CW

CULT WINES

SOLUTIONS FOR FINE WINE

QUARTER ONE INVESTMENT OVERVIEW 2020

THE QUEEN'S AWARDS FOR ENTERPRISE: INTERNATIONAL TRADE 2017

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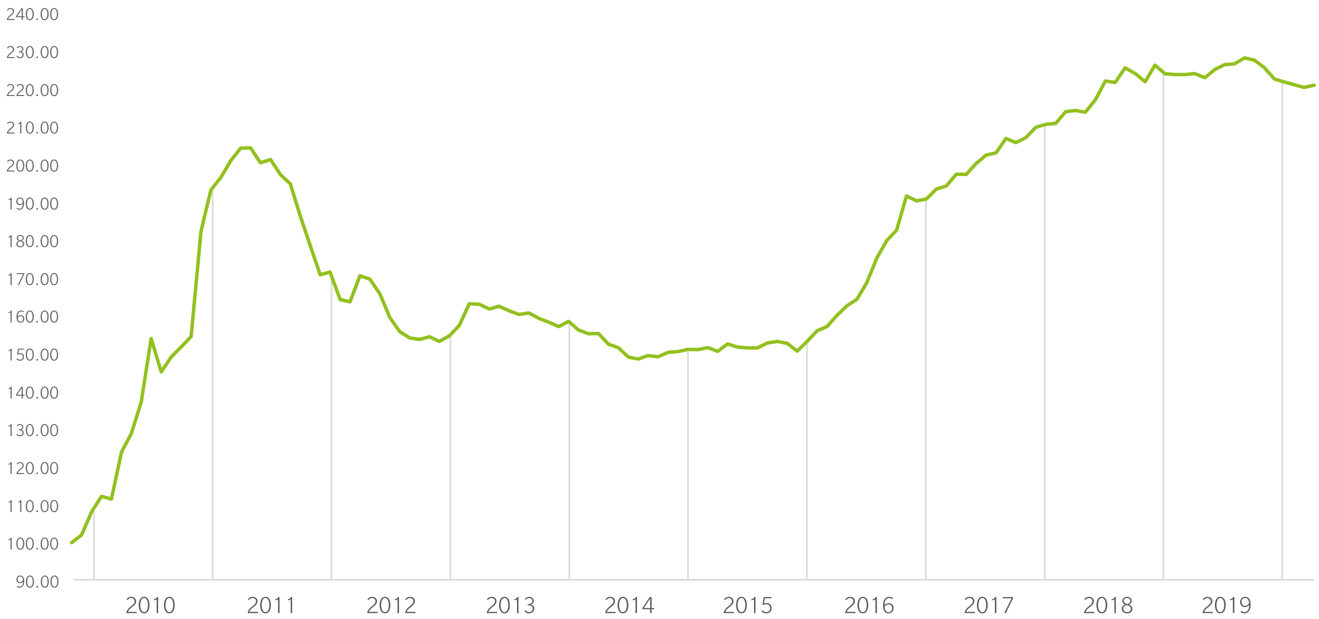
CULT WINES
ESTABLISHED 2007

Introduction

Portfolio based investment grade wine is one of the most established alternative assets available to investors looking for tax-efficient, asset backed diversification and capital growth opportunities. Over 12 years, Cult Wines has become the global leader in wine asset management, providing analytically based, fine wine investment advice. Combining our experience in the fine wine market, statistical and quantitative research and algorithm based modelling, our unique approach has driven our Assets Under Management (AUM) to £125 million. Our own CW index returned +120.63% since October 2009 (annualised returns of +7.89%). With low interest rates, inflation concerns, low returns from traditional financial assets and an uncertain economic outlook, many investors are looking at ways to enhance their portfolio returns, diversify exposure and generate consistent capital appreciation.

This 1st Quarter overview summarises the global financial and fine wine market performances to March 2020.

Cult Wines Index Performance



Cult Wines Index	Period From	Period Until	Total Performance	CAGR
Q1 2020	31/12/2019	31/03/2020	-0.36%	-
1 Year	31/12/2018	31/12/2019	-0.98%	-
3 Years	31/12/2016	31/12/2019	16.17%	5.13%
5 Years	31/12/2014	31/12/2019	46.67%	7.96%
All Time	31/10/2009	31/03/2020	120.63%	7.89%

Source: Cult Wines Index (Powered by Liv-ex).

Global Markets Overview

For most equity markets around the world, the first quarter of 2020 was one of the worst in history. Global economic activity will adjust downward due to the severity of the outbreak of COVID-19. The Coronavirus affects consumer confidence in the shorter term and will disrupt supply chain and economic activity in the longer term. Now with more aggressive social distancing measures into place, especially in Europe and US, much of the population is experiencing an unprecedented level of uncertainty and personal financial stress.

Overall, the effects of the global economic hit from Covid-19, especially for those industries wihcih have been most affected (e.g. manufacturing, service, hospitality) have been painfully felt by businesses of all sizes. Hence, investors are now desperately seeking a safer place to put their money as equity markets have recently experienced record levels of volatility. The MSCI All World index suffered its worst quarter since 2008, dropping 21% in Q1.

