

The Interview - Miriam Mascherin, Elite Advisers: "The price of grands crus is rising thanks to the mismatch between limited supply and growing demand"

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Miriam Mascherin, managing partner of Luxembourg-based Elite Advisers, says the firm's combination of investment management expertise and deep knowledge and range of contacts in the wine industry gives its Nobles Crus fund an edge in achieving returns from the buying, holding and selling of top-graded wines.

HW: What is the background to your company and fund?

MM: Elite Advisers was formed in January 2007 by Michel Tamisier and myself, who have enjoyed considerable success in financial product distribution at an international level and benefit from practical experience of the services offered by various financial sector players.

Elite Advisers combines the world of passion, its pleasure and emotional side, with the one of reason, rigour and performance seeking to meet the needs of a clientele in search of excellence and exclusivity. To start with, we wanted to gather our clients around a theme fully linked to history and culture, and naturally we chose wine as our first investment theme.

Capitalising on the new Luxembourg legislation on Specialised Investment Funds that came into force on February 13, 2007, which enables investments in tangible assets, we decided to launch Nobles Crus, the first open-ended investment fund with monthly valuation investing in fine wine. Launched in November 2007, Nobles Crus is a compartment of Elite's Exclusive Collection SIF and currently has assets under management of EUR12m.

Structured as a Luxembourg Sicav, Nobles Crus is conceived as a complement to traditional investment products that holds tangible assets. Its investments in top-graded wines yielded a performance of 20.39 per cent in 2008.

The rarity and the age of wines are obviously selection criteria in the composition of the portfolio. Demand for grands crus is increasing as emerging countries becoming more affluent, while supply remains largely fixed - you can only produce the number of bottles of Petrus that the land will allow. This is keeping prices on a permanent upward trend.

Christian Roger, the investment manager of Nobles Crus, has 20 years' experience

as a banker in some of the largest international institutions. However, his interest in the world of wine emerged very early on and in 1998 he left the banking sector to dedicate himself fully to his passion for wine. Notably Roger is a permanent member of the Grand Jury Européen de dégustation (European Grand Jury of Wine Tasting) and a leading connoisseur of the rarest, most renowned and sought-after wines.

He brings his in-depth knowledge of oenology and experience as an investment manager to the task of selecting and managing the wines in the Nobles Crus portfolio.

HW: Who are your key service providers?

MM: Caceis is the depositary bank and the appointed lawyers are Allen & Overy. Deloitte is the auditor for the fund.

HW: How and where do you distribute the funds? What is the profile of your current and targeted client base? What is the split of your assets under management between institutional and private clients?

MM: We distribute the fund to informed investors including private banks, family offices, insurance brokers, wealth managers, and some small funds of funds, in Luxembourg, France, Switzerland, Belgium, Italy and the Netherlands. Ninety per cent of our assets are from private clients and 10 per cent from funds of funds.

HW: What is your investment process?

MM: Nobles Crus' investment process resembles that of a traditional fund in employing a bottom-up approach. It requires a deep understanding of top-graded wines of the world, knowing how to choose the best vintages that will have high added value in the future, and full mastery of wine-tasting techniques for both recent and older wines.

It also entails great experience of the wine market, as the parameters to take into account are numerous. Awareness of climatic conditions, production processes, wine producers, evolution of vintages over the course of a year, oenological techniques and tasting expertise must be united within a single, unique decision-making process. The main difference from traditional funds is that instead of carrying out securities analysis, the fund manager has to taste the wines that he wants to include in the portfolio.

HW: How do you generate ideas for your fund?

MM: The investment objective of Elite's Exclusive Collection - Nobles Crus sub-fund is to achieve optimal long-term capital growth through the buying, holding and selling of top graded wines. The fund only invests in vintage wines and en primeurs, with a maximum of 70 per cent in the millesimes (Latour, Romanée Conti, Cheval Blanc, Petrus and Haut Brion), 20 per cent in en primeurs and 10 per cent in cash.

The performance target is 15 per cent per annum. Our strategy is to buy and hold and sell the wine as they reach maturity in order to achieve top market prices.

HW: How has your recent performance compared with your expectations and track record? Do you expect your performance to vary going forward?

MM: Nobles Crus returned 20.39 per cent compared with a decline of 14.6 per cent in the Liv-ex 100 Fine Wine Index, an industry benchmark that represents the price movement of 100 of the most sought-after fine wines principally from Bordeaux, not only premier crus but also 2ème and 3ème crus that have undergone price adjustments as a result of the economic crisis.

Our strength lies in our disciplined approach to the management of the fund, based on our experience of classic investment strategies. We invest only in the most famous wines in the world, for which demand is always strong while supply is limited and cannot be increased. In addition, the opening of an old vintage means there is one fewer bottle available on the market, reducing its availability and maintaining upward pressure on prices.

However, as we specialise in older and rarer vintages we might at certain times have difficulty finding these exceptional wines, hence the importance of having a very strong network in the wine industry.

As this is a highly decorrelated product with low volatility but regular performance, it is not suitable for investors looking for high returns over very short periods. The recommended investment period is at least three to five years.

Our strategy performs well over long period of five to 10 years with low volatility. It performs best when trends are good trends, but it also shows its resilience in difficult market conditions thanks to its decorrelation from the traditional equity and bond markets. As we keep 10 per cent of assets in cash as well as having some very 'liquid' wine such as Romanée-Conti, we can ensure being able to meet a certain level of redemptions beyond the 10 per cent mark on a monthly basis.

HW: What opportunities are you looking at right now?

MM: New investments must meet the following criteria: they must be a premier cru top-quality wine, an investment-graded vintage, a star name among the top 20 houses in the world, be in the top five houses for ageing potential, and internationally known. These factors will ensure liquidity, for instance in case of redemptions, and rising prices thanks to the mismatch between limited supply and growing demand.

This year, Nobles Crus plans to take advantage of the fluctuating financial markets to boost stocks of recent vintages (Bordeaux from 2000 and 2005, Burgundies from 1999, 2005 and 2006), lowering our average purchase price while building up good volumes. Elsewhere we plan to take advantage of opportunities as they arise.

In the current economic climate, wine remains an excellent diversification tool and

we are confident that over time it will prove the best investment class, as recent academic research covering the past 40 years has indicated.

HW: What differentiates you from other managers in your sector?

MM: Our fund differs from those of our competitors in that Roger, our investment manager, combines both financial expertise of more than 20 years and a passion for wines recognised by the wine industry. The fund only invests in grands crus and top-graded wines, accounting for no more than 50 labels worldwide.

A significant part of the fund is invested in wines from Burgundy, an area accessible only to those with a network and the credibility to buy the world's best wines, such as Romanée-Conti. This is a very difficult task but very rewarding in terms of performance.

Our competitors, by contrast, tend to focus on en primeur wines from the Bordeaux area as no storage is required and the volumes available are much higher. A top Burgundy wine such as Romanée-Conti may produce only 5,000 bottles a year, while a premier cru from Bordeaux may produce 150,000 bottles.

Guides such as Robert Parker help these fund managers choose primeurs for their funds, so they employ less in-house expertise. Roger participates in wine-tastings alongside Parker and can take note of what he says, but he will judge for himself as well.

HW: Do you have any plans for other product launches in the near future?

MM: We are currently working on the launch of a fund investing in diamonds.

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