

PURE

DIAMONDS



QUALITY WITHOUT COMPROMISE

Welcome to the Pure Diamond Holdings

Newsletter March 2015

In The Press

Here at Pure Diamonds we follow the diamond market closely and monitor prices, trends and the general performance of the market and as we have always said it's all about supply and demand.

Diamond prices have been on a steady upward incline since De Beers established control of the polished diamond market in the 1930's. However the market fundamentals have changed with demand now outstripping supply. This has been fuelled by an increased demand from an ever growing affluent population in India and China as well as a recovering US market.

Below are extracts taken from a recent article from the Daily Telegraph.

Diamonds may be forever, but supplies are fading fast. After two fruitless decades of diamond exploration, mining companies are now scraping the bottom of their existing assets, facing a seemingly inevitable decline in production from 2019.

China's middle classes are demanding soaring numbers of the precious stones, and jewellery makers are increasingly desperate to gain access to a rough diamond source.

Rio Tinto's first auctions of the year, held in Antwerp and Israel last month, saw unprecedented levels of interest and, as diamond demand starts to outpace supply over the next five years, competition will become more fierce.

Only around 30 significant diamond mines are in production, according to Petra Diamonds, and a tier-one mine hasn't been found since the 1990s, despite billions spent on exploration.

Edward Sterck, analyst at BMO Capital Markets, says that diamond deposits are "pretty tricky to find".

"They're not large deposits compared to the deposits for other commodities. Even once you find one, there's no guarantee it's diamondiferous and even if it is, there's no guarantee that it's economic", he says.

De Beers estimates that the success rate for finding an economic diamondiferous mine is around 1pc.

As the major existing diamond mines mature past their production peaks, more companies are converting open-pit mines into underground resources in an attempt to find the last available stones.

But underground mines produce fewer diamonds and have higher operating costs.

"The existing mines in Russia and Canada have been moving from open-pit operations to underground production. But new projects are not going to make up for the declining production from the big production centres in Russia and Botswana and so on", says Sterck.

"We produced about the same number of carats as the year before, but the strong prices really increased our earnings", said Clifford Elphick, chief executive of Gem Diamonds, which saw a 15.5pc rise in profits before tax last year.

"There simply isn't any new mine, any new discovery, coming on-stream. The net effect of that is, as populations grow, as people get more wealthy and have more disposable income and as the consumer market in China grows, you have a situation where prices will rise for the foreseeable future," says Elphick.

Although diamond production is set to fall, the demand from countries with a growing middle class is rising fast.

The international diamond market has shifted dramatically over the past decade, with demand from China making up an increasingly large share of global demand.

In 2000, the whole of Asia made up 8pc of global diamond jewellery sales, while in 2012 China and Hong Kong alone made up 13pc, with the expectation that this will rise to 18pc by 2017. Bain's 2013 diamond report found that the stones have strong spiritual resonance in China, where diamonds are associated with eternity and high status. And the country's affluent middle class is predicted to grow by 60pc, or 200m, to a total of more than 500m over the next six years.

What is an auction quality diamond?

At Pure Diamonds we work hard to source the best diamonds directly from the manufacturers (cutters and polishers of mined rough diamonds) and we focus predominately on coloured diamonds. Some of the world's rarest of diamonds are coloured. This is because it is not easy to find a large sized coloured diamond in the first place. In fact only one in almost every 10,000 diamond (gem quality) carats is a colour of any type.

We source what we believe to be the best of these coloured diamonds and select the best characteristics we can for the budgets available. History has shown us that there is always a market for the top diamonds whatever the global economic situation.

The Four C's

As diamond investment grew, it became essential to have a grading system, which would be recognised throughout the world. The Gemological Institute of America (GIA) introduced the International Diamond Grading System and the 4Cs to compare and evaluate diamonds.

The 4Cs are the Carat, Colour, Clarity and Cut of a diamond – all of which affect its value.

Diamond Carat

Weight is the measurement of how much a diamond weighs. A metric "carat" is defined as 200 milligrams. Each carat can be subdivided into 100 'points.' This allows very precise measurements to the hundredth decimal place.

