

# THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

## Investing in The Mexico Fund



**EDUARDO SOLANO** is currently The Mexico Fund's Investor Relations Vice President. He has served as Director of Economic Research of the Fund's investment adviser, Impulsora del Fondo Mexico, SC, since 1997. He has been an employee of Impulsora del Fondo Mexico, SC, since 1991.

**ALBERTO OSORIO** currently serves as The Mexico Fund's Senior Vice President, Treasurer and Chief Financial Officer. He is also a Deputy Director of the Fund's investment adviser, Impulsora del Fondo Mexico, SC, where he has been an employee since 1991.

### SECTOR – GENERAL INVESTING

**TWST:** Would you start by introducing yourselves and The Mexico Fund.

**Mr. Solano:** I am Eduardo Solano, Investor Relations Vice President of The Mexico Fund. Here with me is my colleague Alberto Osorio, who is Senior Vice President, Treasurer and CFO of the fund. Launched in June 1981 and with current assets of around \$360 million, The Mexico Fund is today one of the largest and oldest closed-end country funds listed on the NYSE. The fund's trading symbols is MXF, and its investment philosophy is long-term capital appreciation through investments in securities, primarily equity, listed on the Mexican Stock Exchange, or Bolsa, as it is commonly known. Typically the fund does not hedge against currency fluctuations nor leverage its portfolio. Since its inception, the fund has been managed by Impulsora del Fondo México, a Mexican investment advisory firm registered with the SEC under the U.S. Investment Advisers Act of 1940. The board of directors of the fund is currently composed of seven members, and only one of them is an Interested Director because of his affiliation with the Investment Adviser.

**TWST:** Would you tell us a little about what makes The Mexico Fund different and attractive for investors?

**Mr. Solano:** First, the fund is an actively managed fund. The adviser carefully selects the portfolio components based on their growth perspective, financial situation, management quality and other factors that are monitored continuously. Second, the board is concerned about the discount at which fund shares trade with respect to its NAV, currently near 12%, and has implemented a plan of to mitigate it. The fund recently conducted an in-kind tender offer for 15% of outstanding shares at 98% of NAV. Additionally, the following two actions are currently in place: One, the board has implemented a managed distribution plan, consisting of quarterly cash distributions at an annualized rate of 10% of the fund's net asset value per share as of the end of the previous calendar year. The board believes that there are an important number of retail investors who are attracted to investments that provide predictable cash flows, particularly in an environment of low interest rates, just like the one we are witnessing now. Two, the fund has in place a program of open-market repurchases of fund shares for at least 10% of outstanding

shares during one year if the discount is above 10%. We believe that not many closed-end funds have committed to mitigate the discount issue as firmly as our fund.

**TWST: Tell us about the fund's portfolio focus and investment strategy.**

**Mr. Osorio:** The fund has adopted an investment strategy that combines the incorporation of large capitalization companies with attractive small and medium-size issuers. With the exception of 2008, when the prices of small and medium-size companies fell more than the rest of listed companies, this strategy has proven successful. The fund uses a bottom-up approach to select portfolio companies, i.e., the adviser believes there may be attractive companies in poor-performing sectors of the economy. Because the economic crisis in Mexico has had a severe impact on domestic consumption, we have tried to invest in companies with geographical diversification of its sales, earnings and assets. Speaking about our 10 largest portfolio holdings, their income from foreign operations represent on average 45% of their total sales, compared with 37% for all listed companies. We have also invested in companies with anti-cyclical activities, and we can talk more about that later.

**TWST: What are the current core holdings?**

**Mr. Solano:** As of Oct. 5, 2009, which is the date of the last publicly available information of the fund, the only two

**Walmart de México** (WMMVY), the Mexican subsidiary of **Wal-mart** (WMT), is second and accounts for 12.2% of the fund. **Grupo Mexico** (GMBXF.PINK), which accounts for 6.6%, is third. **Grupo Mexico** is a mining company that extracts and sells copper, silver, gold, molybdenum, lead and zinc, and has

concessions to operate two railroad lines. Fourth is **Cemex** (CX), which also accounts for another 6.6%, is the global producer of cement and related products. The fund invested in this company after it finished the restructuring of its debt obligations. And finally, **Grupo Televisa** (TV), which account for 4%, is the largest media company in the Spanish-speaking world.

**TWST: Have you made any recent purchases that you'd like to mention?**

**Mr. Osorio:** Yes, we recently invested in a few companies that, in our opinion, represent attractive opportunities, given the anti-cyclical nature of their businesses.

