FT wealth

THE ALTERNATIVE INVESTMENTS ISSUE

UP IN SMOKE

TRACEY EMIN'S FAMOUS TENT WAS AMONG ARTWORKS DESTROYED IN A 2004 FIRE. HOW MUCH DO COLLECTORS AND INSURERS RISK WHEN ART WORTH BILLIONS OF DOLLARS IS STORED IN JUST A FEW SPECIALIST WAREHOUSES?

DALYA ALBERGE REPORTS

DAPHNE GUINNESS ON COUTURE | BILLIONAIRES CHECK INTO SWISS HOTELS | WINE TO SAVOUR

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MAY 2012

EVERY ROLEX IS MADE FOR GREATNESS. THE SUBMARINER, INTRODUCED IN 1953, WAS THE FIRST WATCH TO BE WATER RESISTANT UP TO 100 METRES. IT WAS LATER STRENGTHENED BY ITS PATENTED TRIPLE-SEAL TRIPLOCK WINDING CROWN, MAKING IT CAPABLE OF WITHSTANDING DEPTHS OF UP TO 300 METRES. THE SUBMARINER DATE IS PRESENTED HERE IN 18 CT WHITE GOLD.

THE SUBMARINER DATE

ROLEX

FT WEALTH
MAY 2012

EXTEND YOUR PORTFOLIO INTO ART AND WINE – DIVERSIFICATION IS KEY

COVER PHOTOGRAPH BY TRACEY EMIN, ALL RIGHTS RESERVED, DACS 2012

All change?

Alternative investments is the theme of this edition. Diversification is key in any portfolio, and extending your holdings into art and wine – rather than hedge funds, in this instance – should be recommended by every wealth manager. The question, however, is how to store tangible assets. Wine is not much of an issue. A cellar is relatively easily laid down. But with art, safe custody is more complex. An elegant solution is, of course, to loan out your Warhols and Freuds; galleries and museums are always eager to come to an arrangement over insurance costs.

Some keep their collections in free ports – tax-free storage facilities – around the world. However, as Dalya Alberge explores, insurers are questioning the wisdom of concentrating so much valuable art in one place. What happens if one burns down? "Insurers could not cover the loss if a single warehouse containing, say, a Rembrandt, a Titian and a couple of Picassos were destroyed," writes Alberge.

Elsewhere, Feargus O'Sullivan sniffs out the investment stars among the current crop of fine wines; collector and muse Daphne Guinness writes of her love of couture; and Haig Simonian reveals an intriguing new trend among the Swiss super-rich: billionaire Monopoly. Simonian writes: "In Britain, billionaires buy football clubs; in France, daily newspapers." But in Switzerland they check into five-star hotels.

Please tell us more about which investments you would like to see covered in future editions of FT Wealth. We welcome your feedback.

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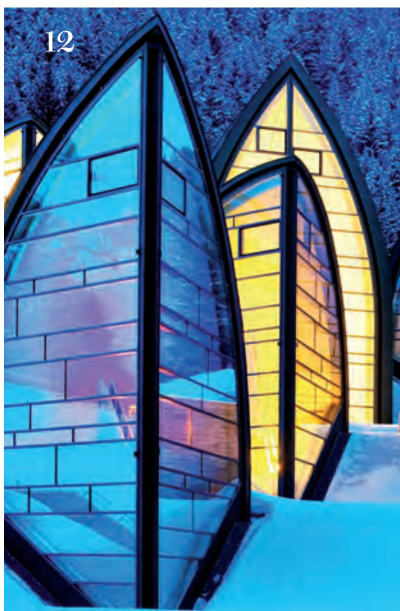

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INVESTMENT FOCUS
LUCY WARWICK-CHING

Collectable fortunes favour the brave

Different people have different interpretations of the term "alternative assets". For most people, investing in alternative assets means putting, say, 10 per cent of a portfolio into financial instruments such as hedge funds or private equity. But for a growing number of others it means taking a punt on collectables such as wine, art, stamps, antiques or books.

While mainstream asset classes have struggled, alternative assets have produced some impressive returns in recent years (see Insight, p37). Collectors of British stamps have earned compound average annual interest of 12.8 per cent since 1998, according to Stanley Gibbons, the dealer, while an investment in the top 100 whiskies over four years to the end of 2011 would have gained 245 per cent, says Whisky Highland, the rare whisky consultancy.

Few financial advisers recommend alternatives, however, because of the risks associated with them. Unless buyers have some expertise, they are vulnerable to fads, fakes and fraudsters, and there is no Financial Services Compensation Scheme through which to seek redress.

25%
of a boutique wealth manager's wealthiest client families are interested in buying art as an investment

SOURCE: LONDON & CAPITAL

$435,500*
– SALE PRICE FOR *THE MUMMY* FILM POSTER *MARCH 1997

SOURCE: AUCTIONNEWSNETWORK.COM

THE ROAD AHEAD
SERENA SUTCLIFFE

The great American collector who sold his wine at Sotheby's in Hong Kong in March would certainly attest to the benefits of investing in wine. The auction was 100 per cent sold and his top Bordeaux, Champagne and Californian estates walked out the door.

The same investment rules apply to wine as to other commodities: buying the right stock at the right time at the right price. But there are added riders for wine because it is a "living" product that can lose its value if kept in unfavourable conditions. Authenticity is also a given that requires sourcing from suppliers with a proven track record. Investment wines are, by definition, relatively youthful – buying mature wines defeats the purpose as they have already achieved their greatest price gains.

The blue chip area remains the classified growths of Bordeaux where, on the whole, there is that magic combination that makes a market: quality and quantity. Burgundy, on the other hand, has never fulfilled this role because the quantities made at the top level are so small. Now, however, is bonanza time for those who did acquire some of these exciting wines, as demand for great Burgundy has soared.

Meanwhile, Asia has woken up to the potential of great Rhônes, both as superb wines as well as relatively safe investments. And a handful of template Californian and Italian wineries are appearing on the world wine stage, with a few iconic Spanish wines peering over the parapet.

Serena Sutcliffe is Sotheby's worldwide head of wine

"£1.98M* – SALE PRICE FOR AN ART DECO DIAMOND AND BLUE DIAMOND BULGARI RING *SEPTEMBER 2011"

SOURCE: BONHAMS

Investing in... Art

$500,000 – the price fetched for a copy of F. Scott Fitzgerald's *The Great Gatsby* novel

SOURCE: ADRIAN HARRINGTON RARE BOOKS

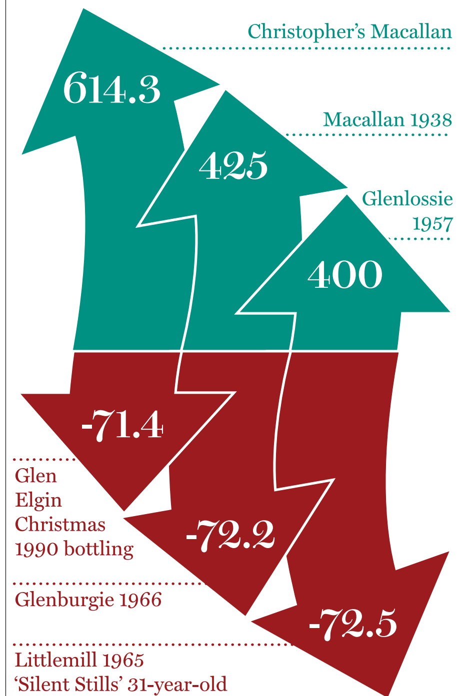
What is the fund?
The Fine Art Fund Group, run by Philip Hoffman, a former director of auction house Christie's. It manages more than $120m of assets, including funds focused on Old Masters and Chinese and Middle East art.

Why should I buy it?
Prices for art across the world rose more than 10 per cent in 2011, outperforming equities, according to the Mei Moses All Art index, which tracks international trades.

The Fine Art Fund, one of the Fine Art Fund Group's six art funds, produced an annual return of 24 per cent on assets sold over the past decade. Hoffman says the performance of art has been driven partly by soaring Chinese demand.

Why shouldn't I buy it?
Art is a tough market to value and returns are still below the heady days of 2006-07. Performance is also difficult to measure as auction prices do not take into account the large amount of art sold privately for undisclosed prices.

Performance over the past four years
(Whisky sales prices, % to end of March 2012)



SOURCE: WHISKY HIGHLAND

43% of Asian investors are planning to invest in gold in 2012, compared with 32% in 2011

SOURCE: THE FUTURE PRIORITY REPORTS 2011 AND 2012 BY STANDARD CHARTERED AND SCORPIO PARTNERSHIP

PHOTOS: GETTY; CHARLIE BIBBY; DREAMSTIME; ABE BOOKS. GRAPHIC: RUSSELL BIRKETT

THE IDEAS COLUMN
JAMES MACKINTOSH

Good money after bad

Pithy investment advice often contains a deep truth. "Cut your losers and let your winners run" captures what academics have since labelled momentum – the tendency of shares to keep moving in the same direction, up or down, in the short term.

The rule is hard to follow though, as it conflicts with a deep human impulse: we are unwilling to sell at a loss, and often prefer to play double or nothing. Psychologists have found several common features at work, known as anchoring, loss aversion and the disposition effect.

Britain is currently showing all three in a mass demonstration of behavioural finance. The government is in talks to sell a stake in Royal Bank of Scotland to a sovereign wealth fund at significantly less than the 50p a share average it splashed out to acquire its 82 per cent stake in 2008.

Cue outrage. "We want to see a return of the money the taxpayer put into the bank originally so we are not selling at a loss," Chuka Umunna, shadow business secretary, told me. "The goal at the least has to be that we realise the investment we put into it originally."

Similar sentiments were repeated across the country, and are easy to understand: no one wants to make a loss. Investors typically prefer to hang on to losers and sell their winners. They are averse to taking losses, and anchor their assessments of the true worth of their stake to the price paid for it.

The disposition effect explains much of this. Given the choice of betting on making back a loss or increasing an existing profit, investors prefer to try to make back the loss, all else being equal. This pushes them to sell their winners and hold on to their losers.

In the same way, a larger loss would hurt less (when you're down £20bn, as the taxpayer is on RBS, who cares about a few billion more?) than giving up a hard-won profit, again pushing investors to hang on to losing stocks and cash in gains.

> INVESTORS PREFER TO HANG ON TO THEIR LOSERS AND SELL THEIR WINNERS

This is a bad investment approach, and not only because of the momentum effect. There is no particular reason to think RBS shares will be worth 50p. True, the shares are trading at a substantial discount to their book value, and on the day of the 2010 election were at 48p. But since the coalition took power much has changed in the world of banking, and the price of about 28p a share is not proving terribly appealing to private investors.

One might argue that the shares would be worth more if it were not for the long shadow cast by the future sale of the government's stake, which depresses the price. Also, any sovereign wealth fund would have to believe the shares are fundamentally worth more, or they would not buy. RBS is suffering from investor aversion to European banks, which has seen the whole sector trade at a big discount to book value.

If the government truly believed RBS shares were cheap and was trying to maximise taxpayer profits from share trading, logic suggests it should be buying up other beaten-down bank shares too. Current yields on gilts mean the British government has among the lowest cost of borrowing of any investor in the world, giving it a serious edge over any hedge fund. But imagine the outrage if ministers decided to pick up a portfolio of Italian, American or even German bank stocks.

Critics cannot have it both ways. If the government is in the business of making a profit from equities, taxpayers should probably brace for the mother of all trading losses, given the market nous of most ministers and civil servants. If it is driven by social goals, then profit is not really relevant – particularly when the loss on RBS is visible for all to see, just not yet crystallised.

The government did not buy RBS to make a profit, but to save the banking system. Now that job is complete, it has a duty to the taxpayer to maximise the sale price – but that should not mean holding on to shares in the vain hope they once again reach 50p. Ⓦ

WHAT JAMES IS THINKING...

Strategists have been wrong about bonds for the past decade, as yields fall to record lows. Now investors expect rising yields, even as banks are forced to buy bonds. Perhaps they are wrong again.

PHOTOS: CHARLIE BIBBY; PA

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THE RICH COLUMN
MATTHEW VINCENT

The art of losing money

"Oh shit, look what I've done." These, according to a Financial Times report from January 2007, were the words of billionaire US casino developer Steve Wynn (right), following a mishap in his Las Vegas office. To be fair to him, I have said far worse after spilling coffee on my keyboard – but Wynn's accident was a bit more costly.

He had reportedly put his elbow through a painting called "La Rêve" by Picasso he had just agreed to sell to Steve Cohen, the hedge-fund billionaire, for $139m.

Faced with a loss of $54m – the difference between the agreed sale price and the post-restoration valuation – Wynn's reaction was, by the standards of Nevada businessmen, the equivalent of "Oh dear, silly me."

How can this be? Because he had insurance? Possibly. Wynn later filed a claim with Lloyd's of London for the loss of value, and even sued the insurer over its initial appraisal – a case that was later settled out of court.

Insurance can cushion losses on hard-to-replace "alternative" assets, even where the loss is a rare set of cushions. According to UK insurance group Admiral, one of the most unusual claims it received last year was from the owner of a classic Lancia sports car, who removed it from storage to discover a family of mice had chewed through the leather and foam of the two front seats, and stripped the leather from all four door interiors.

But, with some alternative asset classes, damage cannot be reversed, nor items replaced, leaving the unfortunate owner to bear the loss. Take the wine collector in Suffolk who, a couple of years ago, was informed by a wine merchant that the best part of his 2,500 bottles of 1970s and 1980s vintages were not of sufficient quality to be kept as investments. According to the BBC, he chose to sell many for less than £2 a bottle, rather than drown his sorrows.

All of which makes me wonder if wealthy investors are psychologically less loss-averse where tangible assets are concerned.

It is a theory supported by Citi Private Bank's New York-based art adviser Jonathan Binstock, who says his clients – unlike the unfortunate Wynn – will generally try to hold on to a painting rather than give it the elbow.

"They accept that if they spend $5m on a Picasso it may go down in value," he says. "But even if it does fall by 20 per cent, at least they know they will still have a masterpiece on their walls."

> "EVEN IF A PICASSO FALLS 20 PER CENT, CLIENTS KNOW THEY WILL STILL HAVE A MASTERPIECE"

Jean-Maurice Ladure, head of quantitative solutions at Coutts, the bank, suggests the difference in loss aversion towards tangible and financial assets reflects efficiency of pricing. "For tangible assets such as art, investors cannot monitor price changes as frequently as for listed investments," he says. "This lack of marking to market does affect their perception of risk."

Without a daily reminder of a paper loss, clients will continue to value a canvas, agrees Kevin Lecocq, chief investment officer at Deutsche Bank Private Wealth Management. "Many clients are more comfortable with tangible assets and can tolerate periods of unrealised loss easier than with assets such as equities, with a daily mark to market." He says price intervals for paintings can be decades, even centuries. "Take van Gogh's 'Irises', bought in 1890 for 300 French francs (about £12 at the time) and sold for £33m in 1987."

However, a lack of mark-to-market pricing didn't stop wealthy clients trying to cut losses on hedge funds and private equity holdings in the financial crisis of 2008.

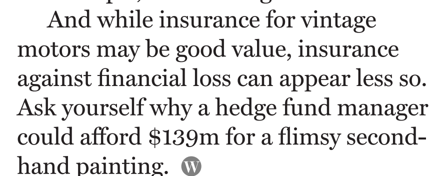
Perhaps, then, their asymmetric aversion to loss stems from unfamiliarity. Ladure notes that "it is only in the last 100 years that wealthy individuals have moved most of their wealth into financial assets". In fact, economist Chris Dillow, of FT magazine Investors Chronicle, says the rich are not demonstrating loss aversion, but something called "ambiguity aversion".

