WEALTHINSIGHT

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Luxury Investments:
A mix of passion and profit
October 2013

About WealthInsight

The WealthInsight Intelligence Center Database is an unparalleled resource and the leading resource of its kind. Compiled and curated by a team of expert research specialists, the database comprises dossiers on over 60,000 HNWIs from around the world.

The Intelligence Center also includes tracking of wealth and liquidity events as they happen and detailed profiles of major private banks, wealth managers and family offices in each market.

With the Database as the foundation for our research and analysis, we are able obtain an unsurpassed level of granularity, insight and authority on the HNWI and wealth management universe in each of the countries and regions we cover.

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Investment Trends in Art, Classic Cars, Wine and Watches, Gems and Jewellery

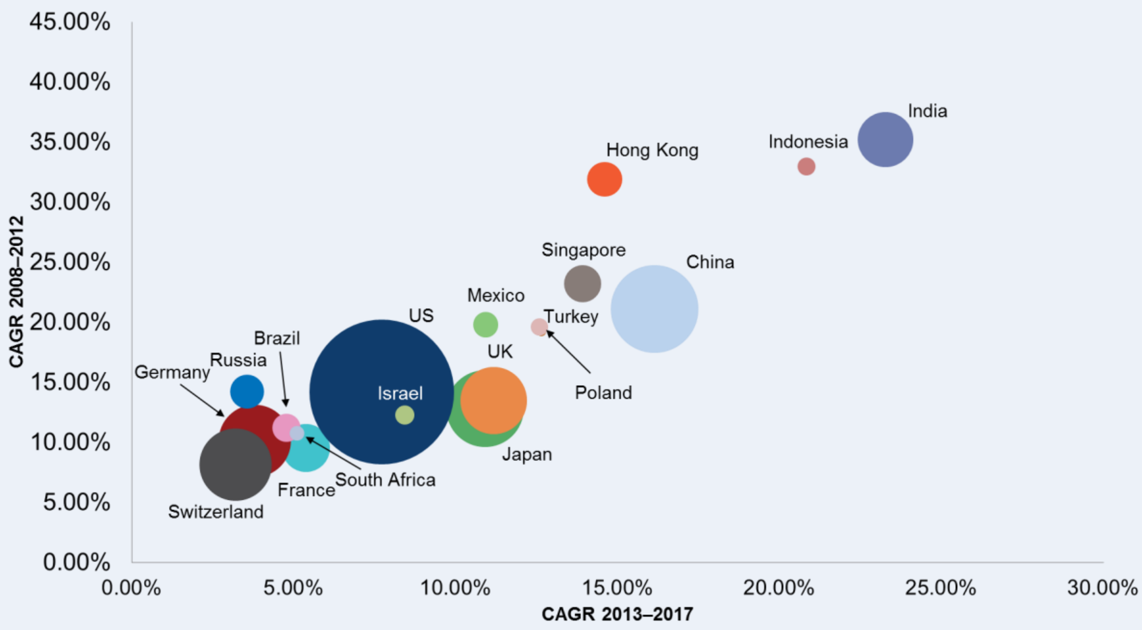
What the data says:

- In 2012, millionaires held US$362 billion in luxury investments (see definitions).
- Millionaires of developed countries contributed 73% of total luxury investments.
- US millionaires had the largest share of global luxury investments, valued at US$118 billion in 2012, having witnessed a CAGR of 14.21% over 2008-2012.
- Chinese millionaires with total luxury investments of US$43 billion in 2012 were the second-largest luxury investors and were the major driving force behind the growth, witnessing a CAGR of 21.11% during 2008–2012.
- Over the forecast period, the total luxury investments of millionaires are expected to grow at a CAGR of 10.34% to reach US$621 billion by 2017.
- Luxury investments of millionaires in emerging countries are expected to grow at a faster forecast-period rate than millionaires of developed countries, with the share in total luxury investments rising from 29% in 2013 to 36% in 2017.

WealthInsight says:

- In the last half a decade there was an increase in independent art advisors and art advisories as millionaires became more aware of the need to manage their art investments.
- The majority of investors do not want to invest in third-party art funds and are more inclined to develop their own investment vehicles to maintain transparency and control.
- With the increase of diamond prices and transparency, the rise of individual investors purchasing diamonds is inevitable. This has been twinned with a rise of diamond exchanges such as Singapore's SDX launched in 2012.
- Successful wine funds have diversified away from blue-chip wines. Many millionaires are adapting their tastes to new burgundies and less significant Italian wines, in addition to other lesser known vintages.
- Luxury and vintage watches have attracted the interest of luxury investors in last decade as they are increasingly sought for collections curated by high net worth enthusiasts.
- The complexity of the market means classic cars remain just cars, without having made the transition into an asset class.

Global Opportunity in Luxury Investments



Source: WealthInsight

Luxury investments are expected to grow at a CAGR of 10.34% to reach US$621 billion by 2017

Since 2007, an increasing number of millionaires have shown interest in alternative investments, such as art, classic cars, wine, jewellery, gems and watches, which in times of economic uncertainty can deliver higher returns than equities.

Luxury investments increased in value at a CAGR of 14.58% during the review period from US$210 billion in 2008 to US$362 billion in 2012. Millionaires of developed countries contributed the largest share in luxury investments, but millionaires of emerging countries registered the strongest growth at a review-period CAGR of 22.24%, with luxury investments growing from US$43 billion in 2008 to US$96 billion in 2012.

