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CULT WINES

SOLUTIONS FOR FINE WINE

QUARTER ONE INVESTMENT OVERVIEW 2021

THE QUEEN'S AWARDS FOR ENTERPRISE: INTERNATIONAL TRADE 2017

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Key Points

- Liv-ex 1000 posted a 2.41% return in the first quarter of 2021 with positive returns in each month amid an improving macro backdrop. Burgundy 50 was the top performing regional index with a 4.45% return, helped by a successful 2019 vintage release.
- Cult Wines Main Index returned 0.8% with overweight exposures to Champagne and Italy driving gains. Our Rhone and Burgundy indices declined partly due to price consolidation following strong performance in 2020. External factors, including an expansion and then suspension of US tariffs, also caused temporary price fluctuations.
- The fine wine market outlook remains favourable. Bordeaux 2020 en primeur remains a key theme in Q2.
- The economic outlook is improving due to vaccine rollouts and stimulus measures. Most global equity markets posted positive returns in Q1. Concerns over the inflation outlook triggered some mid-period volatility, causing bond curves to steepen substantially.

Cult Wines Index Performance

Cult Wines Index	Period From	Period Until	Total Performance	CAGR
Q1 2021	31/12/2020	31/3/2021	0.8%	-
1 Year	31/3/2020	31/3/2021	7.1%	-
3 Years	31/3/2018	31/3/2021	10.4%	3.4%
5 Years	31/3/2016	31/3/2021	47.8%	8.1%
Since Inception	31/10/2009	31/3/2021	136.3%	7.8%

Source: Pricing data from Liv-ex, Cult Wines Ltd. Analysis by Cult Wines Ltd.

Over 13 years, Cult Wines has become the global leader in wine asset management, providing analytically based, fine wine investment advice.

Fine Wine Market Summary

Fine wine markets delivered three straight months of positive returns to start 2021 on their way to a 2.41% quarterly figure, as measured by the Liv-ex 1000. This continues the market's steady growth since last May following the downturn caused by the coronavirus outbreak in early 2020.

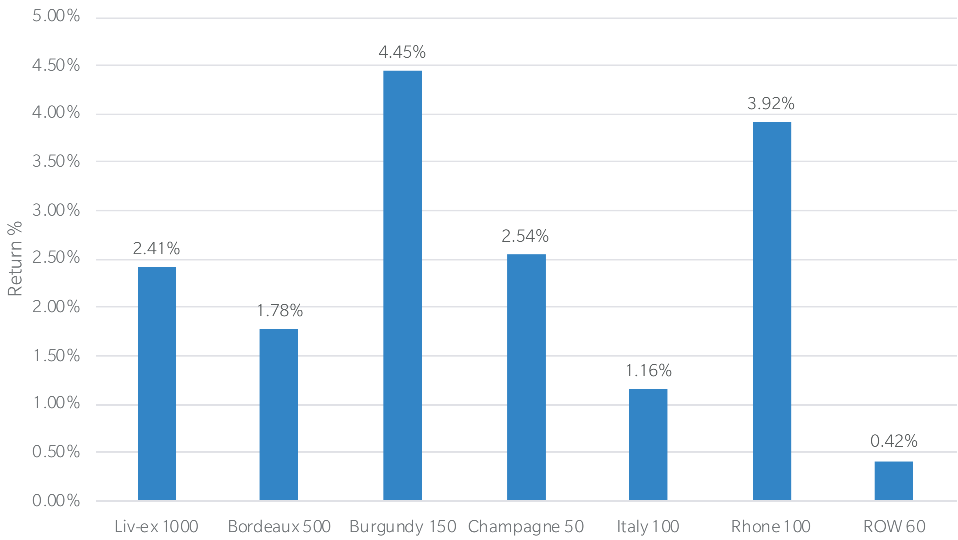
The rollout of COVID-19 vaccines programmes in early 2021 and plans to reopen hospitality sectors fuelled optimism of a sustained recovery over the course of the year in many major economies. This supported sentiment in fine wine in the first quarter. The late-December trade deal between the UK and EU added to the favourable tone as it removed the risk of a disruptive no-deal Brexit.

The positive returns came despite US tariffs in place for much of the period. In January, the outgoing Trump administration broadened the scope of the 25% tariff to include nearly all French and German still wines. However, the US suspended all tariffs on EU wines, among other goods, on the 5th of March for a four-month period as the two sides agreed to work toward a permanent resolution to the dispute that has seen the 25% on certain European wines since October 2019. This boosted trading activity for Bordeaux, Burgundy and Rhone in March. Critic scores of Bordeaux's 2018 vintage in-bottle added to the uptick in attention on the region ahead of its upcoming 2020 en primeurs (EP).

