

Milestone Fund LLC

INDIA FOCUSED REAL ESTATE FUND

April-June, 2014



MILESTONE
PRIVATE EQUITY

Dear Investors,

Please find enclosed the investment update for Milestone Fund LLC (the "Fund") for the quarter ended 30 June 2014.

During the last quarter, India witnessed a change in government at the centre as National Democratic Alliance (NDA) came to power with a clear mandate. While this has given hope of economy getting on growth path again, there are few short-term challenges including persistently high inflation, risk of lower than normal monsoon, and increase in fuel prices on account of geo-political tensions. Reserve Bank of India (RBI) kept the key rates unchanged and reduced the Statutory Liquidity Ratio of scheduled commercial banks by 50bps. This will ensure enough liquidity with the banks to provide financing to the industry. With the new government coming to power with a clear majority, we expect the real estate demand to pick up in the near future due to improvement in sentiment and likely growth in economy.

Union budget was presented on July 11, 2014 which provided much awaited clarity on taxation of REITs as pass through status was allowed. This means it will not be subject to tax, provided all criteria for investment and dividend distribution are followed. Additionally minimum capitalization for FDI investments has been reduced to USD 5 mn from USD 10 mn and the area requirement has been reduced from 50,000 sq. m to 20,000 sq.m of built up area. These changes are likely to provide an impetus to further FDI investments in real estate. Further, to boost housing demand, income tax rebate on the interest paid on housing loan was increased for individual home buyers.

Residential sales have declined substantially in Q1-2014 compared to previous quarter levels, with nearly 49,391 units being sold during the quarter, less than 53% of the sales recorded at the peak in Q1-2011. Residential sales have remained subdued in the previous quarter on account of high prices making it unaffordable to purchase a house in most markets along with high interest rates.

We continue to focus on managing the portfolio and plan for exits during the fund life.

We thank you for your continued support.

Regards,

Board of Directors



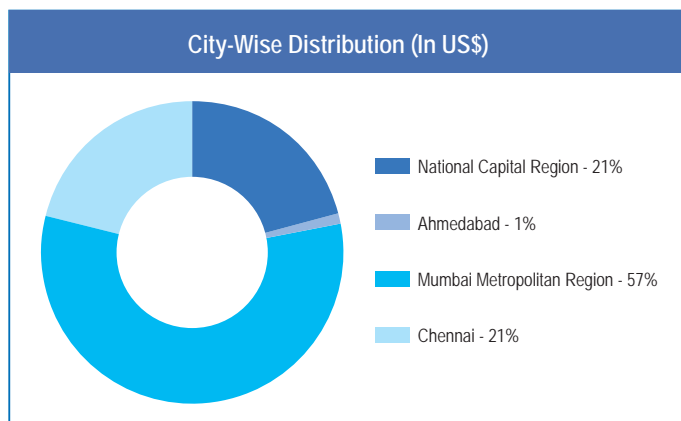
Fund Summary

Fund Summary as on June 30, 2014		
Funds Received*	INR 3410.0* mn	US\$ 75.3 mn
Final Closing Date	30th March, 2009	
Term	6 years + 1 year + 1 year	
No. of Investments	5	
Investment Amount	INR 2904.5 mn	US\$ 66.0 mn
Capital Divested	INR 282.5 mn (8.3%)	US\$ 5.0 mn (6.6%)
Income Generated (Pre-tax)	INR 559.6 mn	US\$ 9.2 mn
Total Exit Amount	INR 842.1 mn (24.4%)	US\$ 14.2 mn (18.7%)

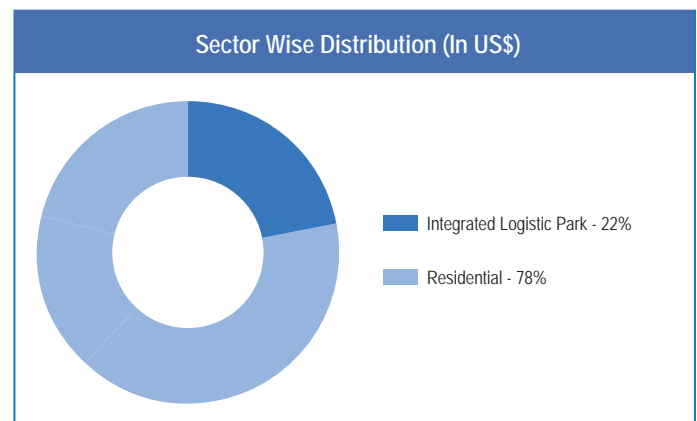
* Exchange rate 1 US\$ = INR 45.32 at the time of fund received