"People hate uncertainty, and so like assets that feel familiar. This is why they own domestic rather than foreign shares. This could lead most people to avoid tangibles, except to the extent that they consider themselves experts in them – for example, art or vintage motors."

And while insurance for vintage motors may be good value, insurance against financial loss can appear less so. Ask yourself why a hedge fund manager could afford $139m for a flimsy second-hand painting.

PHOTO: CHARLIE BIBBY; BLOOMBERG

WHAT MATTHEW IS READING:
***Monkey With a Pin*, a free ebook explaining why equity investors do worse than the industry suggests, by market researcher Pete Comley. Its title refers to the fact that 'random' stockpicking beats two-thirds of contestants in investment competitions**



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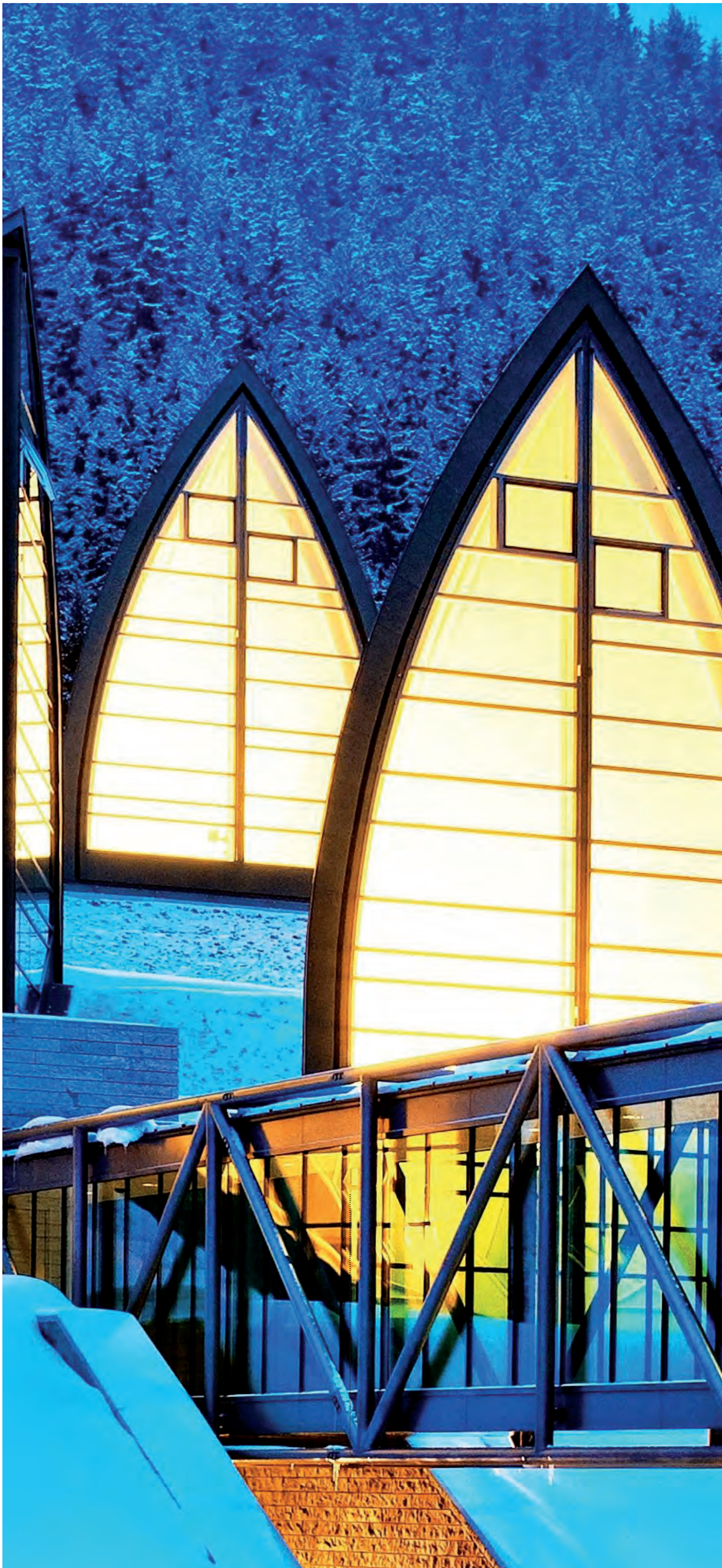
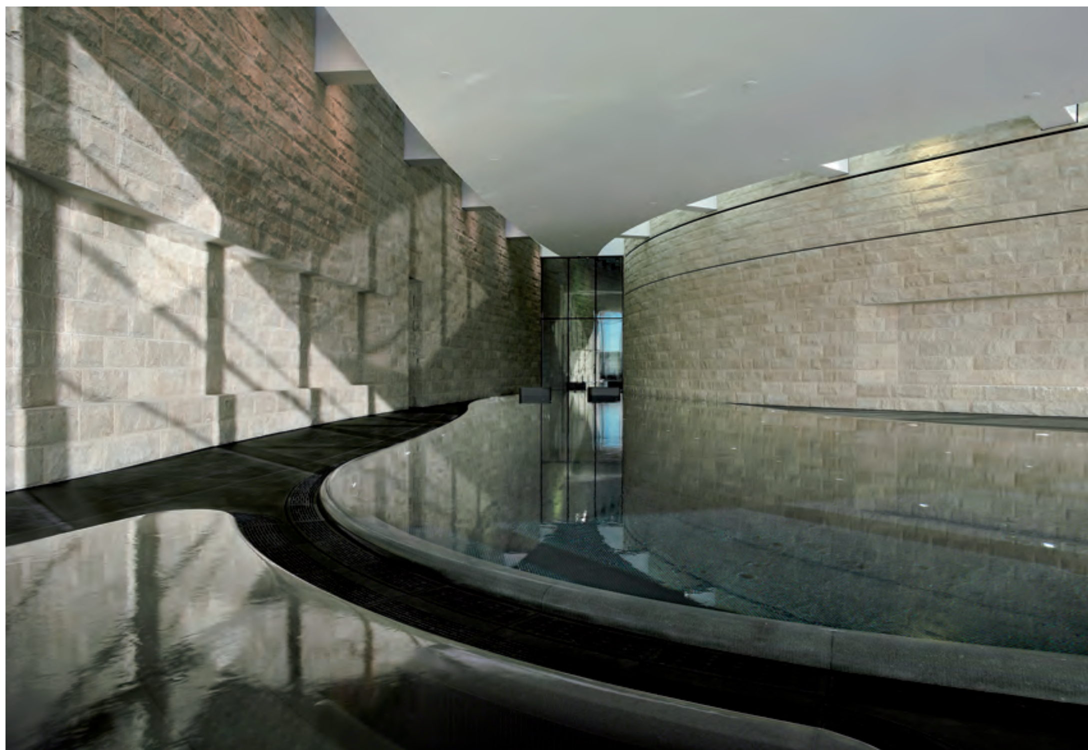
Grand design: Architect Mario Botta created the Tschuggen Grand's four-level spa, identifiable by its huge vertical sail-like windows



BILLIONAIRE MONOPOLY

IN SWITZERLAND, THE SUPER-RICH ARE SPENDING FORTUNES ON HOTELS, BUT PROFESSIONALS SAY THEIR HOBBY HARMS THE INDUSTRY

BY HAIG SIMONIAN



THE FOUR-LEVEL SPA COST SFR35M. A FURTHER SFR20M WENT ON UPGRADING THE ALREADY FIVE-STAR HOTEL

In Britain, billionaires buy football clubs; in France, daily newspapers. And in Switzerland, the ticket to the premier wealth league is a palace hotel.

In the past six years, a handful of foreign and domestic plutocrats have spent more than SFr1bn ($1.1bn) acquiring and opulently restoring some of the country's most famous five-star hotels. In every case, the outlay and attention to detail have been breathtaking. Buyers have also shown deep personal commitment to their schemes, from selecting international "starchitects", to choosing antiques or works of art for the rooms themselves.

The mindboggling sums spent have often vastly exceeded what could be justified in conventional return-on-investment terms, let alone the fierce financial criteria many of the buyers have applied to their core industrial or trading businesses. Swiss hotels, even at the pinnacle, are under pressure: experts say some of these investments cannot begin to be recouped.

The scale of spending has become so extreme as to invite envy, and even suspicion, among traditional hoteliers, many of them dyed-in-the-wool family owners. The professionals do not just see the billionaire buyers as harmless dilettantes indulging in an expensive hobby, but as potential spoilers unbalancing the industry by creating expectations no "normal" hotelier can match.

Money no object: the Dolder Grand, whose spa was designed to recall a Swiss mountain gorge (top) is owned by Urs Schwarzenbach, pictured with his wife Francesca (right)

PHOTO: THE PICTURE LIBRARY

The spending has certainly been spectacular. In the small ski resort of Arosa, Karl-Heinz Kipp, an octogenarian German billionaire who made his fortune in supermarkets, hired Mario Botta, one of the world's best-known architects, to remodel one of his three luxury hotels.

The Tschuggen Grand's four-level spa, identifiable by its huge vertical sail-like windows, cost SFr35m alone. Built largely underground, the 5,000sq m spa has set new standards in five-star properties – not just in Switzerland, but across Europe. A further SFr20m went on upgrading the already five-star hotel. In further defiance of normal economics, the Tschuggen Grand is open for fewer than 10 months a year. Kipp has spent almost as lavishly at the Eden Roc – beneficiary of a SFr20m Botta spa – and the Carlton, his two other luxury properties.

In Zurich, Urs Schwarzenbach, a Swiss entrepreneur, turned to Lord Foster, the British architect, to redesign the Dolder Grand, a vast gothic pile dating from the late 1800s. Initially budgeted at SFr240m, the project to modernise and expand one of Switzerland's most historic hotels is reported to have ended up costing at least twice that. Among distinctive features is a 4,000sq m spa, including a solid rock wall designed to recall a Swiss mountain gorge.

Schwarzenbach, like many of the billionaire newcomers to the hotel business, is reluctant to comment about his motives. Similarly, Thomas Straumann, a Swiss entrepreneur whose family fortune is based on the dental implant business that bears its name, has never disclosed how much was spent on either Les Trois Rois, the most famous hotel in his native Basel, or on the 57-room Grand Hotel Bellevue, a slightly earlier, but equally lavish, investment in the exclusive ski village of Gstaad.

At both the outlays are apparent – though more for discreet elegance than obvious bling. The 101-room Les Trois Rois was closed for almost two years to enable reconstruction to the original 1844 plans. Carpets, furniture and even individual pictures were selected by Straumann and his family.

"We wanted to give something back to the valley," says Thomas Schmidheiny, one of Switzerland's wealthiest entrepreneurs, settling into a cushy lobby sofa at one of two adjoining hotels he controls at Bad Ragaz, a Swiss spa he has transformed into a golf, wellness and medical treatment "resort".

In the mid-1990s, Schmidheiny, the 66-year-old, third-generation representative of a family that made its wealth in the industrialisation of eastern Switzerland, spent SFr70m with his minority shareholders on the Quellenhof. The purse ➤

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"IN THE OLDEN DAYS, IT WAS CHIC TO HAVE YOUR YACHT; THEN IT WAS A PRIVATE PLANE. NOW IT'S A HOTEL"

strings were opened much wider in 2007-09, when SFr150m was lavished on a new wing and modernisation, as well as bringing the adjoining four-star Hof Ragaz up to five-star standard.

"You know, there had been a lot of job losses in the area, some from our own businesses, and we as a family had the sense of being linked to this valley, " he says.

But Schmidheiny, whose holdings include 20 per cent of Holcim, the world's biggest cement group, makes clear he is no sugar daddy. "I'm an entrepreneur. It's primarily in that spirit that I got involved."

But even entrepreneurs need to be in it for the long term when it comes to luxury hotels. The Grand Resort Bad Ragaz is unusually transparent financially because more than 800 tiny shareholders own the 25 per cent Schmidheiny does not control. Last year, the group lost SFr1.4m on sales of SFr107m. That a place like this, a year-round business in the scenic Rhine valley, only an hour from Zurich, with two golf courses, a thermal spa and a medical centre employing 125 people and offering skiing too, struggles to be profitable says much about the business.

"You're not in it for quick money," explains Schmidheiny. "But it's not philanthropy either. There are no blank cheques."

Similar long-term thinking characterises Pierre Landolt, another of Switzerland's richest men, whose family were among Basel's chemical – later pharmaceutical – dynasties. The foundation that holds some of the family's prize assets, such as big shares in Novartis, the pharmaceutical group, and Syngenta, the agrochemicals company, reflects the mixed sense of entrepreneurship and social responsibility that typifies some billionaire owners.

Among the Fondation Sandoz's investments are three top hotels. While the Beau Rivage in Lausanne is a classic "palace" comprising two adjoining 19th-century buildings amid beautiful grounds and now lavishly restored, the other properties are labours of love that few commercial hoteliers would consider, such as the idiosyncratic Palafitte, a 40-room boutique hotel built on stilts above Lake Neuchatel in French-speaking Switzerland. The property was due for demolition until the foundation intervened, bankrolling a five-star hotel that experts say is unlikely to be profitable given its modest size and uncentral position.

Professional hoteliers have distinctly mixed feelings about their billionaire rivals. Some are respected as long-term investors, but many others are greeted with raised eyebrows – to put it politely. "In the olden days, it was chic to have your yacht; then it was a private plane. Now it's a hotel," says Andrea Scherz, general manager of the Palace in Gstaad, arguably Switzerland's most famous "palace" hotel, with its fairytale turrets dominating the village.

"Obviously, with their means, they're creating hotels that make no sense financially, but are certainly beautiful. The problem is, guests then expect to see the same everywhere, even though very often it's financially just not possible to play at this level."

The Palace was completed in 1913 and was probably the last Swiss "palace" to be erected before war and political uncertainty altered European hotel-building economics forever. Scherz owns the hotel jointly with his brother, Thierry, and speaks as a professional, having served as general manager since 2001. The family's involvement dates back to 1938, when the brothers' grandfather was appointed manager.

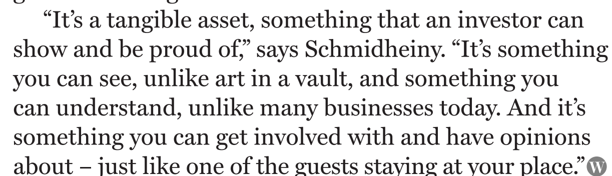
After steering the Palace through tough times – during the war the basement fondue restaurant was used to store Switzerland's national gold – the family gained ownership in 1948, with management now in its third generation.

"We basically spend everything we earn on the business. We don't overleverage ourselves and we don't borrow money like crazy," says Scherz.

Such comments typify other family owners of "palaces", struggling to keep up against the new breed of billionaires.

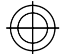
In Gstaad alone, the Scherzes compete with no fewer than three super-rich proprietors: Straumann's Grand Hotel Bellevue; the Grand Hotel Park, owned by Donatella Bertarelli, joint heiress of the Serono pharmaceuticals fortune; and Bernie Ecclestone, the Formula 1 commercial supremo, who owns the admittedly more modest Olden. All, it seems, have caught the grand hotel bug.

"It's a tangible asset, something that an investor can show and be proud of," says Schmidheiny. "It's something you can see, unlike art in a vault, and something you can understand, unlike many businesses today. And it's something you can get involved with and have opinions about – just like one of the guests staying at your place."