US

The S&P 500 ended Q1 23.5% down, one of the worst quarters in its history, and banks and airlines were among the hardest hit sectors. The tech-heavy Nasdaq Composite dropped 17.9% and the Russell 2000 index of small-cap stocks – which are more exposed than larger companies to the domestic US economy – lost more than 35%. In addition, the COBE VIX, known as Wall Street's "fear gauge", is currently at 57, significantly above its historic average range of 20 to 25.

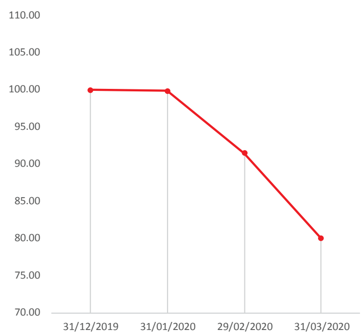
On the economic side, US jobless claims soared to a record high of 6.6 million at the end of March as coronavirus caused mass layoffs.

Europe & UK

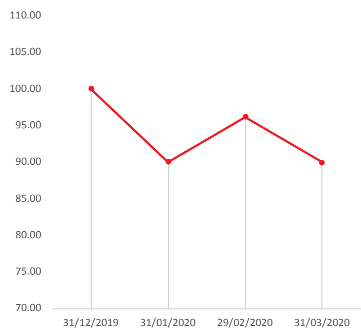
Similar to US equity markets, London's FTSE 100 suffered its worst quarter since 1987, closing 25% lower in Q1. Later in March, the UK pound lost more than 12% against the dollar in less than a month, falling to its lowest level since the 1980's.

The uncertainty arising from the economic impact caused by the virus is adding to the pressure on the central banks across developed countries in Europe. As a result, The ECB and the Bank of England all intervened to counter the intensifying crisis via rate cuts and bond-buying programmes. The MSCI Europe ex UK index plunged 21.3% over the first quarter of 2020.

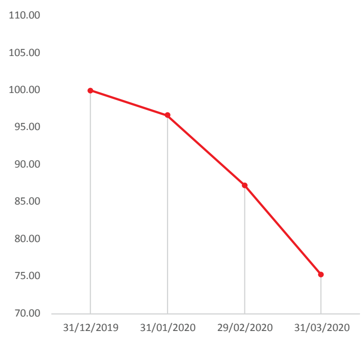
S&P 500 -20.00%



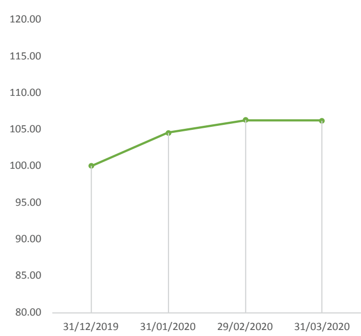
CSI 300 -10.02%



FTSE 100 -24.80%



GOLD 6.22%



Source: Bloomberg.

Emerging Markets

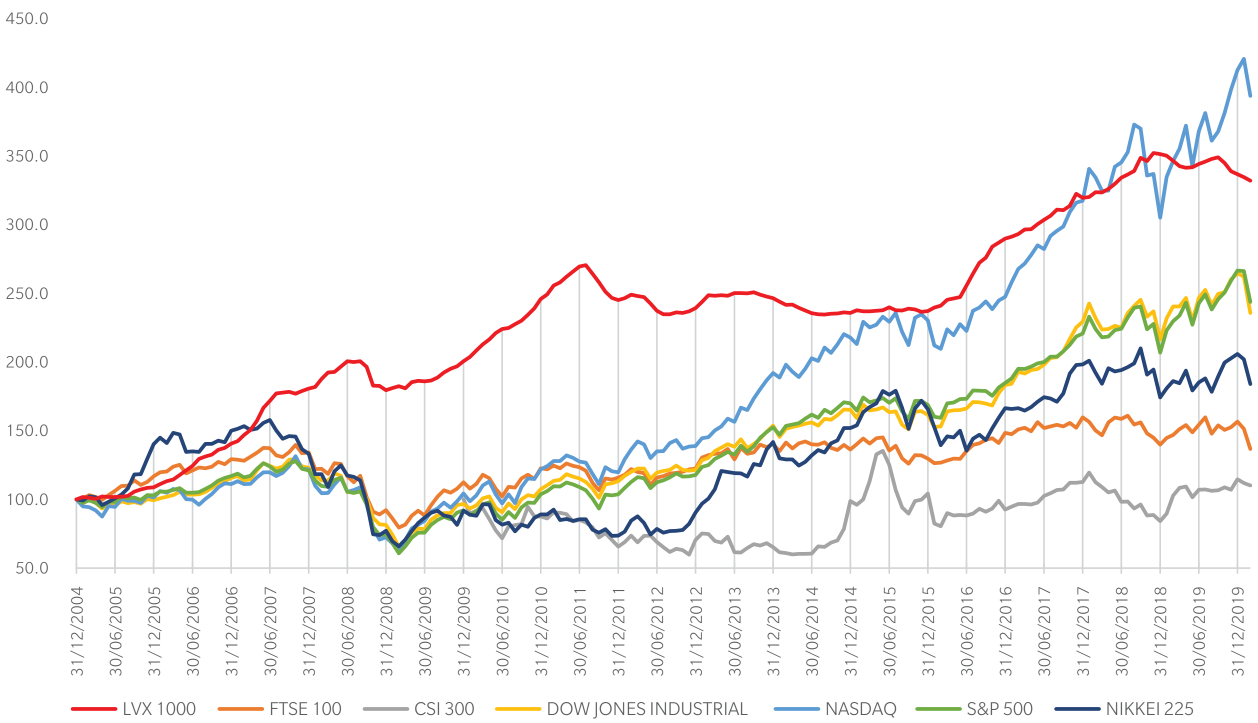
In Asia, COVID-19 has played a prominent role in financial headlines throughout the quarter. Starting from the Chinese New Year period in mid-January, news flow surrounding the virus continues to meaningfully impact China's economic outlook as the depth of the sudden halt in its economy is unprecedented. Faced with these risks, consumer confidence in China continued to decline this quarter.
Elsewhere in emerging markets, the central banks of South Africa, Poland and Brazil have all started to use measures like bond-buying and liquidity injections to counter the economic hit from the virus. The MSCI Emerging market index fell 15.6% in March alone and 23.9% year to date.

