

**1Q19 Investment Advisor Report**

**FUND'S INVESTMENT OBJECTIVE**

**Profile**

The Mexico Equity and Income Fund, Inc. ("the Fund") maintains an investment objective of long-term capital appreciation through investments in the Mexican universe of equities listed on the Mexican Stock Exchange.

**Characteristics**

The Mexico Equity and Income Fund, Inc. (MXE) incorporated in Maryland, U.S.A. , is registered under the U.S. Investment Company Act of 1940, as amended, as a NYSE closed-end, non diversified management investment company.

**Risk Factors**

The Fund invests substantially all of its assets in securities of Mexican issuers. All investments involve risk. Principal loss is possible. Investing internationally involves additional risks such as currency fluctuations, market price volatility, social and economic instability, changes in taxation, periods of illiquidity and other factors. All Mexican companies are subject to Mandatory IFRS (International Financial Reporting Standards) accounting since the year 2011. Mexico has experienced currency devaluations, high levels of inflation and interest rates, but currently has a solid macro economic framework. (Please see PAM's most recent Report on the Economy at the Fund's website.)

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 Fund's website, "www.mxefund.com", under the section captioned 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.

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 and there is no assurance that the fund will achieve its investment objective.

**FUND INFORMATION as of March 31, 2019.**

MXE Market Data	As of March 31, 2019	As of March 31, 2018
U.S. Dollar Net Asset Value per Share	\$11.54 <sup>1</sup>	\$12.62 <sup>1</sup>
Common Share Market Price in USD	\$10.62 <sup>1</sup>	\$10.96 <sup>1</sup>
Premium/Discount to NAV (%)	-7.97% <sup>1</sup>	-13.15% <sup>1</sup>
Total Net Assets (USD)*	\$59,680,114 <sup>1</sup>	\$88,049,308 <sup>1</sup>
Outstanding Shares*	5,171,598 <sup>1</sup>	6,976,242 <sup>1</sup>
One Year Share Repurchases*	1,804,644 <sup>1</sup>	373,474 <sup>1</sup>
Equity % Weight	82.11% <sup>2</sup>	93.09% <sup>2</sup>
Private Equity % Weight	2.54% <sup>2</sup>	1.89% <sup>2</sup>
Mexican Treasury Certificates, T-bills	1.85%	0.0%
Mexican Government Bonds in MXN	5.11% <sup>2</sup>	0.0% <sup>2</sup>
Mexican Saving Protection bonds	2.94% <sup>2</sup>	3.74% <sup>2</sup>
Morgan Stanley Liquidity Funds in USD	1.04% <sup>2</sup>	0.08% <sup>2</sup>
Scotia Gubernamental Mutual Fund in MXN	4.41% <sup>2</sup>	1.20% <sup>2</sup>
Total	100%	100%

Source: US Bancorp<sup>1</sup> & PAM<sup>2</sup>.

\* Includes tender offer of 1,723,866 shares of common stock at a cost of US \$19,962,368 conducted in Feb.2019

**PICHARDO ASSET MANAGEMENT, PAM'S Investment Philosophy**

Investment Philosophy seeks High-Quality Growth, and Special Situations Investments, understood -undervalued stocks mainly in the universe of the Mexican Stock Exchange through a bottom-up approach and a de-indexed strategy.

**FUND'S PORTFOLIO HOLDINGS BY SECTORS**

Materials	18.90%	Industrials	4.70%
Financials	16.30%	Real State	4.50%
Consumer Staples	16.0%	Mutual Funds MXN	4.40%
Communication Services	12.80%	Private Equity	2.50%
Mexican Government Bonds	9.90%	Mutual Funds USD	1.0%
Consumer Discretionary	9.00%		

Source: PAM

**FUND'S PERFORMANCE**

Fund	As of March 31, 2019		Total Annual Average U.S. Dollar Return through March 31, 2019 with dividends reinvested.			
	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception in 8/30/90
MXE NAV	3.31%	-8.55%	-4.15%	-3.68%	11.25%	11.17%
MXE NAV Return in Mexican Pesos	2.04%	-2.36%	-0.36%	4.28%	14.80%	18.84%
MXE Market Price	5.46%	-3.09%	-1.63%	-2.72%	13.18%	11.70%
MXN Appreciation/Depreciation	1.24%	-6.34%	-3.81%	-7.63%	-3.10%	-6.45%
Mexbol Index	5.37%	-10.03%	-3.95%	-4.80%	6.63%	8.77%
MXF NAV	4.78%	-11.46%	-4.20%	-4.41%	8.98%	7.16%
MXF Market Price	6.29%	-10.12%	-4.11%	-6.40%	9.77%	8.17%
MXE NAV Excess Return vs. MEXBOL in Basis points	-206	148	-20	112	462	240

Source: U.S. Bancorp; Thomson ; PAM, Bloomberg.