The life palatial: Thomas Schmidheiny, one of Switzerland's wealthiest entrepreneurs (above); the cost of restoring Les Trois Rois in Basel has never been disclosed (left)

PHOTO: GETTY



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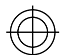


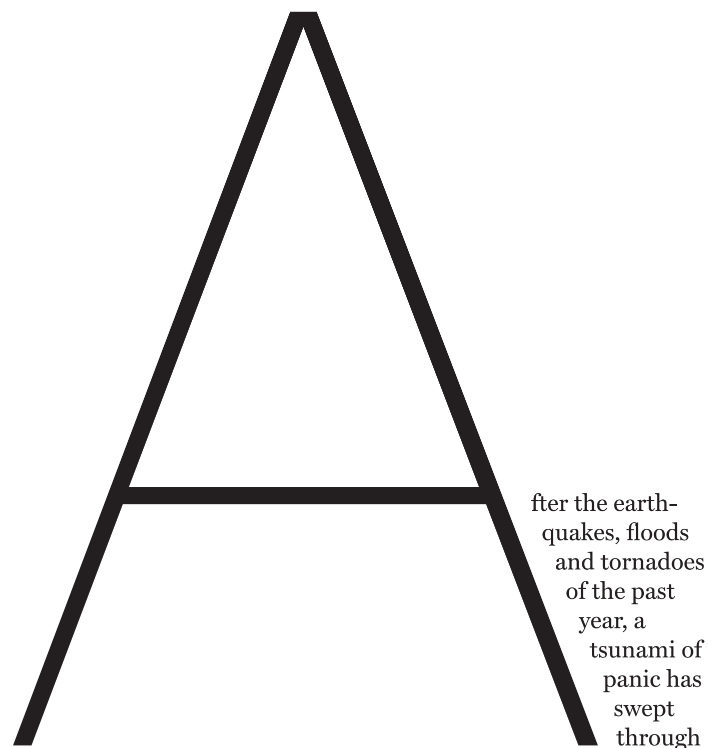
UNDERCOVER ART

THE LID IS BEING LIFTED ON THE DISCREET WORLD OF FINE ART STORAGE AS INSURERS REASSESS THEIR RISKS

BY DALYA ALBERGE

Premium space: inside the 'art fortress' at Singapore's free port storage facility

PHOTO: REUTERS



After the earthquakes, floods and tornadoes of the past year, a tsunami of panic has swept through the ranks of general insurers. Disasters such as the earthquakes in Japan and New Zealand, coupled with the political turmoil in the Middle East, made 2011 the most expensive year ever for the industry – inflicting losses of more than £30bn.

The art insurance world has suddenly realised the scale of unforeseen risk in its market. Collectors are buying art on an unprecedented scale at astronomical prices and putting many of these works into storage in just a few free port warehouses (see box on p21). It has dawned on specialist art insurers that they face an unsuspected and unsustainable risk that could run to many tens of billions of pounds.

The problem lies in the fact that many collectors mainly purchase art for investment purposes, using free ports in order not to declare where works are kept, as well as a way of avoiding taxes and duties.

The majority of the world's art that is not on display, either in museums or private residences, is stored in a small number of tax-free ports across the globe, mainly in Switzerland.

Until recently, this was a world shrouded in secrecy, and insurers had no idea of the true value of the art treasures they were insuring, according to Adam Prideaux, a leading broker with Blackwall Green, a specialist art insurer.

Clients used to receive worldwide cover that allowed them to keep works in their house or in storage without the need to specify details.

Recent changes to Swiss customs laws mean that art stored at the country's free ports must now be declared and descriptions, values and country of origin provided. Specific declarations are also now required by insurers. It is these changes that made insurers pay attention: in trying to collate all this information, they started to realise the level of risk involved, and have been prompted to scrutinise cover more closely. ➤

"EVERYBODY THOUGHT PUTTING ART INTO STORAGE OFFERED GREAT SECURITY, BUT NO INSURER WILL TAKE ON NEW BUSINESS IN A FREE PORT"

Each of the main ports is thought to house an average of $10bn of art, a staggering figure. "It's a huge value of art; it goes into hundreds of billions of dollars [worldwide]," Prideaux says. "But they really don't know. The pressure they're under – they've got to find out what's there."

Despite high-security warehousing, there is just too much value and too few insurers. They simply would not have enough funds to pay out in the event of a catastrophe. This has led insurers to think the unthinkable – and to start preparing to protect themselves against the worst possible scenario. What if an aircraft crashed into one of the free port warehouses adjacent to an airport?

Treasures at risk (clockwise from top): the Egyptian Museum in Cairo under guard; the aftermath of the 2004 Momart fire; Picasso's "Child with a Dove", valued at £50m

Insurers could not cover the loss if a single warehouse containing, say, a Rembrandt, a Titian and a couple of Picassos were destroyed. Picasso's "Child with a Dove", for example, is on the market and it is thought it will fetch about £50m.

Prideaux says the scenario of a plane falling on one of the free ports has put the risk into perspective: "Insurers went, 'Yikes, we've got to go out and buy insurance to protect ourselves.' So they started passing these extra costs on to clients. Everybody thought putting art into storage [offered] great security, [but] in fact, it was the exact opposite. There's not one insurer that will take on new business in a free port now. They've got too much art there and they don't have enough reserves. As the art market drives up and up... the way the insurers look at it is: what is the maximum possible loss at any one time? [That's] their buzz word."

He adds: "You can't underestimate the significance of speculation and investment in the market at the moment. People buy works and put them out of sight. They don't want them talked about [or] documented."

Terrorists could target a free port warehouse. Concentration of priceless artworks also increases the risk of specialist thieves seeing such storage as a juicy target, and even an accidental fire becomes an unthinkable risk. The 2004 blaze at a London facility of Momart, a specialist storage and transportation company, remains fresh in memories. The value of artworks lost was estimated as up to £50m.

The problem has been exacerbated by a huge rise in art prices. Data from Art Market Research, the art prices indices provider, records remarkable growth since its first figures in 1985. Median prices for sales of the top 25 per cent of Old Master and Impressionist paintings have risen since that date more than six-fold and five-fold respectively. But even they are outshone by modern artworks, whose prices have increased nearly 12-fold, and contemporary works, which have increased

PHOTO: SUCCESSION PICASSO/DACS, LONDON 2012; REUTERS; AFP/GETTY

an astounding 30-fold. This is due to the commercialisation of galleries, which trade in works by the likes of Tracey Emin, the high-profile British artist, and because of dealers, notably Charles Saatchi, who thrive on publicity.

In the five years to February 2012, Old Master and Impressionist median prices rose about 50 per cent – an even more dramatic increase than over the previous 20 years, although there was a reversal in 2010 due to the financial crisis. Even more dramatic have been the rises in the last five years in the prices of modern paintings, which have more than doubled, and contemporary works, which have grown three-fold.

As a result, median prices in February 2012 for the most valuable 25 per cent of paintings were, for Impressionists, just short of $1m each; for modern art and contemporary works around $600,000; and for Old Masters $300,000.

With median prices at these levels, it does not take much imagination to see the scale of the risk relating to high-priced works in storage.

Robert Read, head of art and private clients at Hiscox, the UK-listed insurer, says: "We are concerned about the accumulation of risk in storage and free port locations, and we try and keep a close tally of them."

Insurance premiums depend on location and storage security. Obviously those in a potential catastrophe area such as California or Florida would attract a higher rate, he observes. "It would also depend on whether [an artwork] was on its own or part of a larger collection, where there would be an economy of scale factored into the rating."

For a £20m Picasso, the premium for art insurance in someone's secure home might be up to £20,000 a year, says Prideaux. "If it was in the free ports, the majority of insurers wouldn't be able to do it. They would decline it because they haven't got any [financial] capacity."

He believes that because they would aggregate the risks all round, if they did insure it, the premium would be much higher, perhaps £30,000 more. "This highlights the whole problem of storage in the free ports. The main insurers such as Hiscox and Axa wouldn't do it... You would have to go to some other not-so-good insurers and they would ➤

IN THE ZONE: FREE PORT BENEFITS

Free ports are tax-free zones where any goods, including artworks, antiques and jewellery, can be stored without the need to pay taxes and duties on them. They are generally situated near international airports and seaports. Their objective is to remove the cash-flow bottlenecks associated with exporting and importing. Goods can even be manufactured or processed within the zone. Only when goods move from a free zone into a country do they come under its customs jurisdiction.

There are free ports in the UK (Humberside, Liverpool, Prestwick, Sheerness, Southampton and Tilbury), the US (New York) and several other countries. Those in Switzerland and Singapore are known particularly for their tax benefits, along with state-of-the-art storage facilities and high security. Modelled on a Swiss design, Singapore has been described as a mix between a bunker and a gallery, and is reported to store everything from cigars to vintage cars.

Hot spots: contemporary works, such as those by Damien Hirst, have risen dramatically in value in recent years

PHOTO: AFP/GETTY

charge more because they would have to buy extra reinsurance."

There are free ports in the UK, but they are generally not considered to be specialist art warehouses and do not have as many tax benefits or the sophisticated security of those in Switzerland, primarily Geneva, Zurich, Basel and Chiasso. The Geneva facility alone spans an area equivalent to 22 football pitches. Another large one is planned in Luxembourg.

The effect of all this is that insurers are putting up premiums hugely – up to double the original rate – and also turning to reinsurance. On the other hand, some collectors are seeking new pastures – free ports in places such as in Singapore and the US – to spread the risk.

Singapore, however, is reportedly almost full, both physically and to a point where insurers have little capacity to take on more value. Demand for storage space here is huge because, crucially, there is still no obligation to reveal details. Artworks – and their owners' identities – can be stored "free of tax in total confidentiality", the Singapore port says. It calls itself an "art fortress", but its literature is understandably silent on the risk of a site next to Changi international airport.

Pierre Valentin, a specialist art lawyer based in London, recommends that clients who want to store expensive art verify that the facilities they select are suitable and secure. Art in storage should be insured by specialist fine art insurers on the basis of its current market value. Valentin warns collectors against assuming that storage companies will insure automatically. In England, the obligation to insure rests with the collector. The storage company may agree to arrange insurance for the collector, but this should be agreed at the outset and in writing. If the art is not insured, and it is damaged or lost, the storage company's liability will be contractually limited to a derisory sum.

Valentin confirms that changes to Swiss customs laws have led to fears that confidentiality in the country's free ports "is not what it used to be". This has given the Singapore free port a competitive advantage.

He understands that certain insurers will no longer insure artworks in specific free ports where they have too much risk concentrated. One of the advantages of free ports is that art transactions can occur there tax-free, he says. "When expensive art is being bought and sold, it is not unusual to move it to a free port for, say, a week. The art is sold there free of tax, and the art then moves on."

Insurers will not reveal the limit to which they can insure because it gives away too much to competitors about the strength of their business. But no one insurer can ever take more than about £100m of art at any one time, Prideaux believes. "Instead, the insurers group together when, for example, they are asked to do a big exhibition such as a Van Gogh or a Monet show, where the values are astronomical with total values into the billions of pounds. The only way you can do that is to group together every art insurer in the market."

There could be an unintended consequence of this problem, though – museums might benefit. Collectors might find it cheaper and more secure to loan works to them, rather than paying for storage.

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DRESS TO IMPRESS

COUTURE IS KNOWN FOR ITS HIGH PRICE TAGS AND LABOUR-INTENSIVE METHODS. BUT CAN BUYING THE WORLD'S MOST BEAUTIFUL CLOTHES ALSO PROVE A GOOD INVESTMENT?

BY DAPHNE GUINNESS
PHOTOGRAPH BY
MARIO TESTINO

remember my first piece of couture vividly. It was a blue Chanel suit bought in my early twenties. The cut is wider than I would buy now, but I appreciate that suit as much as I did the day I first wore it. If I were to sell it on eBay I am sure it would fetch a lot of money, but, despite my intention to sell certain items at auction*, I have no desire to test that theory. My collection is certainly valuable, but couture has always been far more than an investment for me.

I collect and invest in many things: art, music, books, jewellery – and clothes among them. Yet for whatever reason, clothes seem to be what fascinate people most about me. I am fortunate that I am friends with many couturiers, and in a sense, these friendships are sewn into the clothes I have commissioned, heightening their personal value to me. I don't tend to think of other people's perceptions of my couture, which means I'm unable to determine the exact value of a piece of clothing in my collection. My couture's monetary value reflects what I am willing to pay, what I believe is worth the hundreds of hours of intricate labour poured into each piece.

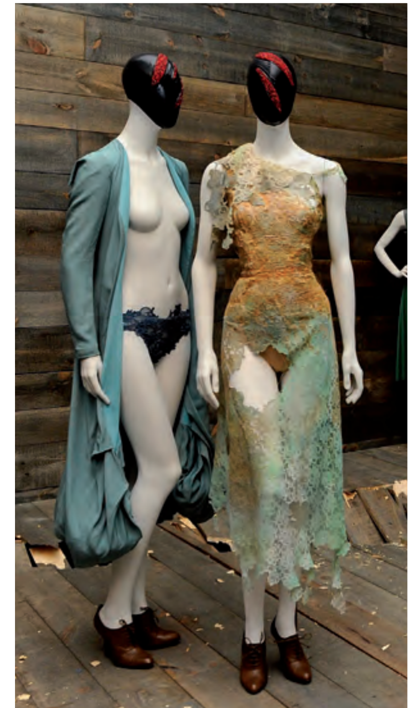
It has been well documented that I bought the wardrobe of my dear friend Isabella Blow, the stylist and muse to designer Alexander McQueen, who died two years ago. Did I pay more or less than she did for the collection in its entirety? I do not know, nor do I care. What I know is that to me, this collection is invaluable, not simply for the iconic designs included, but because of the personal history sewn into every hem and seam. I cannot put a price tag on the life she breathed into them.

Some people may think that art is an alternative investment; that we should invest in art, as it ultimately reflects life. I would argue the same parallel can be made of couture. What reflects a person's aesthetic vision more than the very material they choose to face the world in? What better canvas do we have available than our backs?

Savage Beauty, the retrospective of McQueen's work staged at New York's Metropolitan Museum last year, proved to those willing to look that clothing is indeed a template for another art form, and one no less awe-inspiring or valid than the paintings we hang above a fireplace. McQueen's kaleidoscope of colour and sculptured forms, which incorporated (among other things) thousands of feathers, flowers and razor-clams, demonstrated the artistry of one of our finest designers. The show attracted thousands, and the queues stretched around the block.

But why collect couture? It does not necessarily increase in value. From the moment a dress is bought, it loses almost all of its value in monetary terms. But essentially, couture is a concept: a clothes collection – as with any collection – depends on the value placed upon the artist or designer. What is priceless one year, may indeed be worthless the next. ➤

Queen of couture: Daphne Guinness is auctioning part of her collection for the Isabella Blow Foundation

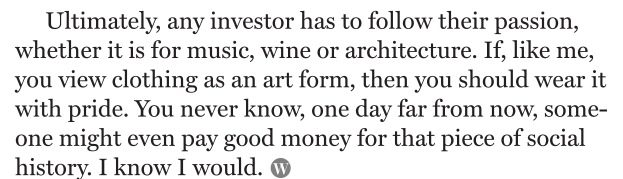


Clockwise from above: Isabella Blow, stylist and muse to designer Alexander McQueen; Christian Lacroix bubble dress; two exhibits from the "Alexander McQueen: Savage Beauty" exhibition at The Metropolitan Museum of Art in 2011; Gareth Pugh spring/summer 2012 ready-to-wear; Daphne Guinness in Alexander McQueen at "Savage Beauty"

'THE CHRISTIAN LACROIX BUBBLE DRESS, WITH GOLD SILK AND COWHIDE, IS A WORK OF ART'

My own collection is extensive, but there is hardly a single piece that I actually regret commissioning. In the collection being sold through Christie's is an amazing Christian Lacroix bubble dress made of gold silk and dappled cowhide. It is a work of art and had to be practically wrenched away from me to go to the sale.

