cult WINE INVESTMENT

Q3 2021 REPORT

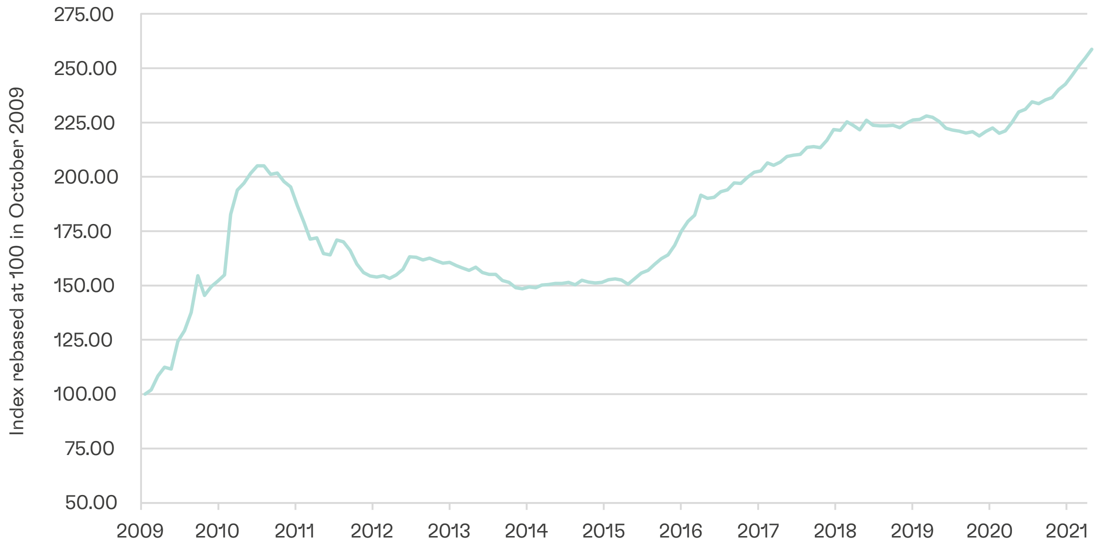
wineinvestment.com

CONTENTS

KEY HIGHLIGHTS

- The hot streak continues - after a strong first half of 2021, fine wine markets maintained their momentum into Q3, led by wines from Burgundy and Champagne.
- Fine wine's strong quarter came despite a mixed backdrop in the wider financial markets that triggered some equity market volatility late in the period. Fine wine continues to establish itself as a source of stable returns amid inflation concerns in the wider economy.
- A series of new releases from Chile, Argentina, the US, Australia, and Italy helped spur interest in a diverse range of wine regions.
- Cult Wines' portfolio delivered a 4.76% return, led by strong performance from our Champagne and Burgundy wines. Our research-based approach also helped our Bordeaux selections post healthy gains.

CULT WINES INDEX PERFORMANCE



Cult Wines index	Period from	Period until	Total performance	CAGR
Q3 2021	30-06-2021	30-09-2021	4.76%	-
1 Year	30-09-2020	30-09-2021	14.74%	-
3 Years	30-09-2018	30-09-2021	15.36%	4.88%
5 Years	30-09-2016	30-09-2021	41.50%	7.19%
Since inception	31-10-2009	30-09-2021	158.05%	8.28%