Burgundy emerged as the top performing region for the quarter with a 4.45% gain as a successful 2019 EP campaign early in the year helped prices continue to recover following a dip in 2018-2019.

French regions see strong starts

Liv-ex 1000 and regional indices' Q1 returns



Source: Liv-ex

The fine wine market saw ongoing diversification with trade shares of Italy, Rhone and Champagne all growing. Even less-established regions such as Germany enjoyed increased attention. Liv-ex also reported that March saw the largest number of unique brands (1,250) traded during a single month. For a full discussion of regional trends, please see page 10.

Global Financial Markets Summary

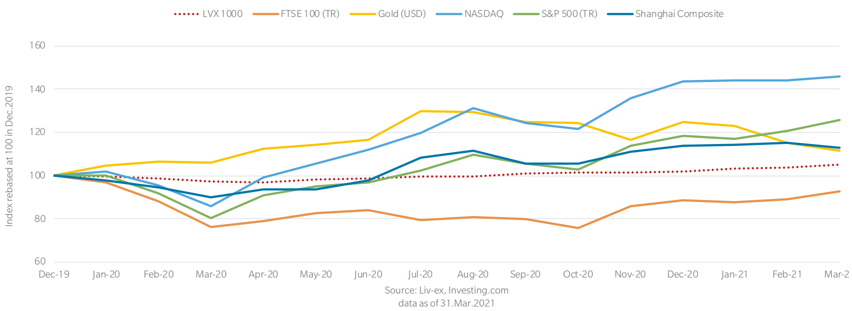
Global equity markets delivered positive returns in the first quarter of the year. Optimism surrounding the vaccine rollouts alongside ongoing government and central bank stimulus drove sentiment for much of the period.

Equities wobbled mid-quarter as the potential economic recovery alongside high savings rates and government stimulus triggered concerns about rising inflation. Chinese markets underperformed later in the quarter amid expectations Chinese authorities could tighten monetary and fiscal policies.

The below chart, showing financial market returns compared to those of fine wine, illustrates how fine wine saw a relatively shallow dip in early 2020 and has since posted consistent growth. Some major equity market returns have been higher, boosted by stimulus measures and strong gains from the tech sector.

Fine wine steady upward trajectory

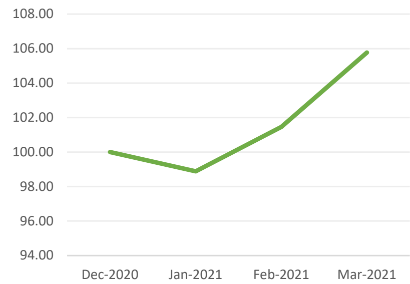
Liv-ex 1000 and major financial market returns



Bond markets posted negative returns over the quarter, as yield curves steepened amid a shifting inflation outlook. The US dollar bucked expectations by appreciating late in the period. The British pound also strengthened against the euro, helped early in the year by the late-December EU-UK trade deal and then by the UK's early success with its vaccine rollout.

FTSE 100

S&P 500



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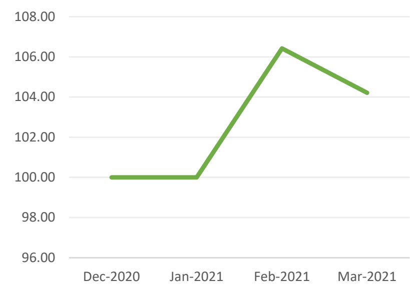
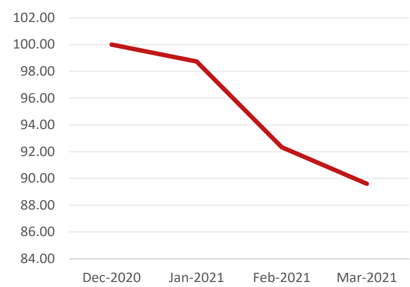


GOLD



Source: Bloomberg.

Financial Market Outlook

To enhance our analysis, Cult Wines has partnered with Hay Hill Wealth Management, an independent boutique wealth manager based in the heart of London, to bring an outside perspective on global financial market outlook.

Founded in 2015, Hay Hill Wealth Management provides a range of wealth, family office and investment management services to UK and International high net worth and ultra-high net worth individuals and their families.

