MILESTONE BULLION SERIES - I

- Investment Opportunities into Bullion Companies
- Reliable Hedge against Inflation

MILESTONE
PRIVATE EQUITY

Milestone Bullion Series – I: A Synopsis

Series Synopsis		as on 1st July, 2014
Commitment Received		₹ 330 Cr
Corpus Received		₹ 330 Cr
	Original Holding	Current Holding
Net Corpus Invested in OFCDs of Portfolio Companies linked	₹ 315 Cr	₹ 124 Cr
– Physical Gold (through Gold Deposit Scheme)	₹ 87 Cr	₹ 0 Cr
– Physical Silver	₹ 131 Cr	₹ 101 Cr
– Capital Protected Gold Linked Debenture	₹ 97 Cr	₹ 23 Cr

Quarterly Activity & Future Communication

Milestone Bullion Series-I (the Series) is a portfolio management series of Milestone Capital Advisors Ltd. which has provided investors with a unique opportunity for diversification of investments through investments into debentures linked to physical Gold and Silver metals. Following a prudent exit policy, portfolio managers for the Series have been making tranche-wise liquidation of the assets and distributing of returns to the investors. Highlights on the disinvestments made so far and the future strategy is as follows –

- The Series has completed 100 percent exit from the portfolio linked to physical Gold metal
- Nearly 75 percent of the original holdings in Capital protected Gold Linked Debentures, which have a fixed maturity period and returns linked to the price movement of Gold, have been redeemed. The remaining proportion of this investment is due for maturity in first week of August and the returns from the same will be distributed subsequently
- The Series has been able to exit only ~23 percent of the portfolio linked to Silver metal so far on account of the persistently subdued performance of the metal prices. Fund managers will now be actively liquidating the remaining proportion of the metal, to achieve a systamatic exit by the end of remaining life period (i.e. October 2014)
- The audited tax statements for the financial year 2013-14 are under processing and will be released in the following week

Global Economic Outlook

Strong economic data from major economies around the world has sent a positive vibe in global equity markets. Investor confidence has gained a boost from positive developments in US Job market and the promises made by European Central Bank (ECB) of keeping the liquidity abundant in market for years. Meanwhile the short bull run seen by crude oil and precious metals has come to a halt as the concerns about political unrest in Ukrain and Iraq have diminished.

US Federal Reserve is quickly winding up the bond-purchase program but is expected to leave the interest rates low well into next year. The employment growth, a major indicator of economic health, seems to be on track with unemployment rate falling from 6.3 percent to 6.1 percent.

Euro Zone is slowly coming out of the recession. However, it has been consistently missing its inflation target set by ECB at 2 percent. The inflation of the area held at a rate of 0.5 percent in the month of June. The ECB left interest rates steady at 0.5 percent, a month after cutting them to record lows and pushing the deposit rate into negative territory.

Emerging Asian economies are expected to see a slight slum in growth rate as they push further with economic and politic reforms but International Monetary Fund (IMF) has given an overall reassuring outlook. Growth in the biggest economy of the continent, China, is estimated between 7 and 7.5 percent. China has been working quite rapidly to liberalize its capital markets, with the eventual aim of making its currency fully convertible, giving it a larger role in the global economy.

Indian stock market saw an unprecedented boom, rallying nearly 23% this year, with high expectations set on the newly elected central government. The Government is set to present its first interim budget in July and has hinted on taking bold measures to improve revenues which include a record $11.7 billion in asset sales and General Sales Tax. As such, the inflation in country still remains uncomfortably high and the fiscal deficit is already near half the annual goal of 4.1 percent of GDP.

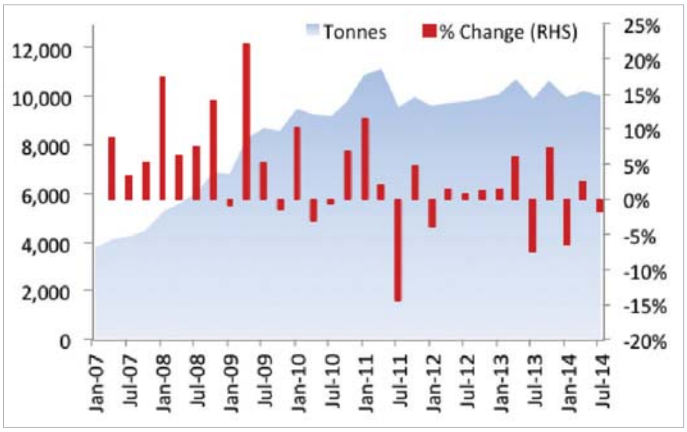
Silver: Performance and Future Outlook

After setting the half yearly high in late February at US$22.18/Oz, the prices of Silver have trended lower until the recent upward recovery. Silver prices slumped to US$18.76/Oz on June 4th before quickly climbing back to US$21.14/Oz on July 1st. The prices rose higher on back of improved safe-haven demand on account of geopolitical tensions in Iraq as well as due to improved physical demand from both investors and end-users.

