Portfolio allocation for classic cars

Optimizing an investment portfolio to include an allocation to classic cars for high-net-worth individuals (HNW) and family offices requires a strategic approach to balancing risk, return, and liquidity. Classic cars can offer both emotional and financial returns, but they can be illiquid and have holding and maintenance costs. Here's how PPAC will optimise such an allocation:

1. Allocation Size and Diversification

a. Moderate Allocation (1–5%) of Total Portfolio:

For HNW individuals and family offices, PPAC recommends classic cars should represent a modest portion of the overall investment portfolio, typically around 1-5%. This ensures that the investment is balanced with liquid and traditional investments like equities, bonds, and real estate.

b. Diversify Across Models, Eras, and Regions:

To reduce risk, diversification is key. The portfolio will include a mix of:

- High-end, blue-chip cars (e.g., Ferrari, Porsche, Lamborghini) with a proven track record of appreciation.
- Undervalued cars from emerging classic segments (e.g., 1980s and 1990s Japanese performance cars).
- Geographical diversity, investing in cars from different regions (European, American, Japanese).
- Different car types, including supercars, rally cars, or limited-edition models from major brands.

2. Focus on Rarity, Provenance, and Condition

Limited-Edition and Rare Models: The most valuable classic cars are often those produced in limited numbers or with special features. These cars hold and increase their value over time.

Documented Provenance: Cars with notable histories (e.g., celebrity ownership, racing pedigree) can significantly boost value. Family offices and HNW clients should focus on cars with full documentation and a known history.

Condition and Originality: Original cars or those with minimal restoration tend to appreciate the most. Ensuring that cars are in excellent condition, with matching numbers, original parts, and minimal modifications, is crucial for long-term value.

PPAC has developed a target inventory comprising a selection of makes and models that meet a strict provenance and rarity criteria.

3. Active Management and Expert Oversight

PPAC operates as a Specialist Classic Car Manager: Given the complexity of the market, PPAC has direct engagement with dedicated experts with experience in classic car investments. They help with sourcing, purchasing, maintaining, and selling vehicles, ensuring the portfolio is actively managed.

- Regular Maintenance and Proper Storage: Classic cars require ongoing care, including proper storage, regular maintenance, and insurance. PPAC will budget for these costs, and manage the security and ongoing storage requirements.

- Leverage Car Shows and Auctions: PPAC will participate in prestigious car events (e.g., European concourse d'elegance, Goodwood Festival of Speed) and monitor major auctions to provide insights into market trends and potential opportunities.

4. Liquidity Considerations

Recognize the changing liquidity of Classic Cars: Classic cars are not easily bought and sold compared to stocks or bonds. However the recent growth in on-line platforms plus specialist dealers and auctions has helped develop liquidity and market access to classic cars buyers and sellers.

Staggered Liquidation Plan: PPAC has a clear strategy for when and how to sell classic cars. Selling in phases at optimal moments (e.g., during market peaks or anniversaries of car models) helps avoid the pitfalls of needing to sell in down markets.

Use Auctions for Exit Strategy: Top-tier auction houses (e.g., RM Sotheby's, Bonhams) can provide access to a global market of collectors. Working with reputable auction houses will maximize sale prices when liquidating assets.

5. Emotional and Lifestyle Value

Emphasize Emotional Return and Enjoyment: PPAC offers the opportunity for HNW individuals and family offices invest in classic cars not just for financial returns, but also for personal enjoyment. PPAC will invite investors to events where the opportunity to use or showcase cars at events can enhance the "dividend" of owning classic cars. PPAC will enable this lifestyle return as part of the overall value proposition.

Engage the Next Generation: Family offices, in particular, can use classic car collections as a means of fostering interest and involvement from younger generations. PPAC will align with family values of preserving heritage, history, or shared passions.

6. Market Timing and Acquisition Strategy

Cyclical Timing and Buying Opportunities: PPAC actively monitors market cycles for downturns or corrections that create buying opportunities. For example, since the post-covid peak in market prices in 2022 and increases in interest rates the classic car market has seen a price correction and the current levels provide an attractive entry point to the next upswing.

Focus on Emerging Markets: Some segments of the classic car market are still maturing, such as modern classics (e.g., 1980s and 1990s performance cars - the core PPAC target sector). Investing in these cars before they reach full classic status can result in outsized returns over the long term.

Changing demographics highlights the current opportunity to invest in the next generation of 'youngtimers'.

7. Integrating Cars into a Broader Alternative Investment Strategy

Part of a Larger Alternatives Portfolio: Classic cars should be seen as part of a broader allocation to alternative investments, which may include art, wine, private equity, or other collectibles. Each of these asset classes can diversify and enhance the non-correlated portion of a family office portfolio. PPAC and Pioneer Asset Management provide access to a range of alternative investments.

Risk Mitigation through Uncorrelated Returns: Classic cars often exhibit returns uncorrelated to the stock market, making them attractive during times of market volatility. However, they can be correlated to the broader luxury goods market, so managing exposure within the broader context of the portfolio is key.

8. Participation in Investment Funds

Developed by Pioneer Asset Management the Pioneer Prestige Automotive Collectibles Tracker Investment is an opportunity for those who want exposure to classic cars without direct ownership, PPAC offers all the benefits without the overheads of managing direct car ownership. PPAC offers professional management and can provide access to diversified collections and is complementary and an extension to an existing financial portfolio or a car collection.

Summary:

Optimizing an allocation to classic cars for HNW individuals and family offices involves a balance of emotional and financial returns, with a strategic focus on rarity, diversification, active management, and liquidity planning. Viewing classic cars as part of a broader alternative investment portfolio with financial returns and emotional connection further enhances the value of this unique asset class. PPAC solves for these goals.

Julian Eyre March 2025

www.PioneerAM.ch

www.PPAC.fund