Commodities

Gold, long seen as a traditional safe haven asset class, rallied along with government bonds and is up about 6.5% over the first quarter. Together with the looser central bank policy across the world, many investors turned to gold as it is expected to perform well in these times of crisis. On the contrary, US crude oil prices fell below $20 at the end of March, reaching to their lowest level in 18 years as the oil industry deals with its biggest demand drop in history. With Covid-19 now dominating the headlines, its negative impact on the global economy is becoming severely felt by investors. The broader commodity market has dropped significantly, with S&P GS Commodity Index closed 42.2% down for the quarter. Oil was the worst performer as Saudi increased production in a market already in oversupply, dropping a massive 60%!

Fine Wine Market Overview

Liv-ex 1000 vs. Major Equity Indices Performance - Since 31st December 2004

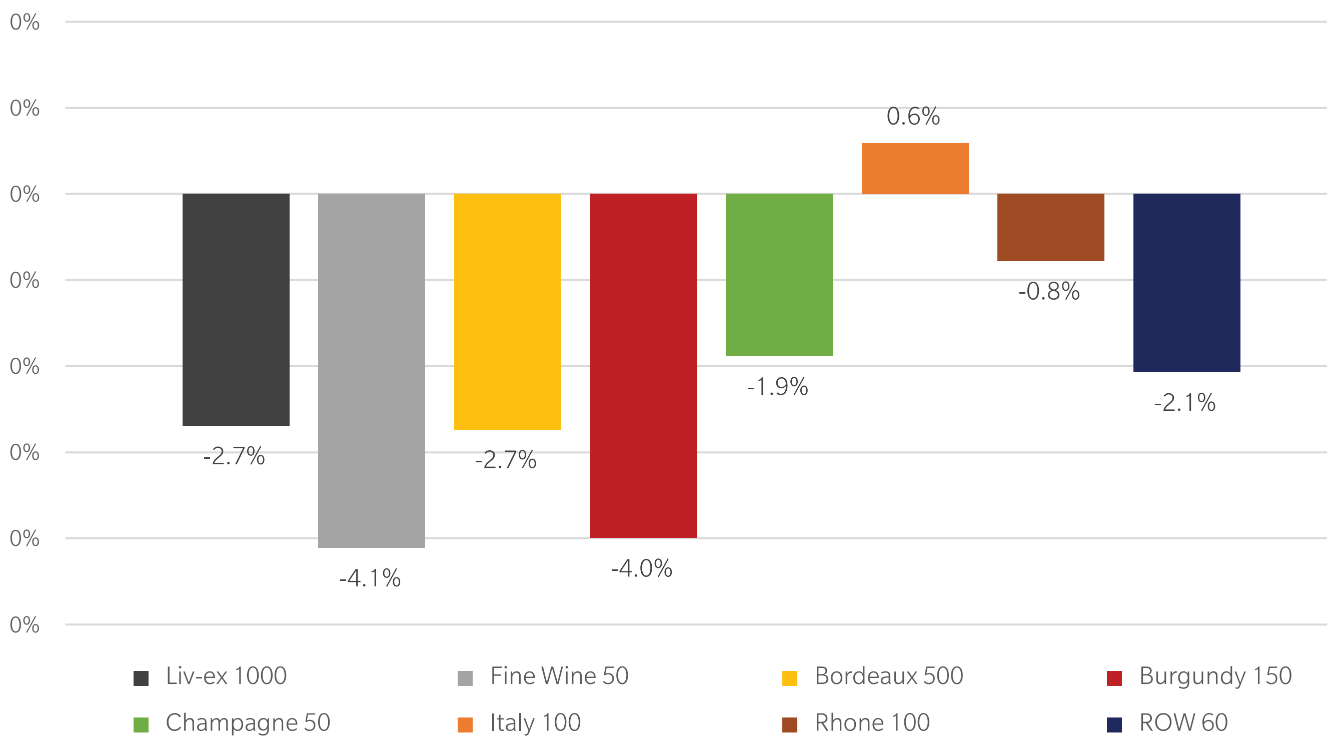


Source: Investing.com, Liv-ex - Data as of 31.Mar.2020 - Rebased on 31.Dec.2004

What do you need to know in Q1?