Hay Hill's team of experienced industry professionals offer a personalised, flexible and direct approach to investment planning and management across multiple asset classes, providing a true alternative to traditional private banks. For more information, please visit www.hayhillwealth.com or contact Hay Hill directly on +44 (0) 203 931 9680.

Global Background

The COVID-19 pandemic appears to be easing but its effects, both direct and indirect, will continue to be with us for some time. The speed with which vaccines can be rolled out is probably the biggest single determinant of the pace at which economies will be able to re-open and avoid the risk of a third wave of infection and the emergence of new variants. This is clearly difficult to predict and there are likely to be differences across the globe but given the number of vaccines and the resources which have generally been applied to distributing them, it seems to be a safe bet that global economic growth will be significantly stronger than in 2020. Thus, from an investor standpoint, 2021 should be less about the overall development of the pandemic than the specific impact it has on various industries and business models along with the longer-term consequences of the huge fiscal and monetary policy responses we have seen.

Economic Outlook

We have already seen sharp rises in quarterly economic growth rates as economies re-opened from the depths of initial global lockdowns in the second quarter of 2020 but the impact of the ongoing monetary and fiscal policy responses to the pandemic are likely to show through strongly in 2021. Annual growth in the G-20 economies is expected to be around 5.1%, led by China at 8.4%, the USA (5.6%), the UK (4.7%) followed by the Eurozone (4.2%) and Japan (2.8%). Emerging market economies are forecast to grow by 5.3% though this is heavily influenced by the positive impact of China being offset by a continued fall in GDP in India (-7.5%). Overall, however, growth is going to be much stronger across the globe in 2021 than it was in 2020. Indeed, the risk on these forecasts appears to be to the upside as evidenced by the US Federal Reserve's recent increase in its forecast for US growth to be 6.5%. Moreover, expectations are for this growth to continue to be strong in 2022 with global GDP currently forecast to grow at 4.1%.

This growth is driven by the easing of lockdown restrictions along with the combination of highly accommodative monetary policies being pursued by virtually every central bank across the developed world and large fiscal stimulus provided by sharp rises in government debt. While it has been pretty much universally agreed that such a combination of policies was the correct response to the pandemic, there is much less agreement on how long these policies should continue. The new Biden administration, in conjunction with the Fed have made the argument that the lesson of the Great Financial Crisis was that policy makers should go big and go long: it is better to risk an overshoot than to be too conservative. That means, they are prepared to tolerate higher inflation to ensure a continuation of growth and a significant fall in unemployment.

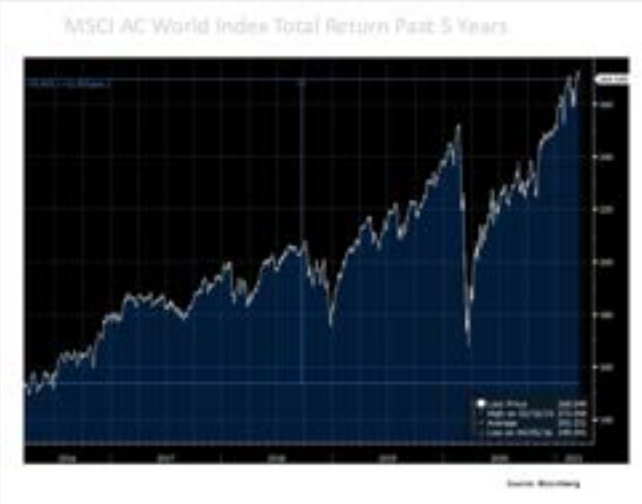
Thus, the major risk being run is that these policies generate more inflation than they were intended to create and, more particularly, that central banks will then be unable to bring that higher level of inflation back under control. The response by investors has been that inflation expectations have risen across the board and longer-term interest rates have risen sharply. Yield curves have steepened to levels that have not been seen for more than five years.

None of the moves we have seen so far are necessarily cause for concern and real rates of interest remain negative in most countries. Central banks express their confidence that they are following the correct approach for the circumstances and that they have the tools necessary to avoid any runaway inflation. Nonetheless, inflation has now become more of a focus for investors than COVID-19.

