Executive Summary

Most people opening this note will know that fine wine can provide immense drinking pleasure. But what about its financial potential? The Case for Wine examines wine from a purely financial perspective: looks at its incredible outperformance as an asset class over a quarter of a century, the very favourable tax position, logistical considerations and what to buy and how. These questions are answered in what we hope will be an accessible and fun guide to an emerging asset class. We even glance into the future and predict a new world of enhanced liquidity and trading and investment tools. In short, the case for wine is incredibly strong for long-term investors and we think everyone should hear it!

This note makes no assumption about prior wine knowledge. Everything you need to know is (we hope) explained within in layman’s terms.

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1. Outperformance of Fine Wine over 25 Years
2. Why Does Wine Perform so Well?
3. Wine as a Tax Efficient Investment in the UK
4. Investment Portfolio Construction - What Should you Buy? And How?
5. The Future of Fine Wine Trading

1. Outperformance of Fine Wine over 25 Years

We are fortunate today in having long-dated and rigorously collected data on the performance of fine wine. The London-based trade exchange Liv-ex has been collecting data based on real trades between its professional trading customers (retail investors are not able to trade on Liv-ex) since 1988.

Liv-ex’s ‘Investibles’ Index tracks the prices of around 200 wines from 24 top châteaux. The index is designed to “mirror the performance of a typical wine investment portfolio”. Although the Index is heavily weighted towards Bordeaux it still provides highly authoritative evidence of the stunning performance of fine wine over a decade and a half.
Figure 1 shows that even following a period of weakness from mid-2011 until the end of 2012 fine wine has outperformed other popular retail asset classes (such as UK, US equities and Gold) by a huge distance.

What is especially interesting is that this outperformance dates back to the mid-1990s. It is not the case that wine’s outperformance is the result of a late 2000s mini-bubble based on Asian demand. Yes, fine wine certainly has benefited from its new appeal as a global luxury product and investment vehicle, but this does not explain all of its historical outperformance. If we focus on just the 10 years from 1988 to 1998 we see a very similar pattern of outperformance (Figure 2). This was in a period long before the abolition of import taxes in Hong Kong when Chinese demand for these products was virtually nil.
In returns terms, an investment in the Liv-ex Investibles Index in January 1988 would have seen a CAGR of over 18% to September 2012 – a truly stunning performance:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>CAGR*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fine Wine</td>
<td>18.16%</td>
</tr>
<tr>
<td>US Equities (Dow Jones Ind. Avg.)</td>
<td>12.85%</td>
</tr>
<tr>
<td>Gold (US$)</td>
<td>9.24%</td>
</tr>
<tr>
<td>UK Equities (FTSE-100)</td>
<td>7.99%</td>
</tr>
</tbody>
</table>

Source: Liv-ex and Slurp Fine Wine Estimates

*Compound Annual Growth Rate

It is clear from this data that fine wine has a spectacular returns pedigree over a long period. Of course the past is never a guarantee of the future; but we believe that there are some structural factors in the wine market that combine to give it almost uniquely price supportive characteristics. We explore these in Section 2.
2. **Why Does Wine Perform So Well?**

Section 1 showed clear evidence of _long-term_ outperformance of fine wine. How can we account for this? And can these factors sustain it into the future?

There are a number of factors which combine to affect the pricing dynamic of fine wines:

1. **Wine is a Super Luxury Product with Global Appeal** – The single biggest determinant of future price increases will be this fact. Fine wine is now like fine art, with an appeal which ignores regional boundaries and is growing rapidly with new consumers in BRIC economies.

2. **Wine Supply is Price Inelastic**. Unlike Gucci handbags, which can be turned out in whatever numbers the Pinault-Printemps-Redoute factories choose (or gold or oil - which are dug up in greater or lesser quantities according to the market price), top quality wine has virtually _zero_ price elasticity of supply. Château Latour has changed very little in size since the late 17th. The dimensions of the 47 hectares of “l’Enclos” – from which the Grand Vin (or ‘main wine’) is made - have remained broadly fixed for three hundred years. In fact, it is likely that there is _less_ Château Latour produced today than 100 years ago, because of the current monomaniacal obsession with quality means that more and more grapes are rejected and never make it into a bottle. The almost total inelasticity of supply to price movement makes top châteaux wine even more appealing than gold and other precious metals as an inflation hedged asset class. Investors are starting to realise this.