My favourite contemporary houses are Alexander McQueen, Azzedine Alaïa, Chanel and John Galliano. I like each for different reasons: McQueen for its structured romanticism; Chanel for its timeless elegance. I love Gareth Pugh, a more recent discovery, for his futuristic aspect and the daring materials he uses. If I had lived in different eras, I would have liked to dress in Schiaparelli and Madame Grès. The latter was a trained sculptor, which laid the foundation for her grasp of the human form and how best to enhance it.



Ultimately, any investor has to follow their passion, whether it is for music, wine or architecture. If, like me, you view clothing as an art form, then you should wear it with pride. You never know, one day far from now, someone might even pay good money for that piece of social history. I know I would.

** The auction of the Daphne Guinness Collection, sold to benefit the Isabella Blow Foundation, will take place on June 27 at Christie's South Kensington saleroom at 85 Old Brompton Road, London, UK. The contents of the sale will be on public exhibition at Christie's from June 23 to 27. The fee for this article was donated to the foundation.*

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Cases	Wine	Price	Points
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3 c/s	Figeac 1982	£2850	94 Pts
5 c/s	Lynch Bages 1982	£2850	93 Pts
5 c/s	La Mission Haut Brion 1982	£8750	99 Pts
8 c/s	Margaux 1982	£9200	98 Pts
4 c/s	Palmer 1982	£2250	90 Pts
6 c/s	Vieux Chateau Certan 1982	£2200	93 Pts
3 c/s	Angelus 1989	£3300	96 Pts
4 c/s	Montrose 1989	£2500	96 Pts
4 c/s	Gruaud Larose 1989	£890	89 Pts
8 c/s	Haut Brion 1999	£3300	93 Pts
10 c/s	Haut Brion 2001	£3200	94 Pts
7 c/s	Haut Brion 2004	£3000	92 Pts
11 c/s	Latour 1994	£3800	94 Pts
15 c/s	Latour 1999	£4150	94 Pts
8 c/s	Latour 2002	£4200	96 Pts
4 c/s	Margaux 2001	£3400	93 Pts
7 c/s	Margaux 2002	£3250	93 Pts
9 c/s	Margaux 2007	£3150	92 Pts
5 c/s	Mouton Rothschild 2002	£3100	93 Pts
10 c/s	Mouton Rothschild 2004	£3000	92 Pts
9 c/s	Mouton Rothschild 2007	£2950	92 Pts

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Cases	Wine	Price
2 c/s	Latour 1982	£18,400
5 c/s	Haut Brion 1989	£12,300
1 c/s	Beausejour Duffau 1990	£8400
5 c/s	Margaux 2000	£8000
1 c/s	Petrus 2000	£37,000

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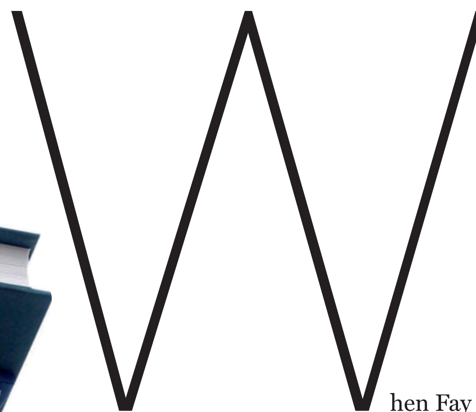
HARD SELLERS

THE ADVENT OF ELECTRONIC PUBLISHING HAS OPENED UP A RANGE OF PRODUCT PLACEMENT OPTIONS IN BOOKS

BY EMMA JACOBS



When Fay Weldon wrote *The Bulgari Connection* more than a decade ago, she took some flak for accepting money from the luxury jeweller. She had anticipated the criticism.

"When the approach came through I thought, 'Oh no, dear me, I am a literary author. You can't do this kind of thing – my name will be mud for ever,'" Weldon said at the time. "But after a while I thought, 'I don't care. Let it be mud.' They never give me the Booker prize anyway."

Weldon is not the only author to name-check brands in return for money, but product placement has not made the inroads in print that it has in films and television. Yet as publishing seeks new revenues amid a fiercely competitive market – due to a pincer movement from online retailers and supermarkets, as well as pressure from digital books' low margins – industry observers believe product placement may increasingly make its way on to the page.

As Jonny Geller, an agent and managing director of the books division of Curtis Brown, the literary agency, says: "If done with sensitivity and in collaboration with the author, it might be a feasible financial model."

While magazines and newspapers depend on advertising, book publishing has largely steered clear. Books have a longer shelf life than newspapers – an advertisement for the latest Nokia phone in a book on the New York Times best seller list would look pretty dated in 20 years' time. Also, as Jason Allen Ashlock, president of Movable Type Management, an agency that provides a range of services to authors, points out, it is difficult to predict a book's audience – big-name authors may receive a blizzard of hype but fail to sell in numbers that would satisfy advertisers.

The flexibility of ebooks means a company can decide on advertising or product placement after a book has

PHOTOS: DREAMSTIME; IDOLS

been released. Moreover, says Ashlock, "with ebooks you can look at the data and demographics and feed them to the companies. Unlike print, you can take the temperature after the book's been released. The products might already be in the book and we can then make a compelling case to go back to the brand with the information on the readers."

Al MacCuish, creative director at Mother London, the marketing agency, says brands are media platforms in their own right and will increasingly commission their own work. "There will always be a section of the audience who want marketing separate from their entertainment. But there is a whole generation that is open to brands – it is impossible to go to a music festival, for example, without being deluged by brands' sponsorship."

Richard Nash, vice-president of content and community at Small Demons, a start-up dedicated to cataloguing references to music, films and objects in books, points out that brands are starting to create their own magazines, so "why not books?" he asks.

In any case, is literature so free of commercial pressures? Books are published with an audience in mind. Rick Moody, the US novelist, has said that authors are already engaged in a form of advertising, as the names of large publishers emblazon the spines of books.

MULTINATIONALS EXERT CONSIDERABLE PRESSURE AS TO CONTENT IN BOOKS

"It is naive to think writing does not already submit to the hegemony of multinational capital," Moody has said. "Moreover, these multinational corporations, through their editorial apparatus, exert considerable pressure as to content in books."

Carole Matthews, a self-described "chick-lit" author had a very happy experience of product placement. In 2004, Ford, the motor company, sponsored her book *The Sweetest Taboo* – a Ford Fiesta was integral to the plot. "I didn't receive a huge payment; financially the deal didn't make me rich, but the book sold a lot better because of the exposure I received for doing the tie-in." As well as featuring the car in her novel, she also wrote short stories for Ford's website. "My website was trundling along, but after it was linked to [Ford's] site traffic shot up to 100,000 page views."

It worked because Ford was "unobtrusive", she says. "It was very considerate with the short stories – it just let me get on with it. It really depends on the integrity of the company you are working with as well as the product and how it fits with your writing."

If authentic, products may help to describe a character. Tina Wells, the author of a young adult series called *Mackenzie Blue* and founder of Buzz Marketing Group, says: "We have no paid or incentivised product placements in my books, but we absolutely talk about brands and products that make sense for my characters. For example, Mackenzie, or Zee as she's called, lives for Converse [shoes]. I don't think she would be the same girl without it." Product placement, says Wells, fails miserably "if it is just about placing a product for cash. It compromises the work if it doesn't feel organic or like a direct extension of a character."

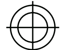
The bigger problem may lie with publishers, says Ashlock of MTM. "They don't have the know-how to reach out to products. This is an entirely new venture for them. At the moment, product placement in ebooks is very ad hoc, very much driven by brands. In the future I see more scope for authors or agents to drive these deals than publishers."

Fay Weldon said of her deal with Bulgari: "After a while I thought, 'I don't care.' They never give me the Booker prize anyway"

NOT AN ETHICAL ISSUE

Lionel Shriver, author of *We Need to Talk About Kevin*, is fairly relaxed about product placement. However, she was angry when she found herself charged with trading a mention of a hotel in return for a free holiday. "I did have strong feelings about being accused of product placement when I indulged in no such thing," she says. A newspaper article accused her of taking freebies from the Fundu Lagoon resort on the island of Pemba, off the coast of Tanzania, after she included it in her novel *So Much For That*. The resort was a place she had reviewed for a travel article. "I [used] the resort where I stayed in the book, since all the other restaurants and institutions in the novel were real – it's a matter of stylistic consistency."

Product placement, she says, is nothing new. "There's been that phenomenon of fiction writers auctioning off names of characters, and though the money has generally been raised for charity, that's a slant form of product placement. If a novelist wants to trade mention of a restaurant in a book for a free meal, I wouldn't get on my high horse about it. Most fiction writers are strapped enough that most of them would probably jump at the chance."



INVITING

Ireland's Diaspora

and the wider world . . .

Here is what business leaders, entrepreneurs and educators are saying about Ireland

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"There has never been a better time to look for talent in Ireland." **Anne Heraty,** CEO, CPL Resources Plc

"Dublin consistently ranks as one of the world's top cities." **Dr. John Tierney,** Dublin City Manager & CEO, Dublin City Council

"In Ireland, businesses can quickly garner support and go into the wider global market." **Jason Ward,** Ireland Country Manager, EMC

"We are optimistic about the medium and long term future in Ireland." **Patrick O'Brien,** CEO, Liberty Insurance

"Ireland's future will be as an entrepreneurial hotspot." **Frank Ryan,** CEO, Enterprise Ireland

"In six months we have had €1.2 billion in inward investments in the biotech sector." **Barry O'Leary,** CEO, IDA

"Irish people are recognised for their voluntary spirit and their 'can-do' attitude. **Angela Kerins,** Chief Executive, Rehab Group

"Investing in universities is the best way for Ireland to look to the future." **Dr. Patrick Prendergast,** Provost, Trinity College Dublin

"We can export people's knowledge instead of exporting our people." **Paul Hourican,** CEO, PFH Technology Group

"We have abundant renewable resources and a supportive policy environment." **Pat O'Doherty,** CEO, ESB

"We are creating an entrepreneurial culture in the city of Belfast." **Peter McNaney,** CEO, Belfast City Council

"Ireland is on a path to restore its former glories and it knows where it wants to go." **John O'Donoghue,** CEO, Noonan

"If you look at the headline numbers, prime Irish property looks like a buy." **Guy Hollis,** MD, CBRE Ireland

"We have world class technology and world class companies who begin here." **Desmond Fahey,** CEO, Dublin BIC

"Compared to other countries, it is easier and quicker to get things done in Ireland." **Tony Hanway,** CEO, Telefónica Ireland Limited

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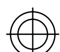

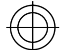

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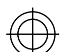


BORDEAUX BANKERS

AFTER A TOUGH YEAR FOR THE WORLD'S PREMIER WINE REGION FIVE INTERNATIONAL WINE EXPERTS NAME THE CHATEAUX AND VINTAGES TO WATCH

BY FEARGUS O'SULLIVAN

nvesting in wine has left an unfamiliar taste in the mouth in recent months, with the price of certain vintages falling steeply in 2011. In a state of affairs unheard of for more than a decade, Bordeaux's market-leading first growths (the elite group of top chateaux officially classified as the region's best back in 1855) experienced steady price falls for six consecutive months in the second half of 2011, something of a knock-back for the world's most prestigious wines. For a while, it looked like the good times might be over.

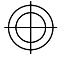
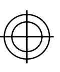
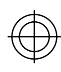
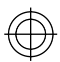
On closer inspection, however, the prospects for wine investment are not as gloomy as they might seem. While the market may have cooled, 2012 is looking far healthier than the previous year, with the Liv-ex Fine Wine 100 index, which tracks price movements of 100 of the most sought-after fine wines, up 2.5 per cent in the first quarter. Furthermore, anyone who invested in wine before the market's 2011 peak has still done well. Most dealers recommend a minimum five-year investment, and anyone who had bought an average Liv-ex 100 wine five years ago can expect it to have achieved a 53.6 per cent price rise by today.

But while there are still gains to be made for smart investors, simply throwing money at Bordeaux's top vintages in the expectation of making a killing is no longer a viable long-term strategy. Instead, wine experts consistently recommend that buyers look beyond the usual suspects, and keep an eye on the still burgeoning east Asian market. To discover the vintages and chateaux to watch, FT Wealth talked to wine experts around the world to hear which wines they believe represent the best prospects for new investment.

Joss Fowler, fine wine buyer, Berry Bros & Rudd, London. While fine wine prices have been falling, it looks like they have now found their floor. A more enthusiastic salesman might see that as an investment opportunity and tell buyers to get in now. I might agree cautiously, but the thing is that, as more investment money has entered the wine market, wine is becoming more like a traditional investment, with people getting in and out as the prices rise and fall. When making suggestions for investment purposes, I'd aim for something with intrinsic rather than speculative value. A reasonable, not too wild investment that should go up over a five to 10-year period is Chateau Lynch-Bages 2005, which is selling for roughly £1,100 a case in bond.

Chateau Lynch-Bages has to have the strongest brand of any Bordeaux outside the top five first growths, and many people believe it should really have first-growth status. At its lower ranking [it's officially a "fifth growth", four levels down from the top category] it has the advantage of not being so expensive you can't drink it. After all, when even a poor vintage of Chateau Lafite costs £6,000-£7,000 a case, is anyone still drinking it?

The 2005 vintage is fairly well priced [by comparison, Lynch-Bages' 2009 vintage costs around £1,400 a case] and was considered the best vintage ever seen when it was released. Its lower price is partly due to yet another

"best ever" vintage arriving in 2009 to steal its thunder, but also to [influential American wine expert] Robert Parker being less enthusiastic about it than we are at Berry Bros. But 2009 and 2010 were priced so fully that Lynch-Bages 2005 is looking especially sound. There is money to be found in the back vintages. The wine will want another five to 10 years to start showing some class, and will keep for 20-30 years.

Jo Purcell, managing director, Farr Vintners Asia, Hong Kong. The market will be fairly static for the coming year, so we're looking more at the long term, and thinking of resale in five to 10 years' time. We'd recommend Chateau Pontet-Canet 2010 – we think this is even better than the 2009 [supposedly Bordeaux's greatest vintage in decades], but at £1,350 a case, it's £450 cheaper that the preceding year's vintage. Pontet-Canet is consistently producing wine of "super-second" quality [like Lynch-Bages, it is also a fifth growth whose reputation is greater than its ranking]. It still looks like a good deal compared with other comparable chateaux such as Léoville-Las Cases and Cos d'Estournel that sell for upwards of £2,000 a case. As our tasting notes for the wine state, Pontet-Canet 2010 seems to have the richness of the chateau's 2009 vintage, but with added grip and structure and an amazingly saturated, decanter-staining colour. It is thick and oily in texture with an amazingly powerful nose of concentrated crème de cassis and espresso coffee, plus a certain smoky elegance.

David Elswood, international head, Christie's Wine, London. Personally, I put any available money I have into first-growth Bordeaux. If you're looking for an investment, you need to think about more than just wine quality. Nowadays, there's no such thing as a bad vintage in Bordeaux, and quality is extremely high year in, year out. So while you should, of course, buy something of an excellent standard, you also need to look for that little bit extra – to spot trends or trust your instincts to root out something that looks like it's cheap. There's nothing particularly scientific about this – I find that if a wine looks cheap, it probably is.