Market / Asset Class Outlook

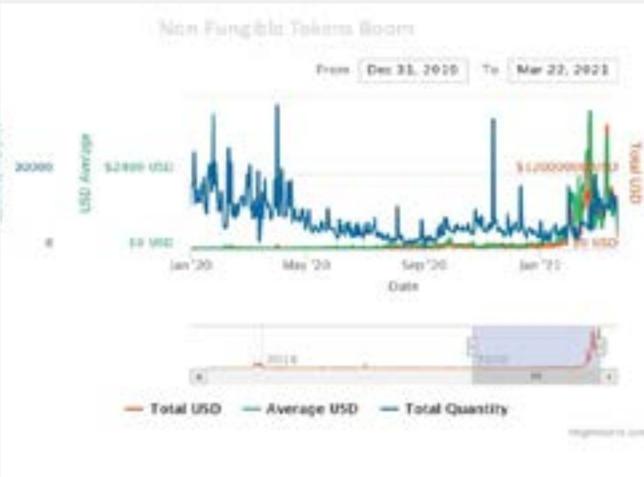
Clearly, rising inflation concerns and the significant amount of government debt which has to be funded to support huge levels of fiscal stimulus are not amenable to bond markets. Even if short rates remain suppressed by central bank interventions, yield curves can steepen and that is what we have seen. Given the levels of economic growth forecast, the current rates of interest seem too low. That doesn't mean that they have to rise to panic levels but it does suggest that they probably should rise further. As we have been saying for some time, bond investors should prepare for 2% yields on ten-year US Treasuries by the end of the year.

Generally speaking, rising bond yields are not a good background for asset returns, though that partly depends on the reason for them. Where there is good economic growth, leading to stronger sales and earnings, equities can usually accommodate such increases as earnings may well rise faster than the corresponding fall in valuation levels that are associated with a rising discount rate. That seems to be the situation currently and therefore we are more relaxed about equities as a place to invest than we are about fixed income markets. However, there are reasons for being careful in the short term while remaining optimistic over the medium and longer term. First, the level of valuations in certain parts of the market, most notably the high-growth, low current earnings, "pandemic winners" of 2020 remains stretched.



Second, there have been pockets of excess, for example the Reddit or “meme” stocks such as Gamestop, and also perhaps by the enormous increase in the use of special purpose acquisition companies (SPACs) to bring a large number of early stage, even concept companies to market. Indeed in the first few weeks of the year, 275 SPACs have been quoted versus 248 for the whole of 2020. Finally, it’s also the case that markets have generally been strong since the approval and roll-out of vaccines began in Q4 2020 and are probably overdue a period of consolidation. Nonetheless, earnings forecasts have been rising as corporate results have generally been better than previously forecast and many companies have been upbeat about the outlook.

Alternative assets have been particularly interesting of late. Reflationary sensitive commodities such as oil have been strong while gold has struggled in the face of rising rates. Hedge funds have been somewhat mixed with the impact of the Gamestop / Reddit storm having a particularly important influence on both the amount of leverage employed and their short-selling strategies.



Finally, there has been a boom in the prices paid for “collectibles”, with the highlight being the dramatic appearance and popularity of “non-fungible tokens” (NFTs); digital collectibles which have swept to fame on the back of the cryptocurrency wave. Their breakthrough was spectacularly announced by the sale at Christies of a piece of digital art by the graphic designer known as Beeple for $63.9m – more than has ever been paid by a work of art by Titian! The significance of NFTs as an investment vehicle is closely related to the boom in cryptocurrencies, not least because they are one of the few things that one can easily buy with them. It may all seem somewhat bizarre but it certainly suggests that the world of investing in collectibles is yet another area of life which is going digital.

Fine Wine Outlook

The table is set for fine wine to carry forward its strong start into the second quarter. Although coronavirus case rates remain elevated in many countries, the vaccine programmes have allowed most to set plans to reopen their economies in the coming months. This should boost the hospitality sector and, in turn, the wine trade.

The recent four-month suspension of US tariffs on European wines should also support US demand in the near term. The news came at an opportune time for Bordeaux's 2020 EP campaign. Tastings (both in person and mailed sample) of what appears to be a strong vintage are scheduled to begin in different locations in late April, pending any revisions due to COVID disruptions. The improved macro environment compared to a year ago could see producers set higher prices than the discounted 2019 EP wines last year. This means it will be important to monitor opinions and relative value of individual wines as they are released, most likely in May and June.

The recent appreciation of the US dollar and British pound adds another measure of support for Bordeaux and other European regions as these wines become cheaper for US and British buyers. Rhone wines also stand to benefit as the US forms its largest export market.

The coronavirus pandemic and its economic impact remain the primary risks to the outlook. Although fine wine has demonstrated it can remain stable compared to other asset classes, additional waves of the pandemic causing shutdowns and pronounced market volatility would likely pull back on its upside potential in the near term.