- Liv-ex 100 declined -1.06% overall, while Liv-ex 1000 – the broadest measure of the fine wine market – dropped by -2.7% in Q1
- Italy 100 (+0.6%) is the only region that finished the quarter in a positive territory
- Burgundy 150 and Bordeaux 500 declined by -4% and -2.7% respectively
- Fine Wine 50 – which tracks First Growth in Bordeaux - retreated further with a quarterly loss of -4.1%, while California 50 also declined.

Italy - The only winner in Q1-2020



Source: Liv-ex | data as of Mar.2020

Liv-ex 1000 – the broadest measure of the fine wine market – closed the quarter -2.7% , continuing the downward trend started from Q4 in 2019. However, some regions witnessed increased demand. We noted that despite the noticeable downturn, activity for Italy and the Rest of World have increased with a number of producers standing out during this challenging period.

Over the course of Q1, **Bordeaux 500** – the benchmark index for Bordeaux - has registered a negative return of -2.7%, extending its previous 3-month loss. Encouragingly, Bordeaux's trade share has increased steadily in recent weeks, suggesting improved liquidity. Part of the surge in trade activity can be explained by the renewed demand from Asia, a weaker sterling combined with businesses returning to work has served as a support mechanism. The rising trade activity of Bordeaux wines was driven by recent top-quality vintages (2009,2010 and 2016).

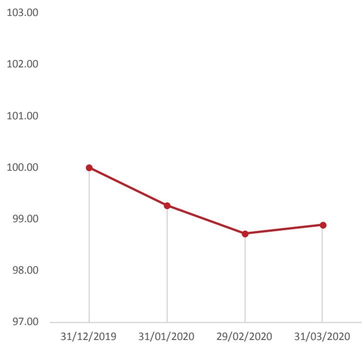
Liv-ex's Burgundy 150 and **Champagne 50** extended their previous quarters loss and recorded negative returns of 4% and 2.1% in Q1. On the contrary, Italy, a wine region that has long been considered as undervalued, has recently demonstrated its return potential, with the benchmark index Italy 100 becoming the only region in positive territory in Q1. Elsewhere in France, Rhone has seen its trade share slightly drop this year. The more recently launched California 50 registered another quarter of decline.

For investors, **Italy** had a strong year in 2019 with encouraging price performance and improved brand awareness. The traditional view is that Italian wines tend to rise slowly and steadily over time, with only a few famous names recording stellar performance in terms of price. But now this perception is changing with a broader level of interest driven by the search for hidden value. Within **Liv-ex's Italy 100**, the names that stand out as Q1's major movers are Giacomo Conterno, Barolo Cascina Francia from Barolo and Sassicaia and Tiganello from the Super Tuscans, with some of their recent vintages posting attractive returns. In particular, Barolo Cascina Francia 2011 returned 44% in Q1, while Tignanello 2004 and 2007 also posted stellar returns of 39% and 34% respectively. As of 31st of March this year, Italy's share by value has improved to 13% from 9% a year ago. In addition, Italy's annual trade share accounted for less than 2% ten years ago. More importantly, the performance gap between Italy and other major sub-indices has gradually narrowed for the past few years. In particular, wines from Piedmont continued to prove popular as consumers and investors are now attracted by recently released and highly acclaimed vintages (Barolo 2016 and Brunello 2015).

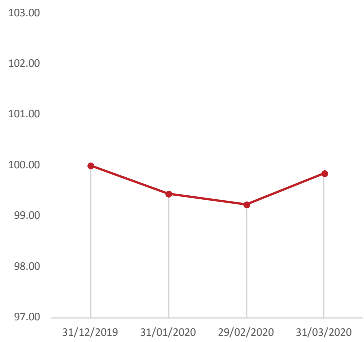
Noticeably, market trade share of the **Rest of the World** doubled in 2020 compared to last year, mainly influenced by improved trading activity among some well-respected US wine producers from Napa Valleys. Screaming Eagle and Harlan Estate led the upward trend, according to Liv-ex. Over the past decade, the fine wine market has broadened considerably, and the regional share has become more balanced. This could suggest that great opportunities are attracting investors who have traditionally not invested in regions outside Bordeaux, which still constitutes the backbone of most wine portfolios.