Silver Price Movements in Q2 CY14

Source: MCX, London Bullion Market Association

iShare Silver ETF Holdings



Source: iShare Silver Trust Historical Data

The retail investors have been taking advantage of the dips in silver prices which dropped by 36 percent last year. According the World Silver Survey 2014 conducted by the Silver Institute, the identifiable retail demand for Silver was up by 13 percent, an all time high in previous year. The primary driver of this robust growth in silver demand was individual purchases of bars and coins.

Demand for physical bullion bars more than doubled last year, hitting a high of 127.2 million ounces. Purchases of silver coins and medals surged 38% to a record 118.5 million ounces. Gains in jewelry fabrication, up 10%, were attributed to an improving global spending. Overall, the retail silver demand including jewelry and silverware fabrication rose a whopping 76% in 2013.

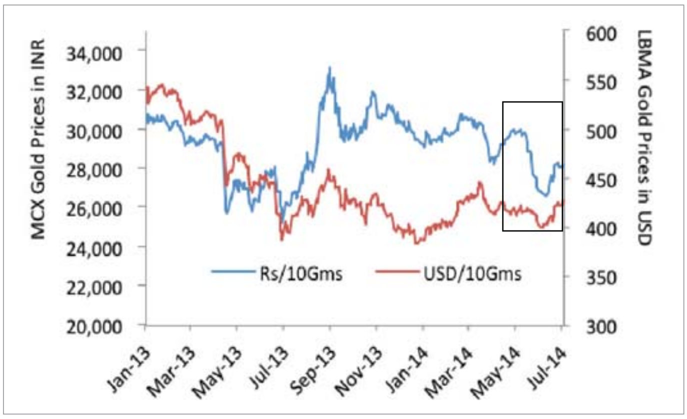
Weakness in Silver prices seems to have been exaggerated because of its correlation with Gold prices. However unlike Gold, the white metal also has industrial uses, which tends to support its prices during global economic growth. According to the survey, industrial demand constituted the largest component of physical silver demand at 54%. Majority of this industrial demand comes from electronic industry and applications in photography.

The ETF demand for Silver has been steady for more than two years which indicates that investors have not lost confidence in the metal entirely. The holdings of iShare Silver Trust, one of the largest Silver ETF, fell by a mere 2% in the quarter ending June opening at 10,042 tonnes on July 1st. The iShare Silver Trust is construed as a far more liquid ETF and a more accurate reflection of the spot prices of Silver than others.

Gold: Performance and Future Outlook

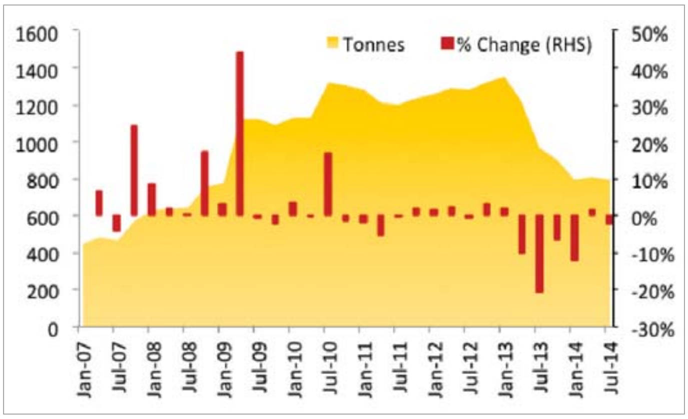
Gold prices consolidated back to US$1250/Oz in second quarter of the year after posting their half yearly high near US$1380/Oz in March. However, prices have pushed up once again as the safe-haven investment demand increased taking cues from the geopolitical tensions in Iraq. Even as the improvements in global economic scenario keep the prices in-check, the metal has climbed back to US$1325/Oz as on July 1st 2014.

Gold Price Movement in Q2 CY14



Source: MCX, London Bullion Market Association

SPDR Gold ETF Holdings Steady



Source: SPDR Gold Shares, World Gold Council

Metal price are expected to see a consolidation at these levels now since the worst of geopolitical tensions in Ukrain and Iraq seems to have passed. In absence of significant safe-haven buying which is expected to be even lower as the equity markets pick up, the metal prices will seek their support from physical demand from Jewellery and Official sector purchases. However, the downside to the Gold prices will be limited as there appears to be a strong support at US$ 1250/Oz levels which has sent the prices back up three times since second half of 2013.

Physical demand for the metal has made a robust comeback in start of 2014. Owing to its lower prices, the demand has risen back to its exceptional performance in early 2013 at 1074.5 tonnes. According to the data published by World Gold Council, modest growth in jewellery outweighed minor reductions in technology demand and central bank purchases. The jewellery demand rose by ~3 percent largely due to lower prices and seasonal fectors, notably Chinese New Year, which contributed record first-quarter jewellery demand in China.

The Reserve Bank of Inida has relaxed the import restrictions for select trading houses, in addition to already permitted banks, to procure the precious metal to boost exports. The threefold hike in import duty along with the import restrictions which require 20 percent of the imported Gold to be used for further export, had squeezed the supply of metal sending physical premiums to record highs. However with improvements in trade deficit, the RBI and finance ministry officials are likely to recommend further relaxations in curbs to head off a surge in illegal buying of the metal.

ETF holdings of the metal are finally looking steady which indicates towards return of investor confidence in the metal. The SPDR trust holdings of the metal fell by a small 2 percent in second quarter of the year.

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