MILESTONE BULLION SERIES - I

- Investment Opportunities into Bullion Companies
- Reliable Hedge against Inflation

MILESTONE
PRIVATE EQUITY ADVISORY

Milestone Bullion Series – I: A Synopsis

Series Synopsis	as on 1st July, 2013	
Commitment Received		₹ 330 Cr
Corpus Received		₹ 330 Cr
	Original Holding	Current Holding
Net Corpus Invested in OFCDs of Portfolio Companies linked	₹ 315 Cr	₹ 251 Cr
– Physical Gold (through Gold Deposit Scheme)	₹ 87 Cr	₹ 44 Cr
– Physical Silver	₹ 131 Cr	₹ 110 Cr
– Capital Protected Gold Linked Debenture	₹ 97 Cr	₹ 97 Cr

Market Snapshot

Last quarter turned out to be the worst quarter for both gold and silver enforcing the view on the market that precious metal are well into a cyclical downturn phase with both gold and silver falling as much as 20% and 29% respectively. First the Cyprus crisis led to a panic selling in gold followed by US announcing its plans to cut down on bond repurchase programs by mid 2014 subject to US growth remaining intact.

Most short term speculators, traders and hedge funds have factored these into their view rapidly leading to fast decline in precious metal prices. Also, most investment banks have also cut down on the their price estimates for 2013 and 2014 citing growth revival in US economy along with trimming down of the Quantitative Easing (QE-III) by US Fed.

While this consensual belief will reinforce the downward pressure on bullion in the short term, the fact still remains that QE III will continue to happen till 2014 under best case growth scenario, the QE in Japan continues aggressively and global growth remains under severe pressure due to faltering economic scenario in Europe and emerging countries like India, China and Brazil.

Future Strategy

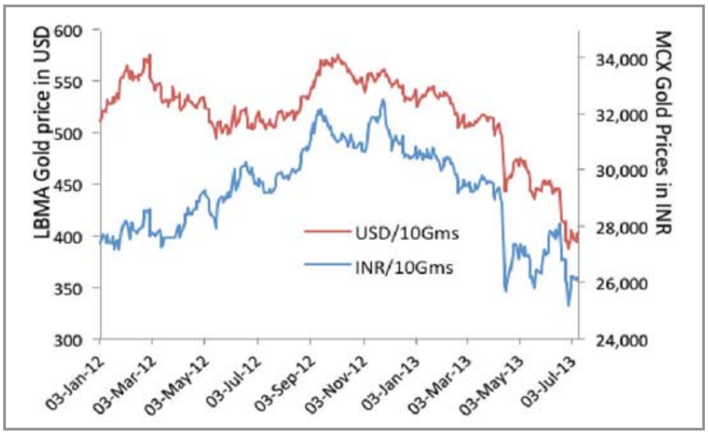
The portfolio manager acknowledges that the downward pressure on bullion prices will remain in the interim, however the unprecedented volatility that the metal is showing will keep providing apt exit opportunities which will be utilized by the team to liquidate the holdings in small tranches. The portfolio will be actively monitored and such opportunities will be taken advantage of.

Quarterly Communication

The Tax statements for the year FY13 have been duly audited and are in the process of being circulated to investors by CAMS.

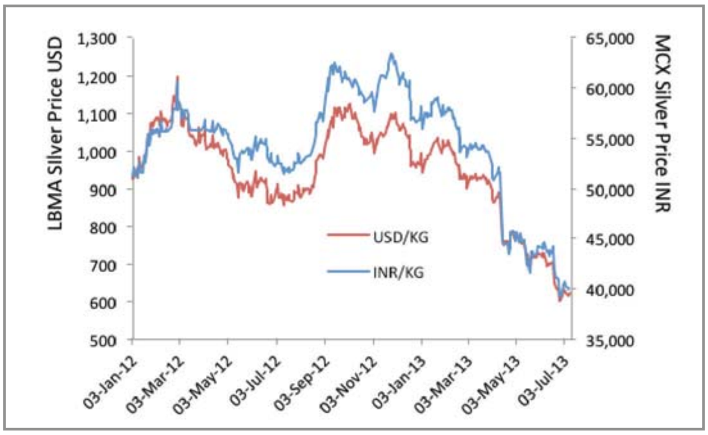
For the assets liquidated during the quarter, the portfolio manager is currently in the process of completing the valuation and disbursement formalities. The quarterly valuation reports are currently being finalized. Post completion of the exercise the same will be released to the investors along with proceeds on account of debenture redemption.

