

LIQUID ASSETS

Fine wine has effortlessly made the leap from cellar to investment portfolio. Two local wine brokerage houses tell us more about this exciting new investment opportunity.

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FINE wine is more than a top tippie – it's a valuable commodity as well. As the world recovers from the global economic downturn, more Malaysian investors are looking at the performance of wine in the investment market, and noticing its steady performance.

“Wine investment may not have generated the most returns, but it's very steady,” says Chris Low of Vintage Assets, one of only two companies offering wine brokerage services operating in Malaysia. “Last year, the dip in the market was small compared to other equities and the market recovered in less than six months. People were still buying even during the downturn. Buy the right wine, and there may be dips in the market, but they will right themselves, and the historical charts prove it.”

“When you invest money, it's great to make 300% returns, but what's the point if you then make losses all the rest of the year? With wine, you don't get a lot of volatility, it's a low-risk investment,” says James Pala, managing director of Sure Holdings Ltd., an investment firm which includes wine investment services in its portfolio. While working in London and Holland as a trainee broker, James came across the wine investment market; inspired by the fact

that he “never saw people lose money investing in wine,” he added wine investment services to Sure Holdings' investment repertoire seven years ago.

James has been around wines his whole life; his father, Paolo Pala, owned a string of restaurants in the UK before coming here to open Sure Pizza in Plaza Damas. He believes that's an invaluable combination with his investment experience, although he admits that “he is more excited about making his clients money than he is about the wines themselves.”

What sets wine apart from other commodities is the ever-decreasing supply of a particular vintage; a commodity is valuable only if it is limited. Only about 1% of global wine production is investment grade.

Quantities of investment wines are regulated by the rules of the appellation (since most investment wines are from Bordeaux) as well as the vintage (“You can't go back and make a 2000 vintage wine again, can you?” says Chris.) For instance, the 2009 vintage will only have about 15,000 to 16,000 cases of wine. It's this finite nature that makes it so valuable.

Wine brokers don't hold any inventory the way a traditional merchant



would. James recommends storage facilities like London City Bond in London and Wine Cellarage in New York, the two that Sure Holdings deals with; the company has consultants in London and New York, and James also visits each warehouse twice a year to check on stock. Vintage Assets also works only with bonded warehouses in England.

“I won't bring the wine in to Malaysia, because it would affect resale value,” James says. “The rest of the world doesn't have a very good opinion of wines that have been stored in Malaysia because of the heat and humidity and the possibility of the wines being spoilt.” In order for an investment wine to retain its value, it must be in pristine condition, from bottle to label to case.

Also, any wine shipped into Malay-



James Pala

sia would incur taxes, so it's probably more worthwhile if you go and visit your investment in Europe, rather than having it come here to you.

THE BORDEAUX CONNECTION

James deals specifically in Bordeaux First Growths, as do most wine brokers. “Our strategy is simple – we buy the best and most expensive. About 80% to 90% of the market is all about the First Growths. Then come the other Growths, the Grand Crus, like Chateau d'Yquem and Chateau Petrus,” he says. It's the brand, such as Chateau Lafite Rothschild, that has a large following and therefore commands stellar prices.

Chris and his partner in Vintage Assets, Lionel Lau, also only buy Bordeaux, dealing with about 10 of the

region's top wineries. “Bordeaux is the traditional home of fine wines, and wineries around the world look to the region and its pricing for guidance,” says Chris.

“Bordeaux has always been the benchmark – like blue chip stocks,” adds Lionel.

The year 2000 saw wine investors buying heavily, not just because it was a good vintage year, but also because it was the millennium vintage. According to Chris, the top five 2000 vintages from Bordeaux are Chateau Lafite Rothschild, Chateau Haut-Brion, Chateau Latour, Chateau Mouton Rothschild and Chateau Margaux.

“There are people out there who invest in wines from Australia, Spain and Italy, and they will also appreciate in

value. However, they are less traded because the secondary market is not big enough – from the distributor onwards – and because Bordeaux wines are just the ones most traded,” says Lionel.

CHOOSING A WINE BROKER

“We are basically investment brokers, the same as equities brokers,” says Lionel. “We advise you on what to buy, based on your needs, budget and your expected timeframe for returns, and when to sell, but of course, it's entirely up to you.”

