



Pastor-Genève News

As the world's economies go into a simultaneous recession for the first time since world war two, only a handful of asset classes have held their value as investors flee for safety and security. Gold has certainly held up well in both dollar terms as well as in foreign currencies. US Treasuries have also held up well as investors seek the safety of the guarantee of the US Treasury.

Coloured diamond offering prices continue to move up as inventory becomes more difficult to replace, supply continues to decline and we see strong buying coming from buyers on a global basis. Volume has certainly slowed down because there are less goods in the market but with the strength of the buyers in this market and the volatility in global financial markets, buyers around the world continue to look for long-term tangible assets to balance their holdings.

We have been invited to attend a conference in Cannes, France to promote rare coloured diamonds. The wealthy classes are advancing their interest in beautiful and rare works of art and we have been asked to attend the conference to educate the attendees on the rare coloured diamond market. We are also looking forward to our editorial in the March edition of the Sovereign Individual, an offshore newsletter based out of Ireland. For further details, please feel free to contact us.

Diamond News

U.S. Jewelry CPI +5%

The consumer price index (CPI) for jewelry in the U.S for the month of January rose 5 percent year on year to 153.46 points. The rate — based upon a reference of average prices in 1986 set at 100 points — was 3.7 points lower than in December 2008. For the watch and jewelry categories combined, the index for January increased 5 percent to 146.34 points, 3.4 points lower than December's reading.

New Diamond Fund to Launch in March

KPR Capital Limited plans to launch its KPR Diamond Fund on March 2, when it will start investing in high-end diamonds on behalf of its clients. The fund will only deal in five- to 10-carat certified polished diamonds, D to G color, flawless to VVS2 clarity, in round shapes. The fund started recruiting investors in mid-February with a minimum initial investment of \$250,000, and KPR reported that interest has exceeded the fund's expected capacity for the quarter.

De Beers Rough Diamond Prices +14% in 2008

De Beers rough diamond prices rose 14 percent on average in 2008, but the increase was mainly due to the boom period in the first fiscal half. De Beers ended 2008 with its rough diamond sales flat at \$5.9 billion and total sales up less than 1 percent to \$6.9 billion. The company reported profits of \$90 million after reporting a loss of \$521 million for 2007. De Beers will take a shareholder loan of \$500 million for 2009. De Beers rough production fell 6 percent to 48.1 million carats.



Botswana's 2008 Diamond Production -4%

Botswana reported that its diamond production fell 3.6 percent in 2008, and that it is preparing for far steeper declines this year. Diamond production in 2008 was 32.6 million carats, compared with 33.8 million carats in 2007. Sales by volume decreased 17 percent to an estimated 28.9 million carats.

Jewelry Market News

Chinese New Year Golden Week Spending Jumps 14%

China's Ministry of Commerce reported that the weeklong Chinese New Year holiday, extending from January 25 to 31, 2009, saw CNY 290 billion (\$42.4 billion) in retail sales, representing an increase of 13.8 percent from 2008. The robust retail spending was facilitated by sales promotions in major cities and seasonal subsidies in rural areas.

Finlay Fiscal Year Sales +3%

Finlay Enterprises reported that its fiscal fourth-quarter sales fell 20 percent to \$306.7 million. Comparable store sales dropped 15 percent, but excluding counters at Macy's and Lord & Taylor that were closed, same-store sales were down 20 percent. Sales at specialty jewelry stores Carlyle, Congress and Bailey Banks & Biddle declined 32 percent to \$99.1 million for the fourth quarter. For the fiscal year ending January 31, Finlay's sales increased 3.2 percent to \$862.6 million, driven by specialty stores, while comparable store sales decreased 10.6 percent, or by 12 percent when excluding Macy's and Lord & Taylor counter closures. Sales at Finlay's specialty jewelry stores rose 38 percent to \$309.7 million during the year.

