

## **THE MEXICO EQUITY AND INCOME FUND, INC.**

### **POLICY FOR VALUING 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. (the “Fund”) 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 valuation committee of the Board (the “Valuation Committee”) shall, on behalf of the Board, delegate to and oversee the Fund’s accounting agent or administrator and the investment adviser (the “Adviser”) regarding the determination of 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 New York Close or, if unavailable, such other reputable source 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 comparable exchange where it trades at the Valuation Time. If there are no such closing prices, the security shall be valued at the mean between the most recent highest bid and lowest ask prices at the Valuation Time.

Closing prices and bid/asked quotations indicated above shall be supplied by one or more independent pricing services employed by the Fund’s accounting agent and 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 by the Adviser in accordance with the following:

- 1) If there are two (2) or more dealers, brokers or market makers in the security, the average of the two (2) bid quotations from the same trading day obtained from at least two dealers, brokers or market makers, unless the Adviser believes that such bid quotation does not represent the fair value of the security, and in such event, the Adviser will fair value the security in accordance with Section 2.

- 2) If there is only one (1) broker, dealer or market maker, the value shall be the bid quotation provided from the same trading day, unless the Adviser believes that such bid quotation does not represent the fair value of the security, and in such event, the Adviser will fair value the security in accordance with Section 2.

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

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

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 average of the bid quotations obtained from at least two (2) 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, unless the Adviser believes that such bid quotation does not represent the fair value of the security, and in such event, the Adviser will fair value the security in accordance with Section 2.

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

Exchange traded options are valued at the composite price, using the National Best Bid and Offer quotes (“NBBO”). NBBO consists of the highest bid price and lowest ask price across any of the exchanges on which an option is quoted, thus providing a view across the entire U.S. options marketplace. Specifically, composite pricing looks at the last trades on the exchanges where the options are traded. If there are no trades for the option on a given business day composite option pricing calculates the mean of the highest bid price and lowest ask price across the exchanges where the option is traded, unless the Adviser believes that such bid price does not represent the fair value of the security, and in such event, the Adviser will fair value the security in accordance with Section 2.

For options where market quotations are not readily available, fair value shall be determined as set forth in Exhibit A.

## 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 Reuters New York (or, if unavailable, such other reputable source on the day of the valuation) closing spot rates and 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 and recommend the fair value of securities in any of the cases mentioned below. Unless otherwise specified, the Adviser shall fair value any such security at the amount the Fund might reasonably expect to realize upon an orderly disposition of the security. In its determination, the Adviser shall consider all relevant factors, including but not limited to the ones described in Exhibit A. The Adviser may obtain and take into consideration any expert advice that it considers relevant. For the avoidance of doubt, any determination of fair value shall include both a quantitative and qualitative analysis and shall not mean a forced liquidation or distressed sale of a security.

## 2.1 Overall Standards For Fair Value Determinations

As a general principle, the “Fair Value” of a security is the amount that the Fund might reasonably expect to realize upon the security’s current sale. There is no single standard for determining the Fair Value of a security. Rather, in determining the Fair Value of a security, the Adviser, in applying the methodologies and procedures in these Valuation Procedures or the Fair Valuation Committee in proposing and implementing new valuation methodologies to Fair Value a security shall take into account applicable statutory and regulatory requirements and guidance including, without limitation, Section 2(a)(41) of the 1940 Act, and Rules 2a-4 and 38a-1 thereunder, guidance provided by the SEC with respect to valuation of fund assets and securities, including without limitation, Accounting Series Release (“ASR”) 113 (“Restricted Securities”), ASR 118 (“Accounting for Investment Securities/Valuation of Securities”), interpretive guidance from the staff of the SEC and the relevant factors and surrounding circumstances applicable to the specific security, which may include, among other things: (i) the nature and pricing history (if any) of the security; (ii) whether any dealer quotations for the security are available; (iii) possible valuation methodologies that could be used to determine the Fair Value of the security; (iv) the recommendation of the relevant Adviser with respect to the valuation of the security; (v) whether the same or similar securities are held by other funds managed by the Advisor and the methodologies used to value comparable or similar securities in those funds; (vi) the extent to which the Fair Value Determination will be based on data or formulae produced by third parties independent of the Adviser; (vii) the liquidity or illiquidity of the market for the security; (viii) the existence of merger proposals, tender offers or other types of “exit” events for shareholders of the security’s issuer; (ix) court action or governmental intervention with respect to a security or its issuer; and (x) price changes of a relevant market index that serves as a reasonable proxy instrument for the Fair Valued security. Objective, verifiable data should be given greater weight than subjective conclusions or opinions. The Fair Value Committee should recognize the inherent conflict of interests when seeking valuation input from the Adviser, even while recognizing the importance of the Adviser’s knowledge of the security being valued as reflected in the Adviser’s valuation recommendation.

## 2.2 Non-publicly-Traded Securities

Except as otherwise provided in this Section 2.2, 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; provided, however, that any such non-publicly-traded securities acquired more than six (6) months prior to such valuation shall be fair valued by the Adviser considering all relevant factors, including but not limited to the ones described in Exhibit A. The Adviser is not required to provide the Chairman of the Valuation Committee a memorandum pursuant to Section 3.1 hereof with respect to an initial valuation of any non-publicly-traded securities valued at cost less related expenses as set forth above. A memorandum, however, is required for any non-publicly-traded securities that are valued using any method other than this method.

## 2.3 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 and inform the Chairman of the Valuation Committee of the Fund's Board within one (1) business day of such determination, but in no event shall such notice be provided later than one (1) business day before the Fund's NAV is determined.