Gold Price Movement (INR Vs USD)



Source: MCX, London Bullion Market Association

Silver Price Movement (INR Vs USD)



Source: MCX, London Bullion Market Association

Global economic prospects have improved again, but the bumpy recovery and skewed macroeconomic policy mix in advanced economies are complicating policymaking in emerging market economies. The World Bank cut its global economic growth outlook for 2013, citing slower-than-expected expansion in China, India and Brazil, and a stubborn contraction in Europe, but said the world economy will be less volatile. However, the bank raised its outlook for the economies of U.S. and Japan, which have benefited from aggressive stimulus measures.

The Bank in its two-yearly Global Economic Prospects Report 2013, released in Washington, said that the world economy is set to grow at 2.2 percent, less than the 2.3 percent growth registered last year. The Bank, in its January forecast, had expected the global economy to grow by 2.4 percent.

Major Global Indices Struggled to Maintain their Growth in the Second Quarter of the Year

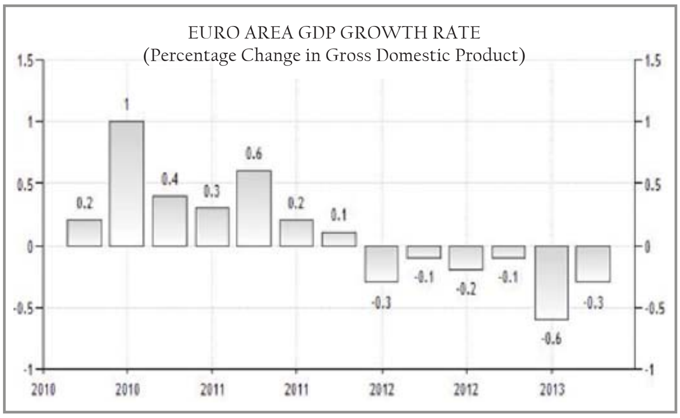
EU Outlook remains Downbeat with High Un-employment and Recession; Bailouts Continue

The euro zone economy has been battered by a severe sovereign debt crisis that has required massive bailouts of several of its smaller members, with International Monetary Fund (IMF) granting its latest bailout to Greece worth 6.8 billion euro. The IMF said the threat to the survival of the single currency evident a few months ago, had been beaten back by the European Central Bank, which announced it could intervene directly to stabilize bond markets, as well as other steps. But it viewed this progress as insufficient to declare the crisis over, and urged euro zone leaders to stay focused on the urgent need to combat record-high unemployment, which risks the long-term economic and political health of the entire region.

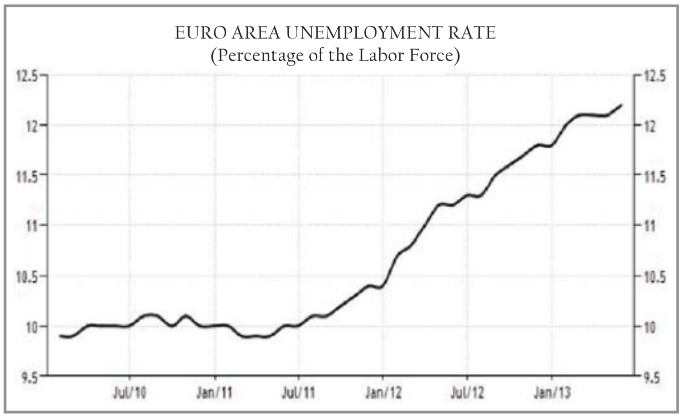
Growth remains weak and unemployment is at record high in Eurozone. Its members such as France, Greece and Spain are all facing contracting economies. The jobless rate in the 17 countries that belong to the euro zone was 12.1 percent in May, adjusting for seasonal effects, according to a report from Eurostat, the European Union statistics agency. Eurostat estimated that 19.2 million people in the euro area were jobless in May, an increase of 67,000 from April. Inflation in the euro zone rose to 1.6 percent from 1.4 percent because of a surge in energy prices. While inflation remains below the central bank's target of about 2 percent, the uptick is likely to provide a further argument against increasing the benchmark interest rate.