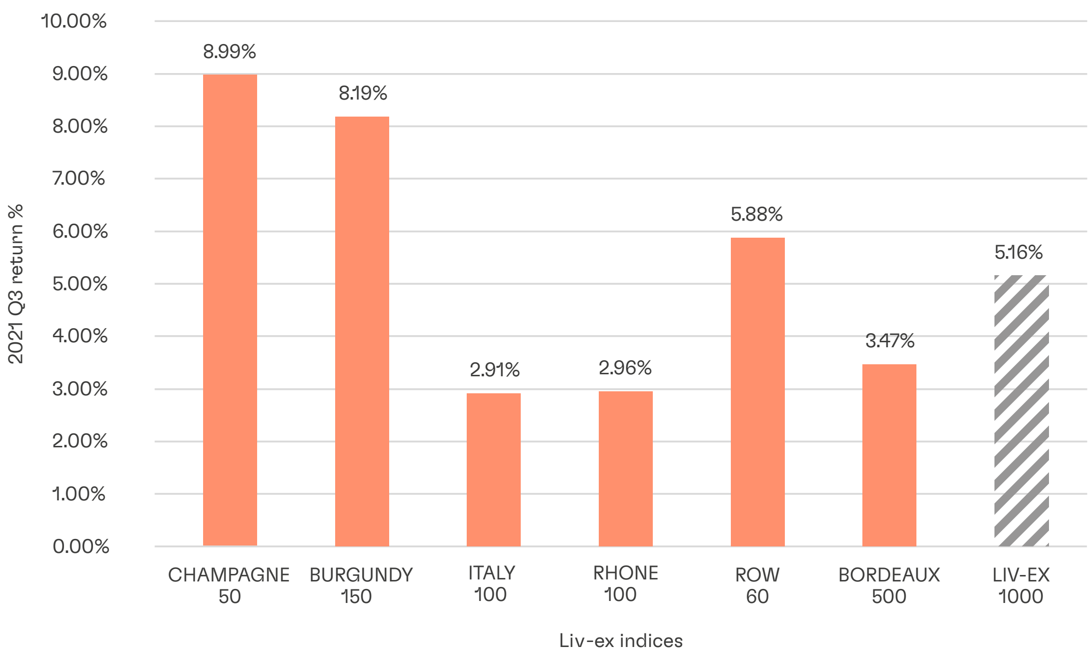
Source: Pricing data from Liv-ex, Cult Wines Ltd. Analysis by Cult Wines Ltd.

FINE WINE
MARKET SUMMARY

The fine wine market kept on rolling in Q3 with three months of positive returns leading to a 5.16% quarterly rise, as measured by the Liv-ex 1000, the broadest measure of the market. The strong quarter came from a diverse base with each wine region seeing healthy demand and rising prices amid the return of more normal economic activity in most countries.

FIGURE 1 – Champagne and Burgundy lead ongoing rally

Liv-ex 1000 and regional indices' Q3 returns

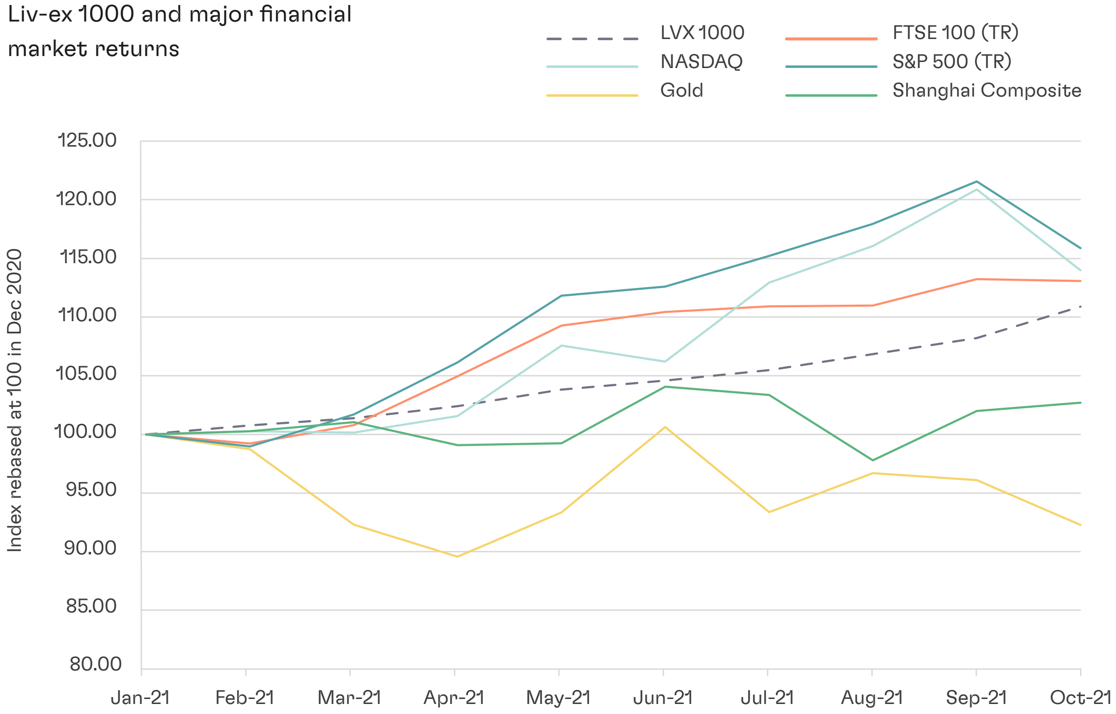


Fine wine's ability to perform amid uncertainty was on display in Q3. The economic backdrop was mixed due to inflation concerns and supply-chain issues in some countries. However, rising inflation can boost demand for real assets, which helped fine wine maintain a positive trend even as equities wobbled in the final weeks of the quarter. Uncertainty regarding the policy direction of the US Federal Reserve contributed to some volatility in other assets, including bonds and gold, while fine wine remained relatively immune.