Of all the first growths, the one that has lagged a little in price, and thus shows some potential, is Chateau d'Yquem, the famous sweet, white Sauternes. The European market has been a bit turned off it in recent years, but Sauternes, and Chateau d'Yquem in particular, is just starting to take off in the Asian market. It has a wonderful golden colour and anything golden is considered good luck in Asia. If you wanted to refine this recommendation down to particular years, the number eight is also considered lucky in Asia, so go for the 1988, 1998 and 2008 vintages. I bought a reasonable quantity of the 1988 myself, and, after just sitting there for a while, it's starting to move up in price. You can still get a case of

"THE EUROPEAN MARKET HAS BEEN A BIT TURNED OFF IT, BUT SAUTERNES IS JUST STARTING TO TAKE OFF IN THE ASIAN MARKET"

PHOTOS: AFP/GETTY

"CHATEAU LYNCH-BAGES 2000 HAS BEEN INCREDIBLY RESILIENT TO ECONOMIC INSTABILITY AND WILL SHOW STEADY GROWTH WITHOUT THE VOLATILITY"

the 1998 vintage for under £2,000, although you need to shop around to make sure you're getting a decent market price. My advice on that front is not to buy from people who have purchased their wine for investment purposes.

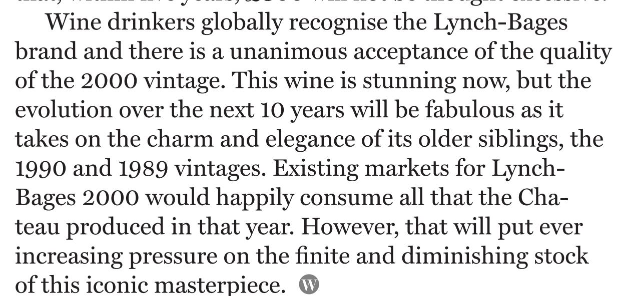
Karen Leung, wine broker, Platinum Wines, Hong Kong. Among Bordeaux's first growths, we believe Chateau Haut-Brion 2009 is an excellent wine to invest in. Robert Parker retasted Bordeaux's 2009 vintage earlier this year, and gave Haut-Brion a perfect 100-point score. The last time a Haut-Brion received this score was 1989. Apart from Chateau Latour 2009, it was the only classified first growth to receive a perfect score for the year.

Despite this, Haut-Brion is still relatively undervalued compared with the other 2009 first growths – their average per bottle price is now around HK$10,000-plus ($1,300-plus), compared with around HK$8,600 for Haut-Brion. This makes the wine a great collector's item, especially as Haut-Brion is becoming more popular as a brand in mainland China, the fastest-growing market for fine wines. As the chateau's production levels were the lowest for any first growth – only 10,500 cases of Haut-Brion were produced in 2009 – its rarity should help it to develop a premium in the long term.

Parker's tasting scores remain the benchmark by which fine wines are judged, and his enthusiasm for Haut-Brion 2009 is reflected in his tasting notes. He described it as an "unctuously textured" wine with a "sensational perfume" that "one almost hesitates to stop smelling" as well as "stunning extract and remarkable clarity". All told, the wine remains a still well-priced example from one of Bordeaux's greatest vintages.

Peter Lunzer, chief executive, Lunzer Wine Investments, London. Since 2003, we have invested in excess of £60m in fine wine. The common thread, for almost all investors, has been the desire for their cash to be placed in what we describe as "low-risk" wines. We recommend investors and drinkers look at Chateau Lynch-Bages 2000, which has had a virtually unblemished career in terms of price fluctuation, and has been incredibly resilient to global economic instability. It may not be the top-performing wine over the next five years but, unlike examples such as Chateau Lafite or Burgundy's Domaine Romanée, Lynch will show steady growth without the volatility. We currently pay about £150 a bottle but believe that, within five years, £300 will not be thought excessive.

Wine drinkers globally recognise the Lynch-Bages brand and there is a unanimous acceptance of the quality of the 2000 vintage. This wine is stunning now, but the evolution over the next 10 years will be fabulous as it takes on the charm and elegance of its older siblings, the 1990 and 1989 vintages. Existing markets for Lynch-Bages 2000 would happily consume all that the Chateau produced in that year. However, that will put ever increasing pressure on the finite and diminishing stock of this iconic masterpiece.



Choice chateaux: Haut-Brion (opposite top) and d'Yquem (opposite bottom), which are gaining favour among Asian buyers; and Pontet-Canet (below), whose reputation is still said to be greater than its ranking

PHOTOS: AFP/GETTY

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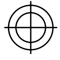

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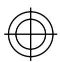
“THE CAR RACED BETWEEN 1957 AND 1965, AND THIS HISTORY GIVES IT A VALUE OF $4.5M”

Rohit Jaggi takes the 1957 Ferrari 250 GT Berlinetta Tour de France for a spin, page 54

PHOTO: CHARLIE BIBBY



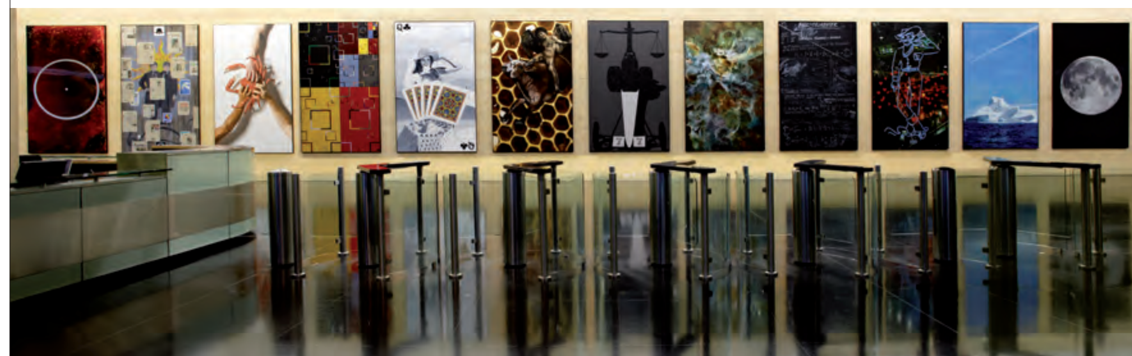
> IT IS HARD TO FIND AN ALTERNATIVE ASSET THAT HAS NOT BEATEN EQUITIES IN RECENT YEARS

Explore your artistic side

BY MATTHEW VINCENT

At Deutsche Bank's City of London office, visitors are met by a dozen striking 3.5m-high paintings: a mixed-media installation called the "12 Harmonics" (below) by the contemporary artist Keith Tyson. In the boardroom of Fleming Family & Partners, clients are surrounded by paintings on loan from the Fleming-Wyfold Art Foundation, widely regarded as the finest collection of Scottish art in private hands.

This demonstrates a side of bankers all too often forgotten: as loyal patrons of the arts. It reminds wealthy individuals that riches are spiritual as much as temporal. But it might also be bit galling for a client popping in for a portfolio review, because, if indices are to be believed, the stuff on the walls has been performing much better than the stuff in the vaults.



Old share certificates may have an aesthetic quality in their own right, but larger artworks have been outperforming equities for some time. Last year, the benchmark Mei Moses World All Art index rose more than 10 per cent, and has consistently outperformed the S&P 500 share index since 2000.

Art can also be a better source of real returns than equities. Quantitative research by Coutts, the bank, that analysed the correlation of selected alternative assets with traditional assets such as large-cap shares, found that modern art is "able to help with short-term inflation, whereas collectable stamps and fine wine can help with longer-term inflation" (see page 42). In other words, that glass of wine you're offered over lunch may be more index-linked than your shareholdings.

According to the Bordeaux Index, even as wine prices were falling last autumn, "wine outperformed its main asset rivals as equities, gold and oil suffered larger falls". Wine indices also suggest longer-term outperformance of equities, in spite of recent volatility. Andrew della Casa, a director of The Wine Investment Fund, recently told Citi Private Bank's Wealth Report that, in all but one five-year period since 1988, wine investment has shown a positive return. By contrast, the FTSE 100 index has had 63 negative periods. Della Casa has co-opted the language of equity analysis to support his argument, using price charts to prove the "bear market" has left wine looking "oversold".

> THAT GLASS OF WINE AT LUNCH MAY BE MORE INDEX-LINKED THAN YOUR SHAREHOLDINGS

If anything, it is hard to find an alternative asset that hasn't beaten equities in recent years. Even Hagerty's Blue Chip index of post-war collectible cars has accelerated away from the Dow Jones Industrial Average, having nearly doubled since 2007.

All of which is likely to bring the issue of temporal versus spiritual riches to the top of the agenda in those portfolio reviews.

Citi's report reveals the proportion of wealthy individuals expressing a greater interest in fine art has risen 25 per cent compared with 2010 – and 53 per cent in that period in North America. Interest in wine, as an investment, is up 29 per cent in Asia-Pacific.

But don't expect your portfolio manager to share this interest. While you're looking at the paintings, he'll be trying to draw your attention to graphs of low-cost equity funds, and certain factors that the Mei Moses, Liv-ex and Hagerty indices conveniently overlook.

"They might provide an indication of direction or recent demand, but the market is not sufficiently rational, transparent or liquid for indices to give any real indication of value, particularly given costs of ownership," points out Richard Bertin, managing partner and founder of Fleming Family & Partners Wealth Planning. "For assets that yield nothing, holding costs can impose a big drag on performance."

Alexander Godwin, global head of asset allocation at Citi Private Bank, adds that equity indices record times of crisis, which alternatives indices conveniently ignore. "It's likely that during such crises, if transaction prices were available it would show a much greater fall in prices compared with what the indices actually showed," he says.

And to George King, head of portfolio strategy at RBC Wealth Management, there's never any point in comparing the FTSE with a still life. "The lack of current pricing or trading liquidity make comparisons suspect at best, and often an apples-versus-oranges exercise."

PHOTO: JOHN WILDGOOSE

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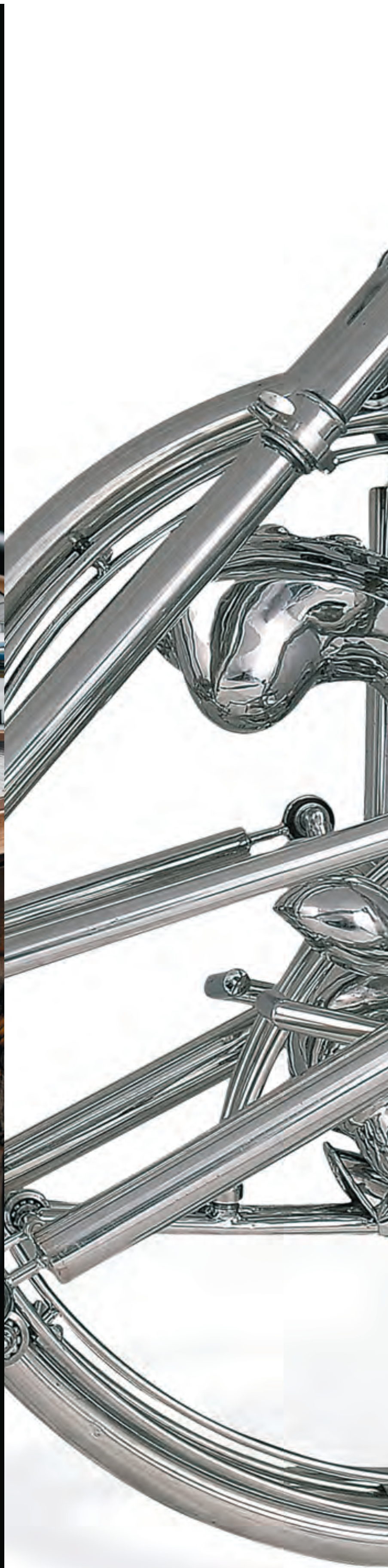

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Inflation busters

Combining passion with investments: modern art was found to help with short-term price rises, while collectable stamps and fine wine were shown to alleviate longer-term inflation issues

BY CHRIS NEWLANDS

Most people would consider art, wine and stamps as things to be enjoyed, drunk and licked – usually in that order.

Coutts, the 300-year-old wealth management business, believes something different. According to quantitative research produced by the London-based company, all three alternative investments should be added to an investor's portfolio to protect against the corrosive effects of inflation.

The findings show that art, wine and stamps provide a "good inflation hedge" over different time horizons. Modern art was found to be able to help with short-term price rises, while collectable stamps and fine wine were shown to alleviate longer-term inflation issues.

Jean-Maurice Ladure, head of quantitative solutions at Coutts, says: "Inflation shouldn't really be a concern for investors with short-term objectives, especially given we expect inflation to remain under control over the next few years. However, it does become a significant [problem] for investors with a long-term horizon.

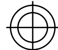
"If it is not addressed, a 3 per cent rate of inflation can erode wealth by half in less than 25 years."

The research, which analysed the relationship between price rises and a variety of UK and global asset types over a one- to 20-year time period, found that collectable stamps had a low correlation to inflation over a very short timeframe (8 per cent over one year), growing to between 60 and 61 per cent for eight to 20 years. Modern art, meanwhile, was found to have a 29 per cent correlation over two years, falling to -2 per cent over 20 years.

"The research overall shows the clear benefit of adding alternative assets," says Ladure, noting that such assets are attractive because they also allow individuals to combine their passions with investment.

But there are practical things to consider, he says, including

PHOTOS: REUTERS; AFP/GETTY; BLOOMBERG



> A 3% RATE OF INFLATION CAN ERODE WEALTH BY HALF IN UNDER 25 YEARS

storage (particularly for fine wine) as well as the dependence prices have on factors such as scarce supply, changes in fashion and trends, time of buying and condition.

"Other considerations for art, in particular, are that it's not a very liquid asset class and should have a minimum holding period of at least five years. Art collections are built over time and are not recommended for investors interested in quick returns," says Ladure.

Oliver Gregson, head of sales, marketing and product development for wealth and investment management at Barclays, says: "The current environment presents a nightmare for savers as we continue to have record low negative real interest rates."

He points to the "record number" of letters Sir Mervyn King has had to write to the UK chancellor explaining the Bank of England's continuing breaches of its 2 per cent inflation target, while also citing the ECB's recent warning about the upside risks of inflation.

"It is [why] we continue to spend time working with our clients on how they should protect themselves against stubbornly high inflation," he says.

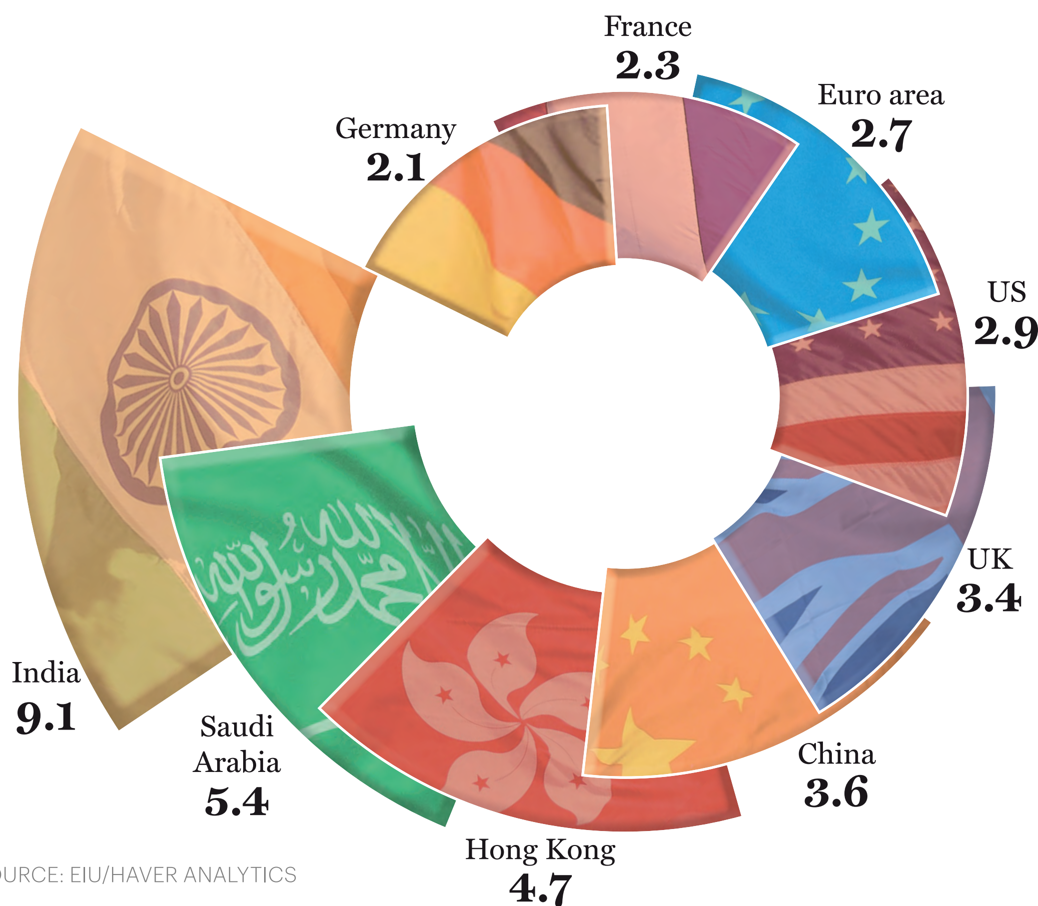
But on whether art, stamps and wine are the best methods of protection, Gregson has different ideas. "No [they aren't], is our view. While they might provide a certain store of value, their relationship with inflation is not stable over time and we would not recommend them as a hedge," he says.