LVMH 2008 Sales +4% But U.S. Weakens Jewelry Growth

LVMH reported that its 2008 sales rose 4 percent to EUR 17.2 billion (\$22 billion) but group profit was flat from 2007 at EUR 2 billion (\$2.6 billion). Sales in the watches and jewelry category grew 6 percent to EUR 879 million (\$1.1 billion) and operating profits fell 16 percent to EUR 118 million (\$151 million), the steepest decline of all the company's sales categories. LVMH reported a noticeable drop in jewelry sales during the fourth quarter, due to weak sales in the U.S., but "good performance in Europe and Asia compensated in part for the slowdown in the American and Japanese markets."



Asian Star 3Q Sales +15%

Asian Star reported that its net profits fell 48 percent to INR 66.79 million (\$1.37 million) in the third fiscal quarter ending December 31, 2008. Asian Star's third-quarter sales increased 15 percent to INR 2.92 billion (\$59.93 million). For the first nine months of the year, Asian Star's profit fell 8 percent to INR 292.35 million (\$5.9 million) and net sales grew 13 percent to INR 10.13 billion (\$207.63 million).

Shrenuj 3Q Sales +40%

Shrenuj & Company's net profits fell 42 percent to INR 81.78 million (\$1.68 million) in the third fiscal quarter ending December 31, 2008. Net sales increased 40 percent to INR 4 billion (\$82.37 million). Sales in the company's diamond segment grew 32 percent to INR 2.73 billion (\$56.05 million), while its studded jewelry business saw sales rise 73 percent to INR 1.38 billion (\$28.41 million).

Su-Raj Diamonds 3Q Sales +3%

Su-Raj Diamonds and Jewellery's net profits fell 86 percent in the third fiscal quarter to INR 24.9 million (\$509,985). Group revenues rose 2.8 percent to INR 5.9 billion (\$120.86 million), as diamond revenues grew 4.5 percent to INR 1.79 billion (\$36.56 million). Jewelry revenues increased 2 percent to INR 4.11 billion (\$84.26 million). Su-Raj's diamond unit posted profits before taxes and interest of INR 36.8 million (\$753,712), down 45 percent from the same quarter a year earlier, while its jewelry business saw pre-tax, pre-interest profits decline 44 percent to INR 105.2 million (\$2.15 million).

Zodiac 3Q Sales +54%

Zodiac reported that its net profits fell 65 percent to INR 1.3 million (\$27,125) in the third fiscal quarter ending December 31, 2008. Sales increased 54 percent to INR 39.3 million (\$807,191). Net sales grew 61 percent to INR 116.4 million (\$2.4 million) while expenses rose 63 percent to INR 112 million (2.3 million). The company also announced that on January 23, 2009, the high court approved the amalgamation of MKJ Jewellery Pvt Ltd and Zodiac-JRD-MKJ Ltd.

BHP Billiton 1H Diamond & Specialty Products Revenue +9%

BHP Billiton reported that its diamond and specialty products revenues rose 9.3 percent to \$457 million in the six months ending December 31, 2008. Results for the first half showed that the segment's profits from operations fell 88 percent to \$9 million as a result of the writeoff of "exceptional items" amounting to \$70 million. The increase in revenues came despite a 27 percent drop in production during the period from its only diamond operation, the Ekati mine in Canada, to 1.367 million carats.



Renaissance Jewellery Sales +32%

Renaissance Jewellery's net profits for the fiscal third quarter ending December 31, 2008, fell 72 percent to \$669,836 (INR 32.5 million). Sales grew 32 percent to \$48.9 million (INR 2.4 billion) while expenses rose 38 percent to \$47.2 million (INR 2.3 billion). For the first nine months of the fiscal year, Renaissance's profits dropped 38 percent to \$3.4 million (INR 167.8 million) and net sales rose 20 percent to \$111.9 million (INR 5.4 billion).

