

MEXICO FUND INC
Form N-CSRS
July 06, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-02409

THE MEXICO FUND, INC.

(Exact name of registrant as specified in charter)

1775 I STREET, N.W.,

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WASHINGTON, DC 20006-2401

(Address of principal executive offices) (Zip code)

José Luis Gómez Pimienta

77 ARISTOTELES STREET, 3RD FLOOR

POLANCO D.F. 11560 MEXICO

(Name and address of agent for service)

Copies to:

Sander M. Bieber

Dechert LLP

1775 I STREET, N.W.,

WASHINGTON, DC 20006-2401

Registrant's telephone number, including area code: 202-261-7941

Date of fiscal year end: October 31, 2009

Date of reporting period: April 30, 2009

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

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Item 1. Reports to Stockholders.

A copy of the Registrant's Semi-Annual Report to Stockholders for the period ending April 30, 2009 transmitted to stockholders pursuant to Rule 30e-1 under the Investment Company Act of 1940 is provided below.

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The Mexico Fund, Inc.

Managed Distribution Plan (MDP)

On September 4, 2008, the Fund announced that it had received authorization from the Securities and Exchange Commission (SEC) to distribute long-term capital gains to stockholders more frequently than once per year. Accordingly, the Board of Directors (Board) formally approved the implementation of a Managed Distribution Plan (MDP) to make quarterly cash distributions to stockholders.

In May 2009, the Fund announced that the Board authorized the Fund to restore quarterly distributions under the MDP at an annual rate of 10% of net asset value (NAV), and intends to maintain distributions at that level. The Board's action will be reflected in the next quarterly distribution under the MDP.

With each distribution, the Fund will issue a notice to stockholders and an accompanying press release which will provide detailed information regarding the amount and composition of the distribution and other information required by the Fund's exemptive order. The Fund's Board of Directors may amend or terminate the MDP at any time without prior notice to stockholders; however, at this time, there are no reasonably foreseeable circumstances that might cause the termination of the MDP. You should not draw any conclusions about the Fund's investment performance from the amount of distributions or from the terms of the Fund's MDP.

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The Mexico Fund, Inc.

The Fund's Management

Directors:

Emilio Carrillo Gamboa *Chairman*

Eugenio Clariond Reyes-Retana

José Luis Gómez Pimienta

Claudio X. González

Robert L. Knauss

Jaime Serra Puche

Marc J. Shapiro

Officers:

José Luis Gómez Pimienta *President and Chief Executive Officer*

Alberto Osorio *Senior Vice President, Treasurer and Chief Financial Officer*

Eduardo Solano *Investor Relations Vice President*

Alberto Gómez Pimienta *Operations Vice President*

Carlos H. Woodworth *Chief Compliance Officer*

Samuel García-Cuéllar *Secretary*

Sander M. Bieber *Assistant Secretary*

Investment Adviser

Impulsora del Fondo México, S.C.

Custodian

BBVA Bancomer, S.A.

Comerica Bank

Transfer Agent and Registrar

American Stock Transfer & Trust Company

Counsel

Dechert LLP

Creel, García-Cuéllar, Aiza y Enríquez, S.C.

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP

This report, including the financial statements herein, is transmitted to stockholders of The Mexico Fund, Inc. for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in the report.

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The Mexico Fund, Inc.

Semi-Annual Report

April 30, 2009

Highlights

The Fund's first half of fiscal 2009 ended on April 30, 2009. This was a difficult period for Mexico in light of the global economic recession, negative performance of world financial markets and, towards the end of April 2009, the initial economic effects of the outbreak of the influenza A (H1N1) flu virus, commonly known as swine flu.

Primarily due to the factors mentioned above, the Mexican gross domestic product (GDP) decreased 8.2% during the first quarter of 2009, its worst performance since the second quarter of 1995.

The Mexican equity market and the Fund were affected by these events. During the first half of fiscal 2009, the Fund's market price registered a total return¹ of 2.96%, while the Fund's NAV per share registered a total return of -2.81%. The total return registered by the Fund's NAV per share compares with total returns of -0.42% and -1.65% registered by the Morgan Stanley Capital International Mexico Index and Bolsa IPC Index, respectively.

The Fund adopted a defensive investment strategy during most of this period. On April 30, 2009, the Fund had approximately 89% of its net assets invested in equity securities and 11% of its net assets invested in cash equivalent securities.

At the end of April 2009, the Fund's market price and NAV per share were \$14.50 and \$16.40, respectively, reflecting a discount of 11.59%, compared with 14.68% at the end of fiscal 2008.

