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History and development of the  
fine wine investment market

Hong Kong International  
Wine & Spirits Fair Conference

# Introduction

- Today we are going to look at:
  - The history and importance of fine wine investment and speculation.
  - How critics and transparency have transformed the market.
  - Fine wine's investment characteristics.
  - Some weaknesses and what we can learn from more established markets.

# The role of speculation

Wine is for pleasure.

But speculation plays a vital role.

It has been linked to wine since the beginning of time.

- Speculation adds to liquidity and aids price discovery.
- It allows producers to finance their crop which often isn't consumed for 10 years or more.
- For many collectors investment is part of the fun and helps subsidize an expensive pastime.

# A potted history

40-60AD: First vines planted in Bordeaux

1100s: UK becomes major export market

1663: Samuel Pepys: "drank a sort of French wine called Ho Bryen that hath a good and most particular taste I never met with"

1855: the Left Bank is classified

1978: *Wine Advocate* published

1999: Liv-ex launches

- Compared to fine wine, mainstream assets are positively nouveau. Wine production dates back 6,500 years.
- Bordeaux has been producing wines for 2,000 years and London has been buying for 900+.
- Today collectors store \$2bn+ of fine wine in UK bonded warehouses, Liv-ex members are offering \$1.5bn for sale and wine funds hold more than \$300m.

# Today's market

Liv-ex estimates that the fine wine market has trebled in size in the last five years.

- The fine wine market is worth approx US\$3bn annually.
- Auctions account for just \$300m.
- Globally, merchants dominate: in Europe they sell 40 times more fine wine than auction houses (\$2bn vs \$50m).
- New markets, such as Hong Kong and China, have had a dramatic impact.

# How to define fine wine?

The five First Growths plus Cheval Blanc, Petrus and Ausone account for 65% of Liv-ex trade by value in 2009.

Lafite Rothschild has accounted for 24% alone this on the back of Chinese demand.

- A wine with an active secondary market that has potential to appreciate in value and improve in bottle.
  - Strong track record
  - Critical acclaim
- In practice, this is a very narrow group of top Bordeaux and a handful of others.
- A typical fund has 80-90% invested in the top eight brands.

# Critics and transparency

Traditionally the preserve of the European aristocracy...

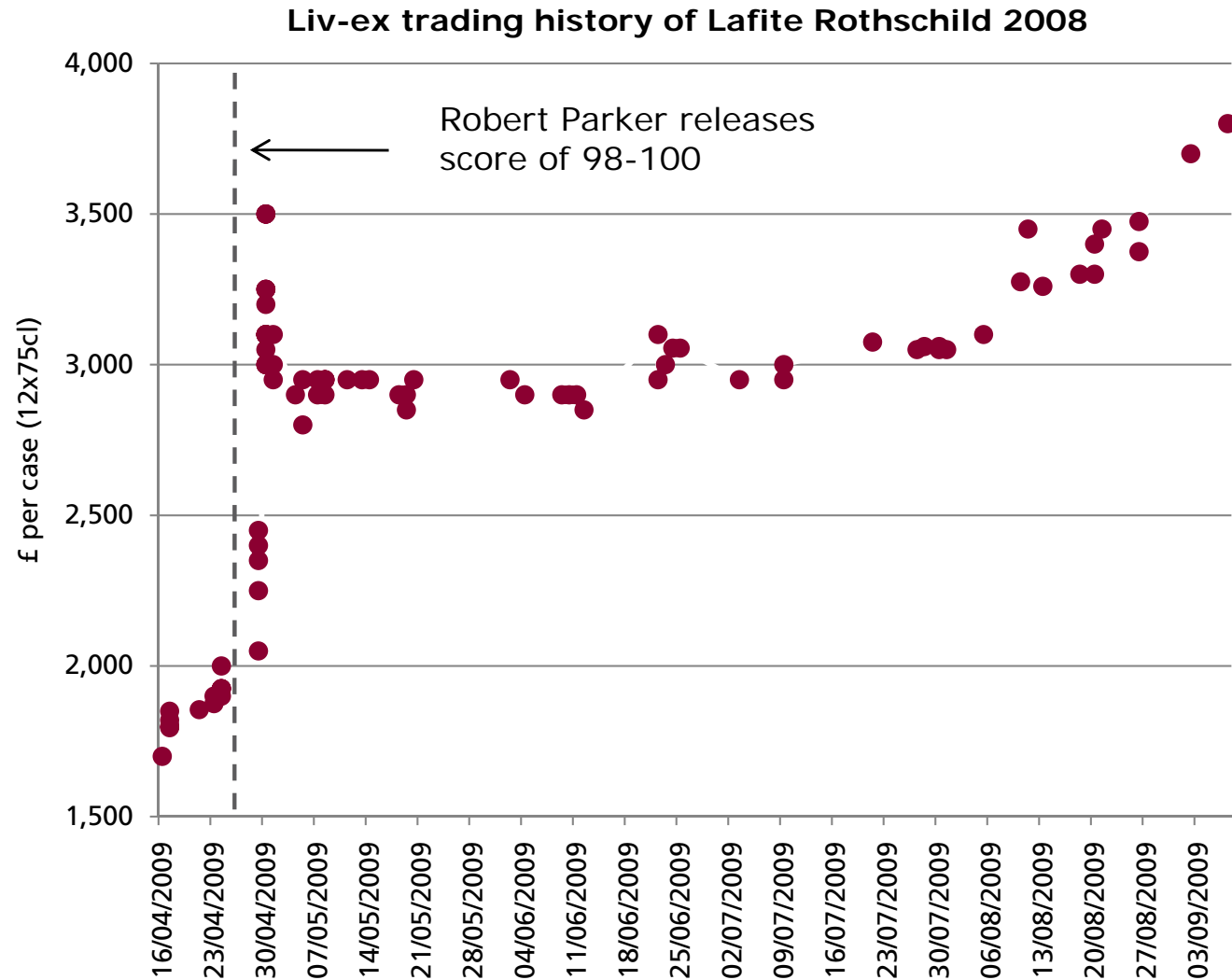
Critics and transparency have demystified the market...

