ALTERNATIVE INVESTMENTS

LUXURY COLLECTIBLES, A GROWING ASSET CLASS

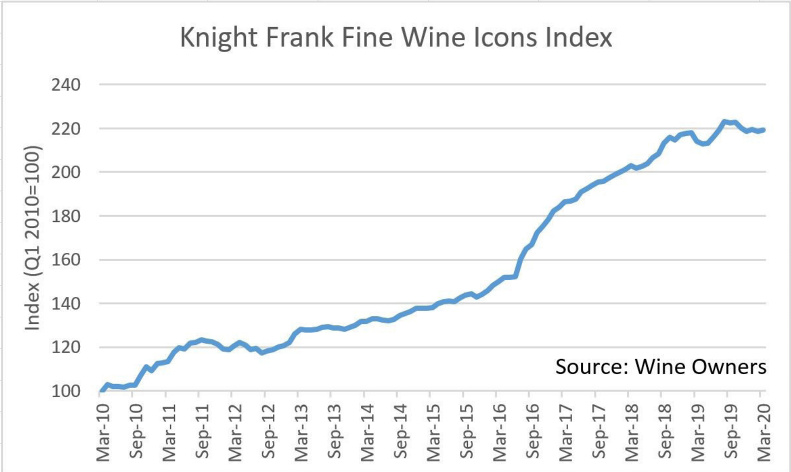
After the 2008 meltdown, markets have gone through a decade of uncertainty, culminating in the current global pandemic. Over the last decade, investors have begun to explore alternative investments to the traditional stock market, concerned that old methods no longer preserved their capital after financial disasters. As a result, alternative investments have grown in popularity due to their low correlation to the general market and enormous possibilities.

The luxury collectibles market attracts collectors, high-net-worth individuals, and investors seeking monetary gains and portfolio diversification. There are many different underlying asset classes, with fine wine, art, jewelry, and watches being the most popular.

FINE WINE

Investing in wine is becoming a more popular option among alternative investments. Liv-Ex 100 index had a very strong 40.5 percent rate of return in 2011, immediately after the financial crisis of 2008, when the rest of the financial world was in disarray.

In a more recent context, according to the same index, the fine wine market ended 2021 with a strong performance, contributing to a quarterly increase of 5.16 percent. This underscored the ability of the asset class to perform in an environment of uncertainty, including current inflation concerns, global supply chain issues and stock market volatility: Fine wine prices continued to climb, ending the year with three consecutive months of broad-based growth.



Source: KFFWII index, source Knight Frank, the Intelligence Lab.

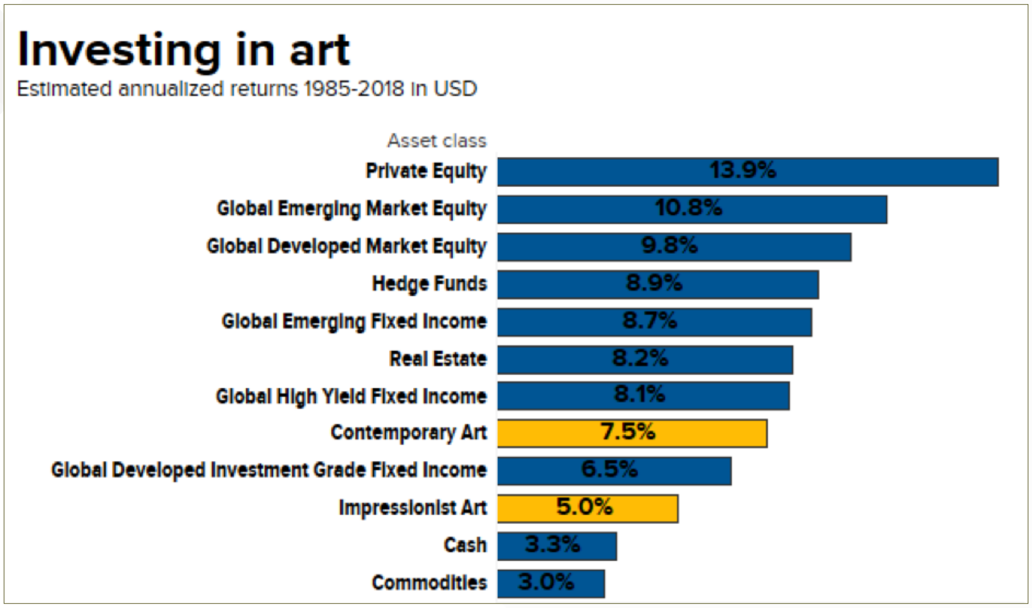
Investors should also be aware of the peculiarity of the asset class supply; many factors (some of which are unpredictable) can affect the vintage of a fine wine, such as the vineyard geographical location or the weather conditions, which can limit supply. As a result, these uncertainties also play a significant role in the value of a wine on the market.

Market trends are also crucial when it comes to wine investing. Asian markets have demonstrated an insatiable appetite for excellent wines in recent years, particularly Bordeaux's first-growths. Fine wines are widely sought after and have a very high value among China's wealthy middle class, who have proven to be ardent investors, purchasing wines from the best vineyards. As a result, many wineries noticed and subsequently shifted their focus to Asia. The 2019 ProWein Business Report, which surveys wineries globally, noted that three of the top four preferred markets were China, Japan and Hong Kong. The surveys also indicated that Singapore and Taiwan were the top two emerging markets. As such, the demand from the Far East does not appear to be slowing down anytime soon.