The ECB met against a backdrop of political crisis in Portugal that caused its benchmark bond yields to push above 8 percent, a spike that stirred angst in financial markets already jittery after the Fed's intervention. In further response to the turbulence caused by the U.S. Federal Reserve's exit plan from money-printing, the European Central Bank left the interest rates at 0.5 percent stating that the 50 basis points is not the lower bound. ECB declared that it would keep interest rates at record lows for an extended period and may yet cut further. The move also highlights the paucity of policy options open to the ECB at a time of renewed turmoil in the euro zone.

The tensions there, and in Greece, may risk sapping of investor confidence a year after ECB President Mario Draghi imposed some calm by vowing to do "whatever it takes" to save the currency. Instability in Italy's ruling coalition and Greece's scramble to convince its lenders to dole out another tranche of aid have added to the sense of turmoil. Concluding its review of the Italian economy, the International Monetary Fund urged more dramatic action from the ECB to help the euro zone, in the form of direct assets purchases and more long term cheap loans "of considerable tenor" to banks. Draghi stuck with the bank's forecast that the euro zone economy would improve in the second half of the year but said the risks to that were skewed to the downside.



Source: tradingeconomics.com | Eurostat



Source: tradingeconomics.com | Eurostat

China's Central Bank Scrambles to Manage Liquidity Crisis

China's financial markets have finally started to calm down after weeks of turmoil thanks to the central bank's pledge to prevent a credit crunch. China's GDP grew 7.7 percent in the first quarter from a year earlier, one of its worst performances since the global financial crisis, and was widely expected to slow further even before the central bank started pushing interbank rates higher in early June by withholding liquidity.

For decades China's rapid ascent has been powered by exports and heavy investment fuelled by cheap, readily available credit, including massive spending in 2008 and 2009 at the height of the global financial crisis. But with China's debt levels continuing to swell and increasing amounts of it being funneled to the shadow banking system, the new leadership of President Xi Jinping and Premier Li Keqiang is working harder than ever to tame the informal lending.

The People's Bank of China (PBOC) said in its statement that it had asked big state banks to refrain from hoarding cash and release more funds to ease the liquidity squeeze and was ready to act again as the lender of last resort for those caught in a short-term squeeze. However, it was also sticking to its stance of tightening market conditions as it seeks to rein in sharp growth in informal lending. The central bank wants to curtail funds flowing into China's vast "shadow" financial system that fuels property and stock speculation and push money into more productive areas of the economy to secure more sustained growth.

Japanese Economy Continues to Grow Further

Japan's economy expanded faster than previously thought in the first three months of the year which was likely to boost support for Tokyo's efforts at stoking growth. The Cabinet Office said revised data showed annualized growth came in at 4.1 percent in January-March, up from a preliminary reading of 3.5 percent and well ahead of many other industrialized nations who are struggling to stoke their economies.

The figures come days after Prime Minister Shinzo Abe unveiled his so-called "third arrow" of a sweeping plan for the economy that includes big government spending and aggressive monetary easing by the Bank of Japan. Since winning landslide December elections, the conservative premier has moved to revive the flaccid economy and end years of growth-sapping deflation with a scheme dubbed "Abenomics". His huge program has sent the yen plunging around 20 percent since November, which has in turn sent shares in Tokyo soaring.

Also the official figures showed Japan posted a surplus on its current account for the third straight month in April, as the weaker yen helped boost the value of income from overseas investments. Japan's surplus doubled year-on-year to 750 billion yen in its current account, the broadest measure of trade with the rest of the world, helping offset a widening trade deficit. Japan's import bills have soared in the wake of the Fukushima atomic crisis two years ago, which saw Tokyo turn to pricey fossil-fuel alternatives after switching off the disaster-struck country's nuclear reactors.

US Economy Shows Signs of Optimism with Fed Indicating a Cut in QE-3

A dramatic downgrade of U.S. economic growth in the first quarter has revealed the economy's lingering weakness and exposed the undue haste of the Federal Reserve's in unwinding its monetary stimulus program. The Gross domestic product grew at just a 1.8 percent annualized pace in the first quarter, the Bureau of Economic Analysis said, revising down its earlier estimate of 2.4 percent growth. Economists had expected no change in the BEA's third effort at estimating GDP, and such sharp revisions are rare in a third estimate. The first quarter's dismal growth was at least better than the 0.4 percent GDP growth of the fourth quarter of 2012. But it was still far from healthy, and economists don't see it getting much stronger any time soon.