3. **Consumption of Wine Reduces Global Stocks Annually**. Fine wine supply is not only almost totally inelastic, but it actually _decreases_ over time. In this sense, fine wine is _not_ like art because a percentage of it is ‘destroyed’ every year. What percentage of a great wine is consumed per year? And what effect does this have on its price? Let’s look at an example:

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**Château Latour 1982 – Case Study in Supply / Demand (and Price!)**

During the 1982 _en primeur_ (pre-selling) campaign in the spring of 1983 roughly 220,000 bottle of Château Latour 1982 were sold onto the global market. Fast forward nearly 30 years and in November 2012 we went looking for them. Our analysts trawled the international wine markets to uncover how many bottles of Latour 1982 were currently available to purchase. The answer? We could verify only _107 bottles_ as physically available to buy today! So in 30 years, 99.95% of the world’s supply has been removed from the market. This isn’t to say that it has all been consumed, of course, but the main determinant of price is the availability for sale. And today almost infinite global demand for this product is met with supply of just 107 bottles! This supply / dynamic goes a long way to explaining the wine’s £17,500 (per 12x75cl) price tag. The release price of Château Latour 1982 to customers was around £23 a bottle in 1983. So in almost 30 years the wine has appreciated by 6,340% - a CAGR of 15.4%.
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4 Slurp Fine Wines Investment Research – November 2012
4. **Bonded Facilities allow for Tax Free Appreciation.** There is now a welter of academic evidence that it is the post-tax performance which matters to investors. Whether it is UK residential property, or things like art and wine, there seems little doubt that the ability to hold and sell an asset without capital gains taxes increases its desirability. In the UK, investors can store wine ‘under bond’. This is a physical location which has been designated by Her Majesty’s Customs and Excise as fit to allow wine to be stored without duty or sales tax having been paid. This incredibly helpful arrangement exists in the UK and other key markets (in various guises) like the US, France and Hong Kong.

5. **Lack of Leverage in the Market.** Another reason why fine wine prices have been relatively stable and upwards sloping is the lack of leverage in the market. Without getting sucked into a digression on the history of financial crises, one denominator common of many market crashes is the presence of excess leverage. The vast majority of fine wine is held by long-term private individuals and funded with equity. Although there are more investment funds around now than there were 10 years ago, leverage still plays a very important part in the fine wine market. There is very little panic selling when in wine prices fall.

6. **An Alternative ‘Exit’ Exists for Fine Wine.** It might seem obvious, by the existence of an alternative ‘liquidation’ strategy (ouch!) for fine wine serves, in our opinion, to put a positive bias into the market. It is amazing how many of our supposed ‘investment’ clients tell us that they will sell the product if it performs well but will drink it if it doesn’t. This implies a kind of upwards only optionality, where supply is removed from the market (by drinking) during periods of relative price weakness. This removal of supply in turn underpins pricing and sets up the dynamic for a new bull phase.
But Doesn’t Wine Go Off?

The ‘limited lifespan’ of fine wine actually turns out to be important for CGT purposes (see Section 3). But in reality, the age of a very fine wine does not appear to lessen its value - even when the contents of the bottle would probably not give drinking pleasure. The highest price paid for a single bottle of wine remains (at the time of publication) US$ 156,000 for a bottle of Château Lafite 1787 reputed to have been owned by Thomas Jefferson (sold in 1985). Whilst this is clearly an extreme case, the evidence from the secondary market suggests a very clear relationship between age and price – regardless of the actual quality of the juice in the bottle. Figure 3 shows the amazing premiums very old vintages of Château Lafite trade at versus their contemporary cousins.