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. For the fund's most recent performance data, please see the price and performance section on the fund's web page (www.mxefund.com).

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 March 31, 2019 was 0.08, 0.16 and 0.16 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= 2.00% for the six months ended January 31, 2019.

## 1Q19 Investment Advisor Report

### INTRODUCTION

We write the Mexico Equity and Income Fund Inc., first quarter 2019 report (the "Fund") at the threshold of a continued deceleration of global economic activity in the advanced economies at the beginning of the year.

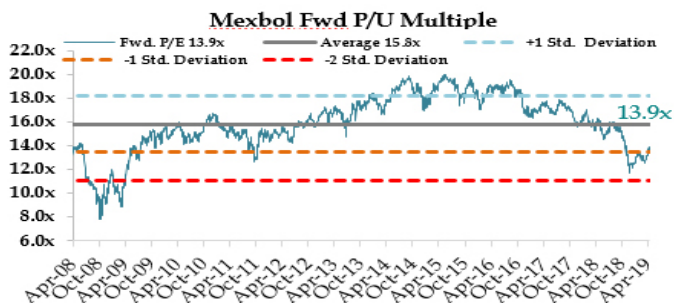
The Fed's pause in March 20th leads to a likelihood in principal to a new cycle of easing expectations providing support for EM's lower cost of equity and debt.

At the end of the first quarter of the year the perception of an economic slowdown in Mexico remains; especially in the industrial sector (i.e. manufacturing, construction and mining). This view is consistent with i) delays in public spending as a result of a change of administration, ii) the weakness of private investment and iii) a slowdown in consumption confidence growth. Some of the new government public policies also fostered supply shocks, such as fuel shortage in January as a result of a strategy to avoid fuel theft. In contrast to the poor performance of the real sector, the high amount of foreign investment in Mexican bonds is remarkable (115 billion dollars as of March 2019, a 4.3% hike compared to last quarter). The foreign position in Mexican debt instruments is favored by the fact that Mexico pays the highest risk premium and worldwide among the countries with an investment grade.

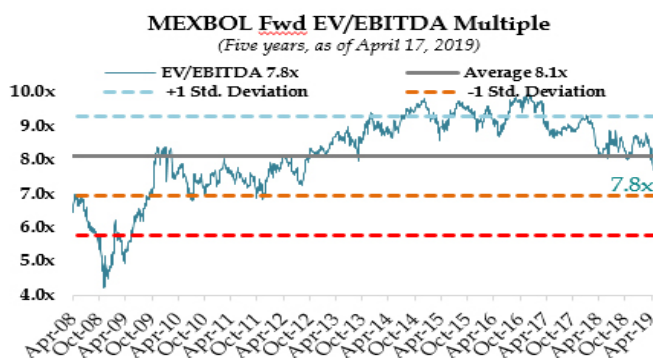
Another key feature of the Mexican economy during the first quarter is the solid exchange rate stability supported by three factors: i) The foreign position in the government bond market already mentioned, ii) A substantial trade surplus with the United States (\$81,518 million dollars in 2018), and iii) The high amount of remittances sent from abroad (US\$33,470 million at year-end 2018).

In regards to the domestic economic activity deceleration, when comparing both gross fixed investment, and private consumption for the first month of President López Obrador's (AMLO) administration with the first month of the previous three administrations it must be spotted that the new government leads off with neutral to favorable economic conditions. (Please see economic report at the PAM's web page [http://paminversion.com.mx/pam\\_admin/report\\_repo/2019-04-26\\_082139.pdf](http://paminversion.com.mx/pam_admin/report_repo/2019-04-26_082139.pdf))

The Mexbol Index forward 12-month Price-to-Earnings ratio stood at 13.9 times compared to its 5-year average of 15.8 times. Inflows hit primary weighting constituents in the Index.