After the close of the fiscal period ended April 30, 2009, there were several noteworthy events. At a special meeting of stockholders originally held on May 29, 2009 and reconvened on June 8, 2009 (Special Meeting), stockholders voted to eliminate the Fund's in-kind repurchase offer program as a fundamental policy of the Fund (the Policy). The elimination of the Policy received the required vote of 67% or more of the shares present in person or by proxy at the Special Meeting. Approximately 92.6% of the holders of stock present in person or by proxy voted FOR the elimination of the Policy (8,872,898 votes).

Since the Fund no longer has the Policy in place as a fundamental policy, the Board intends to formally terminate the periodic in-kind repurchase offer program and cancel the repurchase offer previously announced for March 2010.

¹ Performance figures consider reinvestment of dividend distributions.

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The Mexico Fund, Inc. is a non-diversified closed-end management investment company with the investment objective of long-term capital appreciation through investments in securities, primarily equity, listed on the Mexican Stock Exchange. The Fund provides a vehicle to investors who wish to invest in Mexican companies through a managed non-diversified portfolio as part of their overall investment program.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase, from time to time, shares of its common stock in the open market.

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The Mexico Fund, Inc.

Semi-Annual Report Highlights

Concluded

On May 15, 2009, the Fund announced that the Board of Directors (Board) adopted a statement setting forth a consolidated strategy to reduce the Fund's stock price discount (Statement). To date, the following actions have been taken:

The Board has authorized the Fund to restore quarterly distributions under its Managed Distribution Plan (MDP) at an annual rate of 10% of NAV, and intends to maintain distributions at that level. The Board's action will be reflected in the next quarterly distribution under the MDP.

The Board has stated that if after the elimination of the Policy, the Fund were to trade at a volume-weighted average discount to net asset value (NAV) of greater than 10% during a 12-week measuring period, the Board would authorize an in-kind tender offer to acquire 15% of the Fund's outstanding securities at a price of 98% of the Fund's NAV on the pricing date for the tender offer in exchange for a pro-rata slice of the Fund's portfolio securities. Since stockholders have voted to eliminate the Policy, the first 12-week rolling measuring period commenced beginning with the week of June 8, 2009.

The Board intends, following a review of proposals from brokerage firms, to authorize the Fund's investment adviser to repurchase up to 10% of the Fund's outstanding common stock in open market transactions during any 12-month period if and when Fund shares trade at a price which is at a discount of at least 10% to NAV.

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The Mexico Fund, Inc.

To Our Stockholders:

We present to you the Fund's 2009 Semi-Annual Report for the six-month period ended April 30, 2009. In this Report, we summarize the period's prevailing economic, political and market conditions in Mexico and outline the Fund's investment strategy and resulting performance. We hope you find this Report useful and informative.

Economic Environment

The Mexican economy continues to be affected by the global recession, particularly its effects in the United States, Mexico's most important economic and commercial partner. Additionally, towards the end of the period ended April 30, 2009, the influenza A (H1N1) flu virus outbreak began to negatively affect the Mexican economy, particularly in the tourism, commerce and aviation sectors. The Mexican gross domestic product (GDP) decreased 8.2% during the first quarter of calendar 2009, compared with the same quarter of 2008, the worst performance since the second quarter of 1995, when it declined 9.2%. The Mexican economy continues to depend highly on the performance of the US economy, particularly the auto industry. During the first quarter of 2009, compared with the same period of 2008, the US GDP declined 2.6% and US sales of vehicles declined 34.4%. Due in part to the significant number of auto parts and automobile manufacturers in Mexico, many of which are subsidiaries of US corporations, Mexico's industrial production simultaneously declined; during the last eight months and during the first quarter of 2009, it decreased by 9.9%. These Mexican economic figures are not inclusive of the negative effects of the influenza A (H1N1) flu virus outbreak, which we anticipate will be felt more significantly during the second quarter of calendar 2009 as the outbreak alert extended from April 24, 2009 through May 21, 2009. Considering all these negative indicators, analysts surveyed by Mexico's Central Bank estimate that the 2009 GDP decline will be approximately 5.82% and that it will recover to a growth of approximately 2.09% during 2010.

