

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

As of June 30, 2018	Total Annual Average U.S. Dollar Return through June 30, 2018 (Reinvested Dividends)						
	1Q18	2Q18	1 Year	3 Years	5 Years	10 Years	Since MXE Inception in 08/30/90
The Mexico Equity & Income Fund, Inc. (MXE) NAV (Net Asset U.S. Dollar Per Share)	6.59% <sup>1</sup>	-4.99% <sup>1</sup>	-7.97% <sup>1</sup>	-2.99% <sup>1</sup>	-1.00% <sup>1</sup>	1.19% <sup>1</sup>	11.54% <sup>2</sup>
MXE NAV (Returns in Mexican Pesos "MXN")	-1.45% <sup>3</sup>	3.79% <sup>3</sup>	0.71% <sup>3</sup>	4.88% <sup>3</sup>	7.87% <sup>3</sup>	8.05% <sup>3</sup>	19.55% <sup>3</sup>
MXE Market Price (on the NYSE)	6.82% <sup>1</sup>	-5.75% <sup>1</sup>	-9.13% <sup>1</sup>	-3.87% <sup>1</sup>	-1.82% <sup>1</sup>	2.44% <sup>1</sup>	11.82% <sup>2</sup>
MXN Appreciation/ Depreciation vs USD	8.15% <sup>3</sup>	-8.46% <sup>3</sup>	-8.62% <sup>3</sup>	-7.50% <sup>3</sup>	-8.22% <sup>3</sup>	-6.35% <sup>3</sup>	-6.70% <sup>3</sup>
MEXBOL Index	1.06%	-3.86%	-10.99%	-3.92%	-3.35%	-0.05%	9.79%
MXF (The Mexico Fund) NAV	4.03%	-5.50%	-7.81%	-2.83%	-3.33%	0.53%	8.03%
MXF Market Price (on the NYSE)	3.72%	-5.78%	-9.66%	-5.75%	-6.49%	1.43%	8.58%
MXE NAV Excess Return vs. MEXBOL Index	553	-113	302	93	235	124	175

  

Cumulative to June 30, 2018	(Dividends Reinvested)							Discount to NAV, as of June 30, 2018
	1Q18	2Q18	1 Year	3 Years	5 Years	10 Years	Since MXE Inception 8/30/90	
MXE Common Share Market Price	6.82% <sup>1</sup>	-5.75% <sup>1</sup>	-9.13% <sup>1</sup>	-11.17% <sup>1</sup>	-8.78% <sup>1</sup>	27.20% <sup>1</sup>	2140.32% <sup>3</sup>	-13.84%
MXF Common Share Market Price	3.72%	-5.78%	-9.66%	-16.29%	-28.52%	15.23%	889.30%	-13.58%

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

The Fund's Portfolio securities are denominated in Mexican pesos. As a result, the portfolio return in U.S. dollars 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.

The NAV accretion that resulted from share repurchases, for the 1, 3, and 5-year period ended June 30, 2018 was 0.04, 0.09, 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=1.64% for the semi-annual period ended January 31, 2018.

MXF's ratio of expenses to average net assets=1.59% for the fiscal year ended October 31, 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.*

## THE MEXICO EQUITY & INCOME FUND, INC.

### Quarterly Message from The Fund's Investment Advisor June 2018

Dear Stockholders of the Fund,

Following a democratic general election, in which the Presidency of the Republic, 9 governorships and the election of 128 senators and 500 Deputies were at stake, the leftist candidate of the "Together We'll Make History" coalition (MORENA), Andrés Manuel López Obrador, "AMLO," will become Mexico's next president on December 1<sup>st</sup>, 2018.

AMLO's pragmatic stance drove the Mexbol Index 2.8%, while the Mexican peso has gained 5.2% since election day on July 1<sup>st</sup>. The other two political parties, the business sector and social media in general have expressed their confidence in AMLO and are looking forward to unifying the country in the face of protectionist trade policies as well as boosting economic growth.

Our call for the MXE to have a 99% weight in equities with respective weights of 9% and 67% in value and growth stocks, respectively, has enabled the Fund to continue to outperform the Mexbol Index by 302 basis points for the one-year period through the end of June, despite strong flows into indexed large cap stocks.