A jeweller may describe the weight of a diamond below one carat by its 'points' alone. For instance, the jeweller may refer to a diamond that weighs 0.25 carats as a 'twenty-five pointer.' Diamond weights greater than one carat are expressed in carats and decimals. A 1.08 carat stone would be described as 'one point oh eight carats.'

All else being equal, diamond price increases with diamond carat weight, because larger diamonds are rarer and more desirable. But two diamonds of equal carat weight can have very different values (and prices) depending on three other factors of the diamond 4Cs: Clarity, Colour, and Cut.

It's important to remember that a diamond's value is determined using all of the 4Cs, not just carat weight.

Diamond Cut

Diamonds are renowned for their ability to transmit light and sparkle so intensely. We often think of a diamond's cut as shape (round, emerald, pear), but a diamond's cut grade is really about how well a diamond's facets interact with light.

Precise artistry and workmanship are required to fashion a stone so its proportions, symmetry, and polish deliver the magnificent return of light only possible in a diamond.

A diamond's cut is crucial to the stone's final beauty and value. And of all the diamond 4Cs, it is the most complex and technically difficult to analyse. To determine the cut grade of the standard round brilliant diamond - the shape that dominates the majority of diamond jewelry - GIA calculates the proportions of those facets that influence the diamond's face-up appearance. These proportions allow GIA to evaluate how successfully a diamond interacts with light to create desirable visual effects such as:

Brightness: Internal and external white light reflected from a diamond

Fire: The scattering of white light into all the colors of the rainbow

Scintillation: The amount of sparkle a diamond produces, and the pattern of light and dark areas caused by reflections within the diamond

The GIA's diamond cut grade also takes into account the design and craftsmanship of the diamond, including its weight relative to its diameter, its girdle thickness (which affects its durability), the symmetry of its facet arrangement, and the quality of polish on those facets.

The GIA Diamond Cut Scale for standard round brilliant diamonds in the D-to-Z diamond colour range contains 5 grades ranging from Excellent to Poor. In our next newsletter we will look at the other 2 C's, the Colour and Clarity of a diamond and other characteristics that help to determine its value.



Current Performance

This investment is structured as capital appreciation offer, meaning the diamonds are sold at the end of the investment period and the invested capital and profits are returned.

Each and every diamond is unique as it's a product of nature; however all the diamonds we source have a GIA (Gemmological Institute of America) certificate which details the characteristics of each diamond. We then monitor prices across the globe and we compare our diamonds, with similar characteristics, against what has been achieved at various auctions, sales and wholesalers.

As it stands you have a shareholding in a portfolio of diamonds which are valued at £1.00 per share. Once the diamonds have been liquidated at the end of the investment term we will then know the exact value and therefore your precise return on the investment. We monitor prices and the market regularly and expect to hit the target returns of 13% per annum.

By way of an example in August 2012 we sourced a Pear Shape, Fancy Intense Yellow Diamond with a carat weight 2.03 and VS1 clarity (GIA Ref 5131825199) for \$14,300.00 per carat. Last month we found an almost identical diamond; a Pear Shape, Fancy Intense Yellow Diamond with a carat weight 2.45 and VS1 clarity (GIA Ref 2156499529) for \$19,362 per carat an increase equivalent to well over our target return.

As you can see the diamond market is progressing in an upward direction, re-enforcing our belief that the diamonds acquired will over the term of the investment period achieve the minimum targets set.

As a pre-advice we are looking later this year at the possibility of commencing some liquidations of the portfolios held in order to realise some of the gains made to date. Each syndicate will be advised on this separately and nearer to the time should this course of action be deemed appropriate. The rationale behind this view is that this year could see ideal opportunities present themselves that allow us on your behalf to close out some of the portfolios held.

**The Directors,
Pure Diamond Holdings Ltd.**



More Information

For more news, blogs and up to date information about diamonds and the market please visit www.purediamondinvestments.co.uk. If you have a specific question about any aspect of diamonds and diamond investing please email us at enquiries@purediamondinvestments.co.uk