During the first half of the Fund's fiscal year, the Mexican peso suffered devaluation against the US dollar equivalent to 8.2%, which has affected Mexican inflation rates. For the year ended April 30, 2009, Mexico's inflation rate amounted to 6.17%. Analysts currently believe that Mexico's inflation rate will be 4.38%, 3.80% and 3.68%, during 2009, 2010 and 2011, respectively. In light of the severe economic contraction of the Mexican GDP mentioned above and lower inflationary pressures during the last two months, the Mexican central bank has reduced domestic reference interest rates from 8.25% at the end of October 2008 to 4.75% on June 19, 2009. Accordingly, domestic interest rates also declined during this six-month period, as the yield paid by 28-day Cetes (Treasury Bills) declined from 7.22% at the end of October 2008 to 5.74% at the end of April 2009. The Mexican government continues to auction 30-year bonds, denominated in local currency, once every quarter, which registered a yield of 9.04% at the beginning of June 2009. Emerging markets country risk levels performed in a volatile manner during this period and Mexico's country risk, as measured by the spread between the yields of Mexican sovereign debt instruments denominated in dollars and traded abroad versus US Treasury bonds, increased from a historic minimum of 70 basis points at the end of May 2007 to 308 basis

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points at the end of April 2009, compared with 298 basis points for Chile and 355 basis points for Brazil. Analysts estimate that domestic interest rates will continue to decline during the remainder of 2009 and project that the rate of 28-day Cetes will be 4.85% and 5.61% at the end of 2009 and 2010, respectively.

The rate of exchange of the Mexican peso against the dollar registered a volatile performance during this six-month period, affected by generalized aversion towards emerging markets currencies and unusual demand from Mexican corporations to hedge derivative positions. The rate of exchange reached a maximum level of Ps. 15.37 per dollar on March 2, 2009, but gradually declined to Ps. 14.15 at the end of April 2009, compared with Ps. 12.71 six months earlier. This decline in the value of the peso occurred despite intervention from the Central Bank, which established a mechanism to use international reserves to auction dollars in the market to contain the depreciation of the currency. Following the end of this six-month period, the currency market has stabilized and the exchange rate traded at levels near or below Ps. 13 per dollar during May 2009. Analysts surveyed by the Central Bank estimate that the exchange rate will be in the range of Ps. 13.45 and Ps. 13.35, at the end of 2009 and 2010, respectively.

The Mexican external accounts for the first quarter of calendar 2009 reflect the global recession and the weaker Mexican peso. During this period, Mexico's current account registered a deficit of \$1.1 billion, equivalent to 0.5% of GDP. The trade balance deficit increased 14.7% during the first quarter of 2009, when exports decreased 28.6% and imports decreased 27.6%. The Mexican government purchased derivative instruments to guarantee a minimum price of \$70 per barrel for its 2009 oil exports. This strategy has proven successful given the current average price per barrel of \$45.74 through mid-June 2009. The difference between the \$70 per barrel minimum price and the actual price received for oil exports shall be paid before the end of the year as the instruments become due, generating important financial income for Mexico. Due to the above mentioned market interventions by the Central Bank, international reserves are not growing as before and amounted to \$76.3 billion on May 8, 2009. Mexico's capital account registered an outflow of \$3.94 billion during the first quarter of 2009, which reflects a decrease of 55.6% in the amount of direct foreign investment to \$2.63 billion. However, foreign investment in the Mexican Bolsa amounted to \$1.30 billion during this period, compared with an outflow of \$1.0 billion during the same period of 2008.

Management Discussion of Fund's Performance and Portfolio Strategy

Under this difficult global economic environment, the S&P 500 Index and the Dow Jones Industrials Average lost 12.4% and 9.9%, respectively. Risk aversion from international investors to emerging markets continued to affect credit availability and results of listed companies. In Mexico, the Bolsa IPC Index and Morgan Stanley Capital International Mexico Index registered returns of -1.65% and -0.42%, respectively, during this six-month period, while the Fund's market price

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and NAV registered returns¹ of 2.96% and -2.81%, respectively, during the same period.

The Fund's five portfolio holdings that contributed most to easing the decline of the Fund's NAV per share during the first half of fiscal 2009 were: Empresas ICA (ICA), dedicated to infrastructure and construction; Grupo Famsa (Famsa), a retail chain; Cemex, a global cement company; Industrias CH (ICH), a steel company; and Kimberly Clark de México (Kimber), a producer of consumer goods. During this period, the market prices of ICA, ICH and Kimber increased 25.8%, 4.6% and 10.5%, respectively. Although market prices of Famsa and Cemex declined during the same period, the Fund obtained positive returns from these issuers as they were purchased at near minimum levels during this period. The following issuers generated most of the relative underperformance of the Fund's NAV against the indices: Elektra, a retail chain, which is not included in the Fund's portfolio and whose market price increased 56.1%; Soriana, also a retail chain whose market price decreased 11.7% and had an overweight position within the Fund's portfolio; Megacable, provider of cable TV and related services, whose market price decreased 18.7% and which is not a component of the indices; Urbi, a housing company whose market price decreased 25.1% and has an overweight position within the Fund's portfolio; and Mexichem, producer of chemical products whose market price decreased 10.6% and has an overweight position within the Fund's portfolio.