Nevertheless, the Fed recently announced plans to slow down the pace of its bond-buying program known as "quantitative easing," in the belief that the economy and job market will bounce back by the end of the year. Fed Chairman Ben Bernanke said the U.S. central bank expected to start cutting back later this year on the $85 billion in bonds it is purchasing each month and would likely bring the program to a complete close by the mid-2014 if the economy progressed as it expected. The recently released U.S. jobs data and a steady rise in US dollar have bolstered the view that the Federal Reserve could soon start reducing its long-running stimulus program, but analysts are now wondering whether the dollar's recent rise can continue at the same pace.

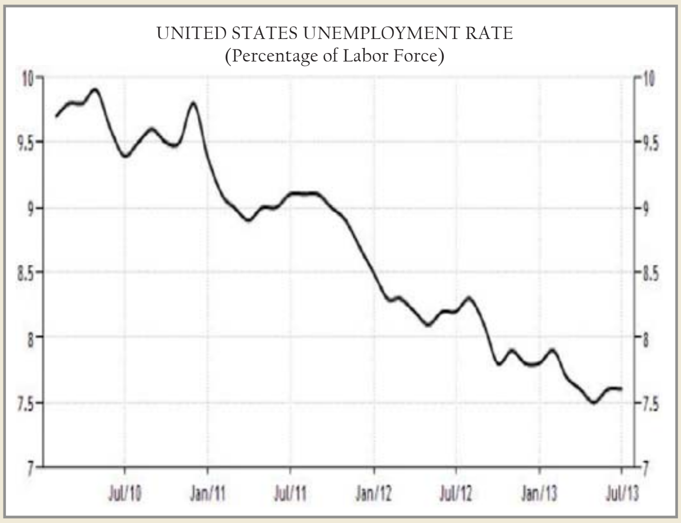
The economy added 195,000 new jobs in June, beating economists' expectations of 155,000 jobs and matching the revised pace from May. Meanwhile, the unemployment rate remained unchanged at 7.6%.

The dollar index .DXY, which measures the greenback against a basket of major currencies, rose to 84.588, its highest since July 2010.

The Fed's plans to cut back its current $85-billion-a-month bond buying program has been the main driver of financial markets over the last month, driving up global bond yields and triggering big swings in other asset markets. Gold, often favored as a hedge against inflation which can be a by-product of stimulus programs, was near a three-year low at $1,227.59 an ounce after the sell-off following the announcements.

The Institute for Supply Management's monthly index on the U.S. manufacturing sector came in at 50.9 in June, up from 49 in May. Any number above 50 indicates the sector is expanding. The number beat the 50.5 that economists' surveys were expecting.