And massively increased confidence and participation.

- Independent critical appraisal has transferred pricing power from the producer to the consumer.
- Price tracking and comparison websites such as Liv-ex.com have transformed a traditionally opaque market.
- These factors have “democratised” the market and precipitated strong growth.

# The power of Parker

On the 29<sup>th</sup> April 2009, Parker surprised the market with a 98-100 point score for Lafite 2008. The price leapt 75% overnight.





# Building transparency

Liv-ex fine wine market data:

- Live bids & offers
- Merchant offer prices
- Trade-to-trade transactions
- Auction hammer prices
- Release prices
- Full price history

**LIV-ex** Livex Trading Analysis Account Help Temporary Press Login (logout)

Search for Wine Current Price Search Print Watch

Keyword:  Vintage:   year   range  -   non vintage

Size:  Region:  Filter:  Per Page:

**Advanced Search**  
Current Price Search  
Bordeaux 2008 Active

**Bordeaux (Red), Lafite Rothschild, 2005, 12x75cl, GBP**

**SIB Special 1**

**Livex Bids & Offers**

Qty	Bid	Off	Qty
1	6,800	7,200	1
1	6,600	7,350	1
1	6,250	7,800	1
--	--	7,950	3

**Summary of Current Prices**

Current Headline Prices			Lowest 5 Current List Prices				
Price Point	GBP	Qty	GBP	Qty	Date	Sold	CI
Rolling Best List Price	7,380	1	7,400	1	05/10/2009	-	-
Lowest Current List Price	7,400	1	7,500	1	23/09/2009	-	-
Highest Current List Price	11,783	1	7,500	3	13/10/2009	-	-
Average Current List Price	8,284	102	7,500	1	19/10/2009	-	-
Last Liv-ex Trade	7,100	5	7,550	1	19/10/2009	-	-
Last Auction Price	7,252	1	<a href="#">Show All Prices</a>				

