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Inflation, Desire For Status Pushing More Wealthy Chinese Toward Art, Wine, Gold Investment



The DeRouge Fund will invest solely in top wines from Bordeaux and Burgundy

As [Jing Daily wrote earlier this month](#), due to inflation concerns and relatively few yuan-denominated investment options, interest in so-called “passion funds” — investment vehicles meant to offer long-term returns from luxury items such as art, fine wine, diamonds, and even mint condition comic books — is hitting a new high among China’s newly wealthy. As Enrique E. Liberman, president of the Art Fund Association, [told China Daily](#), “market volatility and severe declines have reduced the attractiveness of many other investment options, such as equities, bonds and hedge funds, so it’s not surprising that investors are increasingly attracted to passion funds.” In the art and wine segments, we suggested, interest is perhaps highest, as

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they are both portable, hard assets (very popular among Chinese investors), and with Hong Kong's rise on the world auction stage over the past few years, wealthy Mainlanders have easier access than ever to some of the world's best and most valuable vintages.

However, not every interested Chinese investor can plunk down millions on older vintages at auction. And just as funds have started to spring up to [tap investor demand for blue-chip Chinese art](#), now China's first wine fund has launched, hoping to take advantage of the rising prices of top bottles from Burgundy and Bordeaux. The DeRouge Fund, as it's being called, expects to raise 1 billion yuan (US\$156 million) to invest exclusively in French reds — a somewhat narrow scope, but one that reflects the current single-mindedness that many Chinese wine investors have about the global wine market.

[From Reuters:](#)

The close-end fund, which targets wealthy individuals, will buy top red wine from France's renowned Bordeaux and Burgundy regions, and expects to deliver annualised returns of 15 per cent, according to its sales document.

For China's growing affluent class, there's huge investment demand for alternative assets such as precious metals, commodities, private equity and art collections, said Zhang Haochuan, head of research at fund consultancy Z-Ben Advisors.

Red wine, like other storable goods with limited supplies, has the potential to beat inflation.

For example, the Vintage Wine Fund, managed by London-based OWC Asset Management Co, has risen 67.2 per cent since inception in 2003, according to its July report.

The DeRouge Fund, Reuters adds, plans to raise 200 million yuan (US\$31 million) in its first tranche, will start taking subscriptions from investors next month, with a threshold of 1 million yuan from individuals and 10 million yuan from institutions.

What we find most interesting about the DeRouge Fund isn't so much its sales pitch, which will undoubtedly strike a chord with Chinese investors who can't afford to amass their own impressive cellars or jet off to Hong Kong to battle it out for rare cases, but the fact that it's so one-dimensional. Much like China's budding wine collectors and aspiring wine enthusiasts will focus on French reds and French reds alone, the fund is making a safe bet that ultimately limits its potential. Then again, if the DeRouge Fund manages to raise its 1 billion yuan target and records respectable gains for its subscribers, we'll probably see similar specialty funds proliferate in China, possibly including champagne and Italian or even top New World reds and whites. .

Then, the question may become: what effect could these funds have on wine prices, globally?

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