### **3. DOCUMENTATION AND REVIEW OF FAIR VALUATION**

#### **3.1 Initial Fair Valuation**

Subject to Sections 3.2 and 3.3 below, each initial fair value pricing of a portfolio security, other than the initial fair value of any non-publicly-traded securities which are valued at cost less related expenses pursuant to Section 2.1 hereof, 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.) and submitted to the Chairman of the Valuation Committee immediately thereafter. The Chairman of the Valuation Committee will then determine whether this memorandum should be forwarded to the members of the Committee at such time or provided to the Committee members at the next quarterly meeting of the Committee or the Board of Directors. Exhibit B sets forth the form of the memorandum.

#### **3.2 Review of Fair Valuation**

The Adviser shall review on a weekly basis the appropriateness of all fair value determinations based on any new information or changes in assumptions regarding the security, reliable public market quotations, actual trade prices or other information which becomes available subsequent to the initial determination of fair value. If changes are identified, the Adviser shall reconsider the original valuation and revise it accordingly. The Adviser shall prepare and maintain a written memorandum of any change in the valuation of a security.

If the Adviser has revised the fair value of any securities in accordance with the preceding paragraph, the Adviser shall contact the Chairman of the Valuation Committee of the Fund's Board shortly thereafter to notify the Chairman of such change(s). The Adviser shall provide the Chairman of the Valuation Committee a report substantially in the form set forth in Exhibit C hereto. If the Chairman determines that such fair valuation(s) require the involvement of the Valuation Committee, a special meeting of the Valuation Committee shall be called as soon as practicable to discuss such fair valuation(s).

#### **3.3 Quarterly Review**

At each regular quarterly Board meeting, the Adviser shall deliver a written report (the "Quarterly Report") to the Board regarding any recommendations 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 for each such security;
- 3) documentation of the manner in which the securities were valued, including

factors considered in the determination;

- 4) any additional information that the Board and/or Valuation Committee deem necessary;
- 5) a representation of the Adviser that these valuation procedures were complied with during the prior quarter and that all material information was included in the fair valuation analysis; and
- 6) any action or approval taken by the Valuation Committee during the quarter.

In addition to the quarterly review regarding fair valuation of certain securities as set forth herein, the Adviser shall review any 144A securities held by the Fund which in the Adviser's judgment, applying the actors described in Appendix 1, are deemed to be liquid, including the factors considered by the Adviser in such determination and include such review in its quarterly report.

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.

Subject to Section 3 hereof, the Valuation Committee shall (i) review all Monthly Reports and any other interim reports, and (ii) review and approve the valuation of all fair valued securities. 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 Investment Adviser**

Members of the Adviser shall meet as necessary to perform the Adviser's responsibilities hereunder, including monthly reports to the Valuation Committee and quarterly reports to the Board, each in substantially the form as set forth on Exhibit C.

#### **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 the 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: March 17, 2011

As amended December 4, 2014

**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, including all bids and asks for such security, if any;
- the market price of comparable securities (peer analysis of comparable securities in the same industry or, where possible, of the issuer or a related issuer or of comparable companies in the same industry having similar financial and credit characteristics);
- 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;
- currency exchange ratios and their fluctuation;
- Mexico's political and economic environment; and
- Mexico's security markets, liquidity and settlement issues.

**Exhibit B**

To: Chairman of the Valuation Committee  
From: Investment Adviser  
Subject: Initial Fair Value Pricing  
Date:

1. Security Name and Company Description

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2. Proposed Valuation and Effect on current NAV of Fund

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3. Factors considered in valuation (see attached memorandum)

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4. Reason for using Fair Value Pricing Method

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Signature of Persons Who Prepared the Pricing Recommendation: \_\_\_\_\_

\_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_

Date: \_\_\_\_\_

Reviewed by: \_\_\_\_\_  
(Authorized Person of the Adviser)

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

**Exhibit C**

To: Valuation Committee or Board of Directors

From: Investment Adviser

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

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2. Proposed Valuation and Effect on current NAV of Fund

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3. Factors considered in valuation

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4. If the Chairman of the Valuation Committee or the Committee members disagree with any fair valuation, the reason for the disagreement and recommended changes to the fair valuation

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5. Reason for using Fair Value Pricing Method

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

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

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**Exhibit D****APPROVED PRICING SERVICES**

Pricing Services approved for the Mexico Equity & Income Fund:

<b>Portfolio Security/Asset</b>	<b>Primary Pricing Service</b>	<b>Secondary Pricing Services*</b>
Domestic Equities	Interactive Data Corporation (“IDC”)	Thomson Reuters, Bloomberg
Foreign Equities	IDC	Thomson Reuters, Bloomberg
Corporate Bonds	IDC	Pricing Direct, Inc. (“PDI”), Thomson Reuters, Markit, Bloomberg, Standard & Poor’s
US Government Obligations	IDC	PDI, Thomson Reuters, Markit, Bloomberg, Standard & Poor’s
Foreign Bonds	IDC	PDI, Thomson Reuters, Markit, Bloomberg, Standard & Poor’s
Foreign Currencies	WM Reuters	PDI, Thomson Reuters, Markit, Bloomberg, Standard & Poor’s
Capital Development Certificates	Proveedor Intergral de Precios, S.A. de C.V. (“PIP”)	

\* Independent pricing services commonly utilized in the industry may be used from time to time if a Fund’s primary pricing source is unable to price the security on the date of purchase. Secondary pricing sources currently utilized are listed; however, additional sources may become available from time to time and utilized by the Fund. If no price is available, a Fund may utilize a broker quote which may be supplied through SQX, a service which delivers broker quotes to USBFS.