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Introduction to Wine Collecting

Collecting fine wine is not a new concept - for centuries, wealthy collectors have been buying, storing and selling fine wines - it is true that many collectors would take advantage of strong returns seen in the wine market by buying multiple cases of the same wine, waiting for the price to appreciate and then selling part of their portfolio to ultimately drink the remaining wine for free!

Amongst the rich, fine wine is already a popular investment – in fact nearly a quarter of high-net-worth individuals currently own a wine collection (source: The Financial Times). Strong and growing demand for fine wines, along with limited, diminishing supply, has led to an impressive long term record of performance – in the last 10 years the leading benchmark (Liv-ex 100), has risen by 140%.

The key to investing in wine is buying and selling at the right time and price. Our model takes into account the top 200 Chateaux from Bordeaux, France. Analysis is constantly undertaken on wines from the 1855 Classification of the Medoc & Graves, and the St-Emillion Classification.

After the recent negative correction of the Liv-ex 100 from the market's all-time high in the summer of 2011, we are now seeing great value in the secondary market for trading in and out of back vintages. Throughout the 1990's and the early years after the millennium, collectors of fine wine would have seen increased value on the majority of wines purchased en-primeur (wines purchased before being bottled).

En-primeur is classed as a wine future, and in today's market these prices since 2009 have been overpriced by the Chateau. This has resulted with investors purchasing older vintages that are ready for drinking, presenting a stronger reason for investment purposes when compared to the futures market.

Investing into fine wine has become more accessible for private investors over the last ten years. The Liv-Ex exchange now provides a transparent, efficient and safer place for buying and selling wines globally. The wine market has now become a viable alternative financial instrument for any diverse investment portfolio.

The auction markets are thriving globally and commission charges applied are not for the faint hearted, with 15 – 20% of the consideration being lost on the hammer. Prices more often than most can exceed high end estimates in the right auction.

As a result of the Liv-Ex exchange, founded by James Miles and Justin Gibbs, the 440+ trade members worldwide have access to the largest pool of buyers and sellers in the world with commissions as low as 2% on sales. What this means for our members at Veblen Wines Ltd is that you can receive low cost dealing rates, access the market's wine from reputable merchants and integrate your portfolio with the fine wine market's best platform for liquidity.



There are no limits to investments in wine, a portfolio can start from as little as £2,500.

This asset class should be held for the medium to long term (typically 5 – 10 years) in order to maximise the return on your investment. Should you wish to realise your investment at any stage we will simply 'offer' you with prices taken from the exchange for your consideration and 'acceptance'.

Upon clearance of funds you can be paid in full or part as you instruct on the 21st day of the following month. There are no early redemption penalties applied to your account when selling wines prior to the recommended typical investment term.

WINE CLASSIFICATION

Fine wine is classified as a '**wasting asset**' by HMRC. This means that at the time of purchase the wine has a predicted perishable life of less than 50 years.

CAPITAL GAINS TAX

Capital Gains Tax (CGT) does not apply to 'wasting assets', those whose predictable life does not exceed more than 50 years (Section 44(1) Taxation of Chargeable Gains Act 1992).

The law is far from clear cut in this regard. Wine is a greatly nuanced art and the application of a catch-all rule, is nigh-on impossible though a great many investment wines are considered wasting assets and as such investors are not liable to pay CGT on profit from wine investments not exceeding £250,000.

TAX CONSIDERATION

Fine wine investment is often advertised as a 'tax-free investment'.

Whilst fine wine certainly can be considered more tax-efficient than other forms of investment, there are a number of key considerations to make and it is crucial to observe that legislation in this area is not always black and white. We recommend you consult with your tax adviser to see how to make the most of fine wine as an asset.



STORAGE AND INSURANCE

Professional storage of your wines with Veblen Wines Ltd is free for the first year. Subsequent years are charged at a rate of £15.00 + VAT per annum for 12x75cl (9 litres), and £7.50 + VAT for 6x75cl (4.5 litres). The storage charge includes insurance of the wines at full market value. The storage of wines is managed by Vine International, a wholly owned subsidiary of Liv-ex, using the government bonded warehouse system. Each case is assigned an identification number which is represented on your appraisals that we provide quarterly.

Vine International acts as the clearing and settlement house for all trades conducted on the exchange. Correct storage of your wine is crucial to getting the best out of your investment. By storing your wine 'in bond' you are not liable to pay the duty or VAT on the price of the wine. Additionally, your wines will be kept in perfect condition with full audit trails recorded at all times ensuring perfect provenance for wines purchased under SIB (standard in bond) contract terms.

Trading

Overtime, wine increases and decreases in value with plateau points in between over different lengths. Historically the cheapest entry point for purchasing wine was at the en-primeur stage, where wine is still at the chateaux and fermenting in the barrels. This may also be known as wine-futures in the primary market, this is when the wine is not physically bottled.

Since 2009 the en-primeur system has started to decline in demand due to prices being exceptionally high and investors not seeing any positive returns. The majority of top chateaux in Bordeaux refused to lower prices resulting in negociants inventory being too high. It is said that wine has a perfect inverse supply curve in Bordeaux, due to limited supply and increasing demand. This is true in general, however, since the en-primeur system has all but collapsed in recent years we have prided ourselves on applying stock analysis that has resulted in solid stock selection and outperforming the market.

We always take into account both the primary and secondary market - at present we believe that some of the heralded investment vintages (1996 for example) present good value and a strong entry point for investors seeking the potential of future growth. We apply a 'three pronged approach' to the Bordeaux fine wine market when considering investment, please see below;

1. Incremental Price theory
2. Price Plateau
3. Inverse Supply.



Inevitably, so long as there is demand at the table wine will increase in value over time. When wines are ready to drink they may increase in price from a plateau. There are many critics in the industry and these ratings can affect the prices significantly.

En-Primeur wines do not carry a single score rating and are banded until bottled (example: 96-100 RRP). It is at the point of wines being bottled in the secondary market that they may be selected for purchasing if the vintage is underrated in the barrel and subsequently receives a favourable re rate i.e 100 RRP.

Due to the real time pricing and information supplied by Liv-Ex, we firmly believe that we are able to capture successful trades before the news is disclosed to the mainstream markets. We are efficient in using our available resources and have a real passion when trading the market.

Another key feature with Veblen Wines and wines purchased at en-primeur is that due to our 'Tier 1 Merchant' classification we are able to sell any wines back to the market before they are bottled. This enables our members to act quickly and capitalise on their investment growth reducing credit risk going forward.

Realising your investment

We are here to help you keep a track of your investment at all times, in layman's terms we will advise you when to buy Low and sell High.

Should you wish to sell your wines in full or part, we will need to obtain your consent prior to any sales being conducted.

These funds can be paid in full or part to you under your instruction on the **21st day of the following month of trade.**

At all times you own the asset and we will service the process of investment, storage and settlement from start to finish by trading the paper. Our success is in the way we trade, and working with Liv-Ex and Vine International means that we can be very efficient in our process and delivery of data, management and clearance of funds, thus maximising your Capital Gains Tax free returns as a private investor.

For further information, or to simply open an account and start building your portfolio call us now on this number +44 (0) 1622 672 314.

Kind Regards

Veblen Wines Ltd
www.veblenwine.com

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FINE WINE INVESTMENT