As of April 30, 2009, the Fund had total net assets of \$282 million. The composite volume of Fund shares traded on all US consolidated markets during the first half of fiscal 2009 was 10,115,903 million shares, compared with 17,195,278 shares outstanding at the end of the period.

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¹ Performance figures consider reinvestment of dividend distributions.

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The following chart shows the Fund's portfolio composition by sector, expressed as a percentage of the Fund's net assets, as of April 30, 2009. More detailed information about the Fund's portfolio is available below in this report.

Portfolio Composition by Sector

Percentage of Net Assets,

April 30, 2009

The global economic recession affected operating and net results of listed companies. For the first three months of 2009, compared with the same period of 2008, sales of listed companies increased 5.1%, EBITDA² increased 0.1% and net income fell 40.1%. This significant reduction of net income resulted from foreign exchange and derivative related losses from the devaluation of the peso and significant volatility of commodity prices during this period. The average price-to-earnings ratio (PER) of the market increased from 11.90 times at the end of fiscal 2008, to 21.91 times at the end of April 2009 while the price-to-book value ratio increased from 2.14 times to 2.38 times during the same period³.

We continue to believe that despite the negative economic outlook, the recent declining trend of the Mexican equity market presents an

² EBITDA refers to earnings before interests, taxes, depreciation and amortization.

³ **Source:** Impulsora del Fondo México, S.C. with figures provided by the Mexican Stock Exchange.

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excellent opportunity to invest in selected issuers, as it has resulted in low valuations of listed companies with positive fundamentals and quality management. The Fund will continue looking for companies with strong balance sheets, positive free cash flow and proven business models.

Special Meeting of Stockholders

The Fund held a Special Meeting of Stockholders on May 29, 2009 at 4:00 p.m. Central Time at the offices of JPMorgan Chase, 707 Travis, 11th Floor, Houston, TX 77002, to consider and vote upon the elimination of the fundamental policy governing the Fund's periodic in-kind repurchase offers. The meeting was adjourned to June 8, 2009 at 10:00 am Central Time at the same location due to the lack of a quorum for the conduct of business. At the reconvened Special Meeting on June 8, 2009, stockholders voted to eliminate the Fund's in-kind repurchase offer program as a fundamental policy of the Fund (the Policy). A total of 9,576,588 Fund shares were represented at the meeting, constituting a quorum of 52.91%. The results of the Special Meeting were as follows.

Elimination of the fundamental policy governing the Fund's periodic in-kind repurchase offers

For	% Outstanding	% of Voted	Against	% Outstanding	% of Voted	Abstain	% Outstanding	% of Voted
8,872,898	49.02%	92.65%	483,917	2.67%	5.05%	219,772	1.21%	2.29%

In-Kind Periodic Repurchase Offer Program

Since March 2002, the Fund has had a periodic in-kind repurchase program in place under which it has offered to repurchase no less than five percent of the Fund's outstanding shares each fiscal year based on the number of shares outstanding at the beginning of the fiscal year. This program has been conducted pursuant to the Policy.

As discussed above, stockholders voted to eliminate the Policy at the Special Meeting held on June 8, 2009. The Board believes the Policy had become burdensome and restrictive, and is looking to implement other measures to reduce the Fund's discount, as discussed further below. Since the Fund no longer has the Policy in place as a fundamental policy, the Board intends to formally terminate the periodic in-kind repurchase offer program and cancel the repurchase offer previously announced for March 2010. Once this action has been taken, the Fund's March 2009 repurchase offer will have been the last one conducted under the periodic in-kind repurchase offer program.

Discount Reduction Efforts

The discount between the Fund's market price and NAV as of April 30, 2009 was at 11.59%, compared with 14.68% at the end of fiscal 2008. On May 15, 2009, the Fund announced that the Board of Directors (Board) adopted a statement setting forth a consolidated strategy to reduce the Fund's stock price discount (Statement). To date, the following actions have been taken:

The Board has authorized the Fund to restore quarterly distributions under its Managed Distribution Plan (MDP) at an annual rate of

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10% of NAV, and intends to maintain distributions at that level. The Board's action will be reflected in the next quarterly distribution under the MDP.

The Board has stated that if after the elimination of the Policy, the Fund were to trade at a volume-weighted average discount to net asset value (NAV) of greater than 10% during a 12-week measuring period, the Board would authorize an in-kind tender offer to acquire 15% of the Fund's outstanding securities at a price of 98% of the Fund's NAV on the pricing date for the tender offer in exchange for a pro-rata slice of the Fund's portfolio securities. Since stockholders have voted to eliminate the Policy, the first 12-week rolling measuring period commenced beginning with the week of June 8, 2009.

