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 January, 2014
Commitment Received		₹ 330 Cr
Corpus Received		₹ 330 Cr
	Original Holding	Current Holding
Net Corpus Invested in OFCDs of Portfolio Companies linked	₹ 315 Cr	₹ 155 Cr
– Physical Gold (through Gold Deposit Scheme)	₹ 87 Cr	₹ 0 Cr
– Physical Silver	₹ 131 Cr	₹ 101 Cr
– Capital Protected Gold Linked Debenture	₹ 97 Cr	₹ 54 Cr

Quarterly Activity & Future Communication

The fund managers have concluded exit from the physical Gold holdings of the underlying portfolio companies in last quarter. Even though the Gold prices have been under bearish pressure since the beginning of 2013, a strategic lookout on the underlying fluctuations in the metal prices provided timely opportunities to complete this exit.

As highlighted in previous communications, the Capital protected Gold Linked Debentures (GLD) held by the portfolio companies have started to mature. These debentures essentially follow the price movements of MCX Gold with a limited risk to the downside. Maturities of the remaining GLDs are also scheduled over the span of remaining fund life.

Silver prices have been subdued for a long time and are expected to see corrective measures surfacing early in 2014. A strong industrial demand from India and China should be able to pull off the undervalued Silver prices in multiple short rallies. The fund managers will continue to actively monitor the market movements for such opportunities to liquidate the remaining stock and ensure a systematic exit from the metal holdings.

In accordance with the fund’s mandate for disinvestments and payouts, the portfolio managers will be making several payouts to the investors during the course of next 6-8 months. These payouts will primarily consist of proceeds from GLD maturity and physical Silver metal sales.

Global Economic Outlook

The Global economic meltdown which seemed eminent at the beginning of 2013 was averted through many short term initiatives taken by major global economies. With the growth number around the world ticking up, institutional investors have regained their faith in traditional investment avenues, which rallied both equity and debt market towards the year end. Precious metals, which are known for their safe-haven status, tumbled in 2013 as the concerns over global debt crisis and loose monetary policies were put at ease. However, the solutions implemented till date are yet to be tested for their sustainability in future.

US Federal Reserve finally announced the long awaited tapering of its monthly bond purchase program (QE-3) by US $10 billion. While, the move concurs with the notion of a sustainable growth which was reflected in the GDP numbers, the Fed cautioned that it was in no rush to hike the interest rates lest the improvements fail to sustain. The US economy grew at its fastest pace in two years with its Gross Domestic Product growing at a 4.1% annual rate in the third quarter.

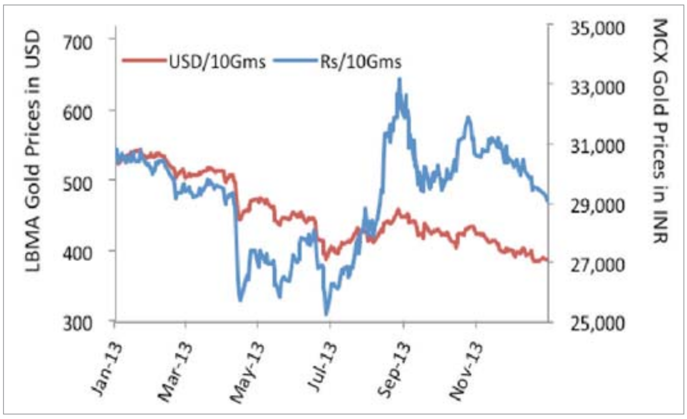
EU economies are still struggling in staying on the recovery tracks. As per European Commission’s report the Gross Domestic Product of the 17-nation currency bloc will rise by 1.1 percent in 2014, less than the 1.2 percent forecast. European Central Bank (ECB) officials have decided to leave the main interest rate at 0.25 percent stressing that ECB will maintain an accommodative stance of monetary policy for as long as necessary.

The Chinese economy is currently in a transition state to become a consumer driven economy and is expected to have expanded at 7.6 percent in 2013, the slowest pace in 14 years. However, the Chinese government holds an optimistic attitude on economy growth and is about to take measures to give it a boost in the New Year. The government has vowed to maintain liquidity at a proper level, and sustain a reasonable growth of monetary credit and social financing.

