



FINE WINE:
The Journey from Passion Asset
to Mainstream Asset Class



MESSAGE FROM THE FOUNDER & CEO

Alexander Westgarth

In recent years, fine wine has grown in popularity among affluent and high-net worth individuals, driven by a greater recognition of the role it can play in delivering stability, attractive returns, and diversification to investment portfolios.

This has been driven by two key factors; first, the investment ecosystem around fine wine has continued to professionalise, absorbing new innovations and technologies, as well as ESG considerations, to deliver an enhanced service to clients. Second, returns have continued to hold up very well against other asset classes, as judged by leading benchmarks such as the Liv-ex 100 (see opposite).

To date, there has been limited research into how fine wine is perceived by the key gatekeepers to sophisticated private investors, namely wealth managers and financial advisers.

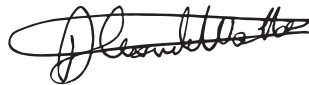
Fine wine has long been seen as a 'passion asset' – a fun and exciting yet niche investment option for connoisseurs and hobbyists. But over the past few years, characterised by increased market and economic volatility that have destabilised traditional assets such as equities and bonds, perceptions of fine wine have evolved from a passion asset into a mainstream alternative asset.

We have sought to bridge this knowledge gap by commissioning research among 50 UK-based wealth managers and financial advisers to gauge their views and sentiment towards fine wine as an asset class. We've taken this step because

specialist wine investment firms such as WineCap are seeing greater engagement from intermediaries and, as our research finds, more positive sentiment towards fine wine from this key audience.

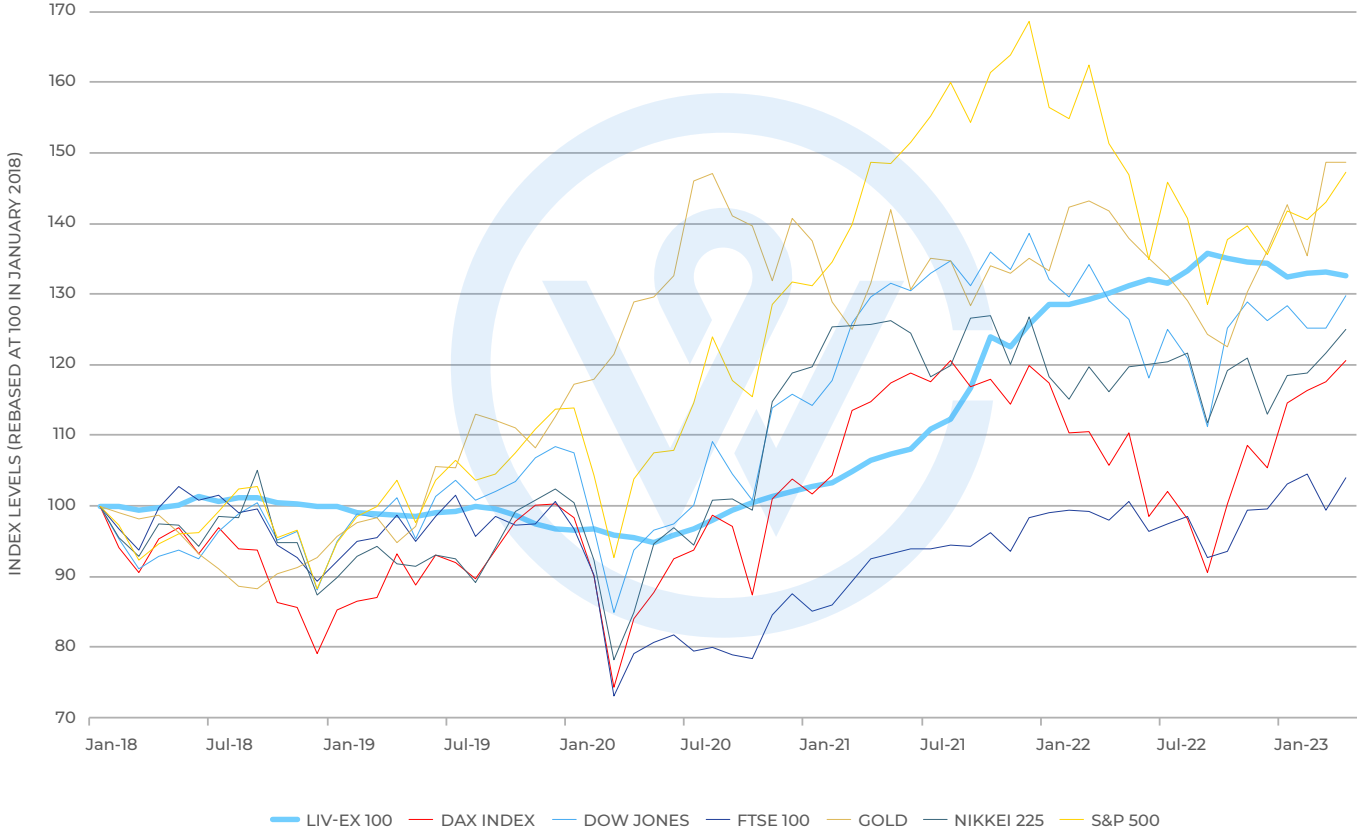
We know that many stakeholders still think of it as a 'passion' asset and not a mainstream one, and we, like many in the industry, remain focused on changing attitudes. Thanks to its low correlation with other asset


