



INVESTMENT & PENSIONS ASIA
January – February 2013 www.ipe.com/asia

Global equities in 2013

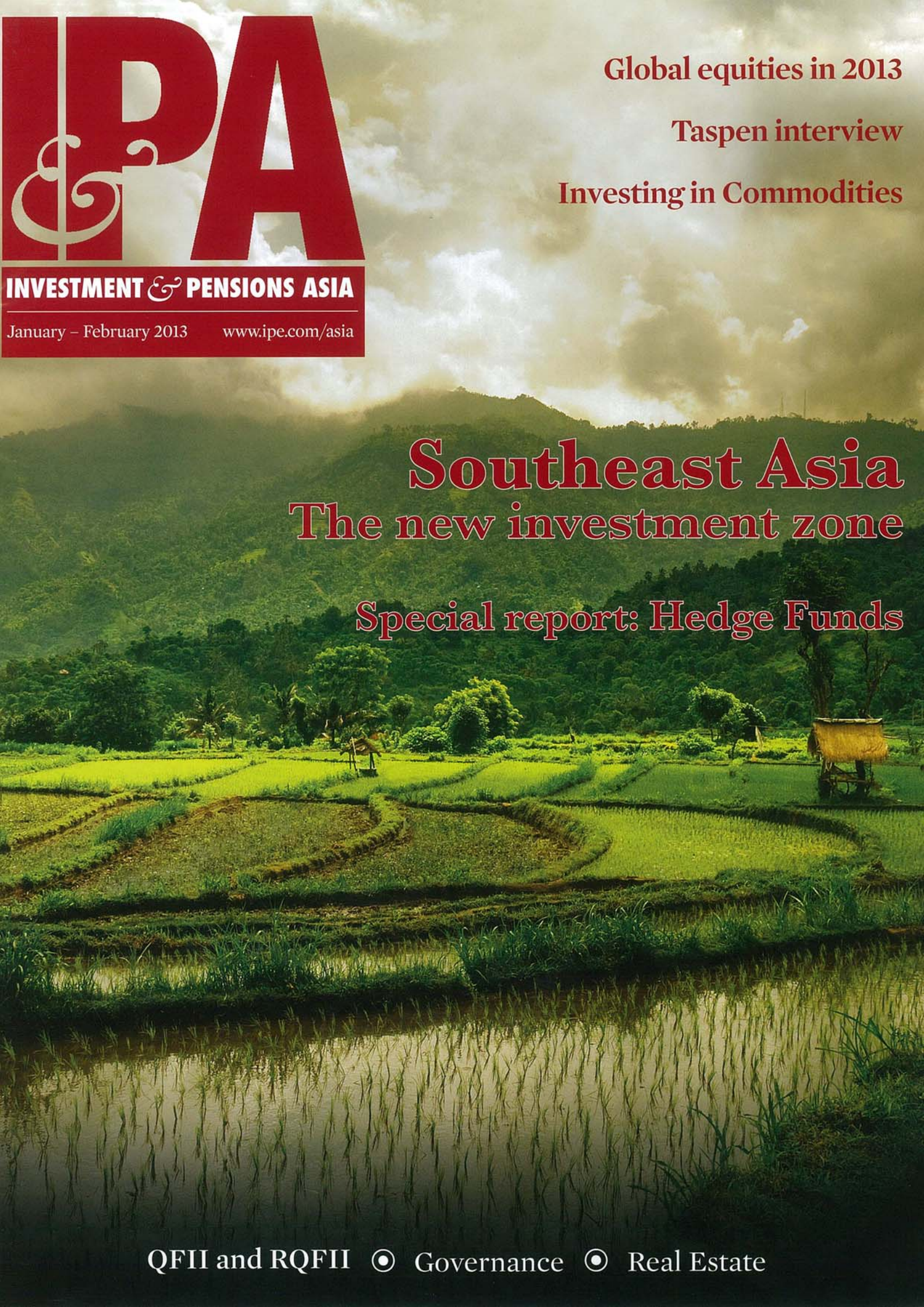
Taspen interview

Investing in Commodities

Southeast Asia

The new investment zone

Special report: Hedge Funds



QFII and RQFII ● Governance ● Real Estate

Investing in wine doesn't necessarily give a hangover

Wealthy investors share with **Bee-Lin Ang** their thoughts on investing in one particular commodity product.

