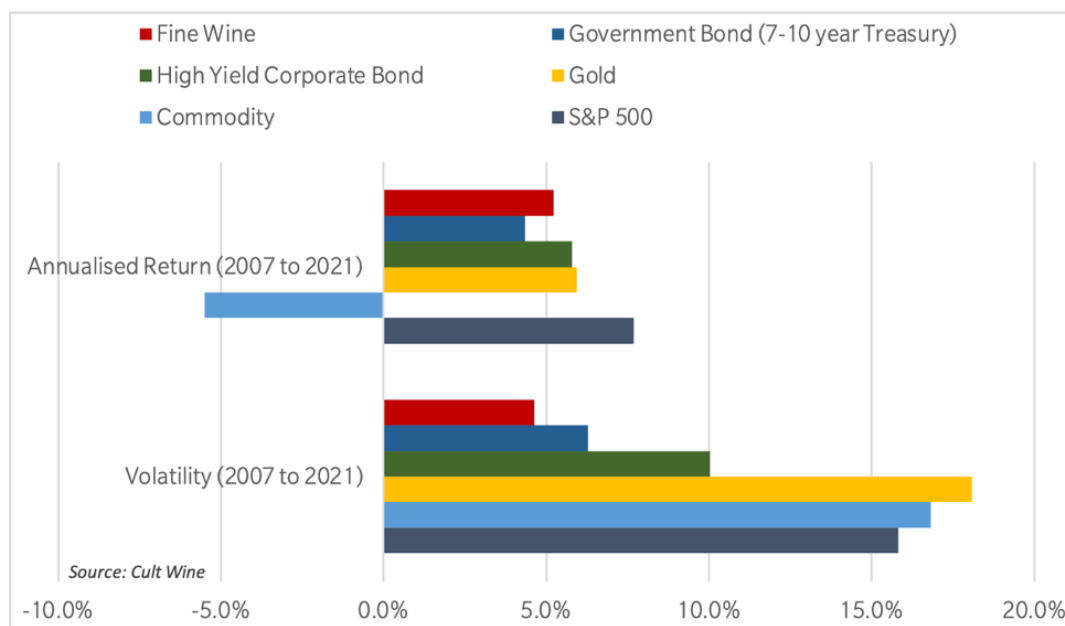


Alternative investments are increasingly added into a portfolio with other traditional asset classes due to superior return and/or diversification effect. Real assets, as one of alternative asset classes, are also getting popular among investors. This paper aims to discuss that investing in fine wine, which belongs to real assets class, is a good choice for investors.







Data as of 31/05/2021	Index Level	May %	YTD %
Liv-ex 1000	372.78	0.76%	4.58%
S&P 500	4204.11	0.55%	11.93%
FTSE 100	7022.61	0.76%	8.70%
Nasdaq	13748.74	(1.53%)	6.68%
MSCI AC AsiaPac	209.03	1.30%	4.56%
iShares 7-10y Treasury	114.4	0.36%	(4.63%)
Gold in (\$/oz)	1,907.40	7.83%	(1.84%)

Source: Liv-ex, investing.com, investing.com, gold.co.uk, MSCI

Fine wine, as measured by the Liv-ex 1000, climbed by 0.76% in May this year. Compared with equity market, the YTD return of fine wine of 4.58% is not that outstanding, however, it is higher than Treasury and Gold under the impact of COVID-19.



In terms of volatility, from 2007 to 2021, fine wine is less volatile and offering a health annualized return around 5% across financial assets. Ameur and Fur (2019) examine the data from 2007 to 2017 including the global financial crisis, and find no relevant direction of dynamic correlations between fine wine market and financial, real estate, or commodities' markets, meaning investing in fine wine is able to offer a potential diversification gain with these market in a same portfolio.

