

# Bottles an investment for collectors; High-net-worth investors have seen good returns

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17 February 2011

The Toronto Star

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William Molson has been drinking fine wines for decades, but he talks about the beverage as though he's just discovered it for the first time.

"You have an epiphany when you're introduced to a really good wine," says the enthusiastic investment consultant. "Once you experience that, you never go back."

Four years ago, the Montreal-based wine connoisseur took his love of wine to a new level: instead of just drinking it, he poured \$200,000 into a wine fund.

"I did it because I had a real interest in wine," he explains.

Like Molson, many high-net-worth investors are taking their love of wine to the next step, dropping dollars into wine funds.

According to the London-based Wine Investment Fund, inflows steadily increased between 2003 and 2007, dipped during the recession, but 2011 is expected to be their best year. The fund opens to Canadian investors shortly.

Dan Pembleton, president of Toronto-based **Accilent** Capital Management, which runs one of Canada's only wine funds, says over the past decade, some investors have tired of more traditional assets, such as stocks, and wanted to find new investment vehicles.

Since people have been purchasing and selling wine for decades, creating, and then buying into, a wine fund wasn't a stretch of the imagination.

Investors make money based on the age-old principal of supply and demand. Anepro buys (real) bottles of wine on the London International Vintners Exchange (Liv-Ex) - an electronic marketplace where people can trade fine wines - at auction or from private collectors.

It's held in a government bonded warehouse, where the wine is insured against any damage and stored at cellar-like temperatures. "It's better than your own wine cellar," says Pembleton. "You have no risk of spoilage."

**Accilent's** fund doesn't buy expensive "trophy wines," as they're too volatile, he says. Instead, he invests in Bordeaux, from France.

"Those wines are limited to the amount of acreage in a vineyard," Pembleton explains.

As a result, only a certain number of bottles are produced each year. Over time, supply dwindles - some bottles get destroyed, others are drunk - and demand increases, driving prices higher.

The wines are limited enough that people will pay for an aging bottle, but they're not so rare that only high-end collectors would be interested. Ultimately, when the fund is liquidated, the wines are sold and consumed in restaurants.

The first wine fund was created in 2003 by London-based Anpero Capital Limited. Pembleton teamed up with the investment management company in 2008 to bring the concept to Canada.

Because it's still so new, it's difficult to quantify if it's a good investment or not.

Part of the problem is that a wine fund doesn't work like a mutual fund - you can't buy and sell at any point in time. Investors pool their assets, the fund closes and only five years later do people find out if they've made money.

Still, Molson expects to double his investment and, according to The Wine Investment Fund, returns are generous.

The company's first fund, launched in 2003 and liquidated in 2008, saw an annualized return of 15.8 per cent, which is much better than the annualized return of 6.3 for the S&P/TSX Composite Index over the same period. The 2004 fund, liquidated in 2009, saw 13-per-cent annualized returns, compared to 7.4 per cent for the composite index.

Last year's returns may be a better judge, since wild recession-related swings didn't affect the benchmark's performance as much. Two funds were launched in 2005 - one in August and one in December. The annualized returns were 17.1 per cent for the August fund and 13.2 for the December fund, compared to 7.7 per cent for the index.

Eric Kirzner, a professor of finance at the Rotman School of Management, isn't sold on the concept of wine-investing. He says investors need to be cautious.

Since the market is still in its infancy, it's almost impossible to tell how much money an investment will return. "In stocks and bonds, you can track 100 years of history," he says.

He's also concerned about how prices are quoted.

"Typically, the people promoting products do idiosyncratic stuff - you bought one wine in 1980 for \$20, it's worth \$350 today," he says. "There's no real consistency or universality to the number that's being quoted."

But, he admits people love wine and, as the market develops, the money-making prospects will become clearer.

For now, Kirzner suggests only investors who have a lot of money to burn should be investing in winefunds. He says you need to decide whether you're investing in wine as a hobby or as a serious investment. If it's the latter, "you better know what you're getting into."

It is mostly high-net-worth individuals who are investing in **Accilent's** wine fund, even though the minimum is just \$10,000.

Molson says he got involved more for the fun than the gains. He wants to make money, but says his investment is a tiny portion - less than 5 per cent - of his total portfolio.

Although Pembleton hopes that average investors will one day be able to purchase his products, wine investing isn't just for the casual drinker, Molson believes.

"Anyone who likes fine wine and has a cellar might consider this investment," he says. "They'll know about fine wine pricing and should know how the market works."

Although Molson still has a year to go before he sees his returns, he's already giddy about the potential.

"If things work out the way I hope they will, wine would have been superior to my equity investments."

William Molson, in his home wine cellar, has also invested in a wine fund. Peter McCabe for the Toronto Star If his five-year, \$200,000 investment in a wine fund does as well as he hopes, it will outperform his equity funds, William Molson says.

Peter McCabe for the Toronto Star