Source: tradingeconomics.com

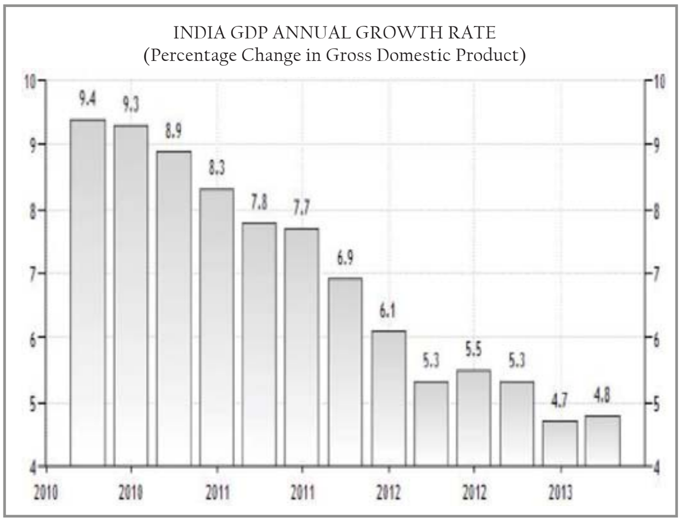


Source: tradingeconomics.com

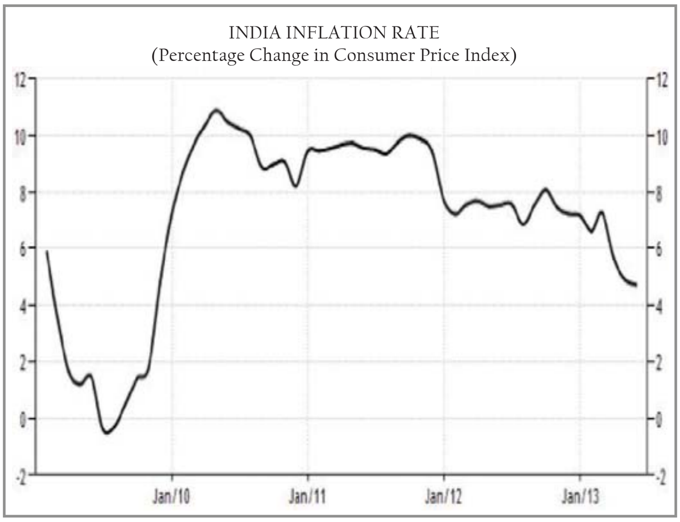
Emerging markets have been particularly hard hit by the Fed's policy shift. Investors had directed much of the cheap Fed cash into emerging assets in search of higher yields and that trend is now reversing as investors look to increase their exposure to the United States again. Recent signals from Bernanke that a start date for reducing bond purchases was approaching triggered a global selloff in stock and bond markets, which have relied on the Fed as a steady source of demand for financial assets.

India's economy had began a feeble recovery in the first quarter of 2013, but weak private consumption, capital investment and slowing public spending offered little hope for a fast rebound in coming quarters. Asia's third largest economy grew an expected 4.8 percent from a year earlier in the January-March quarter, slightly faster than an upwardly revised 4.7 percent growth in the previous three months, which was the lowest in fifteen quarters. But the better headline GDP number was largely down to a statistical base effect rather than any substantial improvement in economy.

Annual Growth Rate lingers near 5 year low as Inflation (CPI) shows short term easing



Source: tradingeconomics.com



Source: tradingeconomics.com

The data will offer scant relief to Prime Minister Manmohan Singh as his government heads into a busy election period dogged by graft scandals and criticism of its economic management. This is disappointing for an economy that recorded 9 percent annual expansion until two years back and was widely expected to be one of the main drivers of the global economic recovery. It also poses a challenge for the octogenarian Singh to generate enough employment opportunities for a young, growing workforce.

In a sign of underlying weakness in the economy, April infrastructure output growth slowed down to 2.3 percent year-on-year from 3.2 percent expansion in March. Infrastructure output measures items such as coal, oil, steel and electricity and accounts for 37.9 percent of India's industrial production, which grew just 1 percent in 2012/13 and was largely responsible for the overall growth slowdown.

The Reserve Bank of India's (RBI) has cut its policy rate by a total of 75 basis points since January to spur economic recovery. However, the RBI has warned that upside risks to inflation and a high current account deficit have limited room for more monetary easing even though inflation is on a downward trajectory and economic growth remains weak. Growth recovery in India is likely to be "slow" and the country is expected to clock a GDP growth rate of 5.4 per cent in 2013, says global brokerage firm Barclays.

The Indian rupee has also fallen to its lifetime low (61.21 to the US dollar) while bond yields have surged, exacerbating fears about the funding of the current account deficit and sending policy makers scrambling to find quick fix solutions beyond sporadic interventions. The Reserve Bank of India has recently eased rules for non-bank asset finance companies to raise debt overseas by allowing the lenders to raise such funds through the automatic route as against the approval route earlier, in a step aimed at improving dollar supply amid a weakening rupee. Non-bank asset finance companies can raise offshore debt up to $200 million in a financial year to finance import of infrastructure equipment, the central bank said. The RBI also allowed them to raise such debt from all recognized lenders with a minimum average maturity of five years.

Indian economy, however slowly, is expected to keep on recovering. Global ratings agency Fitch has upgraded India's sovereign credit outlook to stable from negative, bringing some respite to the government amid a free fall of the rupee and slowdown in industrial production. Fitch has affirmed 'BBB-' rating on account of the country's efforts to contain budget deficit, including the commitments made in the FY'14 budget, as well as some, albeit limited, progress in addressing some of the structural impediments to investment and economic growth.

Indian Rupee Falls to Set Its New Life-Time Low

The Indian rupee fell to a record low of 62.21 against the US dollar on Monday, forcing the Reserve Bank of India (RBI) to come to its defense, while bond yields surged, highlighting the vulnerability of a country dependent on capital inflows to fund its big current account deficit. The Indian current account deficit had hit a record high of 4.8 percent in the fiscal year ended in March.