ART

In 2018, the art market was valued at $67.4 billion, according to UBS. The same firm reported in the Art Basel Report 2021 that 67 percent of art buyers viewed their purchases solely as investments.

Citi revealed that between 1985 and 2018, the art market returned an average of 5.3 percent every year, based on auction data from Sotheby's, Christie's, and Phillips. Contemporary art outperformed all others, with an average yearly return of 7.4 percent, while Impressionist art returned 5 percent. The return on art most closely resembles the return on fixed-income assets, Citi further reported. Developed market investment-grade bonds returned 6.5 percent, while global high-yield bonds returned 8.1 percent.



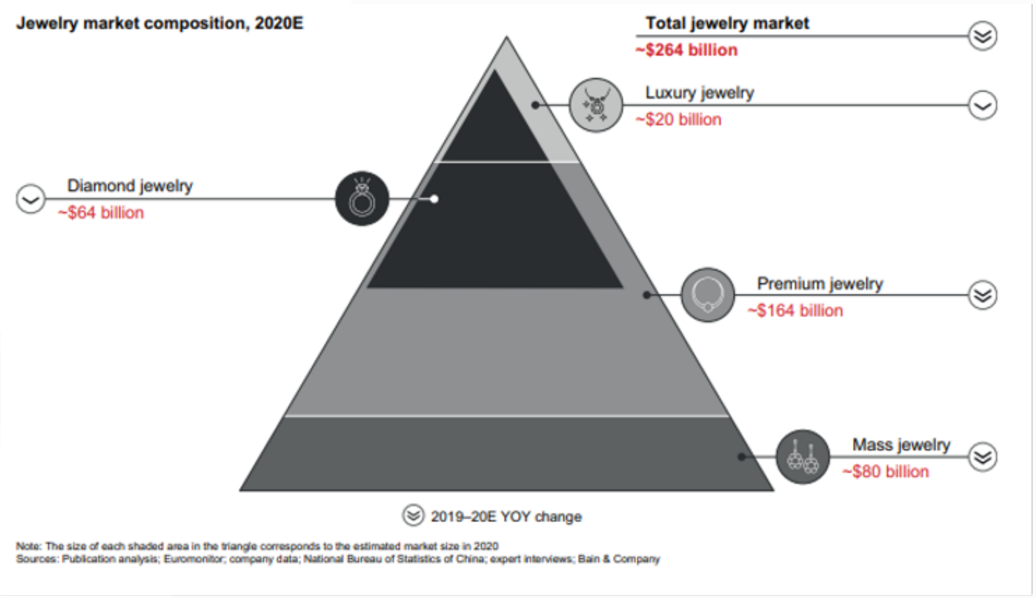
Source: Art returns based on Total Art, Contemporary Art, and Impressionist Art Indices. Source: CITI

As with wine, the return on investment in art is closely tied to supply and demand. In addition, several internal and external factors influence prices in the primary and secondary art markets, including the macro-economy, changes in taste, the quality of the work, and the reputation of the artists. This makes it difficult, especially for inexperienced investors, to forecast swings in the art market.

On the other hand, a new art market with explosive growth has emerged: In 2021, the NFT market generated a transaction volume of over $23 billion. It is driving transformational change in the creative arts. Having sparked global investors' interest, NFTs are still considered as highly speculative investments, rather challenging to value, manage, and understand, as well as not institutionalized.

JEWELRY AND WATCHES

Jewelry is another alternative asset class that has been popular for decades and widely used by investors as a portfolio diversification tool. Watches, for example, have continued to be popular for generations. According to a Bain & Company report, the total jewelry market reached $264 billion in 2020.



Jewelry and highly desirable, sought-after timepieces can become high-yielding alternative investments. In addition, the abundance of information from well-known auction houses, such as Sotheby's or Phillips, concerning sales records adds to the field's expanding popularity. In particular, those pieces made of precious materials, such as colored gemstones, have increased in value by 70% over a ten-year period, outpacing the jewelry market in general.

These assets are interesting alternatives to stocks and bonds since they may have the ability to retain value and even rise in value over time without correlation to the financial markets.

CONCLUSION AND CAUTIONARY NOTE

Alternative asset classes are recognized for their often-low correlation to the stock market, making them a potential alternative for investors who want to escape the traditional stock market's volatility and hedge against inflation. Thus, luxury collectibles provide an interesting diversification option; properly managed, they may be a strong long-term investment. When compared to global markets and other benchmarks, the value of a work of art or collection is sometimes influenced by esoteric variables and trends. It follows a trajectory independent of, or sometimes transcendent to, the general economy.

On a cautionary note, these alternative investments are not without risks. In many of these asset classes, good knowledge of the niche market is necessary since, from a financial perspective, the value of collectibles can be subjective.

Furthermore, unlike equities, they are not traded on a regulated market but often between buyers, sellers, and intermediaries on secondary markets, which results in poor liquidity. As noted by Tan Siew Lee, OCBC's Singapore head of wealth management, "The lack of liquidity is one of the most significant hazards associated with collectibles. There is no pricing transparency, which raises the risk for novice investors who are unfamiliar with collectibles.".

Fraud and forgery, in the same manner, are common themes in the industry. One well-known example is Rudy Kurniawan, who sold millions of dollars in counterfeit bottles between 2004 and 2012, largely through auction houses. Interestingly, Acker Merrall & Condit sold $35 million in Kurniawan bottles in just two auctions.

Finally, it is important to note that many of these assets require some form of maintenance, storage, and insurance, which entails additional costs.