Cult Wines Sub-Indices Performance in Q1

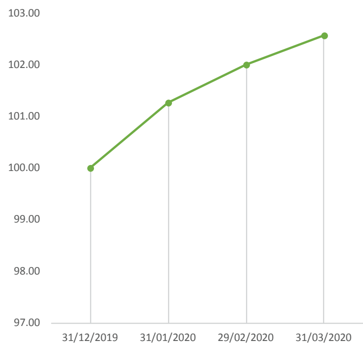
Bordeaux -1.10%



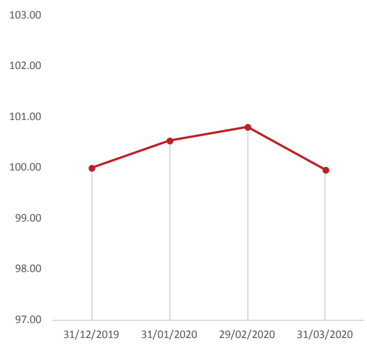
Burgundy -0.15%



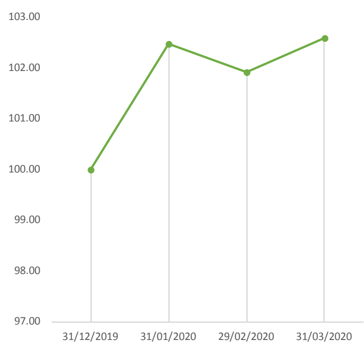
USA +2.58%



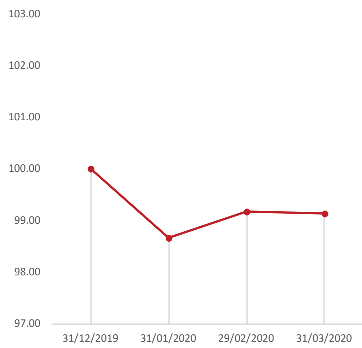
Champagne -0.04%



Italy +2.59%



R.O.W* -0.87%



** R.O.W (Rest of World) contains Australia, Chile, Rhone and Spain. Source: Cult Wines Index (Powered by Liv-ex) - March 2020.*

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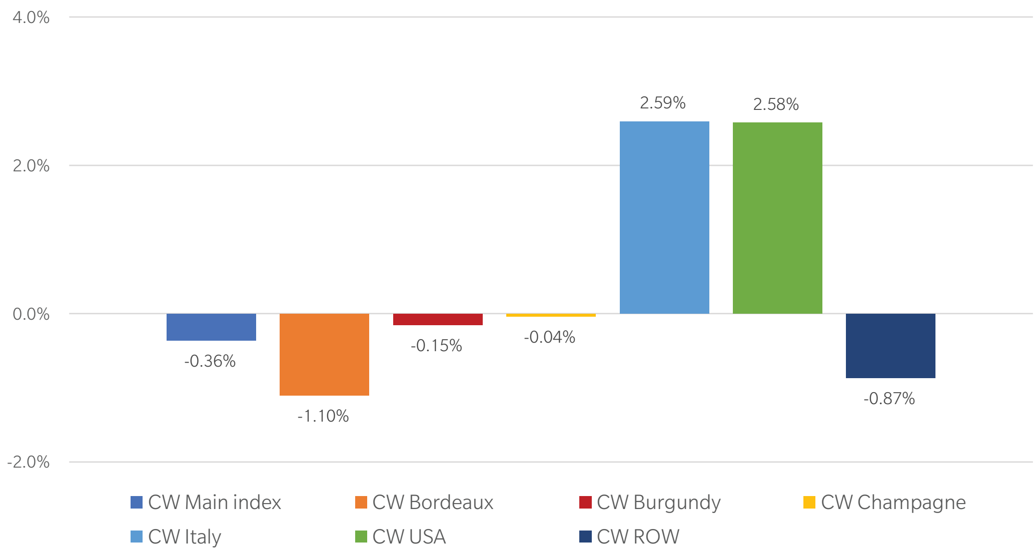
Cult Wines Performance in Q1

Sub-Indices Change % Q1 2020



** R.O.W (Rest of World) contains Australia, Chile, Rhone and Spain. Source: Cult Wines Index (Powered by Liv-ex) - March 2020.*

In the first quarter of the year, **CW's main index** was marginally down at -0.36%. Our Bordeaux index fell -1.1% as a few prominent chateaux have struggled of late. Investors' attention has gradually shifted to wine regions such as Italy, Champagne and Rhone that appeared undervalued. That said, of the First Growths of Bordeaux, a few older vintages of Château Margaux performed particularly well in Q1. Also, names such as Monbousquet and Petrus from the right bank continued to do well.

CW's Burgundy index* closed the quarter almost flat, contrasting with a more acute fall in Liv-ex's Burgundy 150 index. **Please note that CW's Burgundy index has a diverse base containing more than 500 wines in the index, in comparison to the more concentrated Liv-ex Burgundy 150 index, which carries 40% in DRC.*

The outlook for the Italy market remains highly optimistic, with Italy becoming the best-performing region and the **CW Italy index** returning 2.6% in Q1. On a regional level, Super Tuscans demonstrated its ability to generate return in challenging period, with Ornellaia 2000, Tiganello 2007 and Sasscicaia 2008 featured among the Top-10 best performing wines of the region in Q1. In addition to Super Tuscans, iconic producers such as Giacomo Conterno, Gaja and Biondi Santi continued to capture much attention among investors, with consistent performance across vintages.

Since 2014 our own **CW Piedmont Index** is up 112% whilst the wider Liv-ex Italy 100 index is up 39% over the same period. A few prominent producers have now released their Brunello 2015 and Barolo 2016. In short, the 2015 is the best vintage for Brunello since the prodigious 2010s, whilst 2016 has been described as a truly perfect vintage for Barolos. We believe that Italian wines continue to offer the most economical entry point for fine red wine investors.