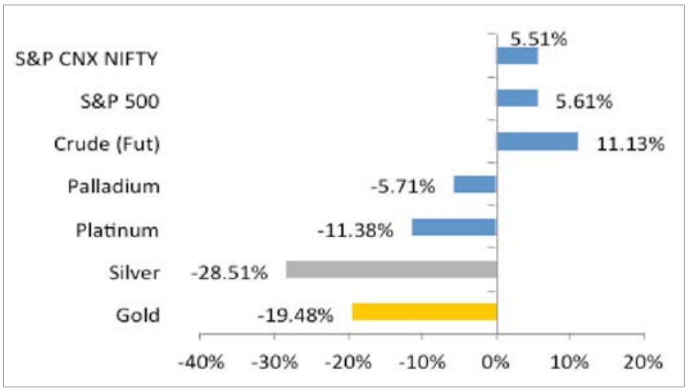
Rupee Fell to Record Low Exacerbating Fears about Current Account Deficit

The Indian rupee, emerging as Asia's worst performer this year, is likely to remain weak after stronger-than-expected U.S. jobs data on Friday cemented bets that the Federal Reserve will wind down its quantitative easing (QE), sparking outflows from emerging markets. Meanwhile a spike in oil prices, that sent Brent crude futures to a more than three-month high, has further aggravated concerns about India's current account deficit. The Reserve Bank of India has planned to meet with officials from oil companies, the biggest buyers of dollars in domestic markets, to discuss their currency needs. Dealers say that the RBI, which had intervened to defend the currency, could mandate that refiners buy dollars via a separate window and not in currency markets, a measure that would help ease pressure on the rupee.

The dollar has inched higher versus a basket of currencies, and its broad uptrend is seen intact as the market positions for when the U.S. Federal Reserve will start to slow its stimulus. Expectations that the Fed will reduce its bond-buying as early as September are expected to keep the dollar buoyant, although there is caution about its near-term outlook in the wake of recent gains. The dollar index had set a three-year high of 84.588 following the upbeat U.S. jobs report.

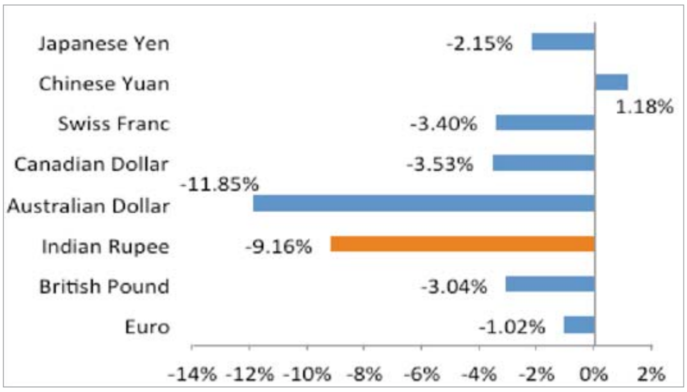
The BOJ stunned markets on April 4 by setting in motion an intense burst of monetary stimulus, pledging to double its holdings of government bonds and boost purchases of risky assets to achieve its 2 percent inflation target in two years. Data released last month confirmed Japan was already out of the shallow recession that took hold in late 2012, as the economy grew at an annualized 4.1 percent in the first quarter of this year. The central bank is widely expected to stand pat on monetary policy this week and revise up its assessment of the economy to suggest that the world's third-largest economy is recovering thanks in part to the government's reflationary policies.

Quarterly Movement in Asset Prices
(Metals take the Plunge; Crude rises on better Economic Hopes)



Source: Scotia Gold & Silver Market Watch

Quarterly Currency Movement
(Rupee becomes the worst performing Asian Currency)