The Board intends, following a review of proposals from brokerage firms, to authorize the Fund's investment adviser to repurchase up to 10% of the Fund's outstanding common stock in open market transactions during any 12-month period if and when Fund shares trade at a price which is at a discount of at least 10% to NAV.

Declaration of Dividends Under MDP

On September 4, 2008, the Fund announced that it had received authorization from the SEC to distribute long-term capital gains to stockholders more frequently than once per year. Accordingly, the Board formally approved the implementation of a MDP to make quarterly cash distributions to stockholders.

On April 30, 2009, the Fund paid a cash dividend of \$0.10 per share to stockholders, the first distribution corresponding to fiscal 2009. It is estimated that this dividend distribution was fully comprised of return of capital. You should not draw any conclusions about the Fund's investment performance from the amount of these distributions or from the terms of the MDP.

The amount of distributable income for each fiscal period depends on the aggregate gains and losses realized by the Fund during the entire year. Distributions may consist of net investment income, capital gains and return of capital, but the character of these distributions cannot be determined until after the end of the Fund's fiscal year.

In May 2009, the Fund announced that the Board authorized the Fund to restore quarterly distributions under the MDP at an annual rate of 10% of NAV, and intends to maintain distributions at that level. The Board's action will be reflected in the next quarterly distribution under the MDP. The MDP will be subject to regular periodic review by the Fund's Board.

With each distribution, the Fund will issue a notice to stockholders and an accompanying press release which will provide detailed information regarding the amount and composition of the distribution and other information required by the Fund's exemptive order. The Fund's Board may amend or terminate the MDP at any time without prior notice to stockholders; however, at this time, there are no reasonably foreseeable circumstances that might cause the termination of the MDP.

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The Fund held its Annual Stockholders Meeting on March 4, 2009 at 1:00 p.m. at The Ambassador Room of The St. Regis Houston Hotel, 1919 Briar Oaks Lane, Houston, Texas, 77027. Fund stockholders re-elected Messrs. Jaime Serra Puche and Marc Shapiro. A total of 14,828,311 Fund shares were represented at the meeting, constituting a quorum of 81.92%. The results of the Annual Meeting were as follows.

	For	% Outstanding	% of Voted	Withheld	% Outstanding	% of Voted
Jaime Serra Puche	11,568,461	63.91%	78.02%	3,259,850	22.50%	21.98%
Marc Shapiro	14,526,826	80.26%	97.97%	301,485	1.67%	2.03%

Renewal of Investment Advisory and Management Agreement

On March 4, 2009, the Board of the Fund, including all independent Directors, approved the continuation of the Investment Advisory and Management Agreement (Agreement) with Impulsora del Fondo México, SC (Impulsora) based on its consideration of various factors, including (1) the nature, extent and quality of services provided by Impulsora to the Fund; (2) the investment performance of the Fund; (3) the costs and services provided, including a comparison of such costs to other comparable funds; (4) profits to be realized by Impulsora from its relationship with the Fund; and (5) the extent to which economies of scale have been realized as the Fund grows and whether fee levels reflect these economies of scale for the benefit of Fund investors. In response to a specific request by the Independent Directors, Impulsora provided detailed information concerning the foregoing factors. The Board also evaluated information consisting of comparative figures of overall expenses, management and other fees, of a group of substantially similar funds. As discussed more fully below, the Board considered the Fund's historical performance through the end of January 2009, as well as the Fund's current advisory fee rate, which is among the lowest in the closed-end fund industry. The Board determined that the fees payable to Impulsora were reasonable, especially in light of the quality of the services provided, as well as the level of advisory fees paid by comparable funds.

The following discussion is not intended to be all-inclusive. The Board reviewed a variety of factors and considered a significant amount of information, including information received on an ongoing basis at meetings of the Board and Board committees. In view of the broad scope and variety of these factors and information, the Board did not find it practicable, and did not make specific assessments of, quantify or otherwise assign relative weights to the specific factors in reaching their conclusions and determination to approve the continuance of the Agreement.

The nature, extent and quality of the advisory services provided. The Board considered the nature, extent and quality of advisory services provided under the Agreement during the past year. The Board noted

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The Mexico Fund, Inc.