The MORENA coalition won a relative majority in the Senate and Congress, which means they will not have the majority (2/3 of Congress) required to make constitutional amendments. *(Source INE & PAM)*

At the close of the second quarter of the year, trade tensions between the United States and China prevailed along with a number of unsettling political events in Europe, mainly in Italy. At the same time, the FED continued its tightening cycle, which translated into a stronger dollar and took the 10-year Treasury yield to 5-year highs.

### Fund Performance

The Fund's Net Asset U.S. Dollar Value per share, "NAV," outperformed the Mexbol Index for the year-to-date period ended June 30, 2018, registering an excess return of 411 basis points vs. the Mexbol Index, according to Bloomberg.

The Fund's common share market price of US\$10.33 on the New York Stock Exchange rose 0.68% in dollars for the year-to-date period ended June 30, 2018, registering a discount of -13.8% to the Fund's NAV of US\$11.99, compared to a discount of -12.7% at the end of June 30, 2017, while the Mexican peso depreciated 1.3% for the same period. *(Source: U.S. Bancorp; Bloomberg)*

### Investment Strategy

We have continued to adhere the MXE to our value, growth and total annual return strategy *(See Footnote 1)*. At the end of June, the Fund had a 9% weight in value stocks, which according to Bloomberg and PAM are stocks

trading at a high average discount of 30% to their last 5-year average valuations, while growth stocks, which have a 67% weight in the MXE portfolio, are stocks trading at an average 20% discount to their last-5-year historical average valuations.

At the time of this writing, the largest portfolio allocations by sectors are: Materials (21%), Consumer Staples (19%), Financials (16%) and Industrials (11%). The Telecom allocation is 9% and corresponds to one company. Sector contributors for the quarter were Materials, Consumer Staples, Telecommunication Services, Financials, Industrials and Consumer Discretionary, while detractors were Real Estate and Utilities. *(Source: PAM; Bloomberg)*.

### The Mexbol Index

The MEXBOL Index gained 4.3% in pesos but lost 3.9% in dollars during the second quarter, driven mostly by Consumer Discretionary (+19.4%), Financials (+6.9%), Consumer Staples (5.9%), Materials (+2.2%) and Industrials (+1.3%). In terms of valuation, the MEXBOL Index is currently trading at EV/EBITDA and P/E multiples of 9.1x and 22.4x, respectively, which are discounts of 5% and 12%, to last-5-year historic average levels. *(Source: Bloomberg)*.

### The Economy

The new administration's economic team has recognized the sound management of the current account, fiscal deficit, and inflation. It has also pledged commitment to continuity and expects Mexico's credit line with the International Monetary Fund to be renewed in the fall.

Given a scenario of U.S. protectionist policies and dollar strength, the following factors have also underpinned peso strength: i) Banco de México Governing Board's decision to raise its reference rate by 25 basis points to 7.75% from 7.50% in its June 21st policy meeting, and (ii) Statements from Banco de México Governor, Javier Guzmán, regarding the possibility of further interest rate hikes owing to potential inflationary pressures. *(Source: Banco de México)*

Furthermore, budgetary adjustments are one of the main policy measures the new administration has already agreed on with current President Peña Nieto for September when the 2018-19 budget will be sent to Congress. These adjustments aim to free up resources for more than 1,000 social-impact programs (0.7% of GDP), which include raising old age pensions and programs for the unemployed, and increasing public investment in infrastructure to 1% of GDP. Such funds would also be obtained by centralizing government procurement. *(Source: Banco de México & PAM)*.

### NAFTA Update

Regarding the North American Free Trade Agreement (NAFTA) negotiations, the outcome of the July 1<sup>st</sup>, 2018

## THE MEXICO EQUITY & INCOME FUND, INC.

election could revive this process. Initial talks between U.S. President Donald Trump and Mexican president elect AMLO, point to possible cooperation between the two administrations in areas such as border security, immigration and trade. In particular, AMLO's stance regarding the generation of internal conditions that make staying in Mexico more appealing to potential immigrants complements the Trump administration's objectives. In the area of free trade, Trump is sticking to his position of Mexico and the U.S. reaching a bilateral agreement that replaces the current one. AMLO has appointed Jesús Seade Kuri chief negotiator for NAFTA who will work alongside the current negotiating team. Mr. Seade has occupied positions including World Bank economist, Mexican representative to the World Trade Organization, chief negotiator at the Uruguay Round (1986-1993) and International Monetary Fund advisor. (Source: PAM)

### Closing Remarks

Carlos Urzúa, who will become the next Secretary of Finance, has mentioned 7 principles that will govern the new administration's economic policy: (1) A responsible macroeconomic, fiscal, and debt policy; (2) respect for the central bank's autonomy; (3) a floating exchange rate regime; (4) Inland Revenue Service and financial regulatory transparency; (5) separation of powers and counterweights; (6) a non-partisan fiscal committee similar to the U.S. Congressional Budget Office; and (7) consensus among parties interested in structural reforms using adequate channels.