Like many alternative investments such as fine art and vintage cars, wine investing has the reputation of being the preserve of rich investors searching for trophy assets. However the proliferation of wine funds and the introduction of new investors from the Far East have altered the landscape. Wine as an asset class has outperformed the major stock indices in recent years and is increasingly considered a legitimate investment for most portfolios.

"Wine investment is considered a passion investment. Typically investors add it to their investments because they love wine and intend to invest in it as a source of diversification away from capital market products," says William Chan, the chairman



William Chan

and the chief executive officer of Singapore-based family office Stamford Management Group, which operates its own wine fund, the Cornerstone Grand Cru Investment Fund. "If investors can agree that wine is a storable, appreciating asset that is finite in production but has an increasing demand base, especially fine wine - classified as wine from the first to fifth growths - then investing in wine today may bring benefits of a non-correlated return and a hedge against inflation."

On the back of a rapidly growing economy, the Chinese have increasingly become intoxicated with the allure of luxury goods. LVMH, Burberry, Mercedes and a plethora of other perceived luxury brands have been rescued by Chinese demand in an era when their traditional European and North American markets have begun to reach saturation. Similarly, Chinese interest in wine has driven prices to new levels and has seen the auction markets and vineyard ownership increasingly heading east.

The much-prized Lafite

The recent acquisition of Parker's guides by a consortium based in Singapore signals the end of wine expertise as the preserve of Western countries. Domaines De Baron Rothschild (Lafite) ventured into China in 2008 in search of the perfect terroir with the right mix of climatic, geological and soil conditions. The famous

vineyard now has a 30% stake in a joint venture with CITIC group in Penglai, Shandong province, planting vines on a slope covering just over 25 hectares. "I am very pleased to develop a vineyard in a country where the interest in fine wines is increasing every year. It is particularly exciting to participate in the creation of an exceptional Chinese wine," Baron Eric de Rothschild said in a statement.

As Asia becomes home to the largest population of high net-worth individuals, surpassing North America for the first time in 2011, wine demand in the region is forecast to rise. Despite the recent jump in China's wine appetite, Asia's share of the global



per capita consumption of wine is around 5 to 8%, compared with Europe's 35%, says Chan. "Such statistical comparison points to much room for growth as lifestyle, income and material pursuits translate into consumption patterns.

"Interest in wine has picked up very significantly in Asia in the last 10 years if the wine auctions, for example, in Hong Kong are anything to go by."

Hong Kong scrapped import duty on wines about three years ago and that led to a massive boom in wine consumption in the city and neighbouring China. Sotheby's set up there in 2009 and has since achieved record prices for some of the best vintages.

Prices and cellaring

Nonchalant about conventional market forces, different considerations, such as snob appeal, rarity and brand, dictate fine wine prices. The benchmark Liv-ex Fine Wine 100 index, which represents the price movement of 100 of the most sought-after wines, has produced a return of 195% during the past seven years. Crude oil

“With a wine fund you can redeem your units and take ownership in kind and enjoy your wine. You get to roll over your capital and ‘drink’ your profits.”

has gained 106% while the S&P 500 index has climbed about 20% over the same period.

"Intuitively, for example, while many respectable families may be able to afford to serve Chateau Lafite at every dinner table at a Chinese wedding today, it may not be the case for their granddaughters' wedding 10 to 15 years down the road. Investing now provides a hedge against potential inflation and price increase risk," says Chan, whose wine fund has gained close to 19% since its inception in May 2010.

While well-heeled private collectors have long been buying wines as part of their investment portfolio, investing through a fund - a growing trend - provides many advantages and can help prevent potential pitfalls. "Many aren't educated on the fact that how and who you purchased your wine from is critical; how you have kept your wine

Andre Tjongoro, a personal wine sommelier based in Indonesia, also stressed the importance cellaring wine in the right way to keep its value and taste.