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that it received information at regular meetings throughout the year regarding the services rendered by Impulsora concerning the management of the Fund and Impulsora's role in coordinating providers of other services to the Fund. The Board further noted that Impulsora provides all facilities and services necessary to analyze, execute and maintain investments consistent with the Fund's objectives, and has done so since the Fund's inception in 1981. The Board had available to it the qualifications, backgrounds and responsibilities of the personnel primarily responsible for the day-to-day portfolio management of the Fund and recognized that these individuals report to the Board regularly and provide a detailed report on the Fund's performance at each regular meeting of the Board. The Board also received and considered financial information regarding Impulsora, including Impulsora's positive operating profit during the last three years notwithstanding a reduction in Fund assets during the last year. The Board concluded that overall, it was satisfied with the nature, quality and extent of services that Impulsora provides to the Fund under the Agreement.

The investment performance of the Fund. The Board received and considered information regarding Fund performance relative to the leading Mexican equity indices, including the Bolsa IPC Index (IPC) and the Morgan Stanley Capital International Mexico Index (MSCI), as well as comparable funds. The Board was provided with a description of the rationale for the use of a performance matrix rather than a single benchmark to evaluate Fund performance, a practice that has been used with respect to the Fund's performance since 2002. The Board noted that it had received information throughout the year at periodic intervals regarding the Fund's performance, including with respect to the leading Mexican equity indices. The performance matrix as of January 31, 2009 showed underperformance by the Fund relative to IPC and the MSCI for the one-, three- and five-year periods, which Impulsora explained was due to declines experienced particularly by smaller, less liquid issuers in the Fund's portfolio. Impulsora indicated that it had made several changes to the Fund's portfolio composition and had taken a more defensive and active trading approach, which resulted in the Fund's outperformance relative to the IPC and the MSCI for the three- and six-month periods. In addition, Impulsora explained that the Fund's trailing three-year performance had exceeded that of the IPC and MSCI indices during most of the last six years. The Board also considered the efforts made by Impulsora to address the discount between the Fund's net asset value and market price. Based on its review and Impulsora's explanation, the Board concluded that the Fund's performance was acceptable.

The costs of advisory services provided and the level of profitability. The Board reviewed the fees charged by Impulsora for investment advisory services, as well as the gross revenues and pre-tax profits earned by Impulsora. The Board also reviewed and considered comparative information supplied by Lipper Inc., which the Board noted showed that the effective investment advisory fee of the Fund remained competitive and lower than the weighted average of other comparable regional closed-end funds. The Board also reviewed and considered comparative

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information regarding investment advisory fees, including asset breakpoints, charged by comparable investment advisers. The Board also reviewed the actual dollar amount of the fees payable under the Agreement, as well as the fee as a percentage of assets under management. On the basis of this information, the Board concluded that the level of investment advisory fee is appropriate in light of the nature, extent and quality of services provided to the Fund, and that the overall expense ratio compared favorably to other similar funds and the anticipated profitability of the relationship between the Fund and Impulsora.

Whether the advisory fees reflect economies of scale and the extent to which economies of scale will be realized as the Fund grows. The Board determined that the investment advisory fees payable under the advisory arrangements already reflect potential future economies of scale through the existing fee structure, which includes the imposition of breakpoints as Fund assets increase, of 1.00% of average net assets for assets up to and including \$200 million, 0.90% of average net assets in excess of \$200 million and up to \$400 million, and 0.60% of average net assets for assets in excess of \$400 million.

Benefits to Impulsora from relationships with the Fund (and any corresponding benefit to the Fund). The Board determined that other benefits described by Impulsora are reasonable and fair, and are consistent with industry practice and the best interest of the Fund and its stockholders. In this regard, the Board specifically considered the benefits to Impulsora due to the fact that it also serves, and receives an additional fee from, the Fund in its role as administrator to the Fund. In addition, the Board considered the fact that Impulsora had been receiving \$75,000 for each in-kind repurchase offer conducted under the Policy (with such amount payable through an adjustment to the repurchase price paid to shareholders participating in the repurchase offer in order to reimburse the Fund for repurchase offer related expenses). With regard to brokerage, the Board noted that some brokers provide Impulsora with research in addition to brokerage services. With regard to benefits to the Fund, the Board considered the fact that Impulsora has been able to obtain from Mexican brokerage houses, on behalf of the Fund, one of the lowest commission rates in Mexico.

Non-Fundamental Investment Policy Change

Effective March 1, 2009, the Fund may invest at least 80% of its total assets in equity securities listed on the Mexican Stock Exchange, but may reduce its holdings in equity securities listed on the Mexican Stock Exchange below 80% of its total assets for temporary defensive purposes when unusual market or economic conditions occur.

Concentration Policy

The Fund has adopted a concentration policy that permits it to concentrate its investments in any industry or group of industries in the IPC Index (or any successor or comparable index as determined by the Board to be an appropriate measure of the Mexican market) if, at the

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time of investment, such industry represents 20% or more of the IPC Index; provided, however, that the Fund will not exceed the IPC Index concentration by more than 5%.