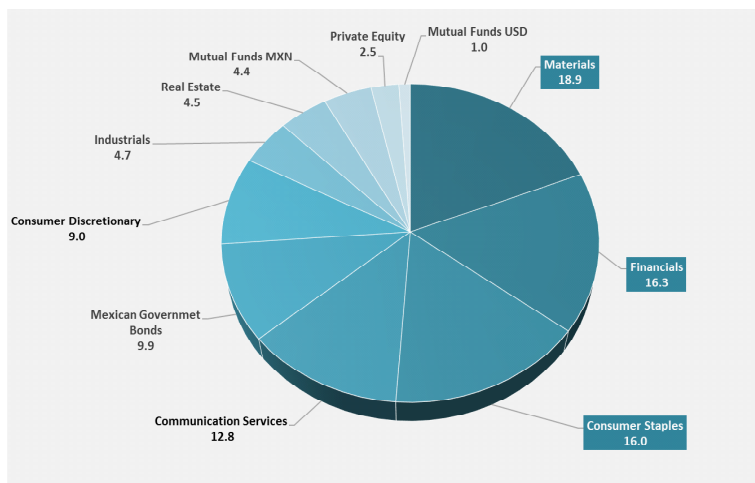
Source: Bloomberg



Source: Bloomberg

### INVESTMENT STRATEGY

**MXE Fund Portfolio Holdings by Sector**  
*As of March 31, 2019*



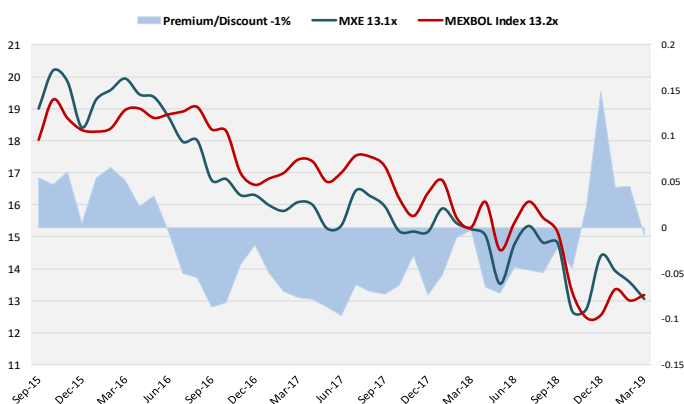
Source: PAM; Bloomberg.

After the Fed's pause, the fund's portfolio showed 89.89% weight in equities, 2.53% private equity and 7.58% in Debt and readily available instruments; while its portfolio construction registered a -16% discount to its aggregate EV/EBITDA and a discount of -1% to its P/E at the end of 1Q'19. (Please see exhibits A and B)

The Fund has been adhered to its investment strategy currently overweighting three sectors, such as: i) Consumer Staples which continues supported by the labor market, credit, real wages, and remittances; ii) Financials sector maintaining a progressive increment on return on equity and all times low historical non-performing-loans; iii) Materials, an undervalued U.S. play with core integration; oil-and-gas producing regions in the U.S., the highest ROIC, Net of WACC & trading at a discount to U.S. peers.

### Exhibit A

**Forward P/E Valuation**  
**From September 30, 2015 through March 31, 2019**

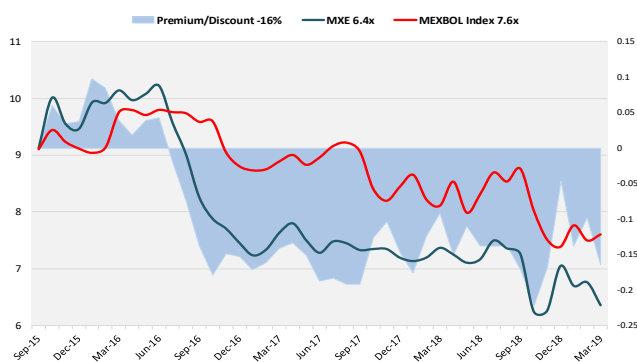




## 1Q19 Investment Advisor Report

### Exhibit B

Forward EV/EBITDA Valuation  
From September 30, 2015 through March 31, 2019



Source: PAM, Bloomberg.

### Contributors & Detractors to Relative Performance compared to MEXBOL Index by Sectors 1Q'19

Sectors	Relative Performance	OW / (UW) basis points	Avg. USD Return
Real Estate	0.75%	452	18.63%
Communication Services	0.72%	(421)	4.02%
Financials	0.47%	(335)	11.87%
Health Care	-0.07%	(33)	21.01%
Utilities	-0.11%	(147)	7.63%
Industrials	-0.21%	(642)	9.17%
Consumer Discretionary	-0.79%	708	-8.07%
Materials	-1.08%	290	5.87%
Consumer Staples	-1.52%	(1,657)	2.98%
<b>Total Sectors</b>	<b>-1.83%</b>	<b>(1,784)</b>	<b>8.12%</b>

### THE MEXICO EQUITY AND INCOME FUND Performance

The net asset per share certificate dollar return of The Mexico Equity and Income Fund registered a total return of 3.31% during the first quarter of 2019, a -206 basis points underperformance to its benchmark the Mexican Bolsa Index, "IPC" which registered a total return of 5.37%.

