





# CULT WINES

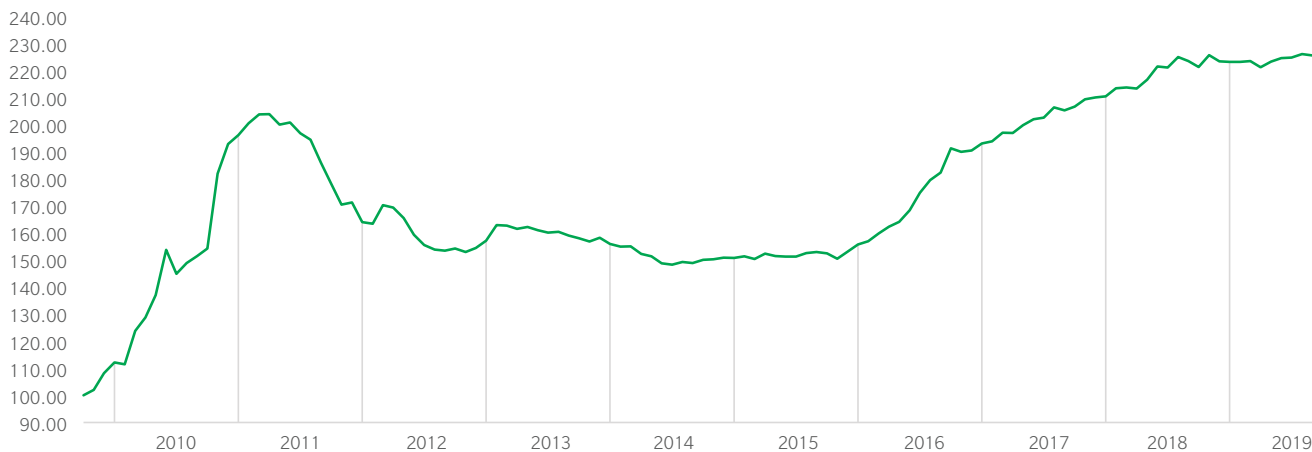
ESTABLISHED 2007

# 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 over 150-man years' experience in the fine wine market, historical research and algorithm based modelling, our unique approach has driven our Assets Under Management (AUM) to £120 million. Our own CW index returned +6.26% in 2018 and +125.74% over 10 years (annualised returns of +8.56%). 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 3rd Quarter overview summarises the global financial and fine wine market performances to September 2019.

## Cult Wines Index Performance



| Cult Wines Index | Period From | Period Until | Total Performance | CAGR   |
|------------------|-------------|--------------|-------------------|--------|
| Q3 2019          | 30/06/2019  | 30/09/2019   | 0.42%             | -      |
| YTD 2019         | 31/12/2018  | 30/09/2019   | 0.95%             | -      |
| 1 Year           | 31/12/2017  | 31/12/2018   | 6.26%             | -      |
| 3 Years          | 31/12/2015  | 31/12/2018   | 45.95%            | 13.43% |
| 5 Years          | 31/12/2013  | 31/12/2018   | 41.10%            | 7.13%  |
| All Time         | 31/10/2009  | 30/09/2019   | 125.74%           | 8.56%  |

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

# Global Markets Overview

The third quarter of 2019 has now ended, and the Festive season is fast approaching. However, for investors, the focus is very much about global risks to the economy.

Will the US-China trade war escalate further? Will there be a no-deal Brexit crash at the end of October? How solid is the US labour market? What is the impact of central banks resuming quantitative easing and how successful will they be in response to slowing growth, and what reactions are we expected to see from companies?

There are several important questions that global investors are eager to find the answers for as we head into Q4.

## United States

Against a backdrop of a slowing economy, central bankers from the world gathered in Jackson Hole for the annual Economic Policy Symposium to re-think the future path of monetary policy early this quarter.

The key question – whether the Federal Reserve is willing to cut interest rates further? - still remains to be answered. Outside the discussion of monetary policy, trade tensions between the US and China continued to build, with President Trump announcing tariffs of 10% on an additional \$300 billion of Chinese goods. In retaliation, China added more tariffs on US goods. In equities, S&P 500 delivered 1.2% this quarter, albeit with a temporary sell-off in August; while the tech-heavy Nasdaq index has witnessed its first quarterly decline in 2019.