The benefit of a fund is in the active management of the portfolio of wines. The "pitfall to holding wines directly is that you don't benefit from active trading, that is, the ability to tap into market cycles and sell off vintages that have peaked in value while switching over to more value buys," says Chan. "Typically shoving them in the cellar has the 'buy and hold' feel to it and the timing of your disposal of the wine may not coincide with the best time in the market cycle."

Chan adds: "With a wine fund you can redeem your units and take ownership in kind and enjoy your wine. You get to roll over your capital and 'drink' your profits."

Central to Cornerstone Grand Cru Investment Fund's model is to proactively seek optimum exit strategies to ensure the underlying performance of the investment by way of realised gains, says Chan. The fund's general exit routes include auction houses, private collectors, hospitality industry and Hock Tong Bee's sales and distribution network. Hock Tong Bee is Singapore's largest independent wine and spirit specialist and the company is the advisor to Cornerstone Grand Cru Investment Fund and it also forms part of its investment committee.

"Since we work with one of the largest wine merchant in Asia, we are able to see the increase or decrease of buying patterns for each vintage with some clarity and that allow us to prep ourselves to see either tops or bottoms of the vintages' demand and supply cycles."

Investment-grade vintages

Oenophiles in the Old World have for years battled new expertise in the New World of North America, Australia and Latin America. While winemakers in the New World have recently gained prominence, the rise of the Asian



Andre Tjongoro

consumer has shifted the focus on the best brands and premier cru back to France, threatening to leave New World wines in the shade again. With a history of wine-making dating back to 2,000 years, French wines are not just celebrated globally, but the French are widely acknowledged to be the model and benchmark that the world emulates. Coupled that with agriculture regulations that restrict wine production, the world's most expensive and so-called premium investment-grade wines are from France.

"Wine from old world such as France is still number one in people's mind," says Tjongoro. "If you speak about wine with most Asian people, France comes to mind because of the country's wine-making history."

"We only purchase wines that are considered investment grade or first to fifth growths and mostly from the Bordeaux region of France," says Chan. "There will be some iconic wines like the Screaming Eagle from Napa Valley, the Vega Sicilia from Spain but we are otherwise mostly concentrated on blue-chip French wines."

Chan says the fund's nearest competitors are private collectors and one of the risks in wine-investing is the prevalence of fake wines which are increasingly common in China. "This is another reason why our fund buys largely direct from the chateaus and vineyards and not a lot off the secondary market. If we have to, it will normally be from reputed merchants, negociantes or major auction houses."

Among the expanding league of nouveau rich in Asia, who now possess the means to appreciate the finest things in life, their lifestyles would include the premium vintage of the world in Bordeaux and Burgundy. Ironically, while rising prices are a welcoming trend for the investor, they are also a potential hindrance as the increasing number of buyers has driven prices beyond the reach of many. From an investment perspective, the taste of a vintage has progressively taken second place, compared with the returns that the wine fetches. ■





over its life has a great impact on its future value.

"The mind-sets for buying to invest and buying to drink or in some instances to show-off are quite different."

Are you receiving the IPA email newsletter?

It's easy - and free - to sign up for the newsletter. Visit the IPA website at www.ipe.com/asia and register to receive the twice-weekly bulletin 'News From Around Asia'



NEWS | MAGAZINE | DIGITAL EDITION | EVENTS | WEBCASTS | WHITE PAPERS | IPE SERVICES

Dear Richard Newell,

NEWS

- Taiwan to raise limit on Chinese securities investment by Wing-Gar Cheng - Taiwan and China ease rules on cross-Strait securities investments. 30/01/13
- Trade sale the preferred exit for North Asia private equity
- Amundi plans major expansion in Asia
- China issues rules on Gold ETFs
- Fees for alternative asset management on the decline
- Governance - the growing importance of transparency

IPE.com Investment Webcast Series Presents Creating opportunities out of the drama in Europe.

How a disciplined approach can generate attractive levels of income in a low yielding market environment.