Gold: Performance and Future Outlook

Gold prices experienced unprecedented volatility throughout the year 2013, with latest of the blows coming on the day after the U.S. Federal Reserve's announcement that it will scale back its liquidity infusion program (QE-3), by US $10 billion a month starting January 2014. The yellow metal prices slipped below the US $1,200/Oz mark for the first time in 6 months. Spot gold was trading at US $ 1238.00/Oz on January 6th 2014.

Gold Prices under Bearish Pressure



Source: MCX, London Bullion Market Association

SPDR Gold ETF Holdings Dropped in 2013

Source: SPDR Gold Shares, World Gold Council

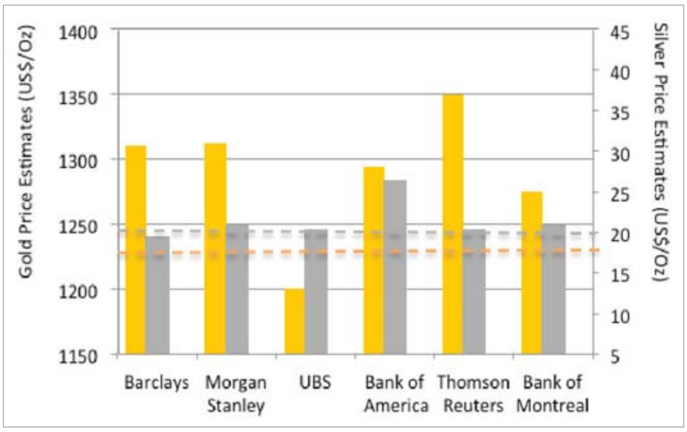
Part of the reason for gold's decline in 2013 had to do with the alternatives for investors. In 2013, the stock markets around the world kept ticking upside, and investors started looking at riskier assets for investments. This was, in particular, reflected in the sharp drop in ETF holdings of the metal. The physical holdings of SPDR Gold Trust, the world's biggest physically backed gold ETF, dropped more than 555 tonnes (nearly 40%) in 2013.

However, the consumer demand for physical metals in Asia, particularly in China and India, continued to rise in the form of jewelry, gold coins and bars. Supply of the precious metal has been constricted by regulatory authorities in India by the introduction of several restrictions on Gold import. But same can be expected to end soon on account of recent improvements in country's CAD and lobbying by the bullion industry currently struggling with high premiums.

As for official sector demand, while the increased volatility in Gold prices has been keeping most central banks shy in their Gold purchases for reserves, the People's Bank of China is expected to have purchased more than 300 tonnes of Gold last year. Records show that exports of gold from Hong Kong to China reached 955 tonnes by the end of October, up from 376 tonnes over the same period in 2012.

Most commodity watchers have slashed their price targets for the precious metal citing better economic scenario around the world and lucrative investments in riskier assets. However, physical markets are expected to offer some support as the lower prices boost jewellery demand and curb the scrap supply.