#### Comparative Quarterly Returns in U.S. Dollar

Fund	2Q'18	3Q'18	4Q'18	1Q'19
MXE	-4.99%	10.93%	-16.01%	3.31%
MEXBOL Index	-3.86%	10.29%	-19.47%	5.37%
EWV ETF	-4.94%	8.68%	-18.89%	6.00%
Excess Return compared to MEXBOL Index (basis points)	-113	64	346	-206

#### Comparative Quarterly Returns in Mexican Peso

Fund	2Q'18	3Q'18	4Q'18	1Q'19
MXE	3.79%	4.50%	-12.35%	2.69%
MEXBOL Index	4.32%	4.25%	-15.38%	4.23%
EWV ETF	3.15%	2.72%	-14.77%	4.85%
Excess Return compared to MEXBOL Index (basis points)	-53	25	303	-154

Source: Bloomberg.

Effective Returns include reinvested dividends and are not annualized.  
Past performance does not guarantee future results.

### Contributors & Detractors to Absolute Performance compared to MEXBOL Index by Sectors 1Q'19

Sectors	Absolute Performance	OW / (UW) basis points	Avg. USD Return
Financials	2.08%	-335	11.87%
Real Estate	0.75%	452	18.63%
Materials	0.74%	290	5.87%
Consumer Staples	0.40%	-1,657	2.98%
Communication Services	0.31%	-421	4.02%
Industrials	0.26%	-642	9.17%
Utilities	0.00%	-147	7.63%
Health Care	0.00%	-33	21.01%
Consumer Discretionary	-1.01%	708	-8.07%
<b>Total Sectors</b>	<b>3.53%</b>	<b>-1,785</b>	<b>8.12%</b>

Source: PAM, Bloomberg.

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## 1Q19 Investment Advisor Report

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### Definitions

**MEXBOL Index:** The S&P/BMV IPC seeks to measure the performance of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores. The index is designed to provide a broad, representative, yet easily replicable index covering the Mexican equities market. The constituents are weighted by modified market cap subject to diversification requirements. It is not possible to invest directly in an index.

**Spread:** Measure of the value added by the portfolio or investment manager in excess of a particular benchmark, or index with similar level of risk.

**Active Management:** Active management is the use of a human element, such as a single manager, co-managers or a team of managers, to actively manage a fund's portfolio. Active managers rely on analytical research, forecasts, and their own judgment and experience in making investment decisions on what securities to buy, hold and sell.

**Overweight:** Overweight is a situation where an investment portfolio holds an excess amount of a particular security when compared to the security's weight in the underlying benchmark portfolio. Actively managed portfolios will make a security overweight when doing so allows the portfolio to achieve excess returns.

**Underweight:** Underweight refers to one of two situations in regard to trading and finance. An underweight portfolio does not hold a sufficient amount of a particular security when compared to the weight of that security held in the underlying benchmark portfolio. Underweight can also refer to an analyst's opinion regarding the future performance of a security in scenarios where it is expected to underperform.

**Basis point (BPS)** Refers to a common unit of measure for interest rates and other percentages in finance.

**FED** – The Federal Reserve System is the central bank of the United States and arguably the most powerful financial institution in the world..

**EV/EBITDA:** Enterprise value/EBITDA is a popular valuation multiple used in the finance industry to measure the value of a company. It is the most widely used valuation multiple based on enterprise value and is often used in conjunction with, or as an alternative to, the P/E ratio (Price/Earnings ratio) to determine the fair market value of a company.

An advantage of this multiple is that it is capital structure-neutral, and, therefore, this multiple can be used to directly compare companies with different levels of debt.

**P/E Ratio:** Price to Earnings Ratio is a valuation ratio of a company's current share price compared to its per-share earnings (EPS).

**(AMLO):** Mexico's President Andrés Manuel López Obrador.

**Standard Deviation:** A statistic that measures the dispersion of a dataset relative to its mean and is calculated as the square root of the variance.

**The return on invested capital (ROIC):** is the percentage amount that a company is making for every percentage point over the Cost of Capital.

**Return on equity (ROE):** is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE could be thought of as the return on net assets.

### Disclosure

**EWV ETF:** Ishares MSCI Mexico ETF is an exchange-traded fund incorporated in the USA. The ETF's objective seeks to provide investment results that correspond to the performance of the MSCI Mexico IMI25/50 Index.

**Fund type:** ETF  
**Asset Class:** Equity  
**Market Cap:** Broad Market  
**Geo. Focus:** Mexico  
**Market Cap:** USD 1.03B  
**Shares Out:** 23.4M  
**Total Assets:** USD 1.05B  
**ISIN:** US4642868222  
**Distributor:** BlackRock Investment LLC/NY

"Any comparison in retail communications between investments or services must disclose all material differences between them, including (as applicable) investment objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, and tax features."