COMMENTARY

March 31, 2014

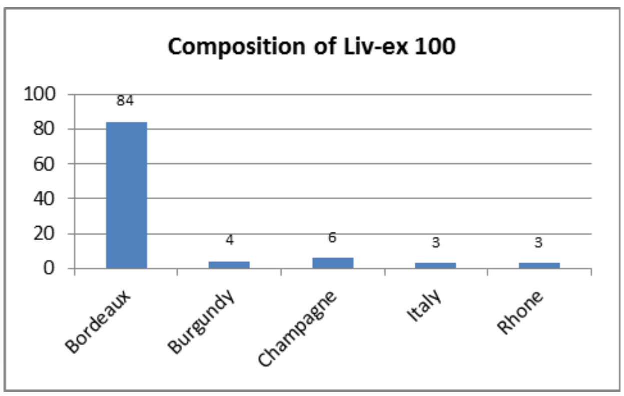
**Dear clients and colleagues,**

Wine is rarely explored as an investment option. Yet, this alternative investment has something very unique to offer. Here are some guidelines to help investors increase their direct or indirect expose to this particular investment.

First, wine benefits from a limited supply that perishes over time. The supply is known, monitored and controlled from the time wine is produced. This characteristic makes it almost impossible for an investor to lose money if strict rules are followed. Experts generally consider these basic rules:

1) Buy Bordeaux

Portfolios should be primarily composed of First Growth & Second Growth Bordeaux wines. Why? Simply because Bordeaux is the only real organized wine market worldwide with restricted participants: the producer (*Château*), the buyer (*Négociant*) and the distributor (*Courtier*). There are other micro markets elsewhere but none as deeply organized as the one in Bordeaux. That being said, for safety's sake Bordeaux wines should be prioritized.




Sources: Liv-ex, GACM

As for the wine's attributes, the extreme complexity and the exceptional aging capacity of Bordeaux wines cannot be ignored.

The only wine index that exits to this day is the Liv-ex which supports the «Buy Bordeaux rule». The Liv-ex 100 tracks the best 100 wines and is composed almost exclusively of Bordeaux wines.

2) Time horizon & Diversification

Investors should have a medium-term time horizon of 4 to 10 years. It is recommended to sell the asset within that period of time, when there is still an ongoing secondary market. After 10 years, it becomes increasingly complicated to find an active market. Once the assets are sold, an investor will start a new investment cycle.

Although some benefits can be realized through a concentrated portfolio, experts suggest selecting different producers and vintages.

3) Buy in case & Storage

Never buy less than a case. A transaction which involves an opened case can be concluded at 25% discount.

An even larger discount can occur for wines that are stored improperly. Where and how the wine is stored is as important as the wine itself. Investors should focus on secured storage to preserve the value of the investment.

When these rules are followed, experts affirm that a return of 10% per annum can be achieved. We verified that statement with the Liv-ex 100 index and it looks like a 10% return is indeed reasonable.

Liv-ex 100 Index vs S&P 500 & MSCI EAFE Small Cap Index

Sources: Bloomberg, GACM

We agree that investing in the traditional way can be complicated, especially for Canadian-based investor. With the securitization of commodities, we wouldn't be surprised to see some sort of wine ETFs making their debut one day.

Another approach which consists of buying an underlying asset (e.g.: buying a winery, a distributor or a producer) is also available for investors. At Global Alpha, our portfolios are comprised of companies that operate in the wine industry. Our current exposure to wine includes: Baron de Ley (Spanish wine producer), Treasury Wine Estates (Australian wine producer) and Bucher Industries (Swiss-based industrial companies that supply equipment for wineries).

This approach can deliver decent performance as well. Since the end of March 2009, our Spanish wine producer returned 22.8% annually versus 7.2% for the Live-ex 100 and 21.3% for the S&P 500.

The Global Alpha Team