation by sectors were Consumer Staples 22%, followed by Materials 17%, and Financials 16% compared to weights of 28%, 18% and 15% for the MEXBOL Index, respectively. (Source: PAM; Bloomberg)

For now, macro indicators remain very solid, and we expect a decent round of earnings reports in October, albeit some slack vs. 1H17. While the September 19<sup>th</sup> earthquake will have a temporary effect on a number of companies, it should not be material or long-lasting.

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### VI. FINAL REMARKS

Mexico is currently entering a challenging phase both economically (NAFTA) and politically (the 2018 presidential race). However, given our view that NAFTA will prevail, the portfolio is invested in oversold conceptual NAFTA-related stocks with solid management whose corporate governance and P&L efficiencies have driven sales growth and show the highest upside potential. The portfolio also has 5.9% in cash and readily available instruments to take advantage of oversold stocks in the near future. (Source: PAM; Bloomberg)

Sincerely yours,

Eugenia Pichardo and Jose Luis Ramirez  
Equity Portfolio Managers &  
Arnulfo Rodriguez-Debt Portfolio Manager

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*The information contained herein reflects the opinion of Pichardo Asset Management and as such does not constitute fundamental research, neither 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 do not guarantee future earnings.*

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

**DISCLOSURES**

*To read about the Mexico Equity and Income Fund, Inc. please access the Annual Report by calling (414) 765-4255 to receive a copy. To read about the Mexico Equity and Income Fund, Inc. please access the Annual Report on the Fund's website [www.mxefund.com](http://www.mxefund.com), under the section caption investor reports. Investors should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. An investment in the Fund should not constitute a complete investment program.*

**All investments involve risk. Principal loss is possible. Investing internationally involves additional risks such as currency fluctuations, currency devaluations, price volatility, social and economic instability, differing securities regulation and accounting standards, limited publicly available information, changes in taxation, periods of illiquidity and other factors. These risks are greater in the emerging markets. Stocks of small-and-mid-capitalization companies involve greater volatility and less liquidity than larger-capitalization companies.**

**Considerations and risks involved in investing in Mexican securities**

1. Market volatility in a global context.
2. The Mexican economy continues to be classified as an emerging economy. Mexican industrial production is highly correlated to that of the U.S.
3. Mandatory IFRS (International Financial Reporting Standards) accounting since the year 2011. All Mexican companies reporting IFRS in 2012 with 2011 financials adjusted accordingly (Source: Mexican Stock Exchange).
4. The portfolio securities are denominated in Mexican pesos. As a result, the portfolio return in U.S. Dollars securities must increase in market value at a rate in excess of the rate of the decline in the value of the Mexican peso against the U.S. dollar in order to present an excess dollar return.
5. Mexico has experienced widespread bank failures, currency devaluations, high levels of inflation and interest rates. Nevertheless, inflation has been contained at below 4% as of December 31, 2013, for more than a decade and interest rates are currently at all-time lows (2.92% 3 month Treasury Bills "CETES") (Source: Bloomberg)
6. There is generally less governmental supervision and regulation of exchanges, brokers and issuers in Mexico than there is in the United States.
7. 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.

**THE MEXICO FUND, INC. (MXF)**

Closed-End Fund listed in the New York Stock Exchange in 1981

1. Investment Objective: Long-term capital appreciation through investments in securities, primarily equity, listed on the Mexican Stock Exchange.
2. Expense ratio: 1.69% (For the Six Months Ended April 30, 2017)
3. Portfolio Turnover rate: 16.86% (For the Six Months Ended April 30, 2017)
4. Outstanding shares: 15,027,810 (As of April 30, 2017)
5. Repurchase of stocks: During the six months ended April 30, 2017, the Fund did not repurchase shares.
6. Total net assets: US \$279,335,461(As of April 30, 2017)
7. Under the MDP, the Fund pays a quarterly amount of \$0.1300 per share. Accordingly, the Board declared a dividend distribution of \$0.1300 per share, payable in cash on July 27, 2017 to stockholders of record on July 18, 2017.
8. Tax Status: No provision has been made for U.S. income or excise taxes for the year ended September 31, 2016 on net investment company taxable income or net long-term capital gains as defined by the Internal Revenue Code (the "Code"), since the Fund intends to comply with the requirements of the Code applicable to regulated investment companies and to distribute substantially all of such income to its stockholders.

GAAP prescribes the minimum recognition threshold a tax position must meet before being recognized in the financial statements. An assessment of the Fund's tax positions has been made and it has been determined that there is no impact to the Fund's financial statements.

