

WINE INVESTMENT COMES OF AGE

The popular mantra among employee benefit consultants and their corporate clients is the attraction of multiple asset classes. Historically, equities, bonds, property and cash have been the main ingredients in portfolio construction but the current vogue is to extend this to as many as 8 - 10 additional asset classes including debt, private equity and commodities.

This trend is grounded in sound analysis including the work of Professor Andrew Clare of the Cass Business School. Research into this subject clearly demonstrates that holding more asset classes can help pension schemes reduce funding volatility over time and that if a typical scheme progressively increases the diversification of its portfolio across at least ten lowly correlated asset classes 'the probability of being under funded falls from 43% to 23.5% over a 20 year period'¹.

The same principle should apply to private investors seeking to mitigate risk in their portfolio. The critical question is the extent to which fine wine should form part of any multi asset diversified portfolio. To answer this we need to consider the degree of correlation with other asset classes. The chart below clearly shows that there isn't a strong correlation with other asset classes and this makes fine wine an excellent alternative asset class to mitigate risk and reduce volatility in any portfolio.

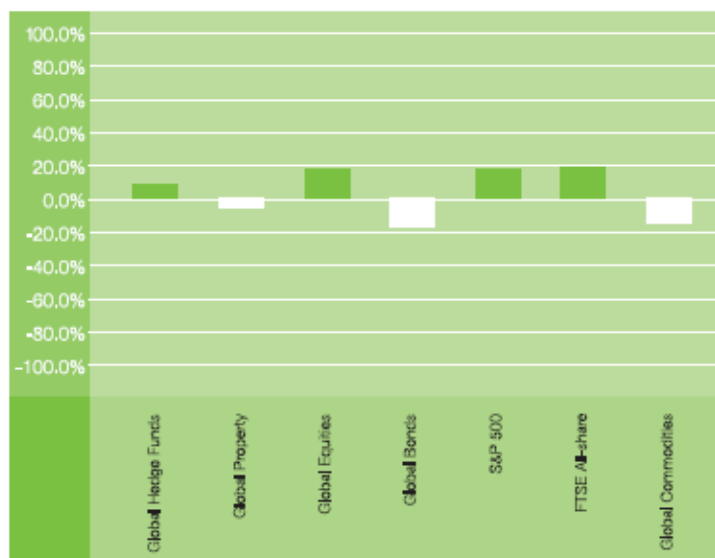
If further evidence were needed, whilst wine hasn't been immune to the credit crisis that has hit world economies, it has proved more resilient than other asset classes. For example, at the end of 2008 the Liv-ex 100 was down 13% compared to the start of the year, but over the same period the FTSE100 fell by more than 30%².

¹ Cass Business School research, April 2007

² Decanter, January 2009

Correlation of Fine Wine to other Asset Classes

(rolling 5 years to September 2007)



Source: Bloomberg and Liv-ex