The MXE portfolio is well positioned for the current environment of political transition, as the market correction ahead of AMLO's victory gave PAM team's active management the possibility of undertaking an equity shift at attractive entry points.

Sincerely yours,  
Eugenia Pichardo  
Head Portfolio Manager

#### FOOTNOTE 1

PAM's Investment Categories:

**Value Stocks**, as defined by PAM, are stocks with a high discount to their historical 5-year multiple valuation and high upside potential according to the Bloomberg consensus. **High Growth Stocks** are stocks trading at inexpensive multiples, according to PAM; YoY EBITDA growth higher than sales growth based on the last five years derived from organic margin expansion and accretive M&A activity; Consistent Free Cash Flow generation; Consistent return on Invested Capital (ROIC) for the last 5-year period; and Highly diversified operating income. **Total Annual Return Stocks:** Cash dividend + share repurchase + asset return. **Energy Reform:** Energy-related stocks resulting from a profound 2013 energy and electricity cogeneration reform

### Important Information

*Pichardo Asset Management has prepared this reported based on sources it believed to be accurate and reliable. However, the figures are unaudited and neither the Fund, Pichardo Asset Management (the Investment Advisor), nor any other persons or authorities guarantee their accuracy. Investors should seek their own professional advice and should consider the investment objectives, risks, changes, and expenses before acting on this information. Pichardo Asset Management is a registered investment advisor since 2003 in accordance with Section 204 of the Investment Advisers Act of 1940 and is also registered as an Independent Investment advisor in Mexico pursuant to articles 225 and 226 of the Mexican Securities Act under registration number 30018-001 (5365).*

*Closed-end funds are traded on the secondary market through one of the stock exchanges. The Fund's investment return and principal value will fluctuate so that an investor's shares may be worth more or less than the original cost. Shares of closed-end funds may trade above (a premium) or below (a discount) the net asset value (NAV) of the fund's portfolio. There is no assurance that the fund will achieve its investment objective. Total return figures with distributions reinvested at the dividend reinvestment price are stated net-of-fees and represents past performance. Past performance is not indicative of future results, current performance may be higher or lower. Holdings are subject to change and are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities shown. Inception date August 1990.*

### Definitions

- **Basis point (BPS):** Refers to a common unit of measure for interest rates and other percentages in finance.
- **EBTIDA:** Net income with interest, taxes, depreciation and amortization added back to it.
- **NAV:** Net Asset Value
- **Mexbol Index:** The Mexican Bolsa Index, or the IPyC (Índice 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.
- **MORENA:** National Regeneration Movement.
- **P/E:** The Price/Earnings ratio is the ratio for valuing a company that measures its current share price relative to its per-share earnings.
- **The North American Free Trade Agreement (NAFTA):** A regulation implemented January 1, 1994 in Mexico, Canada and the United States to eliminate most tariffs on trade between these nations.

## THE MEXICO EQUITY & INCOME FUND, INC.

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

*All investments involve risk. Principal loss is possible. Investing internationally involves additional risks such as currency fluctuations, market prices volatility, social and economic instability, changes in taxation, periods of illiquidity and other factors. Stocks of small-and-mid-capitalization companies involve greater volatility and less liquidity than larger-capitalization companies. All Mexican companies are subject to Mandatory IFRS (International Financial Reporting Standards) accounting since the year 2011.*

*The Fund's 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.*

*To read about the Mexico Equity and Income Fund, Inc. please access the Annual Report by calling (414) 765-4255 to receive a copy, or access the Annual Report on the Funds 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.*

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*For further information please contact Pichardo Asset Management +52 (55) 5261 4602 [lgarcia@paminversion.com](mailto:lgarcia@paminversion.com).*

## THE MEXICO EQUITY & INCOME FUND, INC.

### ECONOMIC DATA

**Gross Domestic Product (GDP):** According to INEGI, the demand side of GDP grew 2.3% in **1Q'18** compared to the previous year. By components, primary activities increased by 5.2%, secondary by 0.3% and tertiary by 2.9%.