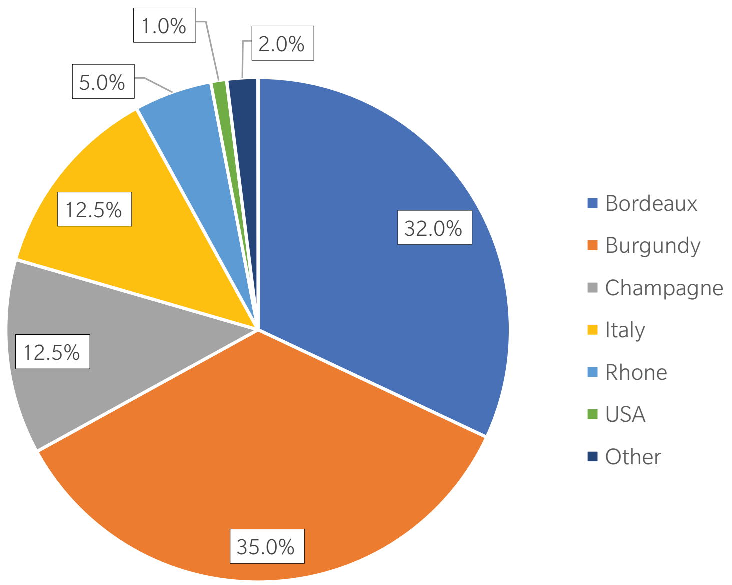
Despite the relatively muted performance of **CW's Champagne index** this quarter, a few grower champagnes have managed to steadily increase on both prices and popularity. For example, a special mention must go to Jacques Selosse, whose Lieux-Dits Collection Assortment appreciated in value by 21% over the last month. Within **CW's Champagne index**, Gosset, Grand Millesime 2006 and Salon, Le Mesnil 1997 were among the top performing wines, returning 29% and 21% respectively in Q1.

After last quarter underperformance, **CW's USA index** ended the quarter on a positive note, becoming the second-best performing region in Q1, as interest in US wines rebounded following increased threats of tariffs on foreign wines in the country.

CW's ROW index, which captures the price movement of wines from Australia, Rhone, Spain and Chile, dropped 0.87% in Q1. However, returns of Rhone led the Rest of the World region, with the names of Guigal and Domaine Jean Louis Chave, Hermitage topping the performance table. Earlier in the year, we made changes to our tactical asset allocation and decided to increase our exposure to Rhone for return enhancement.

Cult Wines outperformance is driven by active portfolio management, balancing long term return objectives with short and medium term allocation to adapt to market conditions. We have been underweight Bordeaux since Q3 2019 and decided to over allocate to Italy, Champagne and Rhone. We also diversified our Burgundy exposure from the iconic high price producers into second tier and up and coming producer. All these decisions reflected in our tactical allocation, coupled with a strict selection of wines in each of those regions, served our investors well in what has been a turbulent beginning of the year. Our Investment Committee currently recommends the following allocation per region:

Current Tactical Allocation & Market View Summary



Bordeaux - ***Underweight***
We continue to believe that Bordeaux is particularly vulnerable to a broader wine market slowdown with négociants and merchants heavy on recent four vintages; 2018, 2017, 2016, 2015. Macro situation could lead to sell-off and stress, be opportunistic if this plays out.

Burgundy - ***Overweight***
Optimistic on second tier and rising stars of the region based on the significant price gaps amongst classifications/quality equivalent producers. Cautious on Iconic producers.

Champagne - ***Overweight***
We remain bullish on a number of the Grand Marquees as well as selected growers. With portfolio resilience crucial at a time of broader market uncertainty. Champagne plays a defensive role with steady returns and low volatility. Excluded from Trump EU wine tariffs (for now).

Italy - ***Overweight***

Italy continues to gain momentum and establish itself alongside Bordeaux and Burgundy as one of the ultimate wine investment regions. With a favourable supply/demand dynamic we strongly believe that the secondary market for Italian wines will grow over the next 5 years for a number of producers, beyond the famous five Super Tuscans. Latest vintages for Barolo (2016) and Brunello (2015) should be considered. Excluded from Trump EU wine tariffs (for now).

Rhone - ***Overweight***

We see greatest opportunities in the Northern Rhone appellations of Cornas, St-Joseph and Cote-Rotie. A number of producers such as Jamet, Gonon and Clape look attractive.

USA - ***Underweight***

Valuations appear expensive across main producers, and overseas demand has been affected by trade wars.