However, George King, head of portfolio strategy at RBC Wealth Management, is unconvinced that investors are currently overly worried about inflation, believing the financial crisis has led to a desire simply to preserve capital.

"Even though inflation is at the back of investors' minds, the fact that capital flows continue strongly into 'safe' assets yielding well below inflation suggests their primary concern is still the return of capital rather than real returns on capital," says King.

Ladure disagrees. Based on Coutts' research and what he cites as the diversification benefits of wine, stamps and art, he says investors should put a tenth of their assets into such alternatives.

CONSUMER PRICES (MONTHLY % CHANGE FROM MARCH 2012)



SOURCE: EIU/HAVER ANALYTICS

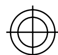
The fact that stamps and art are considered "real assets", he says, and luxury goods prices have far outstripped core consumer price inflation over the past 10 years, certainly contribute "to their good inflation-hedging qualities".

"Illiquidity makes it more complex to allocate to stamps, art or wine within a financial investment portfolio, but if we look at a client's assets and wealth holistically then allocating 10 per cent to art and stamps would provide inflation-hedging as well as diversification benefits due to their negative or low correlation with the traditional parts of an investor's portfolio," he says.

According to a report by Artprice, auction revenues rose 21 per cent last year and exceeded $10bn for the first time with auction sales of $11.5bn. China held on to the top spot in 2011 for global auction sales at $4.79bn, or 41 per cent of the market. The US was second with $2.72bn (23 per cent), and the UK third at $2.24bn (19 per cent).

Thierry Ehrmann, Artprice founder and chairman, says: "In the 1950s, there were 500,000 collectors. Now there are some 300m art consumers."

Ladure adds: "Anecdotally, we have seen a continued increase in demand for alternative assets, and this popularity is likely to continue as more people enter the market."



"A WRISTWATCH CAN OFTEN BE A VERY VALUABLE ITEM AND AN INVESTMENT"

Only time will tell

BY SIMON DE BURTON

You never actually own a Patek Philippe. You merely look after it for the next generation." Not the snappiest slogan, but the words that accompany high-end watchmaker Patek Philippe's long-running Generations campaign have done wonders to bolster the perception of its products as sound investments as well as objects of beauty.

There is evidence to back this up, too. For years, Patek watches have been the strongest performers in international auctions, to the point that a chasm has developed between the values of its most sought-after vintage pieces and those of the next most collectable brand, Rolex. The record for a Patek was set a decade ago, at SFr6.6m

PHOTOS: CHRISTIE'S

(the equivalent of £4.5m today) for a 1946 World Time model, while the most expensive Rolex, a 1942 split-seconds chronograph, fetched a mere $1.1m last year.

This month, the apparently copper-bottomed quality of the right Patek should be demonstrated further when a reference 2523 two-crown World Time wristwatch with an enamel dial showing a map of North America appears at Christie's, the auction house. It was last seen at auction in 1989, when it featured on the catalogue cover for the Patek Philippe 150th anniversary sale held by Habsburg, Feldman. It went for SFr360,000 then, but is now valued at up to SFr2.4m ($2.6m).

Potential purchasers of new Pateks should not be carried away by such stellar returns, however. While the brand makes some of the finest watches in the world, its contemporary creations – which range in price from £8,780 to £925,000 – are unlikely to appreciate in quite the way many as its rarest pieces from the 1930s, 1940s and 1950s have done, simply because these models were invariably produced in minuscule quantities and the number of wealthy collectors vying for them far outstrips supply.

Surprisingly, perhaps, the less expensive and far more ubiquitous products made by Rolex – the company is thought to produce around 1m watches a year these days – have consistently held their value and, after a decade or so, the worth of popular models such as the Submariner and GMT Master frequently rises if they have been maintained well.

Indeed, the pre-owned watch market has strengthened across the board due to a convergence of factors. First, a vast increase in the quantity of information on the subject – through a proliferation of specialist magazines, newspaper supplements and websites – has resulted in more people having more knowledge and taking a greater interest.

Second, the rising cost of raw materials and the recent necessity for many brands to make large investments in developing their own mechanisms has led to – sometimes excessive – hikes in retail prices, boosting the values of many pre-owned pieces. Importantly too, more people than ever are willing to spend thousands rather than hundreds on a watch.

"Pre-owned is a fast-growing area and is simply a consequence of the buoyancy of the new market. Our business has virtually doubled in a year, and all the indicators suggest it will continue to grow," says Matt Bowling, a director of Watchfinder, the UK-based online used-watch retailer.

"Until recently, I don't think the majority of people even realised a high-quality second-hand wristwatch [market] really existed. Used watches were generally perceived as tatty items you might find at a car boot sale, but now people have a great deal more knowledge about the market and realise a wristwatch can often be a very valuable item and an investment," he explains.

"But, as with any investment, buying the right watch is all about pre-empting the market and banking on inflation continuing. The Rolex Submariner is, perhaps, the best benchmark – five years ago, these retailed for £2,350. We now sell five-year-old examples for £4,000. Similarly, IWC Portuguese Chronographs that retailed at £3,600 now fetch more than £4,000 pre-owned."

Bowling believes other contemporary watches with the potential to rise in value include the now-defunct Panerai for Ferrari models and the soon-to-be-discontinued Omega Seamaster James Bond watches with quartz movement. "The Seamaster James Bond is our biggest-selling watch, and the quartz version is the most affordable. Although it is being discontinued, demand for it will remain strong, meaning pre-owned values will rise."

Timely investment: the Patek Philippe reference 2523 (below) is valued at up to SFr2.4m ($2.6m)

Another significant factor in the growth of the pre-owned watch market is the appetite of Asian buyers for luxury timepieces. A desire to be consistently on trend means many wealthy Asian buyers think nothing of purchasing a new, high-end watch, wearing it for a few months and then sending it to auction when something more interesting takes their fancy.

"PRE-OWNED IS A FAST-GROWING AREA... AND IT WILL CONTINUE TO GROW"

As a result, the big Hong Kong watch sales tend to be replete with contemporary pieces, often available at significant savings over retail, although some models – often those produced by modern, niche makers such as Richard Mille, Greubel Forsey, Urwerk and MB&F – achieve strong prices due to their cult following among Asian horophiles.

But while the top lot at Sotheby's recent Hong Kong sale was a minute repeating wristwatch by the high-end, low-volume maker Philippe Dufour that was sold for $618,000, the following eight best sellers were made by a more familiar brand: yes, you guessed it, Patek Philippe.

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Coaching future high flyers

BY EMMA JACOBS

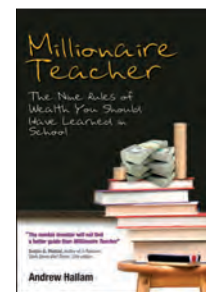
As people are losing their jobs, businesses are collapsing and the economic outlook is miserable, one company is experiencing a boom. Knowledge to Action, which provides training in foreign exchange, futures and stock market trading, has more customers willing to hand over upwards of £2,995 for a course, than ever. Its website promises to deliver "the success you deserve".

Founder Greg Secker says his business grew four-fold between 2008 and 2010, "not because we're brilliant, but because of the dire market".

"The state of the economy has driven our business. People realise there are no returns on savings and they'd rather lose money themselves than pay someone else to do it. They want more control over their money."

It is not just him, he says, who has done well out of the dire economy but the wealth coaching industry as a whole.

Also having a boost is Success Resources, which organises seminars for people wanting to learn how to be wealthy. It charges between £100 and £20,000 and boasts guest speakers such as Robert Kiyosaki, the American investor and motivational speaker



Andrew Hallam, author of *Millionaire Teacher*, says wealth gurus are the only ones who get rich from seminars

PHOTOS: EYEVINE; AFP/GETTY IMAGES

> DURING DIFFICULT TIMES PEOPLE RELY ON HOPE AND THAT IS WHAT THEY SELL

best known for his *Rich Dad, Poor Dad* motivational books.

"The downturn has affected our clients," says Dikkie Anderson, manager of Success Resources UK. "We've had more interest from people wanting to create wealth."

Last year the company staged its biggest seminar: 15,000 people descended on Sydney to hear lectures from the likes of property mogul, Donald Trump, and motivational speaker, Tony Robbins.

The financial crisis, says David Bain, editorial director of Campden Wealth, the UK events, research and publishing company, has made people more suspicious of handing their money over to brokers dealing in complex financial instruments and they "want more control over their finances".

Jonathan Alpert, a New York-based psychotherapist, and author of *Be Fearless*, says, "It's not surprising that wealth creation seminars are doing well right now. During difficult times people rely on hope – and that is exactly what a lot of these seminars are selling. In a society of quick fixes where you can pop a pill and lose weight, gain better focus, or even achieve harder erections, wealth seminars aren't much different." He points out that many wealth seminars prey on the vulnerable and employ such tactics as "wealth conditioning".

"This is the equivalent of wishful thinking. I'm all for positive thinking, however wishing for change will get you nowhere. Repeating phrases such as 'I am good with money' won't make you rich. That's akin to me standing in front of a mirror and saying, 'I can get big biceps.'"

Oliver James, author of *Affluenza*, believes "the constant exposure to advertising, the lottery, reality TV make us believe that a tiny number of very ordinary people can become rich. It's an illusion. Wealth seminars are just another way of robbing the poor to pay the rich, portrayed as democratising wealth. It encourages people that if you just work hard enough or follow a system you will get rich and if you don't, you have failed. It's a cruel system."

The other draw to such seminars, says Alpert, is "simply that misery loves company. A cult-like atmosphere provides the comfort one needs during tough times. People should be good consumers of these seminars and separate fact from fantasy. They should also consider that a lot of these gurus got rich off the very things they're buying: the seminar, DVDs, and books."

Hope has its place, he says. "It certainly worked for [Barack] Obama's election bid in 2008. However, wealth is different. It requires a smart and sound investment."

Andrew Hallam, author of *Millionaire Teacher: The Nine Rules of Wealth You Should Have Learned in School*, agrees. "Solid foundations of wealth are built over long periods of time. The only great riches that get made in those seminars are by the promoters promising quick riches over a short period. Wealth gurus are generally in it for themselves."

> IT'S LIKE GOING TO A GYM, NOT LOSING WEIGHT AND BLAMING IT ON THE GYM

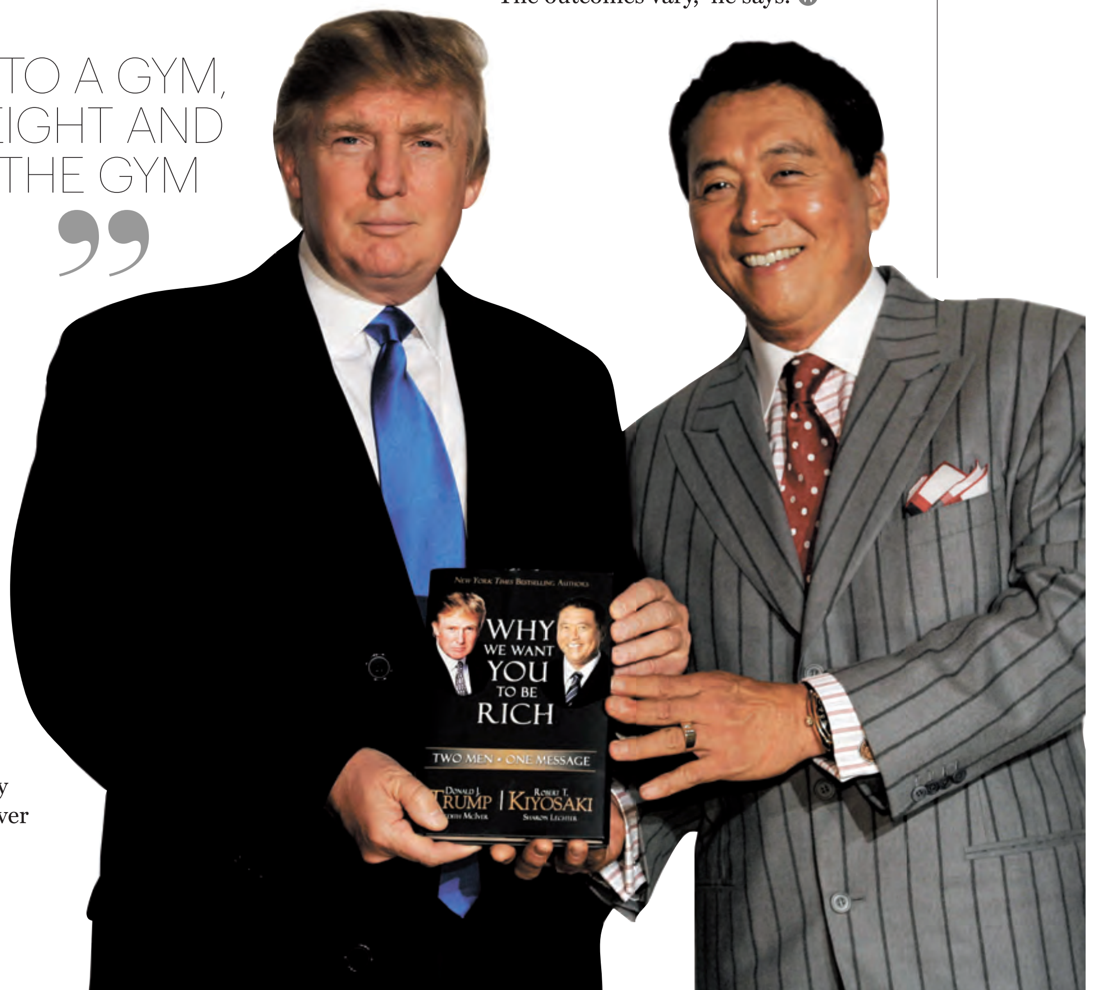
Greg Secker is unfazed by such comments. He has heard them all before. He asserts that his seminars are not "get-rich-quick" schemes. "We teach people to have a trading strategy with only 1 per cent risk," he says. "Our programme is very low risk." Wealth seminars, he argues, are easy targets. "You'll never have the shiniest reputation doing wealth seminars." For Secker it is down to a cultural difference: "In the US we're seen as superstars; in the UK we're seen as too good to be true."