**Economic Activity Index:** According to INEGI, economic activity (IGAE, a Gross Domestic Product proxy) increased by 1.4% year over year (y/y) **in April**. In seasonally-adjusted terms, primary activities decreased by 4.2%, secondary by 0.2% and tertiary by 2% compared to the previous year.

**Industrial Activity: In April**, industrial production increased by 0.2% compared to the previous year. Seasonally-adjusted data showed that utilities increased by 2.8%, manufacturing by 0.1% and construction by 3.8%, while mining was down -6.2% compared to the same month of the previous year.

**Gross Fixed Investment: In March**, gross fixed investment (GFI) increased 1.9% y/y. Expenses related to construction decreased by -1.6% and those related to machinery and equipment increased by 8.9%, y/y. GFI posted a -0.5% decrease m/m.

**Trade Balance: The April** trade balance registered a US\$289 million deficit. Total exports increased by 17.0% y/y, driven by advances in oil and non-oil exports. Imports increased by 21.4% y/y.

**Mexican Oil Mix: As of end-June**, the price of the Mexican oil mix was USD\$67.08 per barrel, translating into a 5.67% monthly increase and a 19.4% increase in one year.

**Retail Sales:** Retail increased 1% y/y **in April**. compared to the same month of 2017. Retail sales decreased -1.1% in relation to the previous month.

**Unemployment: The April** unemployment rate came in at a seasonally-adjusted 3.4%, a similar rate than in the previous month.

**Monetary Policy: On June 21, 2018**, Banco de Mexico increased its benchmark interest to 7.75%.

**Inflation:** The **May** Consumer Price Index (CPI) decreased by -0.16% month-over-month. Annual headline inflation came in at 4.51% and core inflation 3.69%.

#### Public Finances:

**From January to April 2018**, the government reported a primary budget balance surplus of MXN \$172.3 billion, which compares negatively to the MXN \$483.6 billion surplus observed in the same period in 2017.

**During the first four months of 2018**, income increased by 2.6% y/y taking into account Banxico's transfer. During the same period, expenses increased 9.8% y/y.

*Source: SHCP, BANXICO, INEGI.*

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

<b>Economic Projections</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017e</b>	<b>2018e</b>
<b>National Accounts</b>					
Real GDP growth (y/y)	2.3%	2.5%	2.9%	2.0%	2.7%
GDP (US \$bn.)	1.288	1.139	1.076	1.159	1.234
Consumption (Chg. y/y)	2.0%	3.3%	2.4%	3.0%	2.8%
Investment (Chg. y/y)	2.3%	4.5%	1.1%	-1.3%	0.2%
Exports (Chg. y/y)	7.3%	9.4%	3.5%	5.8%	6.8%
Imports (Chg. y/y)	5.7%	6.1%	2.9%	5.6%	6.5%
<b>Monetary and Exchange Rate Ind.</b>					
CPI Inflation (year-end)	4.1%	2.1%	3.3%	6.8%	4.2%
US\$ Exchange Rate (year-end)	14.7	17.2	20.6	19.7	18.2
28Day Cetes Int. Rate (year-end)	3.00%	3.25%	5.75%	7.2%	7.5%
<b>Balance of Payments</b>					
Trade Balance (US\$ bn.)	-2.8	-14.5	-13.1	-10.8	-11.9
Exports (US\$ bn.)	397.5	380.8	373.9	409.5	424.5
Imports (US\$ bn.)	400.0	395.2	387.06	420.4	436.9
Transfers (US\$ bn.)	23.6	24.8	26.6	28.1	n/a
Current Account (US\$ bn.)	-24.8	-32.4	-22.8	-18.8	-27.8
Foreign Direct Inv. (US\$ bn.)	25.6	28.4	26.7	29.7	n/a
<b>Debt Profile</b>					
International Reserves (US\$ bn.)	193.2	176.7	176.5	173.0	175.0
Public Debt (gross % of GDP)	42.6%	46.6%	48.7%	46.2%	46.1%
External Debt (gross % of GDP)	11.9%	14.6%	18.3%	15.3%	14.9%

Source: SHCP, BANXICO, INEGI, Santander.

(e) Estimate

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