The Rest of the World - ***Neutral***

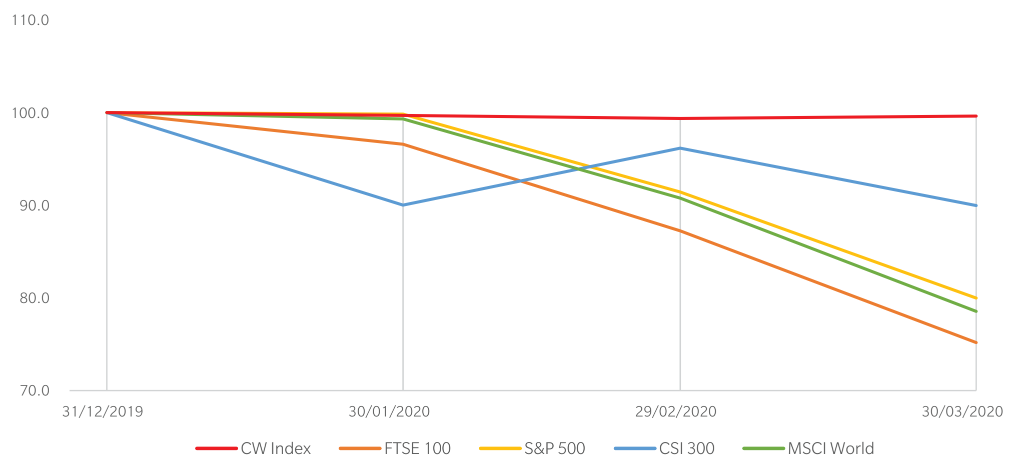
We are bullish on Spain long term but the view for other regions like Chile, Argentina is mixed and largely depends on producers.

Market Turmoil: Cult Wines Perspective

In the face of challenges arising from the Covid-19 ahead of us, resilience has now become a crucial necessity. Every industry needs to respond to the crisis – including wine. As the Coronavirus has continued to spread rapidly, the full scale of the risk to the global economy has hit markets with rare violence: the speed of the sell-off in equities and "risky" asset classes has only been matched by the rise in price of safe haven assets such as US government bonds or Gold.

As always in a market crisis, the unknown factors and panic lead to asset price dislocation as well as extreme volatility, which in turn lead to irrational behaviour and lack of long-term perspective. Wine, as an asset class, has not experienced the turmoil we have witnessed in the last three weeks, and has so far played the same role it did during the last financial crisis in 2008, so far showing resilience and relative stability. The last few weeks have highlighted and reminded us that investment returns are intrinsically linked to risk and that, when volatility increases, it pays to have a diversified portfolio to cushion against violent market movements. In this context as a leading wine investment company, we continue to advocate the benefits of wine for diversification in protecting investors' portfolio value, as demonstrated in the figures above and the chart below:

Cult Wines Index vs. Equity Indices - Since 31 Dec 2019



Source: Investing.com, Liv-ex - Data as of 31.Mar.2020 - Rebased on 31.Dec.2019

However, we strongly believe in a balanced, transparent approach backed by real figures and in focussing on the long term. We know from our experience that wine is not necessarily immune to market impact, but our statistical analysis proves that as an asset class, it provides diversification, reduces risk and enhances long term returns as part of a multi asset portfolio. It has both long term appreciation potential and wealth preservation characteristics.

At a time when investors re-assess their portfolio composition, we feel it's important to re-iterate the credentials of Fine Wine as an addition to your portfolio and why every diversified investor should allocate a portion of their money to the asset class:

- Steady appreciation over time.
- Low volatility.
- Wealth preservation/defensive asset class especially in turbulent markets.
- Physical asset.
- Capital gain tax free (in the UK and many other fiscal jurisdictions).

For all these reasons, we continue to believe Fine Wine offers a unique balance of risk and reward, which become more apparent in periods of stressed valuations such as this one. We cannot foresee how far reaching the current sell off will be, and we are certainly not saying there will be no downward pressure on global wine prices. However, we believe the demonstrated past resilience of this asset class and its ability to deliver uncorrelated returns over the long term, make it a very strong candidate for opportunistic buying should prices suffer from rippling effects.

We continue to review market developments and stand ready to harness any opportunity to deliver enhanced returns to our investors. With this in mind, we have launched a special situations strategy which will focus on potential mispricing and great buying opportunities.