Source: Scotia Gold & Silver Market Watch

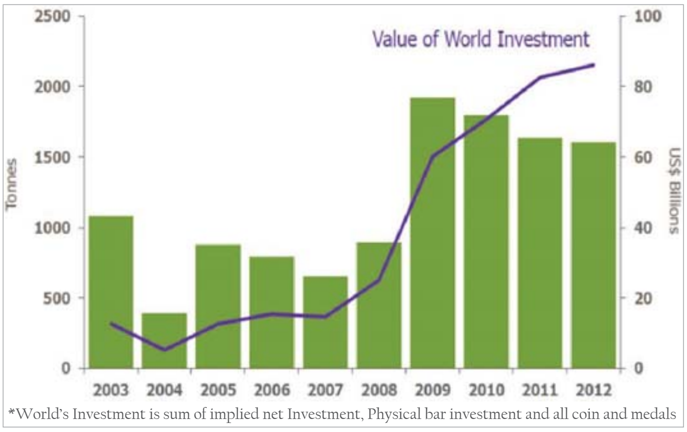
Gold: Performance and Outlook

Gold fell by a record 23 percent in the second quarter, reaching $1,179.40 an ounce on June 28, the lowest since Aug. 2, 2010. The metal was trading at $1,250.3 an ounce in bullion market on 9th July. Gold-backed exchange-traded products wiped out $62.7 billion after investors lost faith in the metal as a store of value as Federal Reserve Chairman Ben S. Bernanke said the central bank may slow its $85 billion of asset purchases.

Gold Slides Down on Fears of QE-3 Abatement

Source: Scotia Gold & Silver Market Watch

World Investment in Gold



*World's Investment is sum of implied net Investment, Physical bar investment and all coin and medals

Source: Thomson Reuters GFMS (Gold Survey 2013)

Gold has also come under pressure after the European Central Bank signaled that it could cut interest rates further, a move that will push the dollar even higher and weigh on gold. Rapid outflows from gold exchange-traded products (ETPs) and softer-than-expected physical demand were other reasons for the weakness in gold.

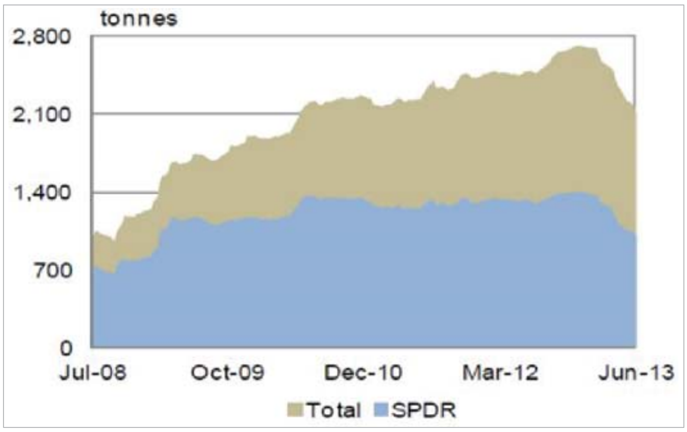
Indian consumption of gold has fallen since the country imposed new import restrictions. According to the World Gold Council, India could import as much as 400 tonnes of gold in the first three months of the current financial, a 200% annual increase, raising the chances that the current account deficit could worsen in the new financial year. Chinese buyers are sidelined, waiting for prices to fall further, or at least stabilize. According to China Gold Association, world's second biggest gold consumer China demand reached 832.18 tons last year, up 9.35% year-on-year. Its yellow metal demand advanced sharply by 39% year-on-year to reach 456.2 ton in the first four months of this year

The Indian government had raised the import duty on gold and platinum by another 2 percentage points to discourage buying that threatens to worsen India's already high current account deficit. The yellow metal, the demand for which is mostly met for imports, will now attract 8% import duty against 6% levied earlier, marking third such increase in about a year but the measure does not seem to have helped. However, after the prices plunged late in quarter, India cut its import tariff value of gold and silver. India has reduced its import tariff value of gold from $459 to $401 per ten grams. Tariff value is the base price on which the customs duty is determined to prevent under-invoicing.

Net Speculative Length fell drastically by 74% (105.7 tonnes on June 28nd down from 411.5 tonnes) in the quarter. Investors piled up their short positions adding nearly 200 tonnes while clearing 100 odd tonnes from long positions. ETF holding decreased by 16% down to 2114.2 tonnes on Jun 28 as against to 2536.9 tonnes on Mar 22nd.

A research note from CPM Group indicates that Gold prices may be at or approaching their cyclical lows and has fallen to levels that "may make sense" for an intermediate- to long-term buy. However, there is potential for another leg down in the short term through August.