classes and defensive characteristics, fine wine should be attracting a wider investor audience.



ALEXANDER WESTGARTH
Founder and CEO of WineCap

LIV-EX 100 INDEX VS MAINSTREAM EQUITIES AND GOLD





Methodology & Demographic

WineCap commissioned independent research firm PureProfile in April 2023 to canvass 100 wealth managers, independent financial advisers and financial intermediaries in both the UK and US on views and sentiments towards fine wine (split 50 per market). In the UK, 35 of the respondents classed themselves as wealth managers, eight as independent financial advisers and seven as financial intermediaries/advisers. The research was conducted through an online questionnaire.



FINE WINE AS A PASSION ASSET

Fine wine has traditionally been categorised as a passion asset, alongside classic cars, art, rare stamps, and antiques. Giving the investor pleasure has been as much a driving force as their role as a store of value.

In the context of passion assets, respondents expect fine wine to attract most demand from investors over the coming year. Indeed, almost all (96%) of those interviewed expect demand for fine wine will increase, with 60% saying that it will increase “significantly”.

That wealth managers see demand for fine wine comfortably outstripping other passion assets suggests that they believe its appeal extend well beyond oenophiles to a much broader, non-specialist investor community.

This placed fine wine comfortably ahead of watches (86%) and luxury handbags (80%) in second and third place respectively. Other well-established passion assets such as art (68%) and classic cars (62%) placed much lower in sixth and tenth place.

SHARE OF UK WEALTH MANAGERS AND FINANCIAL ADVISERS THAT EXPECT DEMAND FOR CERTAIN 'PASSION' ASSETS TO INCREASE OVER THE NEXT YEAR



ESG AND ENVIRONMENTAL CONSIDERATIONS

The influence of Environmental, Social and Governance (ESG) factors over investment portfolios has grown dramatically in recent years. Wealth managers are increasingly applying these non-financial criteria to investment opportunities.

While alcohol is usually one of the first asset classes to get screened out in ESG portfolios,

there is a compelling case, reinforced by our survey, for fine wine to be viewed as a highly sustainable asset class that plays a positive role in preserving the environment. Indeed, over half (54%) of our sample cited fine wine's low carbon footprint as a key reason for choosing to invest in it.

Here are five reasons backing up their view:



Vineyards are a carbon sink.

A rugby-pitched-sized area of vineyard soaks up a respectable 2.84 tonnes of carbon every year.



Soil quality can be enhanced through fine wine.

Soil degradation is hot on the radar for concerned environmentalists.



Organic wine production supports pollinators.

Organic or pesticide-free vineyards – often one of the hallmarks of fine wine – helps bees and other pollinators get back on track.



Fine wine is fighting back against single-use plastic.

Unlike disposable plastic, fine wine glass bottles are something to be treasured.



Vineyards help fill rocky terrain and hills with plants.