**Trade History** Add or Remove Series Save Chart

6m 1y 2y 5y max

**Lafite Rothschild, 2005, 12x75cl** Source liv-ex.com

**Info**  
23 Oct 2009 12:36 (UK)  
+44 (0) 20 7228 2233  
[exchange@liv-ex.co.uk](mailto:exchange@liv-ex.co.uk)

**Recent Trades (GBP)**

**Bollinger RD 1996**  
6x75cl 480 0%

**Lagune 2000**  
12x75cl 290 +3.6%

**Carruades de Lafite 2006**  
12x75cl 1400 -6.7%

**Key Data**

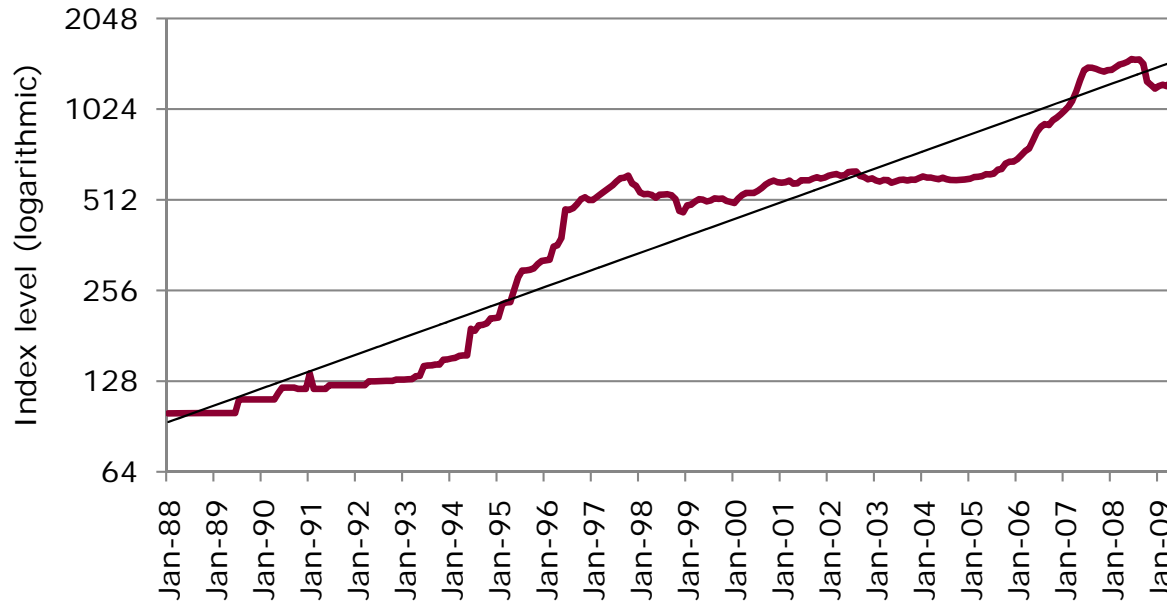
**Currency**  
Eur/GBP 1.091  
USD/GBP 1.640  
Yen/GBP 150.4

**Indices**  
Liv-ex 100 Fine Wine Index 229.94  
Liv-ex 500 Fine Wine Index 205.06  
FTSE 100 5,207  
S&P 500 1,093  
Nikkei 225 10,267

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# A compelling investment case

**Liv-ex Fine Wine Investables Index**



- Supply/demand dynamic: supply is static (even falling), whereas demand is rising due to new markets.
- Diversification characteristics: strong annual returns, low volatility and limited correlation with mainstream assets.

Index/commodity	CAGR <sup>1</sup>	Vol <sup>2</sup>	Corr <sup>3</sup>
<b>Fine Wine</b> (LVX INV INDEX)	<b>12.60%</b>	<b>11.78</b>	<b>NA</b>
<b>Equities</b> (FTSE 100)	<b>4.30%</b>	<b>14.75</b>	<b>-0.12</b>
<b>Gold</b> (London PM Fix)	<b>4.10%</b>	<b>15.71</b>	<b>0.02</b>
<b>House Prices</b> (Halifax Index)	<b>5.50%</b>	<b>3.16</b>	<b>-0.04</b>

1. Compound Annual Growth rate (Jan 1988 - May 2009)

2. Annualised standard deviation (lower equals lower volatility)

3. Monthly correlation (Pearson) with fine wine: 0.5-1 is a high positive correlation, -0.5 to -1 is low positive correlation.

# But it is no panacea

Private collectors face paying away 10-15% to their merchant or 20%+ at auction.

- Investors should never lose site of the fact that wines must one day be drunk. The storage and opportunity costs should also not be discounted.
- Requirement for physical delivery to transfer ownership contributes to:
  - Low liquidity
  - High Transaction costs
  - Slow working capital cycle
- Systemic risk & lack of transparency hamper en primeur trading.

# Some possible solutions

The fine wine market could learn a lot from more established markets:

- A central depository of ownership would allow for dematerialisation.
- Electronic transfer of title would reduce costs, cycle time and risks providing capacity for significant growth.
- Production/sales volumes at en primeur should be audited and published. Tasting samples should be independently verified.

# Conclusion

- Fine wine justifies a place in a diversified portfolio for both pleasure and investment.
- The main themes – namely new markets and transparency – are still in their infancy.
- Efforts to modernise the settlement infrastructure would free up huge capacity for growth and help the market fulfil its exciting potential.



The Fine Wine Exchange

Slides and full text are available at [liv-ex.com](http://liv-ex.com)

Come and see us at stand **3CE32**.