China's Jan. Jewelry Sales +29%

China's retail jewelry sales grew 29 percent in January 2009 compared with one year ago. Across all sales categories, the 1,000 major Chinese retailers surveyed for the report saw their sales rise 25 percent during the month. Jewelry was among the strongest growth categories in January, along with food, which grew 29 percent, and cigarettes and alcohol, up 47 percent.

PPR 2008 Sales +6%, Profits Flat

Big-box retailer PPR reported a 5.8 percent increase in sales during 2008 to \$25.7 billion (EUR 20.2 billion) and that its profits were basically flat at \$1.2 billion (EUR 924

million). The Paris-based PPR reported that its international sales grew during the year to represent 61 percent of total revenues, and that online sales rose 10 percent during the year.

Asset Management – Coloured Diamonds

Coloured diamonds may not be an obvious safe choice for the astute investor, but their track record speaks for itself — these precious gems have been increasing in value by an average of 10 to 15 per cent per annum since the early 1970s, when formal records started.

Twenty years ago a one-carat, fancy, vivid, internally flawless pink diamond would have sold for approximately \$70,000 a carat. Today, that same diamond could be worth more than \$750,000. In October 2007, Sotheby's Hong Kong broke an auction record, which had stood for over twenty years, when it sold a 6.04 carat, internally flawless, emerald-cut vivid-blue diamond ring for US\$7,981,835. The per carat record was once again topped at Sotheby's this year in Geneva when a fancy, vivid-blue, pear-shaped diamond ring sold for a record of US\$1.328 million per carat.



Perhaps you are thinking that the credit crunch will influence demand? Think again, at least when it comes to coloured diamonds. Even through the recent market downturn, coloured diamonds have appreciated. As James Allan of South African finance group Allan Hochreiter says, 'If you are actively involved in the production and sale of diamonds, the future looks extremely bright.'

So, it is little surprise that, at a time when other assets are experiencing heavy turbulence, high-net-worth individuals are looking for new ways to diversify their holdings. A new fund focused on the acquisition of rare coloured diamonds, offers such diversification. It allows its investors to gain exposure to this market with a starting investment of \$1 million and a maximum of \$10 million dollars, with \$100 million as the target total size.

The founders, Mahyar Makhzani and Philip Baldwin, believe the gems to be both a highly attractive investment and also a hedge against market turbulence and political crises. The fund does not touch rough diamonds, which are far too risky. Instead, the diamonds are acquired through traders or cutters in New York, Tel Aviv, Geneva and London or through auction houses and private sales. Although the price of white diamonds fluctuates, natural fancy coloured diamonds remain the most valuable gemstones as measured on a price-per-carat basis. Alan Bronstein, curator of the Aurora Collection (the world's most famous collection of coloured diamonds) and leading

adviser to jewellers and investors, explains that, for long-term investors in particular, 'coloured diamonds are a fantastic investment'. In order to maximise the benefit, he recommends the gems be kept for at least five years. 'However, if it is just a hold for intrinsic value, a hold for diversification, then a year could be fine.'

Unlike most funds, this one offers all investors the right of first refusal (ROFR) when it sells stones, so the fund's backers not only have the opportunity to invest in gems but also keep them. Makhzani identifies two reasons why investors are attracted to Codiam. One is its expertise, which allows 'professionals to do the job, because most people have absolutely no idea about the diamond world.' The other is that gemstones are 'a little sexier than anything else out there today... It is one thing buying an emerging-market stock and it is another investing in coloured diamonds.' After all, who would want a ROFR on Gazprom stock?

This is especially true of coloured diamonds, whose rarity makes them as precious as 'a Picasso'. But a coloured diamond's value may be very volatile — it might sell for \$1 million at one auction and much less, or much more, at another. 'I can say that this is a wonderful piece and worth a million,' Mahzani adds, 'but they don't really know whether it is worth a million or two hundred thousand.'