The higher altitude acts as a natural pesticide, making it much easier to create organic wines.



A final thought on the subject.

You'd have to drink a bottle of wine every single day for three years for it to have the same impact as a single London to New York flight.

FINE WINE AS A BONA FIDE ALTERNATIVE ASSET

Our research found that fine wine is already featuring prominently in many wealth managers' client portfolios. Indeed, the UK wealth managers and advisers that took part in our study estimated that over 40% of their HNW client base invests in fine wine with an average portfolio allocation of around 10%.

Fine wine's growing prevalence among HNW client portfolios provides compelling evidence, if any is needed, that it has graduated to a genuine alternative asset, a highly effective portfolio diversifier, operating alongside other popular alternatives such as hedge funds, real assets, and private capital as well as mainstream assets such as fixed income and equities.

In common with other alternative assets, fine wine tends to feature more prominently in larger portfolios belonging to more sophisticated investors where there is a greater premium on diversification. Almost all respondents (98%) said that clients investing in fine wine are mainly experienced investors, with 62% saying they were "very experienced".

WHY ARE CLIENTS INVESTING IN FINE WINE?

As the figures on the following page reveals, fine wine displays numerous crucial qualities that appeal to investors, including sustainability, strong returns, tax efficiency, stability, and low correlation to mainstream asset classes.

Many HNW investors will have experienced high degrees of market volatility in recent years, exacerbated by Covid-19 and the Ukraine conflict. Fine wine has proved its resilience by thriving in these turbulent conditions, comfortably outperforming traditional asset classes.

Performance of fine wine has, generally, held up very well over the past year, a period of heightened volatility and market turbulence. As noted, the industry benchmark Liv-ex 100 index has shown that fine wine has delivered a smooth, lower volatility return than other asset types. For example, over the last five years, the broader measure of the market, Liv-ex 1000, soared by 41.2%, compared to the FTSE100's modest 8.9% increase in the period.



What are the most common reasons for UK investors seeking alternative options such as fine wine investing?*



A CAUTIOUS RISK PROFILE

Although fine wine is often labelled as a passion asset, wealth managers understand that it appeals as much to the head as to the heart. Assuming clients gain exposure to a well-diversified portfolio of professionally managed vintages, wealth managers are most likely to ascribe this as having defensive, low-risk investment characteristics where high returns are less important than capital preservation.

Indeed, some 88% of our respondents said they treat fine wine to playing a cautious role in an investment portfolio, typically alongside other so-called safe-haven assets such as government bonds and gold, with half (50%) describing it as having an “extremely” cautious profile.



CAPITAL GAINS TAX ALLOWANCE REDUCTIONS SET TO FUEL FINE WINE'S POPULARITY

Capital gains tax (CGT) is levied on profits made from the sale of assets. One of the least discussed strengths of fine wine is its exemption from UK Capital Gains Tax (CGT) as it is treated as a wasting asset i.e.: it is judged by HMRC as having a predicted useful economic life of less than 50 years. Our survey asked wealth managers whether they thought the recent reduction in the CGT allowance from £12,300 to £6,000 in April 2023 and to £3,000 in April 2024 is likely to increase wine investment interest among clients.

An overwhelming majority (94%) said that the large reductions in the CGT allowance would stimulate more interest in fine wine among their client base, with almost half (48%) saying that this would “significantly” increase interest.



CHAPTER THREE

CATALYSTS FOR FURTHER GROWTH

Our survey shows that fine wine has already made considerable progress on its journey to becoming a popular investment option but there is still a long way to go before it reaches a similar level of ubiquity to other mainstream assets. However, almost all (96%) of UK respondents believe that, considering the attractiveness of fine wine as a leading alternative asset, awareness is set to grow over the coming years, with around a third (35%) saying that it would grow significantly.

What factors will play the biggest role in encouraging more clients to invest in fine wine? The most important factor, identified by over half (58%) of respondents, was achieving greater awareness among investors of the role fine wine can play as a diversifier away from equity and bond portfolios. A quarter (24%) cited providing greater confidence in the liquidity of the secondary market.

Other considerations included a lower minimum investment level so it is more accessible, more evidence of the growing popularity among mainstream investors, and better guidance and education.