**Diversification does not ensure profit or protect against losses in a declining market.**

**Earnings growth is not representative of the Fund's future performance.**

**Projections are based on estimates, not guaranteed, and subject to change**

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**ECONOMIC DATA**

- **Gross Domestic Product (GDP):** According to INEGI, the demand side of GDP grew 3.0% in **3Q17**. By components, primary activities increased by 1.0%, secondary activities 0.6%, and tertiary activities 4.1.%
- **Economic Activity Index.** According to INEGI, economic activity (IGAE, a Gross Domestic Product proxy) increased by 0.5% month over month (m/m) in **June**. In seasonally-adjusted terms, primary activities decreased by 4.4%, secondary activities by 0.1%, and tertiary activities by 0.4% compared to the previous month.
- **Industrial Activity.** In **August**, industrial production increased by 0.3% m/m. Seasonally-adjusted data showed that mining was down -2.3%, utilities -0.5%, and construction -0.3%; manufacturing activities increased by 0.5%.
- **Gross Fixed Investment.** In **July**, gross fixed investment (GFI) decreased 0.6%, m/m. Expenses related to construction increased by 0.7% and those related to machinery and equipment decreased by 2.4%, m/m. GFI posted a 1.0% drop y/y.
- **Trade Balance.** The trade deficit for the first **9 months** of the year was US\$9.051 billion, 36% below the US\$12.290 billion recorded in the same 2016 period .
- **Mexican Oil Mix.** As at **end-September**, the price of the Mexican oil mix was USD\$49.02 per barrel.
- **Retail Sales.** Retail decreased 0.2% y/y in **August**. Retail sales decreased 2.5% in relation to the previous month.
- **Unemployment.** The **September** unemployment rate came in at a seasonally-adjusted 3.3%.
- **Monetary Policy.** On **August 10, 2017**, Banco de Mexico maintained its benchmark interest at 7.00%.
- **Inflation.** The **September** Consumer Price Index (CPI) increased by +0.31% month-over-month. Annual headline inflation came in at 6.35% and core inflation 4.80%.
- **Public Finances:**
  - o Net budgetary expenditure was 6.4 percent lower in real terms vs. the end of the third quarter of 2016 and \$85.1 bn pesos above the budget program. Excluding contributions made in both years using the Bank of Mexico's Excess Operating Liquidity (ROBM) to acquire financial assets and the Federal Government's 2016 contribution to Pemex, net expenditure paid was a real 2.8 percent below the same 2016 period and 11.3 billion pesos below the program.
  - o Public Sector Financial Requirements (RFSP) registered a \$73.341 billion surplus vs. a \$207.657 billion deficit for the same period in 2016.

Source: SHCP, BANXICO, INEGI.

THE MEXICO EQUITY & INCOME FUND, INC.

ECONOMIC PROJECTIONS

Economic Projections	2014	2015	2016	2017e	2018e
<b>National Accounts</b>					
Real GDP growth (y/y)	2.3%	2.5%	2.9%	2.5%	2.7%
GDP (US \$bn.)	1.288	1.139	1.076	1.181	1.321
Consumption (Chg. y/y)	2.0%	3.3%	2.4%	2.4%	2.5%
Investment (Chg. y/y)	2.3%	4.5%	1.1%	1.0%	3.7%
Exports (Chg. y/y)	7.3%	9.4%	3.5%	7.6%	8.9%
Imports (Chg. y/y)	5.7%	6.1%	2.9%	5.3%	7.9%
<b>Monetary and Exchange Rate Ind.</b>					
CPI Inflation (year-end)	4.1%	2.1%	3.3%	6.3%	3.8%
US\$ Exchange Rate (year-end)	14.7	17.2	20.6	18.9	19.0
28Day Cetes Int. Rate (year-end)	3.00%	3.25%	5.75%	7.0%	6.5%
<b>Balance of Payments</b>					
Trade Balance (US\$ bn.)	-2.8	-14.5	-13.1	-14.4	-12.4
Exports (US\$ bn.)	397.5	380.8	373.9	397.8	424.5
Imports (US\$ bn.)	400.0	395.2	387.06	412.2	436.9
Transfers (US\$ bn.)	23.6	24.8	26.6	n/a	n/a
Current Account (US\$ bn.)	-24.8	-32.4	-27.8	-23.4	-27.8
Foreign Direct Inv. (US\$ bn.)	25.6	28.4	26.7	n/a	n/a
<b>Debt Profile</b>					
International Reserves (US\$ bn.)	193.2	176.7	176.5	178.0	180.0
Public Debt (gross % of GDP)	41.0%	42.5%	50.5%	48.0%	48.0%
External Debt (gross % of GDP)	11.9%	19.7%	15.5%	15.2%	15.0%

Source: SHCP, BANXICO, INEGI, Santander.

The projections on this page are based on industry estimates and are no guarantee of future outcomes.

## THE MEXICO EQUITY & INCOME FUND, INC.

### DEFINITIONS

- **BANXICO:** Banco de Mexico is the Central Bank of Mexico.
- **Basis points:** One basis point (bps) is one hundredth of a percentage point (0.01%).
- **Federal Reserve (FED):** U.S. Central Bank, bank of the U.S. government and, as such, it regulates the nation's financial institutions.
- **GDP:** Gross Domestic Product proxy. The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.
- **IMF:** International Monetary Fund is an international organization created for the purpose of standardizing global financial relations and exchange rates.
- **INEGI:** Mexican National Institute of Statistics and Geography.
- **Consumer Price Index CPI:** The consumer price index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.
- **MEXBOL-Mexican Stock Exchange:** The Mexican Bolsa Index, or the IPyC (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 on October 30, 1978.
- **Mexbol-Total Return Index:** The Mexican Bolsa index calculates the performance of constituents assuming that all dividends and distributions are reinvested.
- **NAFTA:** (North American Free Trade Agreement): A regulation implemented January 1, 1994 in Mexico, Canada and the United States to eliminate most tariffs on trade between these nations. The three countries phased out numerous tariffs, (with a focus on those related to agriculture, textiles and automobiles), between the agreement's implementation and January 1, 2008. NAFTA's purpose is to encourage economic activity between the United States, Mexico and Canada.
- **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 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.
- **Spot Exchange Rate:** is the price to exchange one currency for another for immediate delivery.
- **Spread:** The difference between two related interest rates.