Gold ETF Holdings Fell Further



Source: Standard Bank Commodities Report

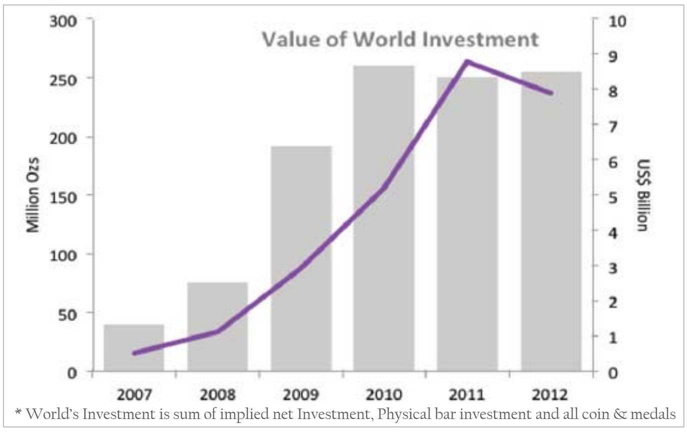
Silver: Performance and Future Outlook

Silver continues to lack its own drivers at the moment and is therefore taking its cues from the gold market. Silver was trading at $19.28 an ounce in bullion market on 9th July. While in absence of any particular market driver in the quarter, Silver followed Gold's lead on its way downwards, but unlike gold, silver is used widely in industry, and demand for the metal in electronics and solar panels, for instance, tends improve as economic growth picks up.

Silver slumped in Q2CY13; Bearish Pressure Remains

Source: Scotia Gold & Silver Market Watch

World Investment in Silver



* World's Investment is sum of implied net Investment, Physical bar investment and all coin & medals

Source: Silver Institute (World Silver Survey 2013)

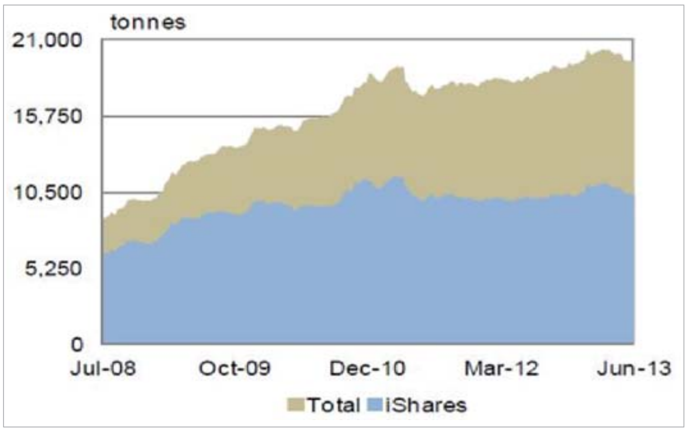
Several investment banks have cut their precious metal forecasts following the upbeat market conditions with the latest cut coming as UBS downgrading its silver forecast. UBS has cut its outlook on silver prices for this year and next, warning that the metal is liable to be dragged lower on gold's coattails as the U.S. Federal Reserve prepares to scale back its stimulus program. The bank slashed its one-month silver forecast 32.7% to $17.50 a troy ounce and cut its three-month silver forecast 26.8% to $20.50 an ounce. This year, it expects silver to average $24 an ounce, down 17.2% on its previous forecast. In 2014, it sees silver averaging $25 an ounce, down 16.7% on its earlier outlook.

Net speculative length is now at 264.4 tonnes registering a fall of nearly 90% from previous quarter, the closest it has been to negative territory in five years. Over the past four weeks, any approach towards negative territory in one week has been met by additions to net speculative length in the following week, bringing some support to the metal as participants engage in short-covering..

ETF buyers have finally turned their view to bear markets with ETF holdings falling by 4.5% over last quarter. Total ETF holdings fell by 897.20 tonnes against the rise of 947.5 tonnes in the previous quarter.

Silver is often sought as a more affordable store of value than gold at times of wider market insecurity. The metals are also traditionally sought as hedges against inflation and currency debasement at times of loose central bank monetary policy. The price of silver plunged over 8% in a single session after U.S. Federal Reserve Chairman Ben Bernanke said the U.S. central bank could start winding down its $85 billion-a-month bond-buying program later this year, and even cease the purchases next year, if growth picks up as the Fed projects, unemployment comes down and inflation moves closer to the central bank's 2% target. The Fed's bond-buying program has been a major support to gold and silver prices in recent years.

Silver ETF Holdings Start Falling



Source: Standard Bank Commodities Report

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