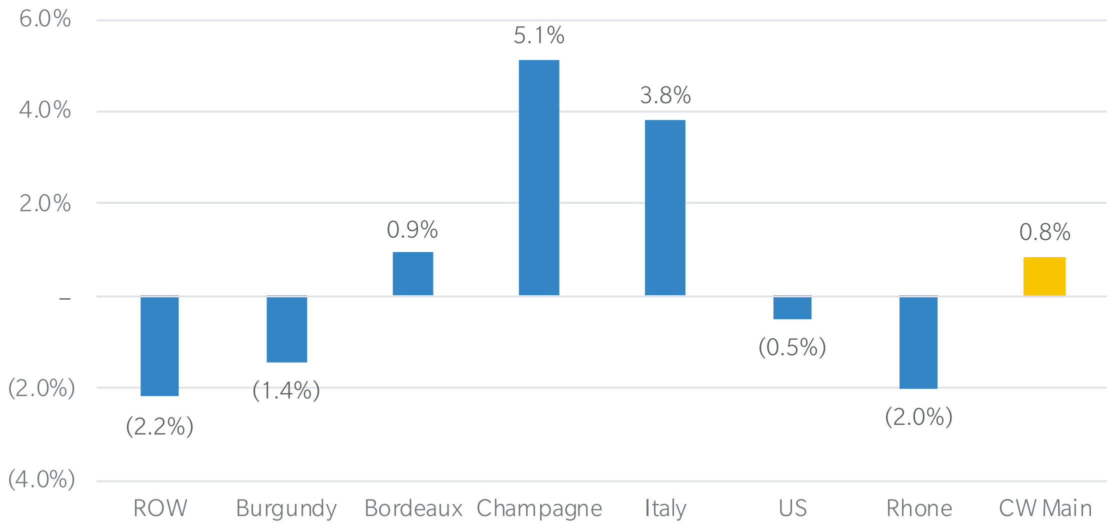
The resumption of US tariffs or other shifts in trade policies also remain areas to watch. The diversification of the fine wine market has been a leading theme over the past year, which we expect to continue. As new producers and new regions gain increased exposure to global investors, this should help strengthen fine wine's overall stability with external obstacles likely impacting certain regions more than others.

Cult Wines Regional Performance

Cult Wines' Main index delivered a 0.8% gain in the first quarter of 2021. Our overweight positions in Champagne and Italy proved beneficial as our wine selections posted healthy returns. Elsewhere, we saw mixed performance, which can partly be attributed to price consolidation following strong outperformance in the final quarter of 2020. Additionally, we maintain a diversified approach with a significantly larger number of producers and individual wines in our index than the Liv-ex regional equivalents. An improving macro backdrop, successful new releases and the surprise suspension of US tariffs as early as March disproportionally boosted certain names at the top of the market. However, we remain confident in our diversified exposure's ability to deliver broad based long-term growth.

Cult Wines index gains led by Champagne and Italy

Cult Wines indices' Q1 2021 returns



Pricing data from Liv-ex, Cult Wines Ltd. Analysis by Cult Wines Ltd.

Bordeaux

Cult Wines Bordeaux index returned 0.9% in the first quarter. The release of Bordeaux 2018 in-bottle scores lifted the prices of certain wines that received upgrades. Our index received a boost from Chateau Palmer, which rose (21%) on the quarter during which Vinous's Neal Martin and Antonio Galloni both awarded it a perfect 100 points, notably higher than their respective in-barrel scores of 94-96 (Martin) and 95-98 (Galloni).

Away from the 2018s, the Bordeaux market experienced a reshuffling of sorts, possibly influenced by demand shifts as US tariffs were first expanded in January but then suspended in March. Some old vintages of Petrus saw larger-than-usual price swings, with gains made by the 1964 vintage helping CW Bordeaux performance. However, Chateau L'Evangile 2008 declined, weighing on our gains.

The outlook for the Bordeaux market will now be driven by the upcoming 2020 EP campaign. While we expect some release prices to come higher than the discounted 2019 EP last year, whether producers strike the right balance will determine the onward performance of the new 2020 releases and impact the wider Bordeaux market's trajectory.

Burgundy

Cult Wines Burgundy index fell by 1.4% in the first quarter. This underperformance can partly be linked to some price consolidation following CW Burgundy's strong returns last year. CW Burgundy returned 12.3% in the final quarter of 2020, on its way to an 8.5% annual return while the Liv-ex Burgundy 150 declined by 1.5% on the year. This largely stemmed from our more diversified exposure to the Burgundy region that allowed us to find value in second tier and up-and-coming producers that performed well even as the top tier of the market declined.

