

A Yield Driven Real Estate Fund

January - March 2014

Dear Investors

We are pleased to present the Fund Update for the quarter ending March 31st 2014 for the IL&FS Milestone Fund II (Fund). The Trustees of the Fund have approved an extension of fund life by one year from 31st March 2014 to 31st March 2015.

IL&FS Milestone Fund II is fully committed and invested across 6 investments in the commercial and the IT Park space across India. The fund team has increased efforts on leasing the vacant area and has hired senior professional, Mr Apurva Gupta as Head – Sales & Leasing who has more than 16 years of experience in commercial leasing & sales, He has worked with companies like CBRE, Ackruti & ICICI. The fund team has been able to successfully lease around 54,000 sq ft of space in 247 Park at attractive rates in quarter ended 31st March 14.

India's GDP expanded by 4.7% in the October–December 2013 period, compared to 4.8% in the preceding quarter, thereby lowering hopes of a strong economic recovery in 2013-14. Negative growth in the manufacturing sector (-1.9%), a slowdown in the key infrastructure sector (1.6% growth during January 2014), along with high inflation, kept the growth rate below expectations during the review period. In the absence of any pick-ups in the manufacturing sector, government estimates project the economy to grow at a little less than 5% in 2013-14.

In an attempt to curb inflation, the Reserve Bank of India (RBI), in its monetary policy review in January 2014, increased the key lending rates by 25 basis points. Although this is the third instance (since September 2013) of the RBI increasing key lending rates, it has clarified that if CPI inflation eases in the coming months, it does not foresee any further rate hikes in the near term. RBI has kept the rates unchanged in its first bi-monthly monetary policy review in early April 2014.

The Interim Budget 2014-15 presented in February 2014 made all the right moves for the requisite push in the sectors of infrastructure, manufacturing, and affordable housing. The focus on affordable housing is expected to accelerate growth of construction activity in tier II and III cities; while the focus on channelizing investments (mobilized through the public-private partnership mode) into infrastructure development should augur well for the infrastructure and real estate sectors, going forward. The realty sector's growth trajectory in the short to medium term will depend to a large extent on the emergence of a reform-oriented and forward looking political dispensation from the forthcoming electoral mandate.

The commercial real estate market in India witnessed sluggish activity and low level of new completions in the first quarter of 2014. Leading cities across the country continued to see heightened caution from corporate occupiers, resulting in subdued leasing activity during the first three months of the year. Occupier focus remained on improving existing space utilization and/or relocation to peripheral and secondary micro-markets, with the majority of deal closures taking place for small to medium-sized office spaces. The IT/ITeS, financial and services segments continued to drive demand for office space in India's leading cities. Office space demand slowed down significantly in the first quarter, with around 6.3 million sq. ft. (6.6 million sq. ft. for Q1 CY13) of office space getting absorbed across the leading cities of the country. Transaction activity was dominated by the National Capital Region (NCR), Bangalore and Chennai -representing about 70% of the total space transacted during the quarter under review. SEZ developments in Gurgaon, Bangalore, Hyderabad and Pune also witnessed considerable traction during Q1 2014.

Existing vacancy levels and lower demand resulted in a decline in supply addition across most leading cities in the country. About 6.6 million sq. ft. of office space was completed in the first quarter of 2014, which is a decline of about 10% on a q-o-q basis.

Bangalore led project completions, followed by Delhi NCR and Mumbai-together contributing to more than 80% of the total supply completed in the present quarter.

Rental trends exhibited mixed sentiments across micro-markets in the quarter under review. Rental values in the Central Business Districts (CBDs) of Delhi, Bangalore, Chennai and Pune appreciated in the range of 2–5% due to increasing occupier interest in leading Grade A properties. In Mumbai, meanwhile, feeble demand levels continued to have a negative impact on rentals across markets, with values dipping by 2–5% in Nariman Point, Bandra–Kundra Complex (BKC), Worli and Prabhadevi—mainly due to weak occupier demand and existing vacancy pressures.

Occupiers are likely to remain focused on optimal space utilization and cost saving strategies. Going forward, demand is likely to be concentrated mostly in the peripheral micro-markets of leading cities, owing to abundant availability of cost effective quality space (Grade A) options. Firms in the IT/ITeS, financial and pharmaceutical sectors are expected to remain major contributors to overall office space absorption across major cities. However, significant supply expected to reach completion in the coming months is likely to push up vacancy levels, keeping rental values range bound. (Source – CBRE India)

The Fund is actively pursuing the exit process for a number of its investments which includes 247Park in Mumbai.