His advice is based on the historical performance of the wine; after a decision is made on the investor's part, the broker purchases the wine for him or her, and charges a brokerage fee. Both Sure Holdings and Vintage Assets also recommend storage facilities at the aforementioned bonded warehouses, but the transactions are all done under the investor's name, “so that you are in full control of your investment,” says Lionel.

“We use licence-bonded warehouses, so that even if they go bankrupt, they cannot declare your wine as one of their assets,” says Chris. He advises potential investors not to get sucked in by promises of free storage, as it is only about £125 (RM600) for five cases per year, inclusive of insurance, at a reputable facility in London.

“Some of our competitors say that they provide ‘free’ storage, but the storage fee is actually built into their client charges, and they don't let you know that. We are very transparent in that all costs are cited, and all documentation is between the client and the warehouse, so that even if we are not around, the client has access to their wines,” says Lionel.

Transparency is crucial in the wine investment business, and reputation is everything. “We started doing this at the end of 2007, and we didn't feel the

vintage available then was very good, so we didn't advise our clients to buy and suffered a low turnover because of that. But I'm really glad we did that; we had to build credibility. Some companies pushed the wine futures regardless – and ended up closing down,” says Lionel.

James agrees; both Sure Holdings and Vintage Assets stress client autonomy. “We have a portal on our website where our investors can log in and monitor their investments,” says James. Vintage Assets works the same way, with clients given a password to track their wines online; selling is only done at the client's behest. Also, all trading is done on the open market.

Some brokerage firms charge an administration fee, such as Sure Holding's 1%. “This gives companies an incentive to always keep you updated,” says James.

“The issue for private investors is that you have to make sure that you get a company that has the contacts to trade your wines,” says James. He advises prospective investors to look at a wine broker's track record, which should be posted publicly.

“Check where they keep their stock and do your homework on the facilities they use; check that the company is registered, and research its company directors and shareholders,” he says.

INVESTMENT AND RETURNS

Wine investment is a medium- to long-term investment. If you invest in wine, you should wait six to 12 months to see returns, and aim to keep your investment for at least three years.

According to Chris, you can expect returns of about 10% to 15% per annum, while James puts the figure at about 10% to 20% in normal market conditions. “However, at the moment, there are wines that are making 10% returns per month,” says James.

An investor usually buys from one



Chris Low



Lionel Lau

to 20 cases of each wine (that's 12 bottles a case, although some, like Chateau Petrus, have rare cases of three bottles each), and James says that you will need about RM15,000 to invest in one case. “For a Malaysian client, the most I've invested is about £200,000 (RM1mil),” says James, whose clients are from Singapore, Hong Kong, Malaysia, the UK, Germany, France, Belgium, Indonesia and Thailand – mainly business people who want to diversify their investment portfolios.

“We advise clients to allocate about 5% to 10% of their current investment portfolios to wine,” says Chris. When Vintage Assets first started out, their clients were from the high-income group, but now the average-income group is investing as well.

And if something is too good to be true, that's usually because it is! James cautions against buying investment wines at very low prices. “If the prices are much lower than the rest of the market, it usually means that they don't have the stock or they are advertising just to get an enquiry. This actually happens all the time!” he says.

MARKET DIRECTIONS

“In 2009, we handled investments of about RM3 million, and we expect to double or triple that this year because of the *en primeur* for 2009,” says Chris. *En primeur* is a method of purchasing wines

still in the barrel, and in addition to wine brokers, there are some traditional merchants here who also offer purchase options of such to their clients. *En primeur* investments depend on the reviews of wine critics and market reactions.

“Basically, you're betting on what the critics say,” says Chris, who recently returned from checking out the 2009 Bordeaux vintage, which has generated tremendous interest.

James also notes that while the market remains very stable, things are changing, due to economic giant China weighing in on the wine-buying market.

“I monitor prices every week, and wine doesn't fluctuate aggressively like other investments, but I'm seeing the prices going up at an unprecedented rate this year, and it's China that's buying up most of these wines; about 70% Chateau Lafite, while the rest are First Growths,” he says.

“I predict the Chinese are going to buy all the Chateau Lafite on the market!” says James. “And I also think that the Chinese market will increase its knowledge rapidly. Both factors will cause them to spread their buying out across other wines. From what I understand right now, they are buying up the wines and drinking them. So if there is a correction, it won't be a big correction.” ■

Next issue: How it all started, and how it's done.