At the end of April 2009, the only industry group that represented 20% or more of the value of the securities included in the IPC Index was the communications industry group. This industry includes local, long-distance, and cellular telephone companies, as well as broadcast and media companies. Approximately 86.69% of this industry group is comprised of stocks of telecommunications companies. At the end of April 2009, 22.44% of the Fund's net assets were invested in this industry group. This is compared with the communications industry group's weighting of approximately 39.77% of the IPC Index. The Fund's Investment Adviser will continue to evaluate the concentration in this industry and may, at its discretion, choose not to concentrate in this industry group in the future or to concentrate in other industries subject to the concentration policy described above.

Proxy Voting

Information about how the Fund voted proxies during the twelve-month period ending June 30, 2008 is available, without charge, upon request by calling collect Mr. Eduardo Solano, the Fund's Investor Relations Vice President, or on the SEC's website at www.sec.gov. The Fund's and its Investment Adviser's proxy voting policies and procedures are on the Fund's website, www.themexicofund.com under the heading "Corporate Governance", on the SEC's website at www.sec.gov, or are available without charge, upon request, by calling Mr. Eduardo Solano. Mr. Solano can be contacted at (+52 55) 5282-8900, during Mexico City business hours (10:00 am to 3:00 pm and 5:00 to 7:00 pm ET).

Investor Relations; Reports to Stockholders

Reports and Proxy Statements are published on the Fund's website under the section "Investor Reports". Stockholders will receive printed versions of the Fund's semi-annual and annual reports. This information is also available in the Fund's quarterly electronic Form N-Q filings submitted to the SEC. Stockholders who wish to receive, electronically upon their dissemination, public reports and press releases regarding the Fund should contact the Fund's Investor Relations Office via e-mail (see address below). We hope that the Fund's website is a useful resource for information and we will continue working to improve it.

Stockholders may contact the Investment Adviser via telephone, in Mexico City, at (+52 55) 5282-8900. Please ask for Mr. Eduardo Solano, the Fund's Investor Relations Vice President. Personnel to answer your questions are regularly available from 10:00 am to 3:00 pm and from 5:00 pm to 7:00 pm ET. The Fund recently appointed The Altman Group as its Public Relations and Proxy Solicitation Agent. The Fund has developed a database of investors who have opted-in to receive periodic updates about the Fund via e-mail. You can fax or e-mail your request to be included in this list to:

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The Mexico Fund, Inc.

Patricia Baronowski

The Altman Group

(860) 204-9468

pbaronowski@altmangroup.com

If you prefer to directly contact the Fund via e-mail, please direct your e-mail inquiries to:

Investor Relations Office

investor-relations@themexicofund.com

Information on the Fund's NAV and market price per share is also published weekly in The Wall Street Journal, The New York Times and other newspapers in a table called "Closed-End Funds." The Fund's NYSE trading symbol is MXF.

The Fund's Dividend Reinvestment Plan and Transfer Agent is:

American Stock Transfer & Trust Company

59 Maiden Lane Plaza Level

New York, NY 10038

(800) 937-5449

Dividend Reinvestment Plan

The Fund's Dividend Reinvestment Plan (the "Plan") provides a convenient way to increase your holdings in the common stock of the Fund through the reinvestment of distributions paid by the Fund. Under the terms of the Plan, Fund shareholders are automatically enrolled as participants in the Plan. If you do not wish to participate in the Plan, please contact American Stock Transfer & Trust Company ("Plan Agent"). Upon any termination of participation under the Plan, the Plan Agent will cause a share certificate for the appropriate number of full shares to be delivered to the participant along with a cash adjustment for any fractional shares. At a stockholder's request, the Plan Agent will sell the participant's shares and remit any proceeds to the participant, net of brokerage commissions. Stockholders who do not participate in the Plan will receive all distributions in cash.

Under the terms of the Plan, whenever the Fund declares a distribution, Plan participants will receive their distribution entirely in shares of common stock purchased either in the open market or from the Fund. If, on the date a distribution becomes payable or such other date as may be specified by the Fund's Board (the valuation date), the market price of the common stock plus estimated brokerage commissions is equal to or exceeds the NAV per share of common stock, the Plan Agent will invest the distribution in newly issued shares of common stock, which will be valued at the greater of NAV per share or the current market price on the valuation date. If on the valuation date, the market price of the common stock plus estimated brokerage commissions is lower than the NAV per share, the Plan Agent will buy common stock in the open market. As a participant in the Plan, you will be charged a *pro-rata* portion of brokerage commissions on all open market purchases.

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If your shares are registered or will be registered in the name of a broker-dealer or any other nominee, you must contact the broker-dealer or other

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The Mexico Fund, Inc.