We thank you for your continued support.

Alok Aggarwal
Managing Partner & CEO – Real Estate

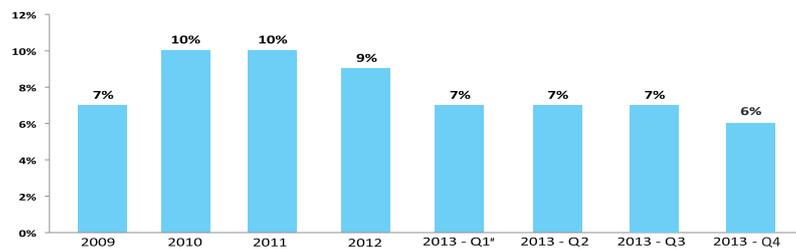
Fund Summary

Fund Status as on March 31, 2014

Total Corpus	Rs. 570 Crores*
Final Closing Date	II & IIA - 31st March 2010 IIB - 30th November 2010
Term	4 years + 1 year + 1 year
No. of Investments	6
Committed Amount	Rs. 488.30 Crores
Income Generated (Pre-tax)	Rs. 187.52 Crores
Income Distributed	Rs. 187.52 Crores (32.90%)

* Includes the corpus of co-investment vehicles.

Yield Distributed*



* Pre-Tax Annualised Yield distributed
Current year yield on quarterly payout basis

Investment Summary as on March 31, 2014

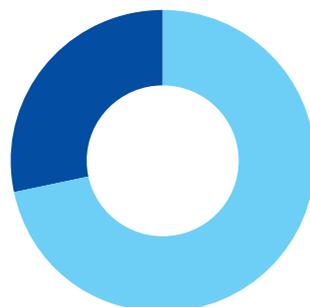
Project	Location	Initial Investment Date	Investment Commitment (Rs. In Cr)	Asset Class	Key Tenants
Universal Business Park	Andheri (E), Mumbai	Apr-10	23.80	Commercial	Vacant
E-City Park - II	Electronic City (Phase I),	Apr-10	60.30	IT/ITeS	CGI
247Park	Vikhroli (W), Mumbai	Jul-10	142.00	Commercial	Future Group, HCC, Siemens, TCSE
Patel Corporate Park	Jogeshwari (W), Mumbai	Mar-11	97.00	Commercial	Pfizer
E-City Park - II	Electronic City (Phase I), Bengaluru	Mar-12	69.20	IT/ITeS	Terex, RedPrairie, Defiance, Golive Media, Mayfair, British Engines, Sigma
Down Town Center	Erandwane, Pune	April-13	96.00	IT/ITeS	Vacant from 1st Feb 2014
Total			488.30		

City-Wise Distribution (In Rs.)



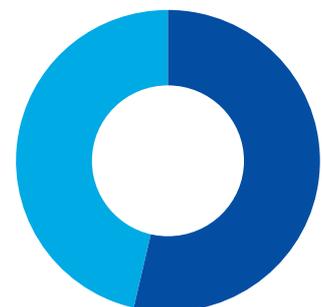
■ Mumbai Metropolitan Region - 53.80%
■ Bengaluru - 26.50%
■ Pune - 19.70%

Sector Wise Distribution (In sq ft)



■ Commercial - 71.91%
■ IT/ITes - 28.09%

Sector Wise Distribution (In Rs.)



■ Commercial - 53.80%
■ IT/ITes - 46.20%

IL&FS-Milestone Fund - II – Project Snapshots



Project : Universal Business Park
Location: Andheri (E), Mumbai

Asset Class	Commercial
Investment Commitment	Rs. 23.80 Crores*
Date of Initial Investment	April-2010
Total Leasable Area	19,953 sq ft (5th floor)
Key Tenant(s)	Vacant

*Fund owns 84.08% stake in the SPV.

Transaction Overview and Investment Rationale

Universal Corporate Park is located in Mumbai in Andheri (E), a predominantly commercial area with diamond exporting units, IT/ITeS companies (in SEEPZ), TV/film studios and many small/medium enterprises. The international airport is also located in this area. The fund has invested in the 5th floor of the property. Like most of other office locations in Mumbai, this particular micro market is witnessing significant slow-down in leasing. With rising vacancy levels, there is serious downward pressure on the rentals.

Currently the premises is vacant. However the Metro is expected to get operational in this quarter and the team has intensified its efforts to lease the property or sell it to an end user.