For wealth managers and financial advisers, the crucial role that professional investment firms such as WineCap can play across the fine wine investing chain is also key. Fine wine is a sophisticated asset class that requires specialist investment expertise, portfolio management, strong relationships with key fine wine producers and first-class storage facilities to optimise returns.

Our mission is to offer propositions that translate into maximised returns. We facilitate easy access to wine: a proven, highly desirable asset that has historically delivered stable and substantial returns. Assuming the role of agent, we analyse our investors goals and circumstances and then work to source the optimal wines to create a sound, diversified and profitable portfolio.

BLOCKCHAIN AND ITS GROWING ROLE IN FINE WINE

An example of how producers, buyers and other stakeholders in the fine wine sector are using the latest technologies to deliver an enhanced service is the role that blockchain has been playing over the past few years. It is still early days but some producers use ledger technologies and related protocols to better track production, reduce fraud and appeal to a younger demographic. How the market capitalises on such technology will be interesting to see – it is likely that as new innovations and capabilities emerge, the fine wine industry will continue to react.

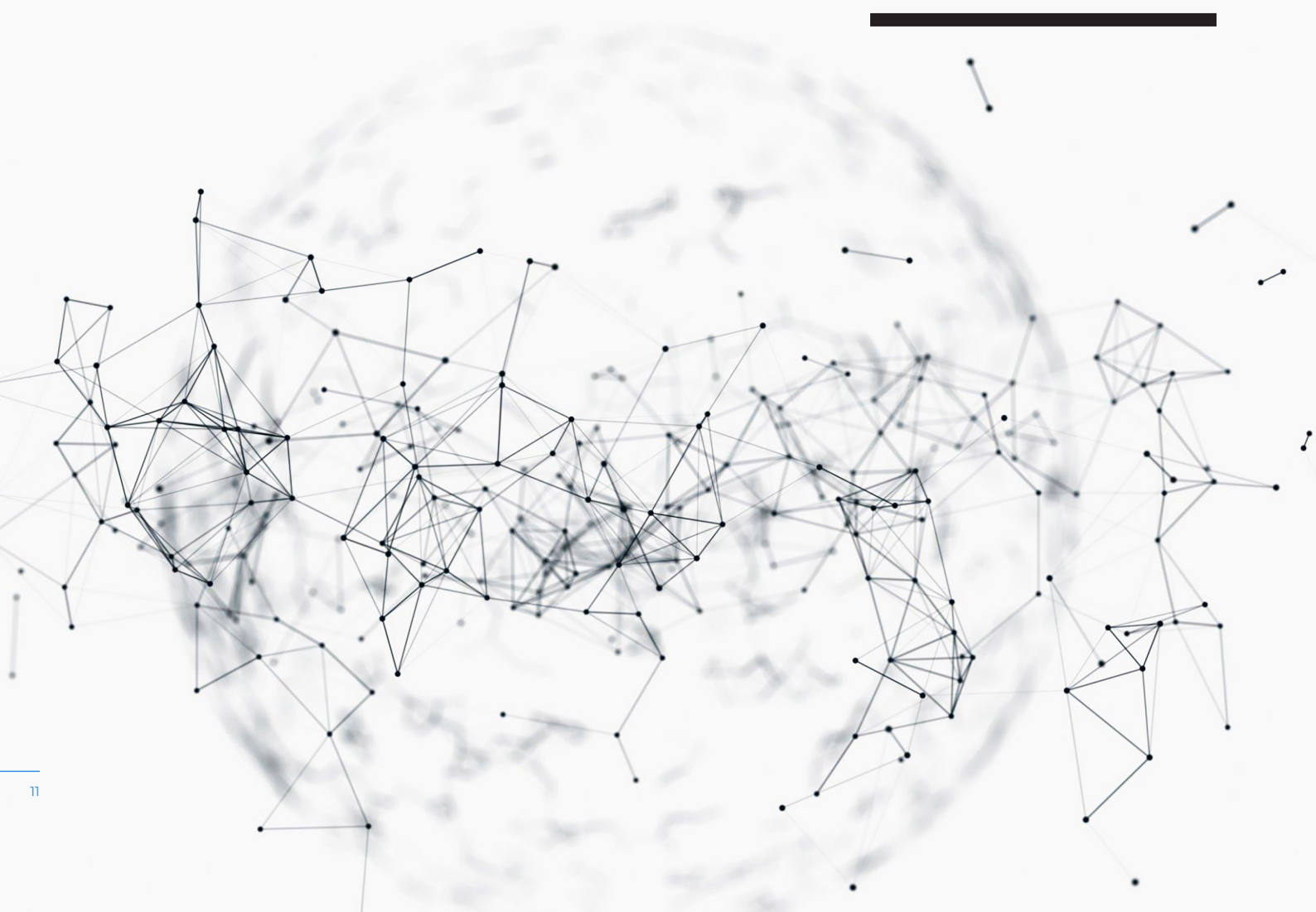
Our research among wealth managers and advisers found a majority believe that blockchain has a role to play in the industry. For our UK respondents, some three fifths (60%) said blockchain tech will make it easier for investors to control their investments on their own, for instance.

