

The Standard Chartered Private Bank – The Journey

Alternative Investment – Fine Wine

Some would argue that fine wine has been the best investment of the past decade. Top French vintages have earned returns that have outperformed equities, gold and property and there has been no rolling 5-year period in the past 25 years in which fine wine prices have declined.

Tracking the price increases in 24 leading Bordeaux chateaux from 31 December 1999 to 31 October 2009, saw a 138% return on investments across the range. The best performer was *Chateau Lafite Rothschild 1982* which could be bought from the London trade at £2,615 per case of 12 bottles in the springtime of 2000 and is now selling for £27,000 per case; a return of more than 900%. In recent vintages, the second wine (*Carruades de Lafite*) from this famous chateau has also produced remarkable returns for those who bought it 'En Primeur' (i.e. before the wine is bottled). Branding now seems to be the 'mode' even in fine wine.


Behind the price increases is a limited supply of fine wine in an expanding global fine wine market which approaches £3 billion – up from £1 billion a decade ago. An influx of new-money buyers, especially from the Far East, has also contributed to the growing demand for this sector of the world wine market. It is a market that is dominated by the leading Bordeaux chateaux, but prudent investment in the top domaines of Burgundy and vintage champagne can also bring handsome returns albeit in small volumes.

Quality conscious producers have further cut production, thereby increasing the rarity of fine wine. An example is *Chateau Mouton Rothschild* who 20 years ago were producing twice as much wine as they are currently producing from recent vintages. Every time a bottle of *Lafite Rothschild 1982* or *Mouton Rothschild 1982* is opened, there is one less in the world to enjoy. It is also an interesting fact that the growing Asian market tends to drink wine in its youth, immediately lowering worldwide inventories of these top wines.

To be seriously regarded as a potential investment, a wine (*Chateau*) must have a proven track record with consistent critical acclaim, notably by the American wine writer Robert Parker. His classification scale of up to 100 points has assisted the international fine wine market by establishing some guidelines as to a wine's future potential.

But would-be investors should not buy the first gluggable case that takes their fancy, as not all well known wines are suitable for investment.

Most professionally managed investment portfolios have between 80%-90% by value invested in just eight brands/chateaux. These are the five Bordeaux first growths, *Cheval Blanc*, *Petrus* and *Ausone*. The remainder would consist of the 'super second' Bordeaux chateaux e.g. *Pichon Longueville*, some



vintage champagne and small volumes of *Domaine Romanee Conti* and some *Rhone Valley Grands Crus*.

In order to access the world's fine wine market, one would be wise to contact a professional, established wine merchant, who can create and manage an account for any potential investor. Sadly, there have been cases of naïve investors losing out to scam operators who have suddenly appeared in this growing marketplace.

London has historically traded in fine wine for over three centuries and a reputable wine merchant from this famous trading city would have long established trading relationships with the Bordeaux supply chain, which is critical to buying fine wine at a trade price that will reflect healthy upside investment potential.

2009 Vintage?

This is especially important with the forthcoming *Bordeaux 2009 En Primeur* campaign in mind. Rumours in the trade suggest that this is a top vintage comparable to 1982, 1990, 2000 & 2005 and will be 'an investment' vintage. Certainly all the early reports suggest the fruit was in superb condition during the harvest last September/October. We, the fine wine merchants, will be travelling to Bordeaux in early April to taste the 2009 vintage *En Primeur* before making our purchases.

Newcomers to the wine business, however, will be at the back of a very long queue for any supplies of the 2009 vintage.

With guidelines as to a wine's future potential, a finite supply, impressive historical results and growing worldwide demand, the economic case for investing in fine wine is currently absolutely compelling, but be wary whom you select to handle your purchasing.

Alternative Investment – Fine Wine was prepared by Philip Slocombe, who has lived and worked in the French fine wine business since 1993 and specialises in fine wines from Burgundy and Bordeaux. He is a senior buyer for *Bordeaux Index Ltd.*, one of the largest fine wine trading companies in Europe.

Phil.slocombe@bordeauxindex.com

DISCLAIMER

This communication is issued by Standard Chartered Bank ("SCB"), incorporated in England and Wales with limited liability by Royal Charter 1853, Reference number ZC 18. The Principal Office of the Company is situated in England at 1 Aldermanbury Square London EC2V 7SB. Standard Chartered Bank is authorised and regulated by the Financial Services Authority under FSA register number 114276.

Some materials included here have been provided by third-parties. The information in the materials is based on sources SCB believes to be reliable. While all reasonable care has been taken in preparing it, none of SCB or its affiliates or subsidiaries accepts any responsibility or liability for any error, opinion or with respect to the accuracy or completeness of the information in it. It is for information purposes only. Unless otherwise specifically stated, all statements are solely SCB's as at the date of this communication and are subject to change without notice.

All rates and figures are for illustrative purposes. Past performance is not indicative of future performance. Any



prediction, projection or forecast as to future movements, events or occurrences constitutes an opinion only and is not indicative of actual future movements in rates or prices or actual future events or occurrences.

This document does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any investment strategy, trade securities, or enter into any regulated investment agreement or collective investment scheme. The information in this document is of general nature only and does not take into account the specific investment objectives, financial situation, particular needs or suitability of any particular person or class of persons. Not all investments are suitable for all investors. You should make your own independent evaluation (with the advice of your professional advisers as necessary) with respect to the risks and consequences of any transaction.

The Standard Chartered Private Bank

The Standard Chartered Private Bank is the private banking division of SCB. Private banking activities may be carried out internationally by different SCB legal entities and affiliates according to local regulatory requirements. Not all products and services are provided by all SCB branches, subsidiaries and affiliates. Some of the SCB entities and affiliates only act as representatives of the Standard Chartered Private Bank, and may not be able to offer products and services, or offer advice to clients. They serve as points of contact only.

In Hong Kong, The Standard Chartered Private Bank is the private banking division of Standard Chartered Bank (Hong Kong) Limited.

© Standard Chartered Bank 2010. Copyright in all materials, text, articles, logos, graphics, images and information contained here is the property of, and may only be reproduced with permission of Standard Chartered Bank. Copyright in materials created by third parties and the rights under copyright of such parties are hereby acknowledged. Copyright in all other materials not belonging to third parties and copyright in these materials as a compilation vests and shall remain at all times copyright of Standard Chartered Bank. All rights reserved.