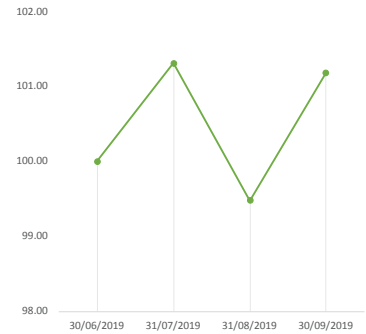
## Europe

In the UK, Boris Johnson suspended parliament in an attempt to limit the challenge to its plan to remove the UK from EU with or without deal. Her Majesty had agreed to his request earlier in the quarter.

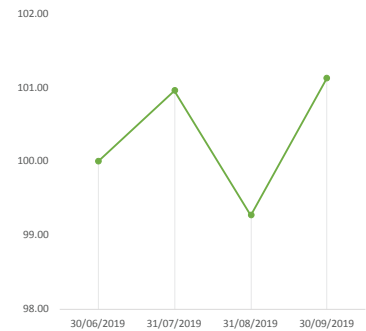
Elsewhere in Europe, a new government appeared to have formed after the collapse between the Italian Five-star movement and Far-Right League Party. In late August, the Italian 10-year government yield fell below 1% on expectation of political hope.

In equities, Europe’s benchmark Stoxx 600 delivered 2.2% this quarter.

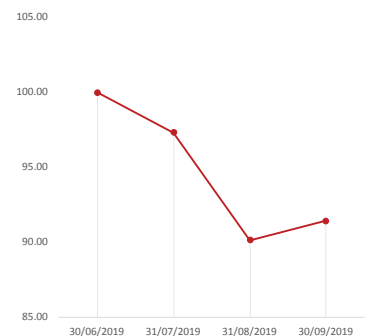
S&P 500 1.19%



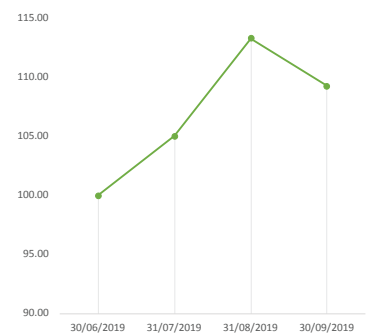
DOW JONES 1.13%



HANG SENG -8.58%



GOLD 9.29%



Source: Bloomberg.

## Emerging Markets

In emerging markets, the trade war continued to dominate the financial headlines throughout the quarter.

As things currently stand, further tariffs are due to play out by the end of the year unless renewed negotiations between the US and China suggest meaningful progress.

China's economy continued to slow down, with manufacturing production growing at 4.3%, easing from around 5.6% at the start of 2019. The MSCI emerging market index ended the quarter in a negative territory with a decline of 5.1%.

## Commodities

Amid the heightened economic and political uncertainty, the price of gold has increased 16% since the start of the year as fears that the US-China trade war could negatively influence the global economy into a recession have fuelled demand for the metal, which is commonly viewed as safe-haven asset class in times of financial stress.

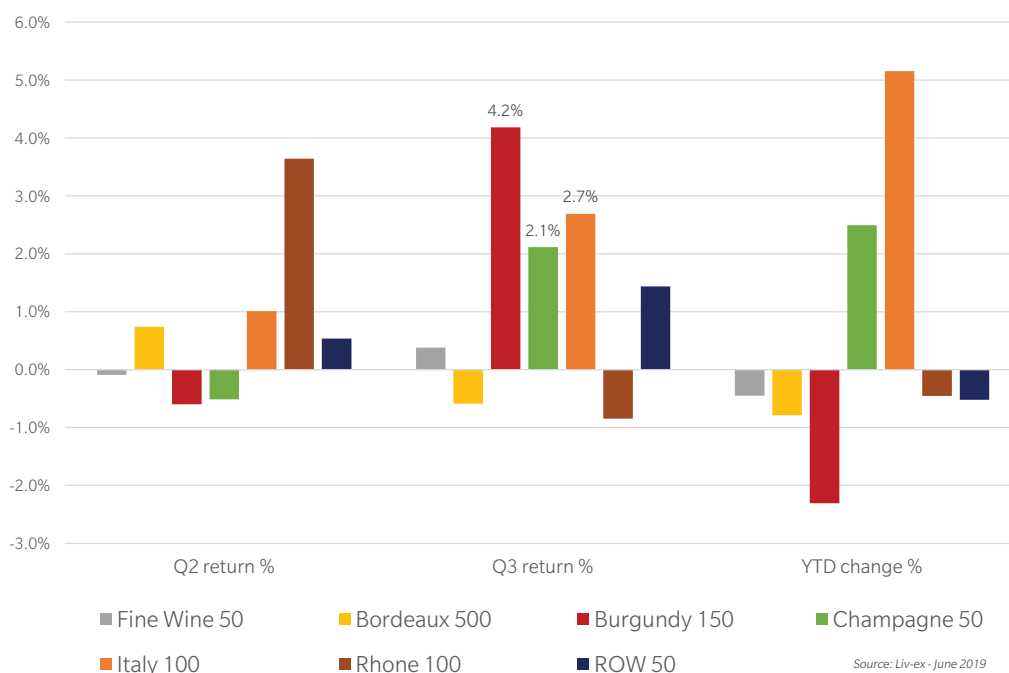
Copper, another important metal that was considered to be a health check for the economy, struggled in Q3 as US manufacturing activity declined to the lowest level in almost seven years.