Figure 3a: The Longer You Hold it, the More it’s Worth – Lafite (Current) Prices back to 1780s

Source: Liv-ex and Slurp Fine Wine Estimates
Riding this curve can be a very profitable exercise. Staying with Lafite, it is sometimes argued that the very new vintages are over-priced versus the secondary market. But looking at the RP\textsuperscript{1} 99+ point Château Lafite 2009 (from what will probably the best vintage ever) and comparing it with the RP 97 point 1982 we find an implied CAGR of 5.35% over 29 years.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure3b.png}
\caption{Implied Price Growth of Lafite 2009 Versus 1982 (5.35\% CAGR)}
\end{figure}

\textit{Source: Liv-ex and Slurp Fine Wine Estimates}

And unlike the High Yield market (or PIGS sovereign market!) you have no credit risk. In 29 years you will have a case of Lafite 2009 whatever happens. An implied yield of 5.35\% (in GBP) for 30 years looks pretty attractive versus plausible alternatives right now. Have we hit on a solution for Britain’s pension funding crisis?

\section*{Can the Outperformance of Fine Wine Continue?}

No one has a crystal ball, but what is very clear is that wine prices will not collapse due to a sudden increase in supply.

More great wine is being made around the world today than ever before, but more wine is not being made from the estates that matter. If prices do ever collapse, it will be because people stop collecting and drinking it. Of course this cannot be completely ruled out. But having been a staple of human social interaction for almost 3,000 years, and having bounced back ever stronger from attempts to limit it in the past (such as US Prohibition 1918-33) this does not seem like a serious threat.

\textsuperscript{1} The ‘Robert Parker’ or “RP” ratings system is explained below.
Is Fine Wine the New Fine Art?

It is always tempting when looking at an asset which has performed well to assume that its current price must represent some kind of ‘cap’. Of course with wine we can see that this isn’t the case – because older vintages trade at higher prices to newer ones. But perhaps we can also look at other assets for guidance. To us, fine wine resembles fine art in many respects: neither has any intrinsic ‘use’, other than the pleasure it gives to the beholder, and both are increasingly recognised as global symbols of affluence.

Andy Warhol’s iconic prints of Chairman Mao were made only in 1972. This was not a great year for Bordeaux, but clearly it was for art, because just 34 years later a version of Warhol’s Mao sold at Christie’s New York for a cool US$ 17,376,000. What interests us about this is that this Mao print was by not really ‘unique’ – in fact, Warhol produced many, many versions of this image. Like the Bordelaise, Warhol was not only an artist but a business genius who realised that he could earn fortunes by creating global desire for a product and then replicating it many times with subtle variations².

As the global fame and ‘objectification’ of the top wine spreads, could it be that single bottles (now numbered, like Warhol’s prints) will take on more of the characteristics of fine art? If they do (and there is plenty of evidence that it is happening already), then the recent bull market in fine wine might only be the beginning.

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² In his book ‘The Philosophy of Andy Warhol’ (1975) Warhol wrote: “Making money is art, and working is art and good business is the best art.” First Growth owners would, we suspect, quietly raise a glass to that sentiment!
3. Wine as a Tax Efficient Investment in the UK

Any advice on tax has to be offered with caution. The tax treatment of any asset can change at any time and it is imperative that investors take appropriate tax advice from professional advisors before taking any decisions. However, in general terms we can offer the following (very positive) guidance:

For UK taxpayers, HMRC provides specific advice on what are called “Chattels” (http://www.hmrc.gov.uk/helpsheets/hs293.pdf). A “Chattel” is a “tangible, moveable” piece of property that an individual owns. Bottles of wine would clearly appear to fit into this category. Included within the definition of Chattels are what is called “Wasting Assets”. These are defined as something “with a predictable life of 50 years or less”. These are totally exempt from UK Capital Gains Tax. HMRC make clear that “you have to decide what its [the asset] useful life would have been, bearing in mind the purpose for which you acquired it”.

This seems quite clear: wine acquired for personal consumption with an expected life of 50 years or less is not subject to UK CGT. It would not appear to matter whether the wine is held in bond or at home, it is all about its expected life span and whether you felt that there was at least some decent chance that you might drink it.