Source: Liv-ex as of 30 September 2021

FIGURE 2 – Fine wine maintains upward trajectory

Liv-ex 1000 and major financial market returns



Index	Q3 Return %
Liv-ex 1000	5.16%
S&P 500 (TR)	0.58%
FTSE 100 (TR)	1.96%
NASDAQ	0.93%
Shanghai Composite	-0.64%
Gold	-1.15%

Source: Liv-ex, Investing.com as of 30 September 2021

Champagne and Burgundy emerged as the top performing regions over the quarter with 8.99% and 8.19% figures, respectively. Both regions surged in the final month of the quarter (Champagne 4.53%, Burgundy 5.69%) to put exclamation points on their respective impressive runs going back to 2020.

Burgundy's growth is unsurprising - we've spoken before how the favourable macro backdrop would benefit the region. Champagne's 12-month rise of over 16% stems from higher demand for high end vintage Champagnes outside the usual holiday seasonal pattern, a possible lingering effect from the pandemic. Expectations of low yields in the upcoming 2021 vintage is also increasing demand for existing vintages in both Champagne and Burgundy, driving prices higher.

The Rest of World 60 maintained its strong 2021 pace with a 5.88% return. A slew of new California, South America, Australia fine wine releases in September spurred interest in these regions' wines, possibly contributing to certain back vintages rising in value. The fact that many releases came via La Place de Bordeaux - the historic system used to distribute the wines of Bordeaux globally – increased awareness.

FINE WINE OUTLOOK

Region	Q4 Outlook*	Highlights
Bordeaux 500	↑	Focus is on relative value opportunities across full Bordeaux market amid positive macro backdrop
Burgundy 150	↑	Current rally has room to run ahead of release of 2020 vintage early next year
Champagne 50	↗	Outperformance may ease in 2022 but Grower and select back vintages can maintain growth
Rhone 100	↗	Market finally waking up to Rhone's great potential; recent rally can continue
Italy 100	↗	Best Tuscany and Barolo vintages will lead onward growth, but Brunello wines could be next hot opportunity
Rest of World 60	→	Strong 2021 could continue led by great new releases in Q3. However, periods of outperformance can lead to short-term price consolidation.
US	→	Top California wines still expensive; selectivity key

**Outlook arrows relative to long-term historical fine wine trends*

After an excellent first three quarters of 2021, conditions remain in place for fine wine to continue to post strong returns. The economic backdrop is supportive and rising inflation adds upward pressure on fine wine prices as investors flush with cash will likely continue to seek out real assets as a potential hedge.

Although temporary periods of price consolidation can follow rallies, fine wine market fundamentals appear healthy. We don't view the past year's rally as a sign of overheating as price jumps have not been as dramatic as seen during previous boom periods, such as 2010-2011 and 2016-2018. The past year's growth has been fairly widespread across different regions which is encouraging as it suggests growing appreciation for the fine wine asset class.

This supportive macro backdrop means the core investment regions, Bordeaux and Burgundy, should continue to benefit. Champagne's impressive run over the past year could continue as we head into the holidays, the region's traditional strong period, although the pace of its run since mid-2020 may not sustain over the long term.