Over the forecast period, the total luxury investments of millionaires are expected to grow at a CAGR of 10.34% to reach US$621 billion by 2017. According to Ouliana Vlasova, Head of Content at WealthInsight: 'Looking forward, millionaires' preference towards real assets is expected to drive demand for art assets and other collectables'.

Luxury Investments Value in Top Countries (US$ Billion), 2008–2017

	2008	2012	2013	2017	CAGR 2008–2012	CAGR 2013–2017
US	69.5	118.3	128.7	173.2	14.21%	7.71%
China	20.2	43.4	56.3	102.3	21.11%	16.13%
Japan	20.7	33.6	41.2	62.4	12.82%	10.90%
Germany	20.2	29.7	31.6	36.6	10.11%	3.79%
Switzerland	21.6	29.6	31.1	35.3	8.15%	3.21%
UK	15.3	25.4	31.1	47.6	13.46%	11.17%
India	5.1	17.2	24	55.3	35.18%	23.27%
France	9.1	13	13.8	17	9.51%	5.37%
Canada	6.1	9.3	10.7	14.3	11.24%	7.49%
Singapore	3.4	7.8	9.2	15.5	23.18%	13.91%

Source: WealthInsight

Service providers anticipate demand for art finance and art investment banking

Art advisories, independent from art dealers and auction houses, arose to specifically address the long-term financial planning of art assets and the needs of emerging investors who buy based on quality and long-term value. Among family offices, Stonehage and Sand Aire offer art advisory services. In the private banking space, Deutsche Bank, UBS, ING, HSBC and Société Générale offer art advisory.

Establishing an in-house art advisory service requires access to expertise and a network of specialists that may be complex to achieve. In order to answer the growing demand from clients, in 2007 HSBC partnered with 1858 Art Advisory, an independent art advisory that provides a full art management service from auction representation and acquisitions to collection management, divestment and art finance, to institutional as well as private clients.

A number of financial institutions including JP Morgan and Citibank are accepting art as collateral for loans. While specialist US lenders, including Emigrant bank and ArtAssure, are aiming to strengthen their position in the European market and further afield to capitalize on future expected growth and demand for art finance and art investment banking.

Art funds have had limited success in developed markets compared to China. China has continued to drive demand for value-added services as young millionaires began to amass substantial collections and look for ways to diversify their wealth. While the majority of investors in developed markets do not want to invest in third-party art funds they are more inclined to develop their own investment vehicles to maintain transparency and control.

Although investors who buy purely for financial gain are on the rise a typical art collector remains driven by interest in art. “Since art prices at the top end of the market have continued to break records and stay very high, investors view these tangible assets as having guaranteed returns. But a typical collector remains driven by an interest in art with its social impact and heritage still dominating their decision-making process”, says Ouliana Vlasova.

Rise of funds and exchanges are making diamonds a more popular alternative asset

With the increase of diamond prices and transparency, the rise of individual investors purchasing diamonds is inevitable. This has been twinned with a rise of diamond exchanges, such as the IDEX (International Diamond Exchange), IDE (Israel Diamond Exchange) and the recently opened SDX (Singapore Diamond Exchange). The IDEX Online Polished Diamond index rose 40% from July 2004 to 2012 and since the SDX was launched in 2012, Singapore has become the diamond trading hub of Asia.

Investors are showing huge interest in coloured diamonds, particularly in rare shades of yellow, blue and pink. For example, the price of one-carat fancy vivid yellow diamond appreciated by 225% between 2000 and 2013, growing from US$22,000 in 2000 to US$78,000 in 2013.

Wine funds weather the decline in blue-chip wine prices

The first two quarters of 2013 have set the precedent for the remainder of the year. The first and second quarters have seen wine prices bolstered not only by mainland Chinese millionaires, but also newly created millionaires of emerging countries including India, Brazil and Russia. It is expected that there will be a steady growth in fine wine prices during the forecast period.

Successful wine funds have diversified away from blue-chip wines. Many millionaires are adapting their tastes to new burgundies and less significant Italian wines, in addition to other lesser known vintages. “As the Hong Kong and Chinese market becomes increasingly fixated with burgundies and, to a lesser extent, the super Tuscans, the less well-known wines are becoming well known among Chinese high net worth circles”, says Oliver Williams, an analyst at WealthInsight.

Classic cars have not made the transition into an asset class

While the classic car market is expected to continue growing over the forecast period, driven by millionaires from emerging countries including China, India and Brazil, the complexity of the market means classic cars remain just cars, without having made the transition into an asset class.

Many millionaires from emerging countries in Asia, Middle East and Latin America are buying into this lifestyle by amassing their own collections of classic cars. However, these regions do not possess their own history of car manufacturing and, as a result, have few in the way of native classic cars.

Report definitions:

- *"Millionaires" otherwise known as "high net worth individuals" or "HNWIs" refer to individuals with net assets of US$1 million or more excluding their primary residences.*
- *WealthInsight report entitled 2020 Foresight: Luxury Investments focuses on luxury investments, as opposed to luxury goods or luxury retail.*
- *Luxury investments covered in the report include art, wine, classic cars, jewelry, gems and watches, selected since they can be seen as 'luxury' in that they can be admired, worn, displayed, consumed or driven, while their value rises.*
- *The scope of the report covers 21 countries; nine developed markets including the US, the UK, Germany, France, Switzerland, Australia, Canada, Japan and Poland, and 12 emerging markets: Brazil, Russia, India, China, South Africa, Hong Kong, Singapore, Turkey, Israel, Mexico, Argentina and Indonesia.*
- *CAGR or a compound annual growth rate applied to values is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period being considered.*

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