4. Investment Portfolio Construction - What Should you Buy? And How?

It is impossible to write precise rules on what you should buy. But the ground rules of portfolio construction are as applicable in fine wine as anywhere else. The basic considerations that we would apply are:

1. **Liquidity is Important.** Wine is a long-term investment that should never be considered if short-term liquidity is an issue. Fine wine trading volumes have increased in last 10 years, but wine is still not an asset that can be liquidated quickly at market prices.

   For UK GCT purposes, Robert Parker writing about “100 year wines” is probably not helpful. But HMRC are clear that it is for the individual owner to determine the life span of the asset at the point at which it was bought. Presumably most of us are not expecting to keep our wine for more than 50 years?

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We estimate that the global turnover of fine wine is around US$ 3 billion annually. This doesn’t sound too bad, and the presence of more and more wine investment funds and trading-orientated investors has certainly improved liquidity over the past decade, but our advice is that a reasonable weighting in any portfolio should be in short dated products – as these tend to have the best liquidity.

2. Scores Matter. The unfortunate news (for some) is that your opinion counts for very little when it comes to investing. Your favourite wine in the world might be Château Talbot 1993 (and the author would not dream of contradicting you), but with a RP score of 84 and a drinking window which expired in 2002, this wine is unlikely to do you any investment favours. Let’s see why:

Critical Scoring of Wine – The ‘Robert Parker’ System

Investors are fortunate today in having a generally acknowledged leading critic whose scores are accepted as objective validation of a wine’s quality. The “Robert Parker” system is a 100 point scale against which all the world’s leading wines are scored. Mr Parker often gives initial range scores (97-99 points) and then reduces them to a single number later. There are many other influential critics: Wine Spectator, James Suckling, Jancis Robinson, Michael Broadbent, James Halliday, ‘Burghound’ and many more have personal followings – but no one come close to the market moving influence of the sage from Baltimore.

Having made his reputation by realising before others the immense quality of the 1982 Bordeaux vintage, Parker has gradually tightened his grip on wine criticism to the extent that people often use the expression “100 Points” or “96 Points” without attribution. As an investor (at least until he retires) you will ignore Mr Parker’s views at your peril!

If your objective is capital gain, you must consider who is going to buy your wine in the future and why. If you happen to have a bottle of Château Lafite 1787 once owned by Thomas Jefferson, it probably won’t matter too much what its Robert Parker score is; but in general the longevity of your wine – both as a drinking and a financial asset – is going to be determined by its quality. And as this does vary considerably from year to year (especially in France, Italy and Spain). So the RP score is crucial.

3. Product Longevity is Essential – Buy ‘Investment Vintages’ Only. Sections 1 and 2 indicate that, like property, the best investment returns for fine wine come with long-term ownership. But long-term ownership necessitates a long-term asset.
Table 1 is not scientific, but based on our analysis of Robert Parker’s ‘drinking window’ time spans it gives a rough guide of how long different wines will last. It is clear that once you dip below 95 points you are limiting the lifespan of your investment quite significantly. Given the sharply upwardly sloping ‘yield curve’ of wine this is no good at all. You want wines that are going to last for 50 years or more.

**Table 1 – Score Gives a Good Guide to the Longevity of the Wine as an Investment**

<table>
<thead>
<tr>
<th>RP Points</th>
<th>Expected Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>98-100</td>
<td>40-100+ years</td>
</tr>
<tr>
<td>95-97</td>
<td>20-40 years</td>
</tr>
<tr>
<td>90-94</td>
<td>10-20 years</td>
</tr>
<tr>
<td>80-90</td>
<td>up to 10 years</td>
</tr>
</tbody>
</table>

Source: erobertparker.com and Slurp Fine Wine Estimates

Of course what we find is that the higher scores tend to be clustered in certain years (when the climatic conditions were especially propitious for grape ripening). This leads to the concept, certainly in Bordeaux, of ‘Investment’ and ‘Non-Investment’ Vintages. Since 1982, we believe there have been 12 Investment Vintages, and your holdings of Bordeaux wines should be concentrated in these years.