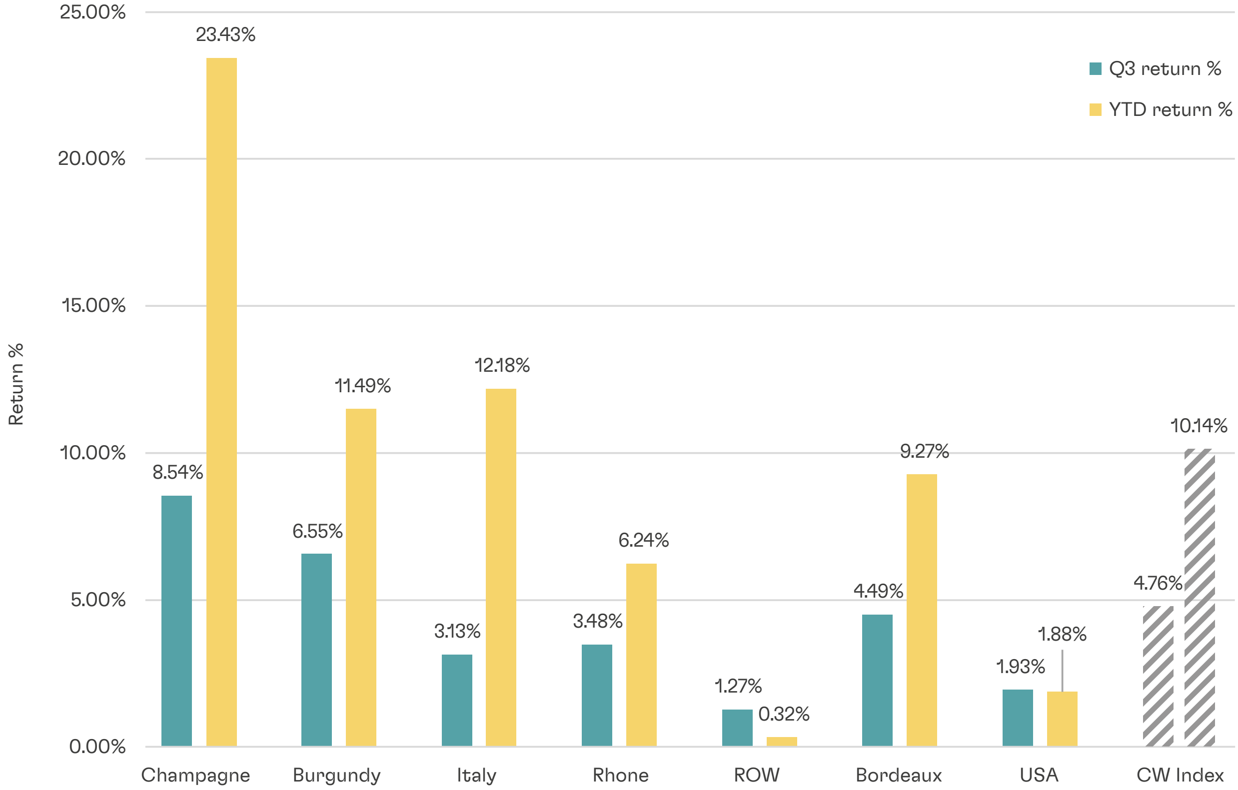
CULT WINES' REGIONAL PERFORMANCE

Cult Wines' main index returned an impressive 4.76% in the third quarter of 2021 amid the broad-based rally of the wider fine wine market. Our research-based approach helped us uncover relative value opportunities.

Over the past 12-month boom period for fine wine, our wine selections have outperformed the Liv-ex 1000 index by over 200 basis points (2.00%).

FIGURE 3 – CW Champagne and Burgundy continue to soar

Cult Wines indices' Q3 2021 returns



Source: Pricing data from Liv-ex, Wine-Searcher.com as of 30 September 2021. Analysis by Cult Wines Ltd.

BORDEAUX

Cult Wines' Bordeaux returned 4.49% in Q3, outperforming the Liv-ex Bordeaux 500's 3.47% rise. In the wake of the En Primeur campaign, our analytical approach uncovered several relative value opportunities among back vintages, which lifted our Q3 returns and should deliver long-term gains.

For example, our Q3 performance came from a range of vintages including a Château Petrus 1975, a Château Lafite Rothschild 2013, and a Carruades de Lafite 2005.

Looking ahead, the strong overall backdrop for the fine wine market should help Bordeaux wines deliver sustained performance. Although Bordeaux returns don't match the soaring Burgundy market, Bordeaux offers steady long-term potential.

BURGUNDY

Cult Wines' Burgundy wines jumped by 6.55% over the three-month period. Although this slightly lagged the Burgundy 150 index's 8.19% surge, our diverse selections within the regional market are set up for sustained outperformance over the long term. The Burgundy 150 remains concentrated at the top of the market.

And the top of the market did very well in Q3. Within our 'iconic' producer category, Domaine Leroy's Latricières-Chambertin Grand Cru 2009 (+14%) and the Vosne-Romanée Premier Cru Les Beaux Monts 2014 (+15%) saw notable price increases while prices for Domaine de la Romanée-Conti and Domaine Leflaive also jumped. However, we also benefitted from the performance of other producer categories including 'tier 2' name Domaine de Montille's Vosne-Romanée Premier Cru Aux Malconsorts 2012.