Please contact us for further details on this strategy

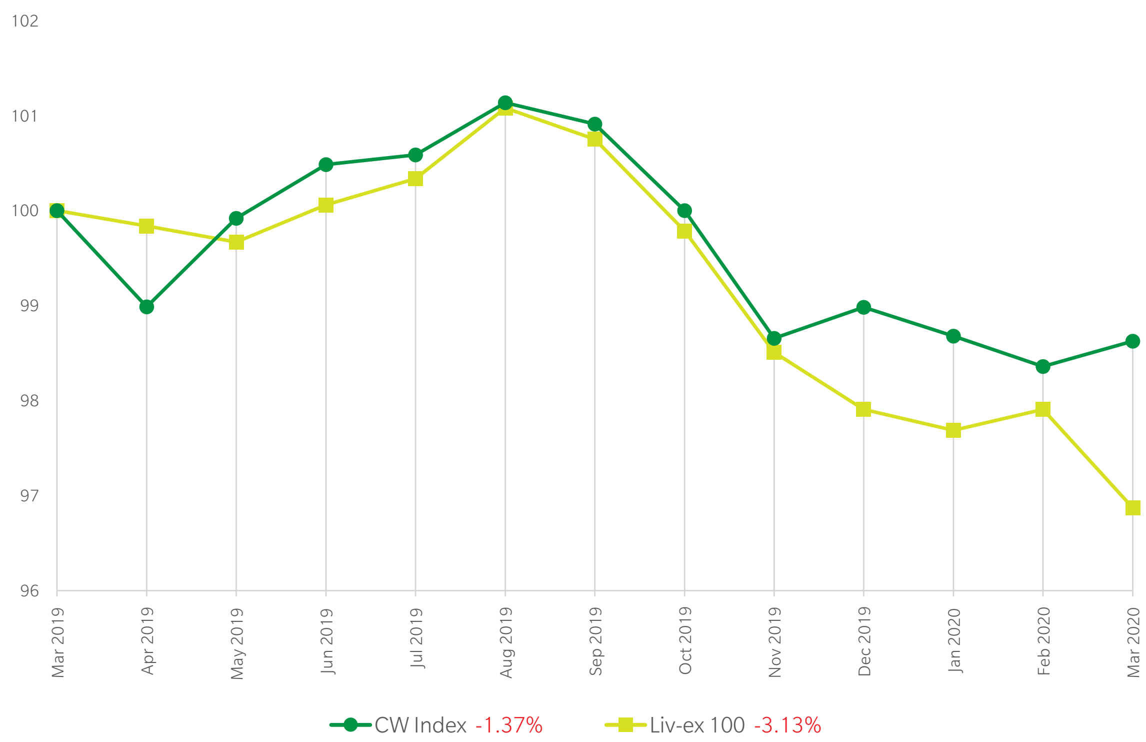
En Primeur 2019: Impact of Coronavirus

Due to the outbreak of COVID-19, the Union des Grands Crus, the event's organiser officially announced the postponement of the Bordeaux 2019 En Primeur tasting week (due to take place at the end of March, beginning of April) as concerns about the spread of the virus widened and further restrictions on social gatherings deepened. Bordeaux EP, is still the biggest and most important wine event of the wine calendar year attracting thousands of journalists, wine merchants and wine critics to come and taste barrel samples of the new vintage. Last year, around 6,000 visitors coming from different countries attended the 2018 primeur week.

In a statement, the UGCB put: *"We would like to thank all industry professionals – négociants, buyers, journalists, and wine enthusiasts – who, once again this year, were planning to attend this event. We are sure that, given the current situation, everyone will understand and agree with our decision."*

At this point, there is absolutely no certainty as to how and when the new Bordeaux vintage will be released. Speculation is running high and it could be months before wines are tasted by critics and priced. It will also have a significant impact on chateaux, négociants and merchants' activity and revenues. The final impact on the market is very difficult to assess but one thing for sure, prices will have to be sharp to generate interest in this environment.

Cult Wines vs Liv-ex *31st March 2019 – 31st March 2020*



Cult Wines Q1 2020 Webinar

Detailed overview of market performance for Q1 2020 including Q&A

Tuesday 14th April 2020 - 1pm UK / 8am EST/US / 8pm HK & SG
Hosted by Olivier Staub - *CW Investment Director* and Aarash Ghatineh - *CW Executive Director* - English Language.

During our live webinar we will discuss:

- The wine market versus global markets.
- Markets during current turmoil.
- Cult Wines performance - index and sub-indices.
- Wine market performance.
- Wine market predictions and recommendations.
- Open Q&A session to ask any questions you may have.

Register your place for the Cult Wines Q1 2020 Webinar

CW Best Performing Wines in Q1 2020

#	Wine Names	Vintage	Region	Q1 return %
1	Oliver Bernstein, Gevrey Chambertin Champeaux	2017	Burgundy	123.8%
2	Monbousquet	2010	Bordeaux	110.0%
3	DRC, Assortment	2011	Burgundy	105.3%
4	Biondi Santi, Brunello Montalcino Riserva	1998	Italy	99.1%
5	Denis Mortet, Bonnes Mares	2017	Burgundy	91.4%
6	Alain Hudelot Noellat, Clos Vougeot	2011	Burgundy	80.7%
7	Comte Liger Belair, Nuits Saint Georges Cras	2010	Burgundy	75.6%
8	Ornellaia	2000	Italy	71.4%
9	Domaine Dujac, Morey Saint Denis 1er Cru	2013	Burgundy	71.4%
10	Armand Rousseau, Chambertin	2013	Burgundy	70.2%
11	Duroche, Gevrey Chambertin Lavaux St Jacques	2016	Burgundy	69.3%
12	Marquis d'Angerville, Volnay Clos Ducs	2016	Burgundy	68.8%
13	Continuum, Proprietary Red	2012	USA	68.3%
14	Georges Noellat, Grands Echezeaux	2014	Burgundy	67.7%
15	Michel Lafarge, Volnay Clos Chenes	2017	Burgundy	66.7%
16	Oliver Bernstein, Chambolle Musigny Lavrottes	2017	Burgundy	64.9%
17	Ornellaia	1998	Italy	64.4%
18	Oliver Bernstein, Gevrey Chambertin Cazetiers	2017	Burgundy	64.4%
19	Arnoux Lachaux, Clos Vougeot	2010	Burgundy	61.9%
20	Benjamin Leroux, Gevrey Chambertin Champeaux	2016	Burgundy	60.3%

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