**Table 2 – Bordeaux ‘Investment Vintages’ Since 1982**

<table>
<thead>
<tr>
<th>Year</th>
<th># of 100 RP Wines</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>6</td>
<td>The year that started it all - still magical wines at 30 years. Hard to buy now. But show what investment patience achieves - another 50 years to go for many wines.</td>
</tr>
<tr>
<td>1986</td>
<td>2</td>
<td>Buy selectively - can be tannic. Not much scope for further improvement. Less liquidity than 1982 as less wine around.</td>
</tr>
<tr>
<td>1989</td>
<td>5</td>
<td>Middle year of the ‘golden trio’ of 88/89/90. Very dry and sunny year. Vies with 1990 for supremacy. 100 pointers in this year are definitely worth considering.</td>
</tr>
<tr>
<td>1990</td>
<td>4</td>
<td>Hot, dry and sunny year. Better Left Bank than Right. Many great and age-worthy wines. Also excellent in Sauternes.</td>
</tr>
<tr>
<td>1996</td>
<td>1</td>
<td>Left Bank vintage. Initially thought better than it is today. Some of the best value top scorers (considering age) can be found in 1996.</td>
</tr>
<tr>
<td>1998</td>
<td>7</td>
<td>Look on the Right Bank only. A little unfashionable as a year, great value to be found if you look carefully.</td>
</tr>
<tr>
<td>2000</td>
<td>10</td>
<td>One of the best long-term investment buys of all.</td>
</tr>
<tr>
<td>2001</td>
<td>2</td>
<td>Investment vintage for Sauternes only. Some spectacular ‘stickies’.</td>
</tr>
<tr>
<td>2003</td>
<td>3</td>
<td>Heat wave year - choose châteaux with caution.</td>
</tr>
<tr>
<td>2005</td>
<td>2</td>
<td>Not as great a year as many people believe. Only 2 100 pointers and will be eclipsed by 2009 and 2010.</td>
</tr>
<tr>
<td>2009</td>
<td>19</td>
<td>Vintage of the Millennium? Double the number of 100 pointers than any other year. Every investor needs 2009s.</td>
</tr>
<tr>
<td>2010</td>
<td>10</td>
<td>Includes ranges up to 100. Also a must have long-term year.</td>
</tr>
</tbody>
</table>

Source: erobertparker.com and Slurp Fine Wine Estimates
4. **Provenance is Vital.** Unfortunately, wine fraud is a fact of life – although in our experience it is more prevalent in media stories than in the professional market. The producers themselves are now putting in place a myriad of anti-fraud devices (encrypted codes on bottles etc.) and hence we expect that counterfeiting will become significantly harder over the coming years. But thankfully following a few simple rules will protect you from most of the scams and tricks:

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**Always Buy Wine ‘In Bond’**

Remember that wine held ‘in bond’ has never *left* bond. In the most cases it will have moved only from the château or producer to an extremely secure bonded location. Many UK bonds are housed in former prisons and there is a good reason for this! Within the bonded environment it is very difficult for counterfeiters or fraudsters to come into contact with the wine.

**Always Buy Wine in Original Wooden Cases (OWC) with no Overseas ‘Strips’**

Make sure your wine is always in the original wooden case and does not have ‘strips’ (i.e. shipping labels) which indicate that it has been transported to Asia or the USA.

**Avoid Larger Formats, especially on Older Bottles**

Larger formats (i.e. larger than 75cl) have two disadvantages: 1) they are likely to have less general appeal, and hence lower market liquidity and 2) there is a higher instance of wine fraud (especially on bottles from the 1970s or before). Stick to 75cl bottles.

**Stick to Standard Case Sizes**

A couple of years ago we believed that cases of 12x75cl were the ‘market standard’ and would provide the best liquidity in the future. But this has now changed. We understand that some top Bordeaux châteaux are packaging up to 70% of their production in cases of 6, and hence we believe that 6s will be the most sought after format in years to come. They are also cheaper! But either (12x75cl) or (6x75cl) cases will be fine from an investment point of view.
5. **Don’t Follow the Herd.** If you listen to traditional British wine merchants, you would imagine that fine wine is only produced in one location on earth: Bordeaux in France. It may well be most of the liquidity is currently (and we must not forget rule 1), but the last 12 months have seen a substantial correction in Bordeaux prices whilst comparably scored wines of other regions (Rhône, USA, Australia and Spain) have actually risen in price. The Liv-ex 100 index is weighted as shown in the Figure 5.