Liv-ex has reported how Burgundy has already seen 10% more individual wines traded so far in 2021 compared to the whole of 2020, indicating how the market is expanding to second tier and up-and-coming producers. More wines mean more opportunities for price growth. We remain confident our selections can continue to post healthy returns in coming months.

CHAMPAGNE

Cult Wines Champagne rose by 8.54% as the regional market continues its sparkling performance. While our quarterly figure fell just shy of the Champagne 50's 8.99% mark, our approach has led to superior gains year-to-date (23.43% vs 15.06%).

We include several 'Grower' Champagnes in our diverse index as we believe these smaller producers offer structural advantages due to their lower supply levels. From this category, Jacques Selosse Millesime 2005 topped our Q3 performance.

Our focus on back vintages, many of which are outside the Liv-ex index, also continued to help. Krug Vintage Brut 1996 (+21%) and 2000 (+15%) both saw notable price increases as did Taittinger Comtes de Champagne Blanc de Blancs 2006 (+15%).

RHONE

Cult Wines' Rhone rose by 3.48% in Q3, outpacing the Rhone 100's 2.96% return. Rhone is known as a source of moderate but stable growth and the region's third quarter supported this reputation with its figure, while solid, falling short of the towering returns elsewhere.

However, our approach focusses on a wide range of Rhone producers and wines, creating additional opportunities for price appreciation. This helped us outperform in Q3 and could lead to healthy longer-term gains as the region continues to expand and generate interest from a global audience.

In Q3, one of our favourite regional producers, Château Rayas, made a strong impact on our performance thanks to several of its Châteauneuf-du-Pape vintages from the mid-2000s (2008 stood out with a price jump over 30%). Etienne Guigal's Côte-Rôtie 'La Mouline' 2004 also boosted gains while the 2011 vintage saw moderate declines. This just highlights the importance of a research-based approach that identifies the best wines with the most performance potential within a producer's range.

ITALY

Cult Wines' Italy ended Q3 3.13% higher. After a very strong 2020 performance, Italy has become a source of stable growth in 2021 for us, with three consecutive quarters of positive returns leading to a year-to-date mark of 12.18%.

We find different performance trends within the Italian market. Super Tuscan wines exhibited stable, lower-risk growth while the less-established Brunello di Montalcino region contain wines with higher upside but more variation in performance. For example, the Biondi-Santi 2006 Brunello di Montalcino was among our top performers while the 2010 Il Poggione Vigna Paganelli Riserva declined slightly.

Several Piedmont wines, led by La Spinetta's Barbaresco Valeirano 2016 rose by over 30% and Gaja's Barolo Dagromis 2010 rallied by more than 20%. Some big names saw moderate price drops, suggesting demand was shifting toward the best-valued wines. Going forward, we remain focussed on identifying the best wines within a producer's range that can deliver sustained price appreciation.

US & EMERGING MARKETS

Our Rest of World exposure returned 1.27% in Q3. Although Australian wines are going through a challenging period due to China's import tariffs, we were able to find specific names that posted healthy Q3 appreciation. Henschke's Hill of Roses 2012 was a top performer. Although the current conditions could mean Australian wines see near-term volatility, this opens up relative value in select names.

We treat US wines as separate to our Rest of World category, which contributed to our growth figure coming below the Liv-ex RoW 60 which does include a handful of top US names. Our US wines delivered a 1.93% return in Q3 led by Realm Cellars Napa Valley 'The Absurd' 2015. The Harlan Estate Napa Valley 2009 and 2010 wines both posted double-digit growth over the quarter.

STASHAWAY - FINANCIAL MARKET INSIGHTS

To bring an outside perspective on the global financial markets, Cult Wines has partnered with StashAway, a digital wealth manager that offers investment portfolios and wealth management solutions for both retail and accredited investors. StashAway has over USD$1 billion of assets under management and operates in Singapore, Malaysia, the Middle East as well as North Africa, Hong Kong, and Thailand. In 2020, StashAway was recognised as a Technology Pioneer by The World Economic Forum and a Top 10 LinkedIn Startup.