Investment Summary as on June 30, 2014						
No.	Project	Partner	Location	Initial Investment Date	Fund's Investment (INR mn)	Fund's Investment (US\$ mn)*
1	ACORN Warehouses	Milestone Group	Dharuhera, National Capital Region	Aug-09	620.80	15.35
2	ACORN Warehouses	Rudrapratap Developers	Kheda, Ahmedabad, Gujarat	Mar-10	37.70	0.85
3	Swarajya	Neptune Group	Ambivali, Mumbai Metropolitan Region	Sep-10	1036.00	24.00
4	Shivaji Park	Richa Realtors	Dadar, Mumbai Metropolitan Region	Feb-11	500.00	11.30
5	Land Marvel	Land Marvel	Chennai	July-12	710.00	14.50
Total					2904.50	66.00

*Actual US\$ rate at the time of investment dates.



Shown above is the city-wise distribution (in US\$) of the various projects in the portfolio



Shown above is the sector-wise distribution (in US\$) of the various projects in the portfolio

Fund Allocation

Portfolio Divestment Details upto June 30, 2014										
No.	Project	Location	Capital Invested		Capital Divested		Income Generated* (Pre-tax)		Total	
			INR Mn	USD Mn	INR Mn	USD Mn	INR Mn	USD Mn	INR Mn	USD Mn
1	ACORN Warehouses	Kheda, Ahmedabad, Gujarat	37.7	0.9	37.7	0.9	8.7	0.0	46.4	0.9
2	Neptune Swarajya	Ambivali, Mumbai Metropolitan Region	1,036.0	24.0	244.8	4.1	414.9	7.0	659.7	11.1
3	Shivaji Park	Dadar, Mumbai Metropolitan Region	500.0	11.3	-	-	81.0	1.3	81.0	1.3
4	ACORN Warehouses	Dharuhera, National Capital Region	620.8	15.4	-	-	-	-	-	-
5	Land Marvel	Chennai	710.0	14.5	-	-	55.1	0.9	55.1	0.9
			2,904.5	66.0	282.5	5.0	559.6	9.2	842.1	14.2

* Income generated is pre tax, & will be adjusted for with-holding tax & expenses at fund / SPV level.

Exchange rate 1 USD = Rs. 60 as on June 30, 2014

ACORN Warehouses and Logistics Parks, NCR



Location	Dharuhera, NCR
Partner	Milestone Group
Asset Class	Integrated Logistic Park
Investment Amount	US\$ 15.35 million
Date of Initial Investment	August 2009
Project Stage	Under Development
Land Area	66 Acres
Total Leasable Area	1.75 mn sq ft (approximately)
Approval Status	Layout & Buildings plan approved for 15,00,128 sq ft B.U. area equivalent to 17,04,000 sq ft leasable area
Construction Status	Constructed 4.8 lacs sft BUA
Sale/ Leasing Status	In Progress for RCC

Transaction Overview and Investment Rationale

The Fund has invested in a warehousing facility in Dharuhera, in the National Capital Region.

The economic growth in the country and increased industrialisation has led to increased demand for warehousing facilities.

Dharuhera is evolving from an agrarian economy to an industrial one due to its close proximity to the industrial facilities in the region and Indira Gandhi International Airport leading to increased demand for warehouses in the region.

Project Plan

The overall project plan was to jointly develop 1.75 mn sq ft of state-of-the-art, general purpose warehousing units in Dharuhera. The units are proposed to be developed with full pre-engineered super structures (PEB) which will be part of an existing warehousing complex.

Current Status and Recent Developments

Three PEB Blocks aggregating to 432,000 sq ft leasable area is ready of which 292781 sq ft is leased out at an average rental of Rs 15 per sq ft. The fund is actively pursuing leads for leasing the vacant area.