The fault, he says, lies as much with the participants as with the coaches. "Lots of people go to seminars and if it doesn't work for them, they blame the trainers and don't take any responsibility for their own investment strategy."

Anderson agrees: "It's like going to a gym, not losing weight and blaming it on the gym. We give people a programme that they might stick to or life might get in the way and derail their goals."

He also points out that the programmes work differently for different people. "Teenagers attending our seminars might get something very different from someone who has worked for many years. If we grow seeds, it takes time. Teenagers need to learn how to manage money. Other people come already making £100,000 and just want to know how to make £200,000. The outcomes vary," he says.

Affluenza author Oliver James says the promise of wealth is an illusion; Donald Trump and Robert Kiyosaki (below) were guest speakers at a seminar for 15,000 people in Sydney



IMPACT INVESTING

BENEFIT CORPORATIONS

Portfolio projects: biogas installations in Kenya (left) and solar energy in Tanzania (far left and below) and in Benin (bottom and opposite)

Social missions

BY SARAH MURRAY

In launching its SocialAlpha-Prometheus fund, Zurich-based AlphaMundi is looking for more than financial returns. The fund, which is raising capital for its first close, will also measure how successfully its portfolio is delivering on its social aim of financing small enterprises that provide renewable energy to rural off-grid communities in Latin America and sub-Saharan Africa.

Such funds are attracting growing investor attention. Yet "impact investments", as they are known, remain a tiny proportion of the global investment industry. What is needed before this emerging alternative-asset class can attract mainstream investors, argue its proponents, is a new ecosystem of legislation, tax laws, ratings providers, analysts and intermediaries.

Enthusiasm is there. An Ipsos Mori report in 2011 found 65 per cent of investors with more than £100,000 in investable assets wanted to achieve social impact from their investments as well as financial returns. And last December, when JPMorgan polled 52 impact investors, it found they planned to invest almost $4bn over the next 12 months.

When it comes to the foundation endowment managers, pension fund managers and private banks that drive the investment market, however, few are yet offering impact investment products to their clients.

PHOTOS: GVEP INTERNATIONAL

"THERE IS UNEVEN PROGRESS IN UNLOCKING INSTITUTIONAL CAPITAL"

"There's real money flowing," says Margot Brandenburg, an associate director at the Rockefeller Foundation working on initiatives that include impact investing. "But there's much more uneven progress in unlocking institutional capital, with real and perceived barriers, depending on countries and regulatory and policy frameworks."

One of these barriers is a dearth of professional expertise. And market expansion will depend on the emergence of a cohort of fund managers able to analyse investments based on more than purely financial factors. "Building human capital is a critical need and exists at multiple levels – entrepreneurs, fund managers, investors and service providers," says Brandenburg.

Another impediment to the flow of institutional funds into impact investments is lack of supply. "There's a finite number of social enterprises in the world, so the investment opportunities have so far been relatively small," says Gavin Power, deputy director of the United Nations Global Compact, the UN's business sustainability initiative.

Another challenge lies in the size of the investments. "There's plenty of product out there today, but it's mostly small," says Andrew Kassoy, co-founder of B Lab, a US-based non-profit organisation which aims to harness the power of business to solve social and environmental problems. "If you're a big pension fund or private bank looking to provide product for your client base, funds of $5m-$10m aren't that useful."

In the US, legislation is helping to expand the portion of the economy made up by socially driven businesses. In seven US states, new incorporation legislation has created an alternative commercial entity – the benefit corporation. Critically, the legislation gives leaders of benefit corporations legal protection to pursue social and environmental goals as well as profit.

Not only does benefit corporation legislation allow certified companies to put social and environmental goals on an equal footing with profit targets, but it also confers on them a mark of credibility.

"Everybody is concerned about greenwashing of one sort or another," says David Wood, director of the Initiative for Responsible Investment at Harvard University. "So structures that signal credible social impact, such as benefit corporations, are important to develop."

Allied to this is a need for robust measurement – not only of financial returns but also of the social and environmental impact of investments. To give investors a clearer indication of these returns, B Lab, supported by the Rockefeller Foundation, has developed the Global Impact Investing Rating System and is in the process of rating the first funds in the system.

This is something new. For while efforts have been made to take into account social and environmental factors in investments, ESG (environmental, social and governance) ratings tend to focus on the risk to financial return from non-financial factors rather than on positive social return. "That's not to say risk management isn't important," argues Kassoy. "But investors who care about social impact aren't getting answers from that analysis."

Meanwhile, some regulatory hurdles need to be dismantled or adapted to allow large investors to participate in impact investing. In the US, the Employee Retirement Income Security Act (Erisa) is one example. While Erisa does not prohibit managers taking into account other factors, it requires pension plan fiduciaries to maximise the financial return of their investments.

"IF YOU ARE A BIG PENSION FUND, FUNDS OF $5M-$10M ARE NOT THAT USEFUL"

"Erisa has some very strict laws about what pension funds can invest in. For the ESG and impact investing community, those are quite limiting," says Kassoy. "So there are some big policy issues that need to be addressed if you want that kind of capital invested with a social impact lens."

Power agrees. He sees governments as critical in creating incentives and policy signals, whether through tax codes or lowering regulatory hurdles. "There's a huge opportunity for governments to take an interest in this and stimulate its development," he says.

PHILANTHROPY
THE PRIZE

Calling all innovators

BY SARAH MURRAY

In his quest for battlefield success, Napoleon once offered 12,000 francs to anyone who could devise a practical method of preserving food for soldiers and sailors. The winning solution – developed by Nicholas Appert, who found that heating food in vacuum-sealed containers destroyed the bacteria that cause it to go bad – revolutionised food preservation.

From "appertisation" to the Orteig Prize, won in 1927 by Charles Lindbergh for flying non-stop across the Atlantic, competitions have long been used as a means of uncovering innovation. For prizes to achieve their intended goals, though, careful thought needs to go into their design.

And as donors seek more bang for their philanthropic buck, prizes have soared in popularity. A study by McKinsey*, the management consultancy, of prizes worth more than $100,000 found that over the past decade, their aggregate value more than tripled to $375m. In the US, their growth – at 18 per cent – far outstrips the 2.5 per cent annual growth in charitable giving.

"It's exploding," says Lynn Taliento, a McKinsey partner who leads research on prize philanthropy and heads the firm's social sector practice in the Americas. "And not only among traditional foundations, but also among the new philanthropists."

PHOTOS: GETTY

> IN PRIZE PHILANTHROPY, IF YOU'RE BACKING THE COMPETITION YOU'RE AUTOMATICALLY BACKING THE WINNER

High flyers: motivated by a competition, oil slick clean-up speeds have been accelerated (left and far left) and Charles Lindbergh (above) conquered the Atlantic

The consultancy also found that, rather than the traditional rewarding of excellence, almost 80 per cent of prizes announced since 1991 were designed to reward specific innovations. "Philanthropists are saying: 'We are innovative capital,'" explains Taliento. "And prizes are extremely attractive to new philanthropists with business backgrounds who would like to pay for a solution."

For these kinds of philanthropists, competitions offer compelling advantages. For a start, they can attract media attention and capture public imagination, raising the profile of a particular cause or issue.

They are also cost effective. Rather than developing programmes or institutes, prize givers pay only for results, which come not only in the form of a winning solution but runners up may have good ideas too.

A prize for accelerating the removal of oil from the sea launched by the X Prize Foundation after the BP oil spill in the Gulf of Mexico in 2010 is a case in point. The winner succeeded in quadrupling the speed of the process, while seven of the 10 finalists doubled the previous best recovery rate, says Robert Weiss, vice-chairman and president of the X Prize Foundation.

Competitions also stimulate private sector investment, attracting funds to solve a problem that are far greater than the financial value of the prize itself. "If you were to place a dollar amount on work that all the competitors put in, it would far outstrip whatever the award might be," says Brad Rourke, president of the Mannakee Circle Group, a US-based advisory group.

Since prizes can draw in innovation and expertise, they also allow philanthropists to use their money to address problems without committing to a single approach in advance.

"If you're a philanthropist, like a venture capitalist, you have to decide who to bet on," explains Weiss. "In prize philanthropy, if you're backing the competition, you're automatically backing the winner."

Prizes can also substantially increase the number and diversity of the individuals, teams and organisations that are trying to solve a problem, particularly in an era of crowdsourcing and social media.

"In many areas of innovation, people are looking for a needle in a haystack – with prizes you get the needle to come to you," says Lee Stein, founder of Prize Capital, which he established to support the X Prize Foundation and to fund competitions focused on energy and the environment.

Brad Rourke: competitions attract funds to solve a problem that far exceed the value of the prize

"With the way money is allocated in most grant mechanisms, it is hard for crazy ideas to get funded," says Stein. "But with a prize, it provides a platform to showcase crazy ideas and have them evaluated in a public forum."

In the McKinsey study, more than two-thirds of the prize sponsors surveyed saw prizes as a means of bringing together entrepreneurs and innovators who might not otherwise have been aware of each other.

For this reason, the work does not end after the award ceremony. "Where most philanthropists fall down is post prize," says Taliento. "What's critical is supporting the winner, creating the community and getting more capital for the next round."

Launching a prize is not always easy. Attracting the right kind of competitors and ensuring at least one will find a solution to the problem in question requires careful thought and planning.

The first challenge is to define the problem. If it is too broad, it will be hard to find a winner; too narrow and innovation will be limited. Weiss sees the magic formula as being a balance of "attainability and audacity".

"It's harder than you might think to define a good challenge," says Rourke. "The job of problem definition is to narrow it down, but not to limit the potential solutions."

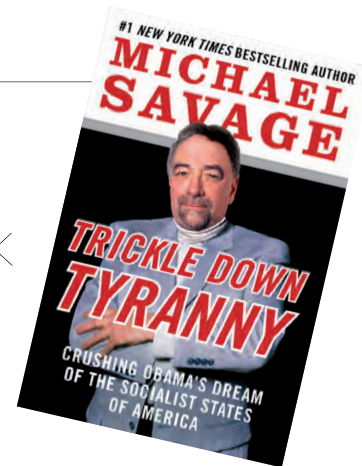
If well designed, though, competitions that offer achievable goals can be an effective way of solving some of the world's biggest challenges, argues Weiss.

"We want to transform how people think about problems and solutions," he says. "If you think it's hopeless, that's what the outcome will be. But if you can offer a vision and concrete proof it can be executed, you can change the world."

** "And the winner is ...": Capturing the promise of philanthropic prizes, McKinsey, 2009*

BOOKS
TRICKLE DOWN TYRANNY

> THE TWIST IS THAT IN SAVAGE'S SCHEMA, BARACK OBAMA IS THE NEW LENIN



Mind the wealth gap

BY DANIEL BEN-AMI

It is hard to suppress a frisson of excitement associated with doing something illicit when opening *Trickle Down Tyranny*. Successive British governments have banned its author, Michael Savage, from entering the country on the grounds that he preaches hate. This is despite the fact that the American authorities have never prosecuted the conservative "shock jock" for such an offence in his home country.

Certainly it does not take long to see that *Trickle Down Tyranny* is no classic. It does not stand alongside *The Adventures of Huckleberry Finn*, *The Color Purple* or *The Grapes of Wrath* even though all have suffered censorship in the past. It is also clear that Savage's views are deeply controversial. He is passionately hostile to Islam, argues that America should not have supported the overthrow of Egypt's President Hosni Mubarak and rejects the view that climate change is a problem.

Whether such views should be suppressed is a different matter. The case for banning him rests on the assumption that potential readers are so feeble that contact with his ideas could make them commit violence. In any case, reading the works of Savage and his ilk can help put broader social developments into context.

Reading *Trickle Down Tyranny* is much like watching a grainy black and white documentary from about 1950. His hysterical anti-Communism is reminiscent of the Cold War at its McCarthyite peak.

The twist is that he is talking about today. In Savage's schema Barack Obama is the new Lenin. This is not a rhetorical flourish but a central theme of his work.

In many respects Savage's thesis is reminiscent of traditional anti-Semitic conspiracy theories. He sketches a world in which the American president is simply a puppet of international financiers intent on imposing world government. George Soros and Goldman Sachs are particular targets for Savage's ire.

To be fair to Savage, he emphasises he is staunchly opposed to anti-Semitism itself. He is also an uncompromising defender of the state of Israel. There is no talk in his work of any compromise with the Palestinians.

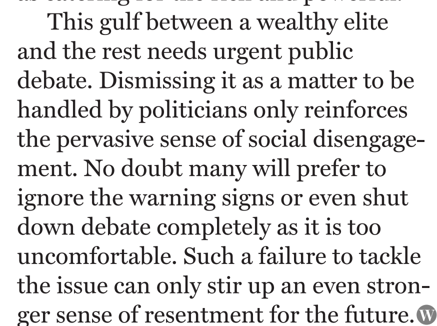
At the centre of *Trickle Down Tyranny*, therefore, is a conspiracy theory in which the wealthy, and financiers in particular, are duping ordinary Americans. Time and again he emphasises the huge gap between Wall Street, along with its corrupt allies, and regular citizens.

Readers who instinctively react against Savage's ultra-conservatism would do well to pause here. Strip out the archaic anti-Marxist rhetoric, put aside his more controversial positions, and the thrust of Savage's conspiratorial thesis is widely accepted across the political spectrum.

There is a pervasive sense among American citizens of all stripes that they are detached from the nation's rulers. The gap is perceived to be both social and economic. This theme is as central to the Tea Party as it is to Occupy Wall Street activists.

Take Matt Taibbi's *Griftopia* as an example from the other end of the political divide (reviewed in the March 2011 issue of FT Wealth). His description of Goldman Sachs as "a giant vampire squid wrapped around the face of humanity" was praised as a vivid metaphor that captured an important truth. Yet in essence his argument is the same as the much-derided Savage. Both see Wall Street parasites sucking the blood out of contemporary America.

Nor are such views confined to either end of the political spectrum. Polling by the Pew Research Center, a non-partisan organisation based in Washington DC, shows a very large majority of Americans agree with the statement that in the US "the rich get richer and the poor get poorer". A parallel trend it found was for governments to be seen as catering for the rich and powerful.



This gulf between a wealthy elite and the rest needs urgent public debate. Dismissing it as a matter to be handled by politicians only reinforces the pervasive sense of social disengagement. No doubt many will prefer to ignore the warning signs or even shut down debate completely as it is too uncomfortable. Such a failure to tackle the issue can only stir up an even stronger sense of resentment for the future.

Trickle Down Tyranny: Crushing Obama's Dream of the Socialist States of America, Michael Savage (William Morrow, 2012; $26.99)

The writer is the author of Ferraris for All *(Policy Press, 2012)*

THE QUOTE

"The Obama administration's intent is to weaken our economy to further a crisis of the international financial system and facilitate its takeover by a US/global financial elite on the scale of the Leninist takeover of the Russian economy."

PHOTOS: NEW YORK TIMES/REDUX/EYEVINE

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Extra-thin mechanism crafted using
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CAR REVIEW

FERRARI
458 ITALIA AND
250 GT TdF

"THE BRAND HAS AN ALMOST UNEQUALLED POWER TO SEDUCE"

Best of breeding

BY ROHIT JAGGI
PHOTOGRAPHS BY CHARLIE BIBBY

Seated in a low-backed leather bucket, a huge steering wheel in my hands, I feel like an actor in any number of old Hollywood movies where car scenes were filmed in front of implausible back-projected images.

The 1957 250 GT Berlinetta Tour de France, a racing car built by the then still-new car manufacturing company set up by Enzo Ferrari, belies its age in a number of ways, though – principally an urgent three-litre V12 engine that thrives on revs and bootfuls of throttle.