# Fine Wine Market Overview

## What do you need to know in Q3:

- Burgundy 150 had the best quarter this year by delivering a solid 4.3% gain.
- Italy 100 and Champagne 50 finished the quarter in positive territory.
- Rest of the World 50 extended its gain in Q2, rising 1.4%.
- Rhone 100 gave back some of last quarter's strong gains.
- Fine Wine 50 index, which tracks performance of Bordeaux's First growth, marginally rose 0.4%, while the broader Bordeaux 500 closed the quarter 0.6% weaker.

## Burgundy Led the Fine Wine market in Q3 2019



In July, Liv-ex launched its 2019 classification, which ranks the wines of the world by their average trade price on Liv-ex – the global marketplace for the wine trade. Entry into the classification is based on a wine’s reputation and transactional activity on the trade platform. This year, wines from nine countries qualified for the classification, which includes **Argentina, Australia, Chile, France, Germany, Italy, Portugal, Spain and the US**. To make sense of the diversification trend in the wine market, only six countries were included in the classification in 2017. The increased number of qualified countries suggests that the fine wine market has become more receptive to investors’ need for regional diversification and change in consumer taste.

Among the 1st tier, 77 wines qualified for the classification 2019, compared to 31 in 2017. Of these, 14 come from Bordeaux, while Burgundy contributes almost two-thirds in number of wines listed on the ranking. DRC, Romanee Conti, with no doubt, topped the first tier within Burgundy wines. Interestingly, Domaine Leroy also made a strong show with two wines – namely **Domaine Leroy, Musigny** and **Domaine Leroy, Latricieres Chambertin** - adding to the very top of first tier this year. Elsewhere in Europe, Italy contributed three wines in the first tier, with **Bruno Giacosa Barolo Vigna Rocche Riserva (Red Label)** and **Biondi Santi Brunello Montacino Riserva** being new entrants this year. The position of **Masseto** remained unchanged among the first tier.

Over the course of Q3, **Liv-ex 1000** – the broadest measure of the fine wine market - has delivered a positive return of 1.4%, extending its previous three-month gain but at a faster pace. Encouragingly, Liv-ex’s Burgundy 150 and Champagne 50 reversed their previous months’ losses and made impressive returns of 4.2% and 2.1% respectively in Q3. Moreover, Italy, a wine region that has long been considered as undervalued, has recently proven its return potential, with the benchmark index Italy 100 returning another 2.7% in Q3. Outside the Liv-ex 1000 index, the newly launched California 50 registered a gain of 3.9% this quarter.

For investors, **Italy** has had a strong year so far 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 capturing the stellar performance in terms of the price.

But this perception changes with a now broader level of interest driven by the hunt for hidden value. Liv-ex's Italy 100 index has returned 5.7% year-to-date.

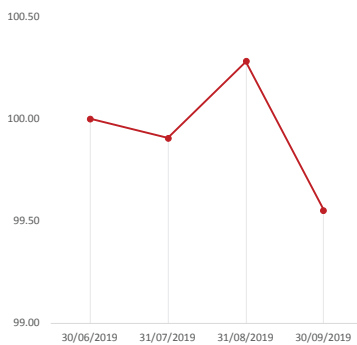
As of 2019, Italian wines trade share (by value) stands at 8.5%. By comparison, Italy's annual trade share accounted for less than 2% ten years ago. Additionally, the performance gap between Italy and other major sub-indices has gradually tightened for the past few years. Within Liv-ex's Italy 100, the names that stand out as Q3's major movers are **Giacomo Conterno, Barolo Cascina Francia** from Barolo and **Tignanello** from the Super Tuscans, with some of their recent vintages posting attractive returns. In particular, Barolo Cascina Francia 2012 and 2015 gained 22.1% and 33.3% respectively in Q3.