Additionally construction of RCC Blocks totaling to 106,000 sq ft of leasable area is complete and 15,000 sft in nearing completion. We are actively pursuing leasing of the RCC block through various local brokers and property consultants.

Exit Strategy

The Fund is trying to sell built-up PEB blocks on strata title basis. In addition we are in discussions with prospective buyer to sell the entire project. If this deal closes, we expect to exit by Q2 2015.

ACORN Warehouses and Logistics Parks, Gujarat



Location	Kheda, Ahmedabad, Gujarat
Partner	Rudrapratap Developers
Asset Class	Integrated Logistic Park
Investment Amount	US\$ 0.85 million
Date of Initial Investment	March 2010
Project Status	Exited
Land Area	41.27 Acres

Current Status and Recent Developments

The Fund has exited from this project.



Location	Ambivali, Mumbai
Partner	Neptune Group
Asset Class	Residential (Affordable Housing)
Investment Amount	US\$ 24.00 million
Date of Initial Investment	September 2010
Project Stage	Under Development
Land Area	115 Acres
Total Saleable Area	5.7 mn sq ft (approximately)
Approval Status	Development approvals received for initial 25.7 acres
Construction Status	In Progress
Sales Status	Phase I – 95% sold Phase II – 94% sold Phase IV B – 63% sold

Transaction Overview and Investment Rationale

The Fund has invested in an affordable housing project located in a town called Ambivali near Kalyan in the Mumbai Metropolitan Region. The town is well connected and accessible by suburban railways as well as roadways from Mumbai. The presence of industrial areas in the vicinity provides a natural catchment for industrial workers. Additionally, there is a huge demand for affordable housing in Mumbai.

The project is being developed by Neptune Group, a Mumbai based developer, experienced in the development of residential projects, office complexes, shopping malls and IT Parks.

Project Plan

The proposed development aims at providing affordable housing to the Lower Income Group segment of the Mumbai Metropolitan Region. The project is spread across 115 acres and once completed will consist a total of 10,000 units spread across 6 Phases and 3 Sectors.

Current Status and Recent Developments

Sector 1 - 22 buildings are under construction, out of which 9 building are nearing completion. 94.6% of these units have been sold.

Sector 2 - Construction is ongoing in 27 out of 44 buildings. 94% of units in this sector have been sold.

Sector 4B having 3 buildings, is launched at a rate of Rs. 3800/- psf and 184 bookings have been received. Further, 10.50 acres of land has been approved as Non-Agriculture (N.A.) and conversion of additional 23.5 acres of land to N.A. is expected soon. Further NA applications are made for 21.0 acres and the same are expected in three to four months. Commencement Certificates (CC) for Sectors 4A and 4C are expected by September, 2014.

Company is planning to launch about 2.5 lac sft forming Sectors 4A and 4C in the coming months post Commencement Certificate.

Way Forward and Exit Strategy

The Fund has partially divested from this project at gross IRR of 23%. The state government has announced that for residential developments on green field proposals in Municipal Corporation limited, the N.A. shall not be required for granting the commencement certificate. The process of N.A. is further being streamlined in a single window system. This will benefit this project where CC for some part of the land is pending due to N.A. process. The developer expects to get approvals for remaining sectors expeditiously. This will expedite the divestment of balance capital.

Shivaji Park Project, Mumbai



Location	Shivaji Park, Mumbai
Partner	Richa Realtors
Asset Class	Residential (Re-development)
Investment Amount	US\$ 11.30 million
Date of Initial Investment	February 2011
Project Stage	Approvals
Land Area	0.50 Acres
Total Saleable Area	1.8 mn sq ft (approximately)
Approval Status	IOD for rehab building received. Fire NOC for sale building received
Construction Status	Not commenced
Sales Status	Not launched

Transaction Overview and Investment Rationale

The Fund has invested in a redevelopment project on Gokhale Road, Shivaji Park, Dadar in the heart of Mumbai. The area is centrally located and connects South Mumbai to the suburbs. Dadar railway station, which is the connecting point for the Western and Central Railway line in Mumbai lies in close proximity to the project. It is easily accessible from other important business districts like Bandra Kurla Complex and Lower Parel. Due to unavailability of land in the micro market, demand is high and supply is mainly through redevelopment of existing buildings.

