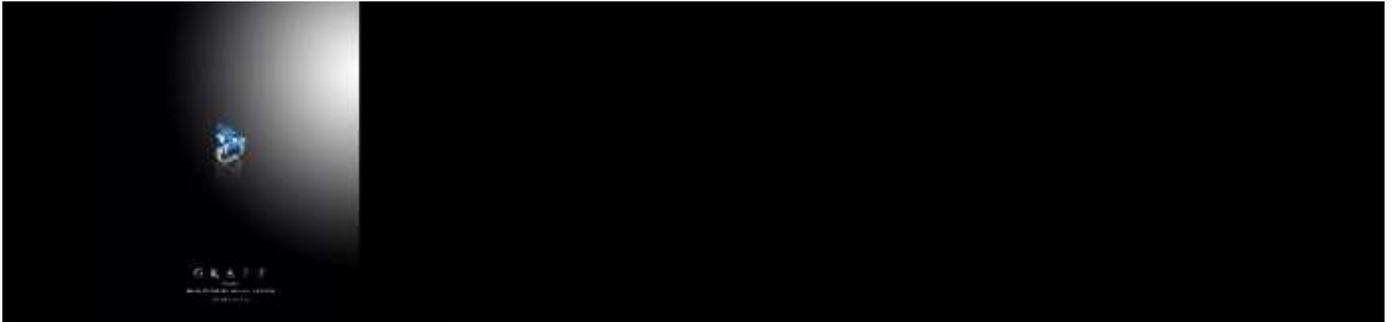


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Diamonds Attract Funds as Largest Gem Prices Surge 76% in Year

By Scott Reyburn



July 15 (Bloomberg) -- Diamonds, like art, are a commodity that is gaining attention as an alternative investment.

Increases in the price of the rarest colorless and colored diamonds are attracting wealthy investors and structured funds as stock markets and real-estate values decline.

The price of 5-carat gems with the potential to be sold at \$1 million or more has risen 76.5 percent in the year to May 2008, according to <http://www.idexonline.com>, the Web site of the International Diamond and Jewelry Exchange.

“There's a group of very savvy, tremendously wealthy people who have put a small portion of their fortunes aside to invest in diamonds,” said **Francois Graff**, managing director of London-based Graff Diamonds International, in a telephone interview. “They've made incredible returns.”

Five years ago, dealers were paying \$70,000 per carat for colorless diamonds of 10 carats and more, said Graff.

“Now we're paying over \$200,000 per carat,” he said.

There are only about 200 highest-grade, D-flawless colorless diamonds of more than 5 carats discovered per year, according to Raymond Sancroft-Baker, **Christie's International's** European director of jewelry. The annual yield of large-scale blue and pink stones is considerably smaller.

“Diamonds are getting rarer. The earth just isn't giving them up,” said Sancroft-Baker in a telephone interview.

The commodity asset-management firm Diapason Commodities Management SA listed a specialist investment fund, **Diamond Circle Capital Plc**, on the London Stock Exchange on June 25. Diapason did not immediately respond to e-mailed requests for comment.

Public Listing

Diamond Circle Capital is the first publicly listed fund to invest in rare colored and colorless diamonds, according to International Diamond and Jewelry Exchange's Web Site.

The fund, which in June 2007 was due to have a \$400 million start-up, raised \$74.32 million through its initial public offering, said the Web site.

“Over the last 12 months, the best pink and blue diamonds have increased in price between 75 and 100 percent,” said the New York diamond dealer [Alan Bronstein](#) in an interview.

Bronstein's Aurora Collection of 296 colored diamonds is currently on loan to the Natural History Museum in London.

“These are some of the rarest and most colorful things in the world,” said Bronstein, whose diamonds are specimen examples of less than 3 carats.

Rarity Value

“They used to be viewed as curiosities,” said Joanna Hardy, senior specialist at [Sotheby's](#) jewelry department in London. “Now buyers are taking colored diamonds much more seriously. People want to have something different. And they value rarity.”

In May, the Codium Fund, specializing in investing in colored diamonds of at least 1 carat, was to be launched in the Netherlands Antilles with a target investment of \$100 million, Arab Times said on its Web site.

Over the last five years, managers of art-investment funds, which buy and sell a pool of works for a set management fee and a share of any profit made, have been keen to promote art as an alternative asset class. So far, the [Fine Art Fund](#), started in 2004, is the only one of these vehicles that has remained conspicuously active in the West.

Individual Choice

“The diamond market, like the art market, is based on individual transactions,” said Graff, whose father Laurence is a bidder at many Sotheby's and [Christie's](#) contemporary-art auctions. “The wealthy don't need to invest in funds. They can just pick up a telephone and buy the things for themselves.”

Graff said that within the last three months he has sold a D-flawless, emerald-cut colorless diamond of 243.96 carats to an Asian buyer for in excess of 50 million pounds (\$99.6 million). “There were quite a few people ready to buy that stone,” said Graff, who has placed a similar price on a flawless 20-carat fancy deep-blue diamond.

The record for any gemstone sold at auction is the \$16.5 million with fees paid for the 100.1-carat “Star of the Season” pear-shaped colorless diamond at Sotheby's, Geneva in May 1995, according to Sotheby's.

“When stock markets go down, it's always good for us,” said Hardy. “People with a lot of surplus cash turn to something more tangible.” [Sotheby's](#) was selling diamonds to buyers from a record number of countries, Hardy said.

“We've got a lot of customers from the Middle East, Russia and the Ukraine. And there are more buyers from Europe than America at the moment,” she said.

Hardy does not expect prices for large-scale colored and colorless stones to fall within the next six months.

“It's not as if there are suddenly going to be more of them,” she said.

([Scott Reyburn](#) writes about the art market for Bloomberg News. Opinions expressed are his own.)

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