<div>  EQUITY            BOND            COMMODITY            REAL ESTATE            HEDGE FUND            FINE WINE         </div>							Alternatives Portfolio Performance 2015-2018		
							SHARPE RATIO	VOLATILITY (S.D.)	RETURN
With One Alternative	1A	60%	10%	-	-	30%	0.89	6.83	8.63%
	1B	60%	40%	-	-	-	0.40	6.44	5.05%
	1C	60%	10%	-	30%	-	0.37	7.64	5.32%
	1D	60%	10%	-	30%	-	0.35	9.35	5.82%
	1E	60%	10%	30%	-	-	0.22	9.32	4.58%
With Multiple Alternatives	2A	50%	10%	-	10%	30%	0.93	6.10	8.20%
	2B	50%	10%	-	10%	30%	0.89	6.63	8.40%
	2C	50%	10%	10%	-	30%	0.85	6.45	7.98%
	2D	50%	10%	-	20%	20%	0.34	7.98	5.20%
	2E	50%	10%	13%	13%	13%	0.29	8.10	4.80%
	2F	50%	10%	20%	-	20%	0.24	7.90	4.40%

Source: S&P, FTSE, Bloomberg, CISDM, Liv-ex

Indeed, based on the report from Cult Wine (2019), the portfolios including fine wine generally had higher sharp ratio above 0.85 and outperformed other portfolios.

The rise in popularity of wines being bought from the secondary market has grown intensely from the year 2000 to about \$4 billion in 2018, because of its growing rich customers. Knight Frank (2021) reports that the number of ultra-high-net-worth individuals (UHNWIs) is predicted to grow by 27% globally in the next five years to 2025; and during the same period, an expected increase of 41% in millionaires is forecasted. What is more, wine is an experience goods, meaning people need to consume before knowing the quality; therefore, some of wine-lovers will rely on options from experts. (Storchmann, 2012). Wine & Spirit Education Trust (WSET) had 665 new WSET diploma graduates (+25% YOY) in 2020. Under the systematic training, these experts will discover and recommend more fine wines, making the price of some wines increases.

The fine wine market is also full of competitions. Even though Old-World wine (France, Italy, Spain and Portugal) is still the leader, but New-World (USA and Australia, Chile, Argentina and South Africa) wine is still getting popular and growing. Besides, as more people are having the vaccine and COVID-19 is getting better, the demand of going out for drinking fine wine at restaurants or purchasing at liquor stores will increase.

Last but not least, wine is an agricultural product so that it is subject to environment. Since “green” has been the top topic discussed among countries, a better environment definitely will create higher quality of grapes, increase the quality of fine wine. Additionally, fine wine is also a luxury good and corporate social responsibility (CSR) actions towards sustainability seem to be a trend among luxury corporations. In this way, more investors that are concerned about the environment and the welfare of society will be more interested in this area. (Stathopoulou & Balabanis, 2019).

To sum up, as a risk aversion and wine lover, 15-20% of asset allocation with fine wine is good choice and the investment horizon will be 4-5 years, because as of end of May this year, Liv-ex Fine Wine 1000 shows a 5-year return of 45.74%

Reference:

- [1] Aaron Rowlands, Fine Wine: The Alternative Asset for Today's Challenges, Cult Wines, <https://www.wineinvestment.com/wine-blog/2021/04/fine-wine-the-alternative-asset-for-todays-challenges/>
- [2] Ben Ameur, Hachmi, & Le Fur, Eric. (2020). Volatility transmission to the fine wine market. *Economic Modelling*, 85, 307-316.
- [3] Cult Wines. (2019), *Alternative Investment Report 2019*, 12-19
- [4] Forbes, Sharon L ; Gilinsky Jr, Armand ; De Silva, Tracy-Anne. (n.d.). *Social Sustainability in the Global Wine Industry: Concepts and Cases*. Palgrave Pivot, Cham.
- [5] Karl Storchmann. (2012), *Wine Economics*, *Journal of Wine Economics*, Volume 7, Number 1, 2012, 1-33.
- [6] Knight Frank. (2021). *The Wealth Report*, 1-45
- [7] Stathopoulou, A., & Balabanis, G. (2019). The effect of cultural value orientation on consumers' perceptions of luxury value and proclivity for luxury consumption. *Journal of Business Research*, 102, 298-312