Project : E-City Park - II
Location: Electronic City (Phase I), Bengaluru

Asset Class	IT/ITeS
Investment Commitment	Rs. 60.30 Crores
Date of Initial Investment	April-2010
Total Leasable Area	189,161 sq ft
Key Tenant(s)	CGI

Project : E-City Park - II
Location: Electronic City (Phase I), Bengaluru

Asset Class	IT/ITeS
Investment Commitment	Rs. 69.20 Crores
Date of Initial Investment	March-2012
Total Leasable Area	158,000 sq ft
Key Tenant(s)	Terex, RedPrairie, Defiance, British Engines, Mayfair Sigma, Air Push India Pvt. Ltd.

Transaction Overview and Investment Rationale

E-City Park-II is located in Electronic City (Phase I), a major IT corridor which houses campuses of IT conglomerates such as Infosys and Wipro. The location provides international quality infrastructure comprising roads, security, power and water supply. The Fund had initially invested in 4 floors of the building amounting to 189,161 sq ft in April 2010. All 4 floors are leased out to CGI, one of the largest IT and business process services company in the world.

The Fund has made an additional investment in E-City Park-II for 5th to 8th floor. With this acquisition, the entire building is owned by the Fund. The property is leased to the extent of 90% and leasing leads are being evaluated for the balance vacant area. The target is to achieve 100% occupancy in the next 6 months.

IL&FS-Milestone Fund - II – Project Snapshots



Project : 247Park
Location: Vikhroli (W), Mumbai

Asset Class	Commercial
Investment Commitment	Rs. 142 Crores
Date of Initial Investment	July-2010
Total Leasable Area	1,117,732 sq ft
Key Tenant(s)	Future Group, Siemens, HCC, TCSE, DHL, Lemiur, Atos

*Fund owns 36.88% stake in the SPV.

Transaction Overview and Investment Rationale

247Park was developed by HCC Real Estate, a subsidiary of Hindustan Construction Company, one of India's leading construction and infrastructure companies. The IT Park is one of the best in terms of efficiency, design, facilities and amenities in the suburban micro-markets of Mumbai. The project is located on L.B.S. Marg, situated in Vikhroli (W) which was once a manufacturing hub, but has now turned into a base for IT/ITeS companies due to availability of large floor space. The property is leased out to prominent tenants like Future Group, Siemens, HCC, DHL, Nair & Co etc.

During the quarter, the fund has leased around 54,000 sq ft of space to tenants like Nair & Co and DHL at very attractive rentals (20%-25% above average rental). The Fund is trying to lease out the vacant space of 122,000 sq ft and negotiating with several prospective occupiers and aims to achieve above 95% occupancy. Also the installment for principal loan from SBI will increase from Rs 30 Crores (in FY14) to Rs 45 Crores (in FY15).

The fund is in active discussion with an institutional investor for exit.



Project : Patel Corporate Park
Location: Jogeshwari (W), Mumbai

Asset Class	Commercial
Investment Commitment	Rs. 97.00 Crores
Date of Initial Investment	March-2011
Total Leasable Area	66,000 sq ft
Key Tenant(s)	Pfizer

Transaction Overview and Investment Rationale

Patel Corporate Park is a premium commercial space located on Patel Estate Road in Jogeshwari (W), Mumbai. Commercial office spaces have grown rapidly in this region led by the services sector. The entire building is leased out to Pfizer, one of the largest research based pharmaceutical companies in the world. This building is unique as it offers its tenants clear floor plates and clear frontage.

The Fund is evaluating the exit from the asset and has done several site visits with prospective buyers. However, it is yet to receive any attractive value from the buyers.

IL&FS-Milestone Fund - II – Project Snapshots



Project : Down Town Center (DTC)

Location: Erandwane, Pune

Asset Class	IT/ITeS
Investment Commitment	Rs. 96.00 Crores
Date of Initial Investment	April-2013
Total Leasable Area	123,000 sq ft
Key Tenant(s)	Vacant

Transaction Overview and Investment Rationale

DTC is part of a 360,000 sq ft mixed use development located in heart of Pune city. The office space of 123,000 sq. ft. has been vacated by the tenant from 1st Feb 2014. The Fund team is actively pursuing with various intermediaries to lease out the vacant space and has been able to get active interest from 3 prospective tenants. The entire 6th, 7th & 8th floors alongwith covered car parking spaces of 201 nos. is part of the property owned.

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