



Diamonds are a Fund's Best Friend Says Global Macro Manager

Covenant Investors' Steve Shafer Recommends a Small Position in Gems to Bolster Returns, Hedge Inflation and Diversify Portfolio

Oklahoma City, OK—May 23, 2011—Steve Shafer, Chief Investment Officer for Covenant Financial Services, LLC (“Covenant Investors”) says financially-stretched Americans and Europeans are selling diamonds and gems at depressed prices while the market remains firm for precious stones in China and the Middle East. This offers investors the potential for big returns that are uncorrelated to the financial markets. To take advantage of this opportunity Covenant Investors, a multi-strategy, multi-asset global macro investment management firm, is putting together a collection of large, rare and highly sought after stones that it intends to hold for a period of one to three years. Thus far the collection contains several unique gems including the “Yellow Rose,” a 77-carat yellow diamond.

“As a global macro manager, we can go anywhere and into any asset class to take advantage of market trends on behalf of our clients – even assets many people wouldn’t think to invest in. One of the trends we are seeing now is an enormous multi-generational transfer of wealth take place from the West to the East, and moving a small portion of our capital into diamonds is one of the ways we are profiting from this,” says Shafer, whose Oklahoma City-based investment management firm manages \$275 million for institutions and high net worth individuals. Typical of this trend is that western sellers, trying to preserve businesses or real estate holdings, are putting large gems up for sale at 50 to 60 cents on the dollar, says Shafer, adding that new members of the wealthy classes in China and Middle Eastern investors looking to diversify away from their reliance on oil revenues are especially eager buyers.

“It’s not only what you own, it’s how you own it,” Shafer says, explaining that a carefully assembled collection of top-quality gems can be worth more to potential buyers than the sum of its parts.

The argument against investing in hard assets such as paintings and gems has always been the difficulty of selling them if there is a financial crisis. Shafer counters that while 5 or 10-carat “commodity” diamonds declined in value in 2008, demand for the highest-quality diamonds held steady. And, over the past year, auction prices for stones like these have appreciated. Moreover, as gems represent only a very small position in his portfolio, Shafer explains that this makes his investment relatively liquid.

“The market is not nearly as illiquid as people think because at the top of the market, you always have three exits—the retail market, auctions and the dealer market,” Shafer contends. Adding to the current allure of diamonds and other precious stones is fear of the weakening U.S. dollar. Investors are searching for “stores of value” that will hold their own in an inflationary environment, observes Shafer.

To any of his investor colleagues thinking about following him into the trade, Shafer advises not to ‘go it alone.’ “Unless a manager has significant experience in the precious gem market, the best thing for him or her to do, like Covenant, is to partner with a world renowned expert and dealer to advise in all aspects of the acquisition, management and liquidation of the position.”

About Covenant

Covenant is a multi-strategy, multi-asset global macro investment manager focused on protecting capital while generating targeted rates of return. As a fiduciary, Covenant is dedicated to delivering desired results at a low risk, low volatility, and with a high degree of liquidity. Covenant’s management of investment funds is notable for a highly active, tactical style that can be assisted but not replicated by quantitative tools. Moreover, continuous, monitoring of securities and trades ensures that every position is delivering results consistent with investor objectives. To learn more, visit www.covenantinvestors.com.

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