

By Adria Cimino -- Dec. 19 (Bloomberg) -- Robert Lench, manager of the Vinum Fine Wine Fund in Guernsey off the coast of Normandy, says his business is doing very well, thank you very much. The 58-year-old, who buys bottles of Petrus, Chateau Cheval Blanc and Chateau Margaux wines for the fund, is benefiting from the turmoil in the financial markets, which is driving investors out of stock markets and into investment vehicles like his.

Vinum's collections climbed 12 percent in September, another 15 percent in October and 2 percent in November.

"We've seen an increase in interest," said Lench in an interview. "Markets have frightened people."

Vinum, **Elite Advisers' Nobles Crus** in Luxembourg and Arch Financial Products LLP's Arch Fine Wine IC fund in London are among wine funds created in the past 18 months that are luring investors as the Morgan Stanley World Index sank 40 percent this year. Investors buy shares backed by actual bottles, getting an asset group whose fortunes are not closely tied to credit markets. Vinum slipped only 3.1 percent this year, **Elite** climbed 20 percent, while Arch advanced 0.5 percent.

Investments in such alternative funds may continue to rise next year, said John Godden, chief executive officer of London-based IGS Group Ltd., which advises hedge funds. During financial crises, investors prefer "things they can touch," like wine, art or antiques, he said. "We expect to see alternatives rise into next year," Godden said. "Everyone is knocked off balance by the performance of equities and bonds. If the value of wine goes down you can drink it."

Market Meltdown

Art investments also have outperformed stocks, with the Art Market Research Art 100 Top 25% Index up 41 percent this year. The index is based on the median of the top 25 percent of prices in the industry. Meanwhile, more than \$30 trillion was erased from the value of global equity markets as more than \$1 trillion of losses and writedowns at the biggest financial companies triggered a freeze in credit markets. For its fund, Vinum requires a minimum 10,000-pound

(\$15,060) investment. Started with 2 million pounds, it now has 5 million pounds. Lench buys wines from France's Bordeaux region because of the "structured" market, where bottles pass from the chateau to brokers and negotiators and have a classification system to help set prices. This makes the market more transparent than in Burgundy, where producers often sell directly to customers, Lench said.

Chateau Margaux

Lench, who hasn't sold any of his purchases, values investors' shares in the fund on a monthly basis. **Elite's Nobles Crus**, begun with 2.5 million euros (\$3.6 million) at the start of the year, has grown to 13 million euros as fund manager **Christian Roger** snapped up bottles of Romanee Conti 2005 and Lafite-Rothschild 2007. "Wine is one of the most affordable luxury goods," said **Miriam Mascherin**, 47, managing partner of the Luxembourg-based **Elite**. "You can drink a good bottle every day, but you can't buy a Ferrari every day. It's an investment in something that is consumed, so the price is always going up." Elite's investors can take profits in either money or wine. **Mascherin**, formerly a managing director at Paris-based fund manager Carmignac Gestion, says she chose wine as a theme because she aimed to create an investment vehicle involving a product that is tangible, easy to understand and a source of pleasure. Her firm plans on launching a diamond fund next year.

Intrinsic Value

Duncan Hughes, manager of Arch's 6 million-pound wine fund, said he recently sold 1982 first-growth vintages and bought those from 1986. He made a 25 percent gain on a 1982 Lafite-Rothschild. First-growth vintages are considered to be the best and highest-quality

wines, according to the wine classification system used in Bordeaux. “What you have with wine is a level of intrinsic value,” said Hughes, 45. “It’s a desirable thing people want to continue buying. The market will remain relatively robust.” The fine-wine market hasn’t been completely immune to the financial crisis with the Liv-ex 100 Fine Wine Index, which includes mainly red wines from Bordeaux, down 13 percent this year. The index, which has surged 171 percent from the start of 2005 to a record high in June, is heading for its first annual decline since 2004.

‘Nest Egg’

Sotheby’s noted a 25 percent retreat in prices during a recent auction in New York. “The prices have gone so high in the past 18 months that the declines are expected,” said Damian Tillson, deputy director of wine at the company’s London office. “It’s surprising it hasn’t happened sooner. There could be a correction of the market. No one here is concerned of an imminent crash. We’re looking more at a plateau.” Tillson said once wine matures and people start consuming it, prices rise, making it a good “nest egg.” “You’ve ridden out one to two economic cycles” by that time, he said. “It’s a safe thing to put money into. We’ve been benefiting from the recent crisis.” Vinum’s Lench says historical wine data shows its value as a long-term investment. The top price at auction for 1996 Vintage Chateau Haut Brion jumped 89 percent from 1999 to 2007, according to Sotheby’s. The 1996 Vintage Chateau Lafite during the same period rose more than fourfold, the data show. “Wine has been a more stable investment,” Lench said.