A vine romance that can supply pleasing returns
Chris Taylor

Fine wines have a profitable record in recent years and particularly during recessionary times, writes Chris Taylor

While world stock markets flirt with meltdown, George Handjinicolaou is happy with one part of his portfolio. It's not, as you might guess, Lehman Brothers or AIG. Instead, the London-based financial services executive ponders fine wines such as '99 Haut-Brion and 2000 Mouton-Rothschild. The vintages are housed with 300 other valuable cases in a climate-controlled New York warehouse, getting tastier - and pricier - by the day.

What began as a hobby, after Mr Handjinicolaou toured the chateaux of Bordeaux in the late 1980s, has developed into a serious investment, representing almost 10 per cent of his portfolio.

And a top-performing one at that. When he sold his initial collection in the mid-1990s, he had quadrupled his investment in eight years. "It's a dollar hedge, it's an inflation hedge, and it has a low correlation with other assets," says Mr Handjinicolaou, 55. "Even better, it's something I enjoy investing in. Sometimes, I'll even let myself drink a bottle."

Will Beck, a partner with Wine Asset Managers, a London-based investment firm that runs the Fine Wine Fund (www.wamllp.com), says: "More and more money is chasing a finite asset with a fixed supply. It is a non-correlated opportunity in an investment world where that is becoming increasingly attractive. Most markets have proved to be pretty volatile, while fine wine is very resilient."

As the Dow Jones Industrial Index has proved as reliable as a roulette wheel over the past two years, Mr Beck's fund - not actively marketed to US investors, but open to them - is up 46 per cent since inception in autumn 2006. Year-to-date it is up 4 per cent. The Liv-Ex Fine Wine Index, a benchmark set up by the London International Vintners Exchange that tracks the secondary market for 100 top wines, returned 42.2 per cent last year. For the first half of the year, however, it was up 9 per cent.

Mr Beck notes that, over time, fine wines as an asset class return about 15 per cent a year, besting stocks, bonds and real estate. In recessionary times, such as the 1970s, fine wine has outperformed other asset classes, as a kind of financial bomb shelter to which shaken investors retreat.

No wonder new investment options are popping up, many UK-based, such as Port Funds' Wealth & Fine Wine Fund (www.port-funds.com, open to US institutions and Wealthy people), and Arch Financial Products' Fine Wine fund (www. archfunds. com).

More US-run options are emerging as well, such as the Bottled Asset Fund, set up by former UBS banker Jorge Mora. It has gathered more than 15 investors with a minimum $1/2 m ante, and plans to start placing its bets in December.

"The financial world is melting down, but it has not been affecting the high-end wine market," says Sergio Esposito, co-founder of Italian Wine Merchants (with famed chef Mario Batali) and director of the Bottled Asset Fund. "People are looking for something to invest in, anything other than Wall Street."

Wine funds to date have focused almost exclusively on first-growth Bordeaux, from the most widely known brands and the best possible vintages.

Mr Beck's fund, for example, is crammed with the products of storied chateaux, including Latour, Lafite-Rothschild, and Margaux, from such years as 1982, 1989-90, 1995-96, 2000 and 2005. Its $22m under management adds up to roughly 1,700 cases, stored in special warehouses, with the most pricey being a case of 2005 Petrus valued at £35,000 ($64,000).

The Bottled Asset Fund, in contrast, will focus on the more untested realm of Italian wine. Still blue chip, still coveted by connoisseurs, but in a more inefficient market where wines can often be bought from growers for 100-150 per cent less than what they sell for retail. Think of it as value investing for the wine market, as opposed to more momentum-style investing that drives the sky-high prices of top Bordeaux.

The merchandise is more difficult to move than Margaux, say, but "by buying well, we won't be exposed to the relative volatility of the Bordeaux market," says Mr Mora.

One of the macro factors on which such funds are capitalising is burgeoning Chinese, Indian and Russian money, as those countries' financial elites acquire a taste for fine wine. Also, there is the fact that the funds' underlying asset, unlike stock certificates, is usually poured down people's throats. Every time a Moscow oligarch uncorks a '61 Haut-Brion, he's restricting global supply.

This is not to say that the trajectory of fine wine is always up. As with any asset, it is hostage to supply and demand. And if the nou-veaux riches in emerging markets see their wealth erode thanks to a global slowdown - as looks increasingly likely - demand for pricey vintages could slacken as well.

Don't forget, either, that your wine will be "far less liquid than other investments, no pun intended", says Mr Beck. Your cash is locked up in actual bottles, as opposed to equity shares that can be traded in seconds through an online broker. As a result, funds tend to allow redemptions on a quarterly basis only. For investors burned by hedge funds that have temporarily banned redemptions, or by auction-rate securities that have proved impossible to sell, this innate lack of liquidity is probably a bridge too far.

Of course, a dedicated fund isn't the only way to invest in wine. Do-it-yourself collectors have been doing it for centuries, in personal cellars that have become more and more lavish.

But as with many investments, it is often a question of access. Products of the great chateaux are parcelled out stingily, often to professional wine brokers with long-standing relationships. While individual investors have little clout, wine funds offer the proper connections to obtain the stuff in the first place.

And when it comes time to sell, it is the professionals who are usually able to find buyers at the right price. For a private investor, in a market where there is no Kelly Blue Book of re-sale values, it is a little like swimming with sharks. (For a look into the opaque world of rare wines, see Benjamin Wallace's new book, The Billionaire's Vinegar: The Mystery of the World's Most Expensive Bottle of Wine.)

And what of the personal pleasures of wine collecting, the tactile benefits of owning and holding the precious bottles? Unfortunately, wine funds keep an almost military control of their stock, since the supply chain from chateau to final storage facility has to be "pristine and well-documented", says Mr Mora, or else the value of the cases can plummet.

While you may not be able to cradle the Petrus you've put up the money for, wine funds continue to gain traction. As this downturn has worsened, traditional "alternative" assets such as commodities and real estate have been sinking together with the Dow.

Even banked savings don't seem so safe, as federal bailouts grow and FDIC funds dwindle. This leaves investors with not too many places to keep their money, other than their mattress -and, perhaps, a particularly great case of Mouton Rothschild.

"As every year goes by, the quantity of a wine gets less and less and the quality gets better and better," says Mr Handjinicolaou, whose only regret is selling his stash of '89 Haut-Brion that has since become a "legendary" wine, commanding $20,000 a case. "As an investment, it's a no-brainer."

Fonte: Financial Times, London, September 30 2008, Primeiro Caderno, p. 14.