![Figure 5: Most Wine Portfolios are Over-concentrated in Bordeaux – Diversify!](image)

*Source: Liv-ex*

We argue for a much more balanced approach based on scores and relative prices. Our current model portfolio (as at November 2012) is shown in Figure 6. It shows a much healthier diversification.

![Figure 6: Slurp Fine Wines Model Portfolio is Much More Diversified](image)

*Source: Slurp Fine Wine Estimates*
Buying ‘en primeur’ – Is it Worth It?

The concept of ‘en primeur’ is simple: Bordeaux wine producers incur all of their costs in the year of production. But the product is not physically released for up to 24 months after the harvest. So to assist with châteaux cash flow (at a time when châteaux needed help with cash flow) a system evolved where Bordelaise middle men (called ‘Négociants’) would buy the wine ‘en primeur’ (i.e. in advance) and sell it on at a discount to the eventual physical château release price.

What is the Future for En Primeur?

The en primeur system used to work well because châteaux understood that in return for the two year interest free loan that the market was effectively extending them the product needed to be discounted. This discount had to be great enough to allow the négociant, the merchant and the buyer to show a profit versus the secondary market. The system began to break down in 2009 when huge critical acclaim of the vintage tempted château owners to price the latest en primeur release at a premium to comparable vintages in the secondary market. The wine initially sold, but after the campaign finished prices started to sag, and in most cases six months later 2009s were available below the en primeur price. The same thing happened with the 2010 vintage. So when the 2011 vintage was marketed en primeur with only modest reductions in price for a clearly inferior vintage, a global ‘buyers’ strike’ ensued.

So what we have now is an uneasy stand-off. Unsold 2011 Bordeaux wine has clogged the balance sheets of négociants and merchants alike. Something has to give, and it is our opinion that either en primeur has to return to its roots as a genuine pre-sale price discounting mechanism or it will cease to be a relevant channel for distribution. But it is by no means certain that en primeur has a future. As the financial health of the top châteaux has improved their need to enlist consumers’ assistance to ‘fund the vintage’ has declined. The wine world was shocked by the decision of Château Latour to redraw from the system from 2012 – but it shouldn’t have been. For Latour’s owners PPR, the decision was a simple financial calculation of whether it is better to sell each vintage up front at a big discount to the secondary market (for the sake of some cash flow) or to keep it until it could be sold at full price after a few years. Add in the potentially greater control withdrawing from en primeur gives the châteaux over distribution and (especially) provenance and the decision seems distinctly unsurprising. We understand that a number of other châteaux are considering a similar move.

Wine Funds

The advantages of investing in a wine fund are that the selection is done for you. In theory, the diversification of the fund should mean better liquidity as well. But as with any actively managed funds, the main drawback is fees. The majority of wine funds charge top hedge fund type fees. Obviously if you have no expertise or experience in fine wine then this might well be a price worth paying, but for the average wine investor product knowledge and selection thereof is a big part of the fun.
It is also vital that a full investigation of the financial standing and reputation of the fund is made. Regrettably, numerous cases have come to light over the past decade of fraudsters setting up ‘brokerages’ and ‘funds’ and accepting client monies for wine which is never delivered.

We believe that as new tools for wine portfolio management come on stream it will become easier for individuals to manage their own personal ‘wine funds’. And if you own the physical product yourself you take credit risk out of the equation.

Direct ownership of the physical product is straightforward these days. But you will need a Bonded Account at a secure facility in which to hold your wines (see below):

**Bonded Accounts**

It is vital that you store your wine in a ‘bonded’ account with a reputable third party company. In the UK, a wine ‘bond’ is a special facility that has been cleared by HM Customs and Excise to hold wine and spirits without Duty and VAT having been paid. These facilities will generally insure your wine and ensure that it is kept under suitable conditions.