Their timing is impeccable. The mining industry produces about 80 million carats of rough diamonds per year, of which only 0.001 per cent are considered fancy coloured. Codiam's target market is even more limited than that. 'We are only dealing with intense or vivid coloured stones and very specific colours as well,' Baldwin says. 'So, we are really narrowing the criteria for top, top stones, which reach top prices and where demand is greatest.'

The duo expects the industry will only be able to supply stones to cover 20 per cent of the demand. 'The difficult part,' Makhzani says, 'is not necessarily selling them, but finding the stones.' Red and intensely green diamonds are particularly difficult to find, since fewer than ten of these are found each year. Even the mining of pink diamonds, which are much more common than the red, purple or green varieties, is declining rapidly. The Rio Tinto-owned Argyle Mine, which is responsible for 90 per cent of the world's supply of pink diamonds, is predicted to run out by 2018.

As inventory levels drop, demand is expected to rise by up to 50 per cent, fuelled by the emergence of the new super-rich and the stones' increasing appeal. 'Today, if you walk up and down Bond Street,' Makhzani assures me, 'and you ask for a round, 5.5 carat in vivid yellow, which is the most common coloured diamond, no one will have it.'

'You are dealing with something that you have a tough time to find, and everyone is looking for it'. He laughs mischievously. 'If you have it, you are the only one who has got it, so you can ask whatever you want for it.'

Online Diamond Exchange Launched

JCK-Jewelers Circular Keystone

An online electronic diamond exchange was launched today in Antwerp by the Dealers Organisation for Diamond Automated Quotes. The exchange will enable polished diamonds to be globally traded like other commodities, according to its founders.

The trading platform at www.exchange.dodaq.com offers two-way auctions for individual categories of polished diamonds, thus creating real time spot prices and the first cash market for diamonds, DODAQ said in a statement. The two-way auction mechanism provides price transparency, allowing the market to decide fair value, just as markets for stocks, currencies, and other commodities are determined.

DODAQ is open to anyone within or outside of industry, “enabling diamonds to be realized for the first time as an asset class, and an alternative investment opportunity to gold,” the statement read. It provides both a liquid entry and resale point for investors representing a revolutionary step in the evolution of the global diamond industry. All client funds are held by ABN AMRO Bank and DODAQ offers instantaneous settlement, steering the industry away from the current reliance on credit.

“DODAQ is a cash market,” said Simon Okuniew, chief executive officer of the exchange. “For us to guarantee settlement we need to be satisfied that the diamond is real and this is achieved through certification. The system calls for the original certificate which will then be checked to verify that the certificate and diamond match. They are then sealed so that at no stage can they be handled. The diamonds are then sent to our specialist vault in the Freeport of Geneva which is run by our professional custodian Malca-Amit.”



Market News

Bloomberg, Feb. 20, 09

Already, household incomes have sunk with the 35 percent plunge in the ruble against the dollar since Aug. 1 and inflation surged to 13.4 percent in January because of the cost of imported goods. The Russian central bank has raised its benchmark repurchase rate four times since November, to 12 percent.

India's 4Q Gold Demand +84%

Gold demand in India increased by 84 percent during the fourth quarter of 2008, on the back of a 107 percent jump in jewelry consumption, according to the World Gold Council. In its report on gold-demand trends, the group said that global demand was up

by 26 percent to \$26.5 billion, and that investment demand rose 182 percent. Demand for gold was mixed in the U.S., however, as jewelry demand dropped 35 percent, but buying of gold bars and coins grew 370 percent.

India's Economy to Grow 7% or More in 2009

India's economy is expected to remain on the fast track despite the gloomy outlook for the world economy, growing by 7 to 7.5 percent in the fiscal year that begins in April, said Kamal Nath, India's Commerce and Industry Minister. Nath's optimism contrasts with the outlook of the International Monetary Fund (IMF), which downgraded growth projections for India to 5.1 percent for the 2009 calendar year, against its previous estimate of 6.3 percent.

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