Today, economic growth around the world is stronger than it was a year ago. However, inflation in the US and other Western economies is accelerating. Elsewhere, growth continues to rebound strongly with lower inflationary pressure. Here, we discuss what this means for the financial market and investment outlook.

THE US IS ENTERING AN INFLATIONARY GROWTH ENVIRONMENT

COVID-19 caused severe disruptions to the global economy and employment rates. In response, central banks and governments around the world swiftly deployed monetary stimulus on an unprecedented scale in 2020.

Those measures have been working: After more than a year of contracting economies, inflation-adjusted (real) growth has rebounded strongly around the world.

In the US, real growth rebounded from -13.48% YoY in April 2020 to +12.54% YoY in April 2021. However, the recent acceleration in US inflation has led real growth to quickly decline to 9.73% YoY in May 2021 (the latest data available at the time of writing). US real growth could continue to drop if inflation momentum persists.

It's important to note that 12.54% and 9.73% YoY growth are abnormally high. They're this high because the figures are compared to the figures one year ago in April and May 2020 when we saw strong declines. The influence the reference point has on the comparison is called the base effect. These high growth figures simply indicate that we're bouncing back: even while inflation is growing, it seems persistent.

All of this means that the US economy has just headed into an inflationary growth regime.

Inflationary growth doesn't tend to last (the US economy has experienced only several short-lived episodes of inflationary growth since 1990), but we could stay in this regime as long as it takes to vaccinate people, reopen borders, and restore supply chains.

IN AN INFLATIONARY GROWTH ENVIRONMENT, PORTFOLIO MANAGERS CAN'T RELY ON WHAT HAS WORKED IN RECENT YEARS

Each economic environment has different risk factors at play. And an inflationary growth regime requires a different toolset - a different asset allocation - than what has been used in recent history.

The last time the US experienced a sustained period of inflationary growth was between January 1983 and August 1988. So, portfolio managers and investors alike can't look at recent history, but rather much further back, for insight on how to manage their investments in this economic environment.

That means that portfolio managers who haven't been managing portfolios since at least 1983 need to adjust their past investment approaches to create effective portfolio insurance against inflation.

EX-US ECONOMIES ARE ENTERING A DISINFLATIONARY GROWTH ENVIRONMENT

While inflation is outpacing growth in the US, growth is outpacing inflation in the global ex-US economy. Compared to the US, global inflation is rising, but is rising at a significantly slower rate than it is in the US in absolute terms.

Inflation's effect on real growth in global ex-US economies is relatively benign compared to its effect on real growth in the US. This is because inflation is coming off a low base in the US.

CHINA REMAINS A MAJOR GROWING ECONOMY DESPITE CONCERNS OVER ITS REGULATIONS

China has just unveiled a plan that includes the country's plans to continue regulating certain areas including national security, technology, and monopolies over the next 5 years.

Recent regulations have created some short-term headwinds for China stocks, and some investors have been asking us if these continued regulations will result in China's economy slowing down further. And the short answer is: not necessarily.

This is because China's regulations are, in fact, not a key focus of the 5-year plan. Hence, they may not have as much of an impact or be as long-lasting as what's been suggested in a lot of global media.

China's 5-year plan is a government document that gets released every 5 years.

It may appear in mainstream media that China's 5-year plan is a new and specific announcement on the continuation of its tough regulations.

But in fact, the document is a renewed 5-year plan that more generally outlines the country's high-level framework to strengthen China's Rule of Law. It's not a new, ad-hoc, or even specific policy targeting the private sector or particular industries.

There has been a lot of talk about China's plan to increase regulations on certain sectors and industries. But, the regulations Western media is focusing on only make up 2 out of the 35 points listed in the document.

Most Chinese media has emphasised Xi's likely re-election in 2023 with little mention of any large-scale regulatory crackdowns. This suggests that regulatory crackdowns aren't necessarily China's long-term focus, and may not be as substantial as some believe.

When you see the latest headlines about China's 5-year plan and monetary policies, remember to keep the big picture in mind: China is set for sustained GDP growth and its monetary policy cycles will continue to work as they have in the past to maintain a stable economy.

Financial markets tend to react strongly to media headlines, and there may be further regulations targeting specific segments in the near term. So, you may continue to see short-term volatility in asset prices in some Chinese sectors.

We keep our portfolios diversified across several geographies and sectors to manage this type of risk. It's also important to remember that another one of the keys to a successful investment outcome is to stick to your long-term investment plan.

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