Gold Silver Price Estimates for 2014

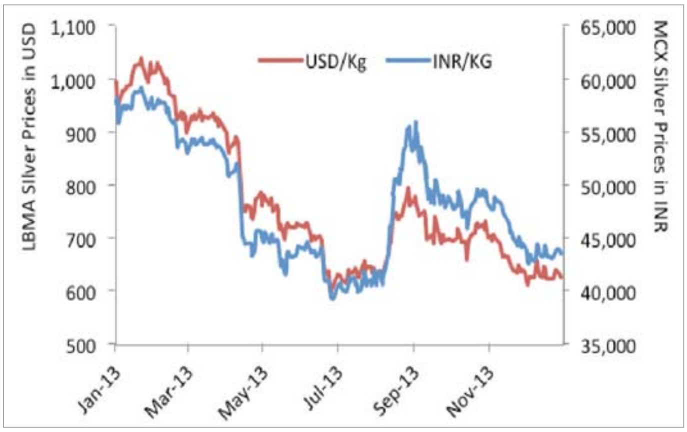


Source: Secondary Market Research

Silver: Performance and Future Outlook

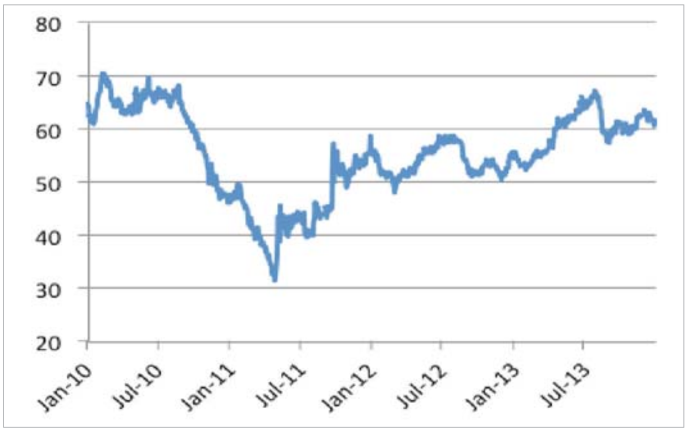
Silver price movements have largely taken cues from its counterpart Gold prices throughout 2013, keeping away from the fundamentals. While the physical demand for the metal stays strong, investment demand has abated following the tapering announcement by the Fed. The white metal prices slumped more than 30% and closed the year 2013 at US $19.50/Oz. Spot Silver was trading at US $20.04/Oz on January 6th 2014.

Silver Prices follow Gold in Bearish Regime



Source: MCX, London Bullion Market Association

High Gold/Silver ratio suggests Silver Undervalued



Source: London Bullion Market Association

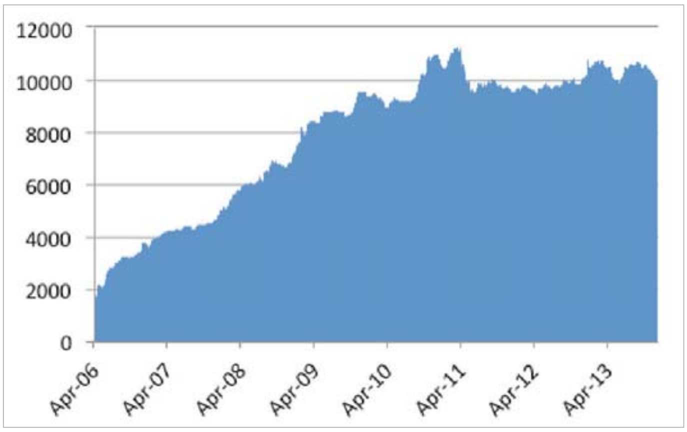
In spite of good industrial demand for the metal, Silver prices have followed Gold into a bear market territory last year, down more than 35% by year end, making it one of the worst-performing commodities for 2014.

In mid April, the white metal plunged from over US $27 to about US $23 following violent action in the gold market, which was caused by investors being unnerved by the potential sale of Cypriot gold reserves at the time. However, in the eastern side of the world, Chinese and Indian silver demand has been quietly increasing throughout the year. Analysts expect that 2013 may have seen the Indian import of Silver more than the record 5,048 metric tons brought in 2008.

However despite the subdued prices and bad future market performance, ETF buyers still remain confident in the white metal without any significant outflows as compared to Gold. Going forward, Silver may get some further investment interest if the current rallies in equities were unable to sustain the momentum. Given the outsized gains in the stock market, it may be due for a correction and money flows will likely go to asset classes that are undervalued like Silver.

Silver prices will draw support from industrial demand flowing from growing auto and electronic sectors in 2014. Most investment banks expect the Silver prices to average around US $20-$21/Oz in 2014 but as the high Gold/Silver ratio suggests, Silver remains largely undervalued at these prices.

iShare Silver ETF Holdings Stayed Firm



Source: iShare Silver Trust Historical Data

Milestone Capital Advisors Limited (An **ISO 9001:2008** Certified Company)
602, Hallmark Business Plaza, Sant Dnyaneshwar Marg, Opp. Guru Nanak Hospital, Bandra (E), Mumbai 400 051.
Tel : +91 22 6716 7000 Fax : +91 22 6716 7077 Website: www.milestonecapital.in