June 6, 2014 12:10 am

Watch funds offer investment in limited editions

By Chris Hall

Watching the market: Dominic Khoo

Watches, in common with other "passion" investments such as art and wine, do not behave like ordinary commodities. Value can be hard to ascribe, and sales depend on a small number of potential buyers.

Those buyers tend to be collectors, a pursuit that comes with risks attached.

Justin Koullapis, co-founder and director of Watch Club, a vintage retailer, says: "Watches are artefacts with subjective attributes; it's not just a numbers game. There are reasons why ugly watches don't increase in price. It's difficult to strip out emotion."

Nevertheless, a report published this year by private bank Coutts found that fine watches had risen in value 176 per cent since 2005. With UK base rates stuck at 0.5 per cent, some investors see watches as an alluring prospect.

There are a select few funds on offer. One of the best known is Precious Time, run by Elite Advisers and established in 2010 by Alfredo Paramico, an Italian banker and watch collector. The fund had a reported €23.6m under management at the end of 2012 – representing 500 watches.

The Watch Fund operates on similar lines. It is run by Dominic Khoo, a former Antiquorum and Spink valuation expert, and has offices in Geneva, Hong Kong and Singapore. For $250,000 or more, investors can buy into the fund and receive a personal portfolio of watches of equivalent value.

Mr Khoo says the fund offers the ability to acquire "queue-cutting watches and extreme limited editions". It has 30 investors with a total of $25m in more than 100 watches.

Most investors receive and wear the timepieces, although as Mr Khoo says: "We once faced the situation of a client who asked us to video ourselves putting the watches in a safe-deposit box and FedEx-ing them the key."

The watch fund concept is becoming more common, as investors recognise the potential value of a pristine watch stored safely.

London-based retailer Watchfinder, with 12 years' experience buying and selling used watches, is considering setting up a fund. "We have people ring us up and ask us to buy three or four of a certain watch and put them in the safe with the box and papers," says Lloyd Amsdon, co-founder. "Then they ring up after two or three years and say: 'Right, I want to get out of that; find me something else.'

"We had a Patek Philippe that the customer bought for £300,000 and sold 18 months later for £425,000 without ever wearing it."

When it comes to assets, two brands come up time and again: Rolex and Patek Philippe. But the funds buy other brands, and experts have their own ideas about which is currently undervalued.

For Mr Koullapis, it is 1950s Breitling Navitimers. However, this is not a market given to surprises.

“[Most] watches are not investment grade,” says Mr Khoo. “We sift through thousands of watches monthly to arrive at our purchases.”

With the top end of the market ruled by Patek Philippes and Rolexes, the future of watch funds could lie further down, at a level where short-term gains on a wider range of watches might be possible, and trades are common enough for pricing information to come into the market.

Watchfinder’s fund would work along such lines, says Mr Amsdon, offering investors the chance to buy into a portfolio with just a few thousand pounds and for their money to be invested in models from Bremont to Bulgari.

This year, unregulated collective investment schemes (UCIS investments) such as funds investing in watches, wines or stamps, had new restrictions applied. The UK Financial Conduct Authority has ruled that schemes can be marketed only to investors with either annual incomes of more than £100,000 or with more than £250,000 to invest.

It remains to be seen what impact this will have on initiatives such as that proposed by Watchfinder.

Performance: How they compare

What do returns on watch funds look like and how much do they cost?

Elite Advisers’ Precious Time fund claims an annual average return of 15 per cent, but recently it has returned closer to 12 per cent. Watch Fund says its investors expect 20-30 per cent returns after a period of two to three years, and that it has averaged 10-15 per cent annually.

Watchfinder’s inventory has grown in value by 6.6 per cent a year on average.

By comparison, the fine wine investment market has returned an average growth of 12.1 per cent for the past 25 years.

Fund management fees vary, but are generally high. Precious Time charges a fee of 2.5 per cent and takes a cut of 20 per cent if profit exceeds 5 per cent.

At Watch Fund, investors part with 5 per cent as a purchase fee. If they leave the fund, they pay 10 per cent of their profit or 5 per cent of the total sale price, whichever is higher.

Watchfinder expects to charge clients a performance fee of about 10 per cent.