But it also revels in the purpose that won the type the first three places in a challenging race held on 3,000 miles of open French road in its inaugural year – and 250 GTs went on to win the event three years in a row.

Those and other victories marked an early winning streak for the Italian company in an era when the road and race cars of the top factories were often much more closely related than today.

The car I am driving is one of 72 built between 1954 and 1959, when the model was superseded by a short-wheelbase version. This one was raced extensively from October 1957 – when it was delivered – to 1965, and this history helps give it a value of around $4.5m, according to James Cottingham, acquisition consultant at UK Ferrari specialist DK Engineering.

It is one of the rising stars of the historic car scene, in which the prices of Ferraris have risen more than 150 per cent over the past 10 years. The Tour de France models' value might be eclipsed by their early 1960s successor, the 250 GTO, an example of which sold for about $32m this year, but a sympathetic restoration may serve to increase their value.

DK Engineering has rebuilt the mechanical components but has left intact evidence of the car's competition life, including patches where the original paint has been rubbed off by racers hurriedly climbing in and out.

My time behind the wheel gives a flavour of what those drivers experienced. Up to 250 horsepower feels like it could still launch the car from rest to 60mph in five seconds, and take it to a top speed of 150mph. The brakes, however, should be treated with caution. Big drums all around, they warm up unevenly, so each application has the car initially darting across the road.

But the smooth changes afforded by the gearbox help offset that – important in a marque and type that is often used on public roads and even city traffic, in spite of the cars' value.

Modern Ferrari road cars cannot hope to scale the heights of appreciation as quickly as their road/race forebears, but they do illustrate one of the enduring aspects of owning examples of the marque.

A 458 Italia, in yellow some shades distant from shy, attracted huge attention from other road users. More surprising was how positive the response was. The Maranello-based brand has an almost unequalled power to seduce people into accepting its single-minded pursuit of driving pleasure.

With that in mind, it is fitting that the two-seat 458 is at ease on the road, despite its 570bhp and a relatively emaciated dry weight of 1,380kg.

Increasingly, milking a car's performance potential can only be done in safety on the track. Yet the 458 Italia is an exception. Not only does it turn into corners with the tautness and precision of a race car, but the engine and exhaust produce an aural accompaniment to entertain at low speeds. And by allowing for enjoyment at pedestrian speeds, it is a profound contribution to road safety.

That is a quality shared by its 1957 cousin. Whether a $4.5m venerable racing veteran that is at home on the road, or a £173,000 modern road car (bumped up to £250,000 by entirely reasonable optional extras) with technology taken from the track, the point on the speedometer dial marked "driving pleasure" is much further down than these Ferraris' top speed.

View a video review and slideshow of the 250 GT Berlinetta and 458 Italia at www.ft.com/wealth

STATS

458 ITALIA
ENGINE: Dry-sump 4499 cc mid-mounted V8, seven-speed dual-clutch gearbox, paddle shift and auto mode
ACCELERATION: 0-100 km/h (0-62 mph) less than 3.4 seconds
MAX SPEED: more than 325 km/h (202 mph)

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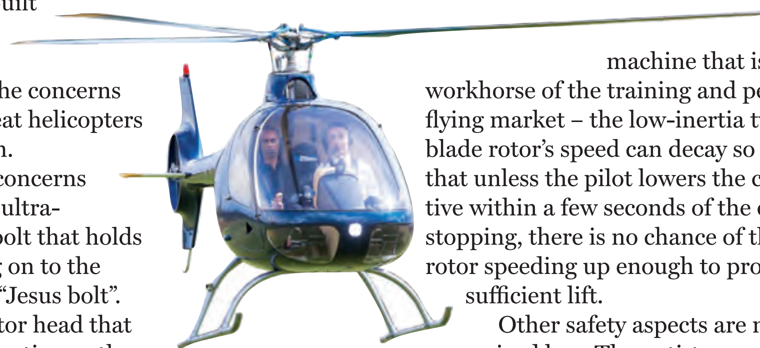
ROHIT JAGGI

Tough little mover

PHOTOGRAPHS BY STEPHEN SHEPHERD

As I look out for spring rainclouds above the lush British Cotswolds, it occurs to me that the French-built aircraft I am flying removes many of the concerns that pilots of little two-seat helicopters have drummed into them.



Many of those pilots' concerns are mechanical. In some ultra-light aircraft, the single bolt that holds the fabric-and-tube wing on to the fuselage is known as the "Jesus bolt". In helicopters it is the rotor head that plays a similar vital role, acting as the mount for the blades of the main rotor and taking the weight of the rest of the helicopter suspended beneath it.

The £250,000 Cabri, though, has three rotor blades set in a hub as sophisticated as that on bigger helicopters costing millions of pounds. This means the potentially weak point is extremely strong – and the Cabri can be thrown around the sky with what, for most light helicopter pilots, is an unprecedented degree of abandon.

Despite the exhortations of Steve Dean, a Cabri instructor for UK importer Cotswold Helicopters who is seated beside me, I'm only scratching the surface of that potential.

Even so, the safety advantages are reassuring. The Cabri is the first light helicopter to be certified under stringent European regulations.

Its passenger cabin and shock-absorbing seats are designed for a descent rate of 2,000 feet per minute. That is the rate seen in autorotation, or gliding – when air passing through the rotor disc spins the blades and provides lift. Or, as Dean puts it, if the engine fails and you do nothing else but lower the collective control to alter the pitch of the rotor blades and enter autorotation, you will survive the unavoidable collision with the ground.

Although simulated engine failure is a key part of helicopter training, in the Robinson R22 – the little two-seat machine that is the workhorse of the training and personal flying market – the low-inertia twin-blade rotor's speed can decay so quickly that unless the pilot lowers the collective within a few seconds of the engine stopping, there is no chance of the rotor speeding up enough to provide sufficient lift.

Other safety aspects are more of a mixed bag. The anti-torque rotor – the one at the rear that stops a helicopter from vividly illustrating Newton's third law of motion and spinning in the opposite direction to the main rotor – is embedded in the vertical tail surface. That cuts the risk of people walking into it and of it hitting objects such as trees in tight landing spots.

But, ironically for a helicopter that sells itself so hard on its safety aspects, my flight in the Cabri was delayed because the Cotswold Helicopters machine was involved in a "hard landing" when it started spinning uncontrollably.

Drawing lessons from that, I make sure to keep the rotation speed down and use all the travel in the pedals – and have no problem. At least the hard landing demonstrated the strength of the machine.

Its monocoque body is made from a carbon-fibre honeycomb, like that used in Formula One cars. That is extremely light, at just 20kg, allowing for a hefty payload. Admittedly, neither Dean nor myself are particularly heavy, but we could have brimmed the 170 litre fuel tank, giving up to six hours' flying time.

> "THE CABRI CAN BE THROWN AROUND THE SKY WITH UNPRECEDENTED ABANDON"

As I cruise at a relaxed, vibration-free 90 knots (about 104mph), a big electronic readout on the instrument panel of the sophisticated and comfortable interior displays all the relevant parameters – from rotor speed to engine oil temperature and a precise readout of fuel left in both quantity and remaining running time.

With efficient systems and controls taking care of so much – there are similar aids for engine management – flying the Cabri is made more enjoyable. The cyclic in my right hand, which controls the angle of the main rotor disc and therefore whether the aircraft flies forwards, backwards or sideways, has the weight of much heavier machines. But its effect is direct and lag-free, which means it is easy to settle into moving it enough but not too much – "overcontrolling" is too easy in many helicopters and makes any flight a series of wobbles rather than soaring through the sky.

Where the Robinson two-seater wins is on price. At about £167,000 its base price, before taxes, is significantly lower than that of the Cabri. But the Robinson requires a £100,000 complete rebuild every 12 years or 2,200 hours.

Another way to look at it is that the Cabri's price is close to that of the Ferrari 458 Italia I was driving a few days before I flew the Cabri. The mid-engined, two-seat car is a fine machine. But between that and the – also mid-engined – French two-seat helicopter, it is the flying machine that would give me more pleasure. Slower on paper but quicker in the real world, the helicopter would also actually get more use.

View a video review and slideshow of the Cabri at www.ft.com/wealth

BYLINE PHOTO: ED ROBINSON

> AT LEAST THE HARD LANDING DEMONSTRATED THE STRENGTH OF THE MACHINE

Easy rider: with the Cabri's efficient systems and controls taking care of so much, flying the machine is made more enjoyable

MY LIQUIDITY MOMENT
JAMES ERSKINE

> "WHEN YOU'RE PLAYING GOLF WITH ARNOLD PALMER, YOU HAVE TO PINCH YOURSELF"

The swing of things

BY KATHRYN TULLY
PHOTOGRAPH BY ALEX WELTLINGER

James Erskine was studying medicine in London when he met sports agent Mark McCormack, founder of International Management Group, the sports marketing company, at the British Open in 1976. When McCormack offered the 23-year-old a job, Erskine promptly joined IMG's golf division.

It was an astute move. He managed golfer Arnold Palmer, his childhood hero, and took part in IMG's European tour for Muhammad Ali, the boxer. Ian Todd, Erskine's mentor and head of IMG Europe, soon suggested to McCormack that Erskine should set up the company's sports marketing division in Australasia. "I moved to Sydney in 1979, thought I would stay for two years and I've never really left," he says.

IMG already managed some of Australia's biggest sports personalities in what Erskine describes as a "sports nuts" country, so business grew quickly.

But he wanted an ownership stake, and by the mid-1990s he realised that would not happen at IMG. "It was a private company and McCormack's children were beginning to work in it," he says. So in 1997, he founded Sports & Entertainment Limited (SEL) in Sydney with three other partners, David Coe, Tony Cochrane and Basil Scaffidi, focusing on sports and entertainment event marketing, licensing and management.

The new company had a flying start, particularly since some of Erskine's long-standing IMG clients, such as Michael Parkinson, the UK entertainer, moved with him. "I'd like to say it was tough at the beginning, but in the first year we made something like A$9m ($9.3m) on entertainment. Eventually, we also attracted more sports clients."

SEL bought part of V8 Supercars in 1997, an Australian touring car racing series. In return for an investment of A$49,000, SEL received a 25 per cent stake and ran all the commercial activities.

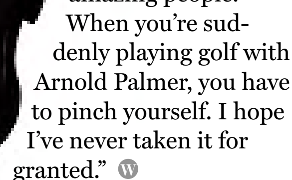
It turned out to be the best financial decision Erskine ever made. V8 Supercars is now a top Australian sports franchise and last May, Archer Capital, a private equity firm, bought it for A$320m. "I didn't really want to sell our stake, but the racing teams did, and the valuation would have been lower if SEL still owned the commercial rights," he says. "I didn't think it would fetch such a high price, but we had so much interest."

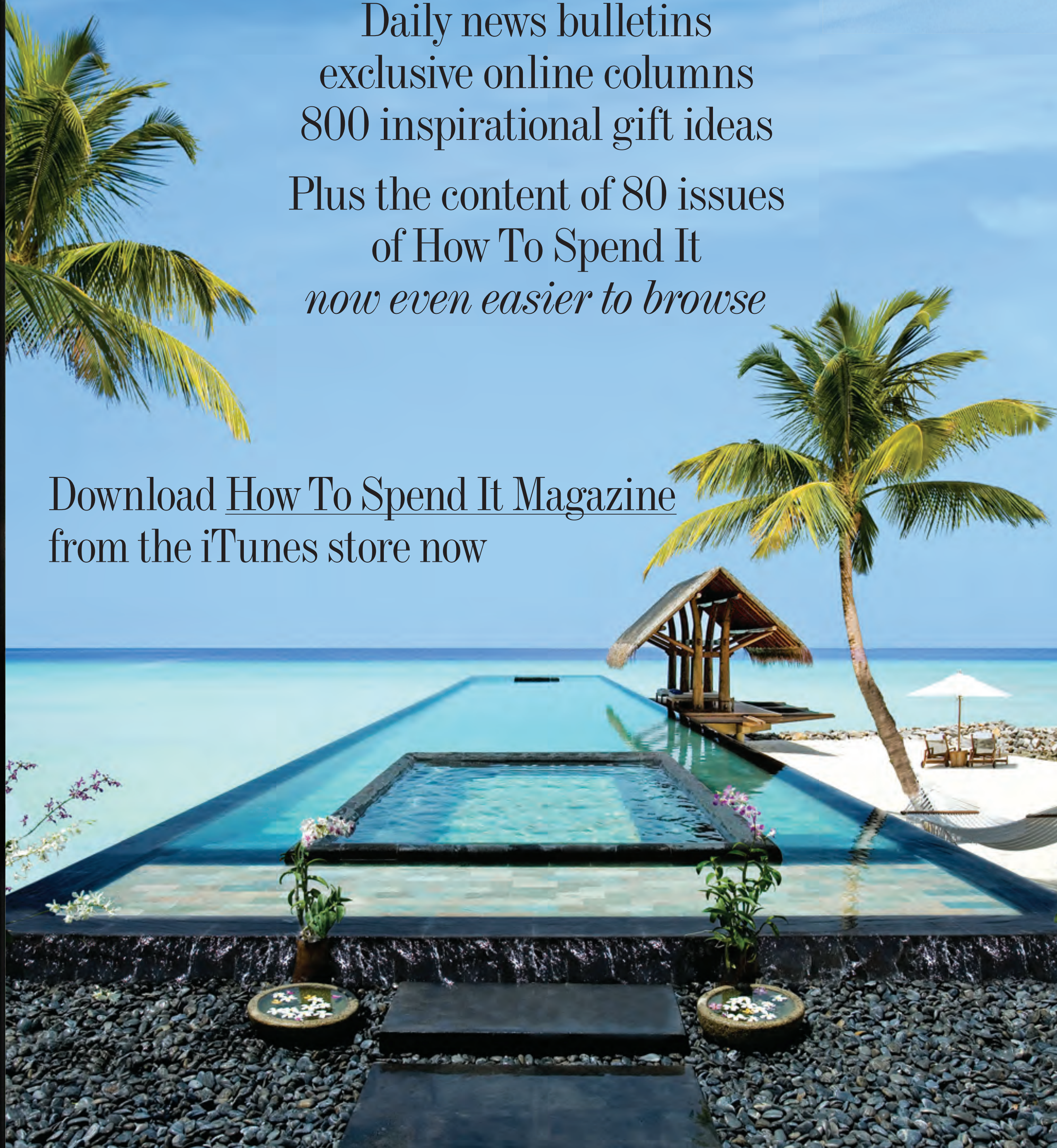
Erskine still runs SEL, which is the commercial strategic adviser to the Australian Rugby Union and licensing agent for the Cricket World Cup, the Sydney Opera House and Sydney's Powerhouse Museum, among others. Aside from Parkinson, whom he still represents and describes as something of a father figure, he has also managed the golfers Greg Norman and Tiger Woods, as well as Shane Warne, the cricketer.

His management of Captain Mark Phillips, the equestrian and former husband of Britain's Princess Anne, developed into a long-standing friendship. "Mark and Princess Anne sent both their children to work with me in Australia during their gap years and when Zara decided she would take riding seriously, I was asked to manage her."

His success has allowed him to spend less time at work. A passionate art and ceramics collector since his early 20s, he founded Sydney's Liverpool Street Gallery in 2003. He is on the foundation board of the National Gallery of Australia and, last November, he co-founded a modern and contemporary ceramics gallery in London, Erskine, Hall & Coe.

Erskine says that his whole career has felt like a hobby. "I'm very fortunate and I've met so many amazing people. When you're suddenly playing golf with Arnold Palmer, you have to pinch yourself. I hope I've never taken it for granted."

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