To Our Stockholders:

Concluded

nominee regarding his or her status under the Plan, including whether such broker-dealer or nominee will participate in the Plan on your behalf. Generally, shareholders receiving common stock under the Plan will be treated as having received a distribution equal to the amount payable to them in cash as a distribution had the stockholder not participated in the Plan.

If you have any questions concerning the Plan or would like a copy of the Plan brochure, please contact the Plan Agent:

American Stock Transfer & Trust Company

Attention: Dividend Reinvestment Department

59 Maiden Lane Plaza Level

New York, NY 10038

(800) 937-5449

New York Stock Exchange Certifications

The Fund is listed on the New York Stock Exchange (NYSE). As a result, it is subject to certain corporate governance rules and related interpretations issued by the NYSE. Pursuant to those requirements, the Fund must include information in this report regarding certain certifications. The Fund's President and Treasurer have filed certifications with the SEC regarding the quality of the Fund's public disclosure. Those certifications were made pursuant to Section 302 of the Sarbanes-Oxley Act (Section 302 Certifications). The Section 302 Certifications were filed as exhibits to the Fund's annual report on Form N-CSR, which included a copy of this annual report along with other information about the Fund. After the Fund's 2009 annual meeting of stockholders, it filed a certification with the NYSE stating that its President was unaware of any violation of the NYSE's Corporate Governance listing standards.

* * *

Despite the negative performance during the first half of fiscal 2009, we are encouraged by the support shown by stockholders on June 8, 2009 in voting to eliminate the fundamental policy governing the Fund's periodic in-kind repurchase offers, and we are in the process of implementing on behalf of the Fund a consolidated strategy to reduce the discount. At the same time, we will continue working hard to offer stockholders our best efforts to find the most attractive investment opportunities in the Mexican equity market. We hope you find this report useful and informative, and we thank you for your continued confidence in the Fund.

Sincerely yours,

José Luis Gómez Pimienta
President

Emilio Carrillo Gamboa
Chairman of the Board

June 29, 2009

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The Mexico Fund, Inc.

Schedule of Investments

as of April 30, 2009

(Unaudited)

Shares Held		Value (Note 1)	Percent of Net Assets
COMMON STOCK - 88.95%			
Airports			
2,530,748	Grupo Aeroportuario del Centro Norte, S.A.B. de C.V. Series B	\$ 2,586,630	0.92%
1,300,000	Grupo Aeroportuario del Sureste, S.A.B. de C.V. Series B	4,035,885	1.43
		6,622,515	2.35
Beverages			
3,309,900	Fomento Económico Mexicano, S.A.B. de C.V. Series UBD	9,324,133	3.31
2,286,000	Grupo Modelo, S.A.B. de C.V. Series C (a)	6,613,140	2.35
		15,937,273	5.66
Building Materials			
5,727,100	Cemex, S.A.B. de C.V. Series CPO	4,236,076	1.50
2,968,600	Grupo Cementos de Chihuahua, S.A.B. de C.V. Series *	6,432,828	2.28
1,859,700	Grupo Lamosa, S.A.B. de C.V. Series * (a)	1,081,354	0.38
		11,750,258	4.16
Chemical Products			
9,558,972	Mexichem, S.A.B. de C.V. Series *	8,485,786	3.01
Commercial Banks			
1,725,600	Banco Compartamos, S.A., Institución de Banca Múltiple Series O	4,286,485	1.52
Construction and Infrastructure			
6,949,533	Empresas ICA, S.A.B. de C.V. Series * (a)	12,569,527	4.46
Consumer Products			
2,941,280	Kimberly-Clark de México, S.A.B. de C.V. Series A	10,603,590	3.76
Financial Groups			
5,548,200	Grupo Financiero Banorte, S.A.B. de C.V. Series O	8,696,427	3.08
Food			

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2,215,000	Grupo Bimbo, S.A.B. de C.V. Series A (a)	9,988,403	3.54
Holding Companies			
3,565,500	Alfa, S.A.B. de C.V. Series A	6,201,631	2.20
Housing			
3,364,900	Corporación Geo, S.A.B. de C.V. Series B (a)	4,396,830	1.56
5,879,700	Urbi Desarrollos Urbanos, S.A.B. de C.V. Series * (a)	6,353,540	2.25
		10,750,370	3.81
Media			
4,752,400	Grupo Televisa, S.A.B. Series CPO	14,678,433	5.21
2,734,500	Megacable Holdings S.A.B. de C.V. Series CPO (a)	3,452,617	1.22
		18,131,050	6.43

See Notes to Financial Statements.

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The Mexico Fund, Inc.