We would steer clear of bonding with a wine merchant. Regrettably, wine companies do go under, and the credit risk of trying to untangle your stock through a liquidation is not something you want to expose yourself to. Your bond can be affiliated or linked to your broker, but it should be a separate legal entity. The largest and most reputable UK bonded facilities are: **London City Bond / Vinothèque** (established in 1870 with over 1,000,000 sq ft of space spread over 21 locations and almost 5,000 private client accounts, mostly at Vinothèque in Burton-upon-Trent) and **Cert Octavian** (part of the Culina Group).

**When Do you Pay Duty and VAT? and at What Rate?**

You will only be liable to pay VAT and Duty when (if) you remove your wine from bond. Duty will be at the rate applicable at the time you remove it, but the VAT (Sales Tax) will only be levied on the price you paid for the wine (after 20 or 30 years this could represent a massive saving!) This is another huge advantage of the ‘in bond’ system for storing wine.

**Valuing Your Wine Portfolio**

The best independent valuation service available currently is probably Liv-ex’s *Cellar Watch* package, which retail investors are able to use free of charge. This uses prices derived from the Liv-ex exchange to give portfolio valuations.
For investors used to using sophisticated risk management and portfolio analysis tools for equities, bonds and commodities, Cellar Watch will feel clunky – but it is robust and reasonably accurate and is a stop gap until more appropriate tools come onto the market.

As we see in Section 5, we anticipate a big improvement in valuation tools over the next couple of years.


We think that the best is yet to come for fine wine trading and investment. The long-term and structural factors underpinning the market appear to be robust. Interest is growing around the world, and the profile of wine as a drinking and investment option has never been higher.

But the industry needs to get its act together if it is going to capitalise on the undoubted potential of wine as a serious investment vehicle. What needs to Improve?

1. Trading Liquidity

The most important improvement that could be made to fine wine market would be an increase in liquidity. The most important contribution that the established fine exchanges (like the UK’s Liv-ex) could make would be to list cash settled single product futures. At the moment, if you want exposure to (say) Château Margaux 2005, you have to physically buy and take delivery of a case of the stuff. This adds huge costs and barriers to trading. In market after market (other than wine!) this problem has been solved the creation of exchange traded, cash settled, futures contracts.
At some point one of the exchanges will start listing cash settled futures on the most liquid products and this will have a very positive impact on trading volumes, price discovery and interest in wine as an investible asset class.

2. Trading Infrastructure

The author of this note has a background in OTC trading of financial securities. I was shocked when I made my first investments in wine in 2008 at the backwardness of the trading and investment infrastructure. Very little has changed since then, but there are now some tentative signs that things are beginning to change. We anticipate a surge in investment in trading and portfolio tools over the next 2-3 years. Slurp Fine Wines will be a leader in this regard.

3. Index Trading

Once again, we find fine wine lagging other markets when it comes to Indices. The Liv-ex suite of indices are professionally constructed and presented. But no one has taken this to the next (obvious) level by offering total return swaps, participation notes or even just the ability to buy and sell the index as occurs in almost every other developed asset class. It is as though, having developed the en primeur system centuries ago, the wine industry now has an aversion to trading anything other than the physical product. We think that this will change soon, and the attendant liquidity and visibility that trading of (say) the Liv-ex indices will give will further boost interest in fine wine trading.

It is true that you can now follow the price movement of the Liv-ex Fine Wine 50, 100, 500 and Investables indices on Bloomberg and Reuters, but this is hardly acceptable progress given that all these indices have been around for more than a decade.

Conclusion

Fine wine remains something of a hidden garden. It is certainly off the radar screen of most mainstream investors. Yet its investment performance has been exemplary, outperforming other popular retail asset classes by a wide margin since the late 1980s. As this performance becomes more widely known, and as the tools for analysing and trading wine become more sophisticated, we expect fine wine to become ever more popular as an investment choice for High Net Worth individuals. The most exciting thing about fine wine, looking forward, is its exactly is lack of penetration as a drinking and investing option for most people in the emerging new economies. Yes there has been plenty of hype about the Chinese ‘discovery’ of fine imported wine, but with a middle class expected to number more than 600 million within two decades surely the Chinese influence on the global wine market is only in its infancy. And with virtually zero elasticity of supply, it seems to us that over the longer term there is only one way for top estate prices to go. Unlike that glass of Latour in your hand, it isn’t down.
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