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 April, 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

Precious metal prices saw a short rally in the first quarter of the year as the rising geopolitical tensions around Ukraine pushed investors towards the safe-haven investments. Both Gold and Silver prices peaked by 13% and 10% respectively before shedding off the gains on upbeat macro-economic data and dovish tone set by the US Fed. In absence of any significant investment demand the prices are currently finding their support from consumer's demand from China and India.

Milestone Bullion Series – I (The Series) has been actively carrying out exits & payouts for the investors while monitoring the bullion market activity closely. With the latest rounds of payouts made in the previous quarter, the series has concluded disinvestments of more than 60% of its originally held investments.

The Series has completed the liquidation of its entire Gold holdings from the underlying portfolio companies at attractive final average prices. More than 75% of the capital from the Gold Linked Debentures (GLD) has been redeemed and the remaining GLDs are scheduled for maturity through the rest of the fund life (i.e. October 2014). Silver liquidation, currently at 23%, is yet to pick up its pace as the metal has remained largely undervalued. Sales in Silver will resume with improvement in the prices.

Introduction of a large number of new investment avenues and growing interest of the investor community in bullion has raised the underlying volatility in the metal prices. As a result, the short term rallies such as the one seen in the last quarter will be a recurrent theme in the year. With an active lookout for such disinvestment opportunities, the Series will continue to carry out the tranche-wise liquidation of remaining assets as and when the price targets are reached and will process the payouts subsequently.

Global Economic Outlook

Major global economies have taken a positive outlook with their share market indices posing gains in the first quarter of the year. US Federal Reserve's Chair, Janet Yellen has relieved concerns about a rate hike coming earlier than expected. The Fed has kept interest rates near zero for more than five years to boost the US economy, and is expected now to keep them there for a considerable time even after winding down its bond-buying program later this year.

EU nations are slowly coming out of the debt crisis which left the block in a deep recession last year. However, the recovery still seems fragile as the Euro zone inflation is still lingers at 0.5% having been in the European Central Bank's "Danger Zone" below 1% for six consecutive months.

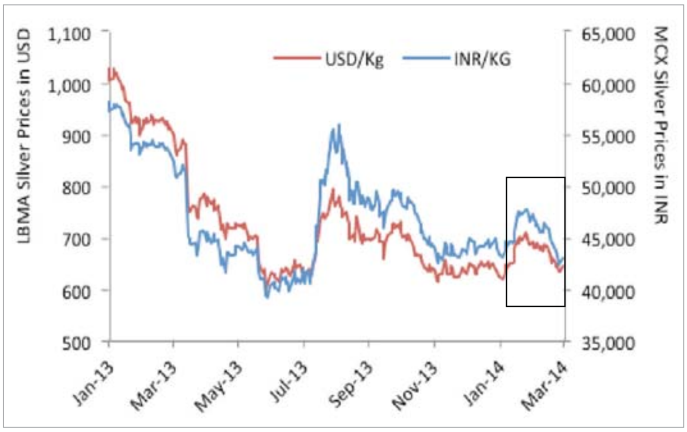
China's official Purchasing Managers' Index (PMI) increased to 50.3 in March from February's 50.2, in line with economists' forecasts. While an index value of above 50 indicates an expansion in manufacturing sector activity, there is much scope of improvement left for the country. Though, the investor sentiment seems to have improved in recent weeks as they expect that Beijing will adopt a stimulus plan to achieve its growth target.

The Reserve Bank of India (RBI) has left its key repo rate unchanged at 8.0%. RBI said that it does not expect further near-term policy tightening if headline inflation continues to ease towards the bank's targeted level. High borrowing costs, stubbornly high inflation and the government's inability to push through key reforms have hurt growth in Asia's third-largest economy. GDP growth rate slowed to a near decade-low of 4.9% in the December quarter and is expected in a range of 5 to 6 % in FY15.

Silver: Performance and Future Outlook

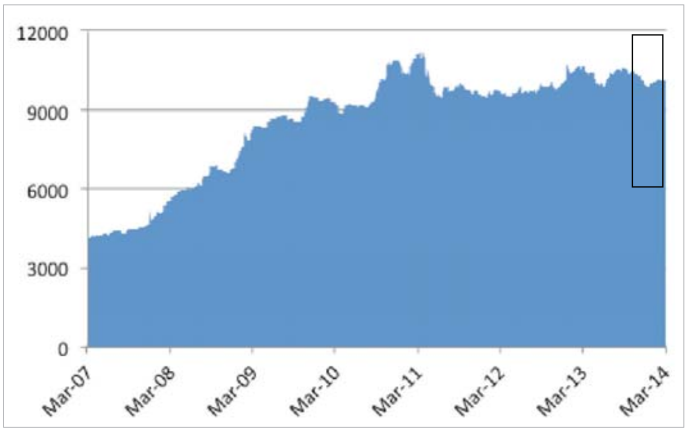
Silver prices have been moving on the similar lines as of Gold's, spiking mid-way through the quarter before falling down to their initial levels. Silver prices rose to US$22.05/Oz on February 24th before falling back to US$19.97/Oz at the end of the first quarter of the year. The latest tumble in prices were fueled by signs of an improving U.S. economy, faltering Chinese economy, reduced hedge fund stakes, and waning geopolitical woes.