The redevelopment is being done by Richa Realtors, a Mumbai based developer with over 15 years of experience.

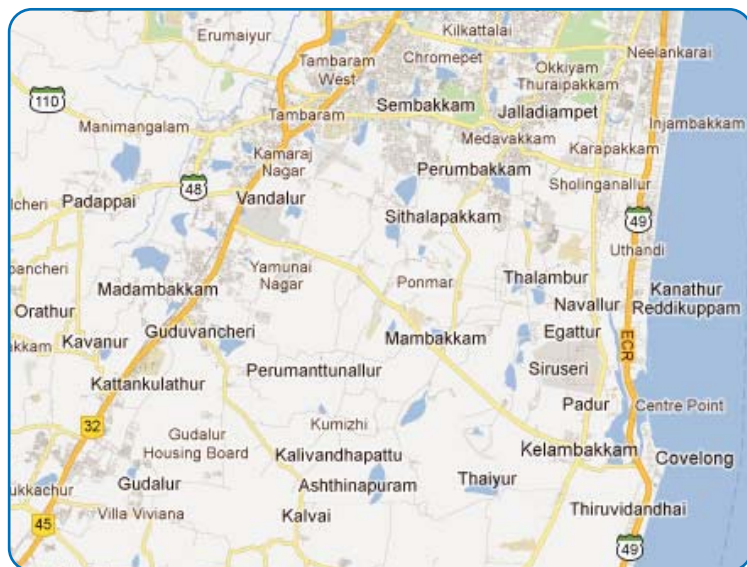
Project Plan

The project plan is to develop new houses for the existing tenants at the developers cost. In lieu of the same, the developer is entitled for constructing and selling additional residential space on the project land. Richa has appointed M/s Callison LLC, a California based architecture and design firm, as the Consulting Architects for the project.

Current Status and Recent Developments

1. The existing 8 buildings have been demolished and the plot is now fully vacant.
2. FIRE NOC and Traffic NOC received for sale building. Commencement certificate is awaited & project construction will start on receipt of Commencement Certificate (CC) and is expected by Q3 2014.
3. Developer is preparing to do a soft launch in Q3 2014 in the open market at around Rs 25,000 per sq.ft (USD 400 psf) of saleable area with additional charges for car parking, floor rise and other amenities.
4. Initial discussion with other funds/institutions has commenced for refinancing and exit for our fund which is due in early 2015

Land Marvel, Chennai



Location	Land Marvel (Thaiyur and Kotivakkam), Chennai
Asset Class	Residential
Investment Amount	US\$ 14.50 million
Date of Initial Investment	July 2012
Project Stage	Development yet to commence
Land Area	Thaiyur - 10 Acres Kotivakkam - 0.9 Acres (approximately)
Total Saleable Area	1.4 mn sq ft
Construction Status	Yet to commence
Sales Status	Not launched

Transaction Overview and Investment Rationale

The Fund has invested in two residential projects in Chennai in Thaiyur and Kotivakkam. The projects are located off Rajiv Gandhi Salai, formerly known as Old Mahabalipuram Road (OMR).

Being an established IT corridor with a large catchment population, the Rajiv Gandhi Salai region has gained immense popularity and has nearly 43 per cent of the city's upcoming residential supply. This micro-market caters mainly to middle income segments.

Project Plan

At Thaiyur, the project is proposed to be developed as high rise residential building with 11 to 13 floors with 2 and 3 BHK units which will cater mainly to the mid-income group. Given the current supply situation in the micro market, fund and developer are jointly evaluating a plotted layout or a villa development.

At Kotivakkam, the project is planned as a high rise premium residential development consisting 2,3 and 4 BHK units with modern amenities.

Current Status

1. Developer expects to receive the Directorate of Town and Country Planning (DTCP) approval for Thaiyur project
2. We have received some initial JDA proposals from local developers for plotted development in Kotivakkam which are under negotiations. This will expedite cash flows and exit from this project.
3. Refinancing options are being worked on to partially exit the project.

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