Firstly, **Genomma Lab** (LABB.MXK), which accounts for .6% of the fund, is a company dedicated to the sale of over-the-counter medicines and personal care products. Because this company uses aggressive TV advertising campaigns in Mexico to sell their

products, their sales have not been affected by the current crisis that significantly impacted domestic consumption levels. Additionally, the company will begin operations in the United States and Brazil next year.

### Highlights

*Eduardo Solano and Alberto Osorio discuss the performance of The Mexico Fund, one of the largest and oldest closed-end country funds listed on the NYSE. It is an actively managed fund and the adviser selects holdings based on their growth perspective, financial situation and management quality. They are concerned about the discount at which fund shares trade with respect to its NAV, currently near 12 % and have implemented a plan to mitigate it. Because the economic crisis in Mexico has had a severe impact on domestic consumption, the fund has invested in companies with geographical diversification of its sales, earnings and assets. Of the 10 largest holdings, foreign operations represent about 45% of their total sales, compared with 37% for all listed companies. They also invest in companies with anti-cyclical activities. The two sectors that represent more than 10% of net assets in the portfolio currently are communications and retail, which together account for about one third of the fund's investments.*

*Companies include: America Movil (AMX); Walmart de Mexico (WMMVY); Grupo Mexico (GMBXF); Cemex (CX); Grupo Televisa (TV); Genomma Lab; Bolsa; Banco Compartamos and Grupo Bimbo.*

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sectors of the portfolio that represented more than 10% of net assets are communications and retail, which together accounted for approximately one-third of the fund's investments.

The following are the five largest portfolio holdings. First is **América Móvil** (AMX), which accounts for 18.6% of the fund, is the most important provider of mobile services in Latin America and also provides services in the United States.

Another is **Banco Compartamos** (BMOSF.PINK), which accounts for 1.13% of the fund. This bank is dedicated to micro credits for low-income population. Their business model has proven successful, as it is mainly dedicated to women who act in groups to make responsible for their timely payments.

**Bolsa** (BOLSAA.MXK) is another, which accounts for 2.32% of the fund. This is not a very recent investment, as

we have been a shareholder of the Mexican Stock Exchange since it became a public company in June of last year. But I want to mention this company because we believe it is not only a defensive investment but also attractive, as its earnings are relatively well protected against the current economic crisis and depend mostly on the traded volume of securities and the incorporation of new instruments.

Currently, the p/e ratio of the Mexican equity market is near 25 times based on 12-month trailing earnings, but that is because it includes the negative effect of the devaluation of the peso and significant derivative-related losses of some companies. Based on estimated 2009 earnings, the p/e ratio decreases to 16 times. The p/bv ratio and EV/EBITDA ratios are currently 2.6 and 8.5 times, respectively.

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1-Year Daily Chart of America Movil



Chart provided by [www.BigCharts.com](http://www.BigCharts.com)

Finally **Grupo Bimbo** (BIMBO.MXK), which accounts for 3.8% of the fund, produces and sells bakery products throughout the Americas and Europe. After the purchase of Weston in the United States, **Bimbo** became world's largest bakery company.

**TWST: Would you please talk about financial results and the valuations of Mexican listed companies?**

**Mr. Solano:** Listed companies recently reported their financial results. For the first nine months of this year, on average sales increased 4.5%, EBITDA grew 2.9%, while operating and net profit decreased 1.2% and 1.5%, respectively. These figures compare favorably with a decrease of 8.1% for Mexico's GDP during the same period.

In general, we have seen that listed companies perform better than the rest of the economy, and this is the result of factors including better management practices, diversification of markets through exports or subsidiaries established abroad and access to international capital markets, to name a few.

**TWST: Tell us about the recent performance of the fund.**

**Mr. Osorio:** Despite the high concentration of the Mexican equity market, and a conservative and cautious investment strategy, the fund's NAV and market price have outperformed the most relevant indices. So far this year, until yesterday the fund's market price and NAV per share returns are 52.1% and 56.9%, respectively, which compare favorably with returns of 48.4% for the Bolsa index and 47.6% for the MSCI index.

**TWST: Do you have any final comments?**

**Mr. Solano:** We just would like to invite your readers to visit our Web site, [www.themexicofund.com](http://www.themexicofund.com), and to contact us through the e-mail service available there for any questions. Thank you very much.

**TWST: Thank you. (PS)**

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