56%

A similar number (58%) said it will make reputable new releases more accessible for investors without using a third party

58%

56% of respondents said it will create more security and confidence in the sector.



Summary & Conclusion

The fact that fine wine has received such a positive reception from wealth managers, whose success relies on advising clients on making the right investment decisions, is a testament to its growing appeal. Based on their feedback, there is every reason to believe that more of their clients will be investing in this fascinating and enjoyable asset class over the coming years.

As the investment climate becomes even more challenging, squeezing returns from traditional assets, fine wine's appeal as an effective portfolio diversifier will continue to grow. Fine wine delivered investors double digit returns over the Covid-19 pandemic and global lockdowns. Liv-ex reported that between April 2020 and September 2022, the asset shot up a staggering 43.5%. This makes it a great hedge option for investors during turbulent times, and in recent years, a better portfolio hedge than gold.

The wine investment landscape has evolved significantly, and with younger, international buyers shaping the market, wealth managers should explore assets beyond traditional stocks

and bonds. Rising global demand and increased buy-in from international investors helps the market become more liquid and efficient, improving price transparency. Furthermore, incorporating passion assets that resonate with younger investors, such as sustainability-focused investments and items reflecting their values, can strengthen client relationships and attract the next generation of investors.

The sector has also further professionalised and in our experience, more wealth managers are seeking partnerships with specialist wine investment firms such as WineCap to ensure their clients can gain access to a similarly high-quality service with full price transparency.

While the investment case for fine wine speaks for itself, we hope that newcomers to this asset class develop a passion for it too, and enjoy being part of a fast-growing, global community.



MAKING WINE INVESTMENT AFFORDABLE, TRANSPARENT AND SIMPLE FOR YOU.

Our mission is to democratise wine investment, making it more affordable, more transparent and easier to access. With decades of experience navigating the international fine wine market, we offer propositions that translate into maximised profits for our customers. Put simply, we facilitate easy access to wine: a proven, highly desirable asset that has historically delivered stable and substantial returns.

We've developed our own, bespoke technology that analyses over 400,000 wine prices a day to identify the right, undervalued wines to buy and sell across the global market at the right time and price. By automating this process, we can pass substantial cost savings on to our customers and don't charge any management fees.

Assuming the role of agent, we analyse our customers' goals and circumstances and then work to source the optimal wines to create a sound, diversified and profitable portfolio. With our longstanding UK alliances, our customers also benefit from the most developed secondary fine wine market in existence. We're excellently positioned to buy well and sell high due to our sister companies in Bordeaux and the US. We have an unparalleled global reach as we are strategically positioned in London: the fine wine market hub.

We've built an organisation over the years that elicits trust, partnership and profitability.

Whether you're new to the world of wine or a seasoned investor, we work hard to establish a personal relationship with you. Our priority is designing a customised portfolio that meets your objectives, all while ensuring that you retain full and unconditional ownership of your assets. This strategy means we've built an organisation over the years that elicits trust, partnership and profitability. We're proud of the accolades our investors have provided to us regarding the quality and reach of services and we welcome an opportunity to share them with you.





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