Silver Price Movements in Q1 CY14



Source: MCX, London Bullion Market Association

iShare Silver ETF Holdings Stay Firm



Source: iShare Silver Trust Historical Data

Since the prices of Silver are historically twice as volatile as that of gold, the lack of a strong rebound compared to the Gold's performance in previous quarter was disappointing for the market watchers. Recent slowdown is Chinese economy has weighed on the future market activity of Silver.

Silver prices are currently displaying a level of duality: while generally trading with developments in the gold market, at other times trading with perceived changes in its physical demand. The supply/demand imbalance in the metal has widened since 2009 with increase in both mining and scrap supply of the metal. However, an expected growth in demand from industrial use, coin and bar purchases, jewelry demand and increased buying from China, will help support prices on any downswing.

The industrial demand for Silver accounts for about 45% of the total Silver demand, majority of this demand coming from Chinese auto sector. According to the HSBC forecasts the industrial and decorative demand is seen rising to 486 million ounces from 475 million last year, the bank said. Jewelry and silverware buying is seen rising to 251 million from 241 million, while demand for official coins and metals is seen up to 122 million from 110 million.

The ETF demand for Silver has been holding up as it has in past year despite the downside performance of the metal. The holdings of iShare Silver Trust, one of the largest Silver ETF, increased by 3% in the first quarter amounting to 10,212 tonnes on March 31st. 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.

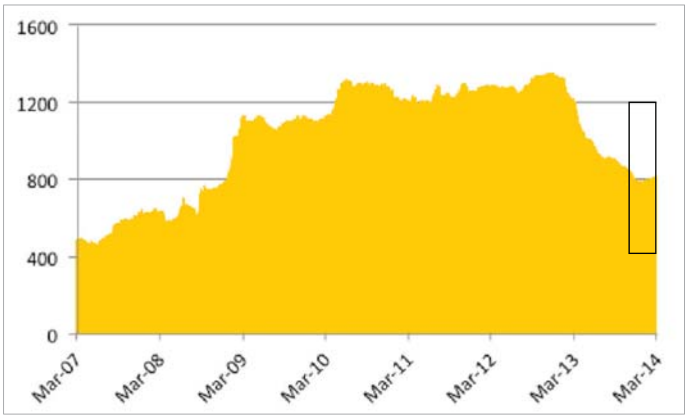
Gold: Performance and Future Outlook

Gold prices gained support from the safe-haven demand in the first quarter of CY 2014 as the global geopolitical tensions rose over Ukraine. Metal prices marked their quarterly high on March 17th at US$1379/Oz before the upbeat economic outlook drew investors back towards equity markets. Gold prices closed the quarter at US$1291.75/Oz on March 31st, a small gain of 6% during the quarter.

Short Rally in Gold Prices in Q1 CY14

Source: MCX, London Bullion Market Association

SPDR Gold ETF Holdings Stabilize



Source: SPDR Gold Shares, World Gold Council

Gold prices are inversely correlated to equities since the metal is seen as a safe-haven asset which tends to do better when the markets are slow. After the Fed's chair suggested that the Fed might be keeping the interest rates low as a considerable slack still existed in the job market and that the further monetary stimulus could be effective in doing the same, investor's risk appetite has increased. This improved market sentiment has undermined low-return assets including the precious metals and US dollar that had attracted safety bids last month.

In absence of the investment demand which had fueled Gold's rally for over a decade, the consumer's demand out of Chinese, Indian and other emerging markets has become the key driver of the metal prices. China surpassed India in gold demand for the first time in 2013 due to liberalization of gold trading norms by the local governments. Chinese government has also shown interest in diversifying a part of their foreign exchange reserves to gold from dollar. China's demand was 1,120 tonnes compared to India's 975 tonnes in 2013.

The import restrictions put on Gold by India are widely expected to be eased by a new government while the festivals and weddings spur the demand. Import duty on Gold was raised three times last year to rein in a record current-account deficit and a slump in the rupee. As a result the premiums paid by jewelers had gone to record USD$160/Oz over the London cash price because of a shortage of metal in the local market.

SPDR Gold Trust holdings, for the first time since the big fall started in 2013, have posted a quarterly gain of 2% in the last quarter. Although the gains are not significant but it clearly marks the end of a bearish run for the yellow metal. Net holdings of the trust stood at 813.08 tonnes on April 1st. The SPDR trust holding is a widely watched parameter to gauge investor sentiment towards the metal.