However, these segments lagged the rebound at the top of the market early this year. Burgundy's successful 2019 EP campaign amid an improving macro backdrop, including the suspension of US tariffs, spurred increased activity that sought top tier names. Domaine Romanee-Conti, Coche Dury, Comte Georges de Vogue and Musigny posted strong gains over the quarter. While CW Burgundy includes this producer basket, our exposure to the less-established producer categories did not benefit from a first-quarter bounce, having delivered superior performance last year.

Some of the wines in these categories include Francois Carillon Puligny-Montrachet 2018 (-25%), Domaine Faiveley, Charmes-Chambertin Grand Cru 2017 (-20%) and more modest losses among a few Domaine Tortochot wines.

However, we think these were temporary fluctuations amid the higher end of the market's rebound. We remain confident that our index offers attractive relative value in second-tier and up-and-coming producers that can deliver consistent outperformance as investor demand returns to a broader perspective to include the whole Burgundy opportunity set.

Champagne

CW Champagne index enjoyed a strong start to the year with a 5.1% return, notably higher than the Liv-ex Champagne 50 index.

After a strong 2020, Champagne posted healthy returns again in January and February of this year, helped by sparkling wines remaining exempt from US tariffs. The Liv-ex Champagne 50 slowed in March when the tariff suspension may have prompted investors to temporarily turn attention elsewhere.

However, CW performance remained positive throughout the first quarter. We benefitted from our longstanding focus on back vintages, which offer reliable appreciation potential over the long term as supplies are consumed. Krug Collection 1989 rose by 10% this quarter, aiding CW Champagne's performance. We include several 'grower' Champagnes in our diverse index as we believe these smaller producers offer structural advantages due to their lower supply levels. This market segment helped this past quarter with Jacques Selosse, Millesime 2005 among the strong performers.

Rhone

CW Rhone index declined by 2.0% in the first quarter. Like Burgundy, our Rhone index turned in strong gains in 2020, significantly outperforming the Liv-ex Rhone 100. Some of this quarter's losses stemmed from a rebalancing of prices. For example, Chapoutier Ermitage Ermite 2004 price jumped in late 2020 but was readjusted downward in early 2021, contributing to our losses.

Rhone is another region that saw a change in fortunes with the increase and then suspension of US tariffs. The removal of the trade barrier to Rhone's biggest export market resulted in a spike in activity late in the month among the region's top names. Some, such as Beaucastel's 2012 Châteauneuf-du-Pape Hommage J Perrin, realised strong gains whereas other lesser-known producers did not receive the instant post-tariff bounce. We remain focussed on long-term growth which we think will come from a broader cross-section of the regional market as it gains more awareness from a global audience.

Italy

The CW Italy index posted a 3.8% gain in the first quarter. Our overweight stance to the region includes a positive view toward 2016 Barolos, which continue to receive warm receptions from investors and wine critics. Barolo was the most actively traded sub-region within Italy, according to Liv-ex. Specifically, the Vietti, Barolo Ravera 2016 was among our leading performers.

Our CW Italy index also benefitted from the price gains by iconic Super Tuscan Tignanello's 2007 and 2015 wines. Cult Wines' competitive sourcing helped us outperform in January and February when the Liv-ex Italy 100 declined, possibly due to some price consolidation after impressive 2020 growth. Italian wine prices regained their upward trajectory in March when some noteworthy releases, including 2013 and 2015 Biondi Santi, spurred interest in the region.

US & Emerging Markets

The CW Rest of World (RoW) index fell by 2.2% over the first three months of the year. The improving macro backdrop and EP hype saw wines from established French regions outperform in early 2021, drawing demand temporarily away from emerging regions.

Some of our underperformance also stemmed from price consolidation in the wake of double-digit gains for our regional RoW index (12.2%) in the fourth quarter of 2020. Chile's Vina Don Melchor, Cabernet Sauvignon 2017 and 2018 were among the wines that saw downward price adjustments following jumps in late 2020. Chilean wines are not included in the Liv-ex RoW 60 index, partly explaining its positive quarterly figure.

Our US exposure, which is separate to our Rest of World index, saw mixed performance over the period, ending down 0.5%. We retained an underweight stance toward the US market due to high prices in the concentrated regional market. The Screaming Eagle, Oakville Cabernet Sauvignon 1995 was among the underperformers in the month, falling by 12%. Going forward, we remain cautious and focused on identifying select relative value opportunities through our research-based approach.

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