Bordeaux closed the quarter with a more muted performance, with a few recent vintages of Bordeaux First Growth experiencing a slight drop in value. Burgundy continued to prove popular as consumer and investor interest reignited for the region. Elsewhere in France, trade in Rhone has been calm throughout the third quarter, albeit with a marked improvement of trade share in late September. This rising trade activity was driven by recent vintages (2015, 2016 and 2017). Also, with Californian wines recently capturing investor's focus and gaining momentum in the second half of 2019, US wines market trade share rose in the Q3, helped by increased trading activity among some well-respected wine producers from Napa Valleys. More recently, some "emerging-regions" of the wine market all performed well, with Chile and Spain topping the tables.

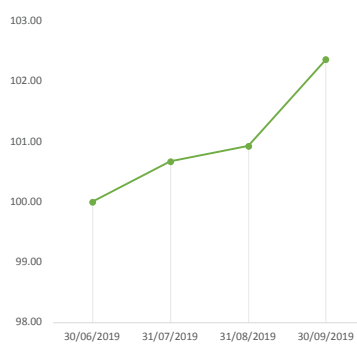
# Cult Wines Performance in Q3

## Sub-Indices Performance

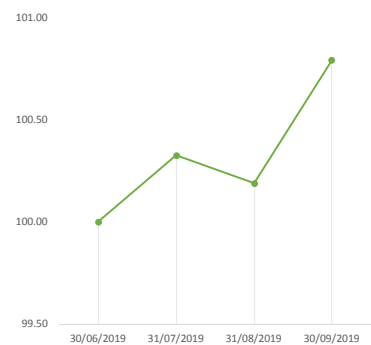
Bordeaux -0.45%



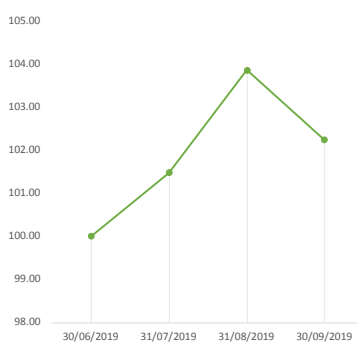
Burgundy +2.37%



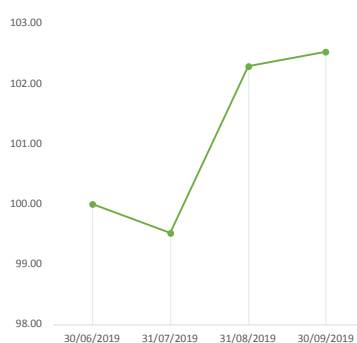
USA +0.79%



Champagne +2.29%



Italy +2.53%



R.O.W\* +1.39%



\* R.O.W (Rest of World) contains Australia, Chile, Rhone and Spain.  
Source: Cult Wines Index (Powered by Liv-ex) - June 2019.

After a difficult summer for Burgundy, wine investors returned from their holidays in a cheerful mood and drove Burgundy wine prices higher in September, taking the **CW Burgundy index 2.4%** up for the quarter and 4.8% year-to-date as of 2019.

Burgundy is often considered by many wine investors as a rare-in-nature value asset compared to wines from other regions. In the past few months, there have been concerns that a price bubble was building in Burgundy and that the market had peaked. The Liv-ex's Burgundy 150 index had declined 6.36% in the first half of the year, with some highly respected wine producer's flagship wines dropping in value. However, the Liv-ex Burgundy index is highly concentrated in a few names.

Encouragingly, the CW's Burgundy index, which is more diversified, delivered positive returns for our clients during the same period. CW's outperformance is driven by regional diversification and vintage selection. Entering the fourth quarter of the year, a few top Burgundy wines have seen their prices recovered as concerns eased. Also, it is worth noting that performance still varies between producers.

CW has seen its trading activity broaden at a faster pace in the third quarter of 2019. In particular, activity was strong on **Italy**. The **CW Italy** index closed the quarter on a positive note, delivering return of 2.5%. Super Tuscans remain popular among investors and wine collectors, with **Sassicaia, Masseto** and **Tignanello** all looking strong on the secondary market.

Away from Super Tuscans, the great names of Brunello Montalcino, Barolo and Barbaresco continue to do well. Of these sub-regions, **Casanova di Neri, Tenuta Nuova 2008, Biondi Santi 2016** and **Bruno Giacosa, Barbaresco Asili Riserva (Red Label) 2011** were among Q3's top performing wines in Italy.

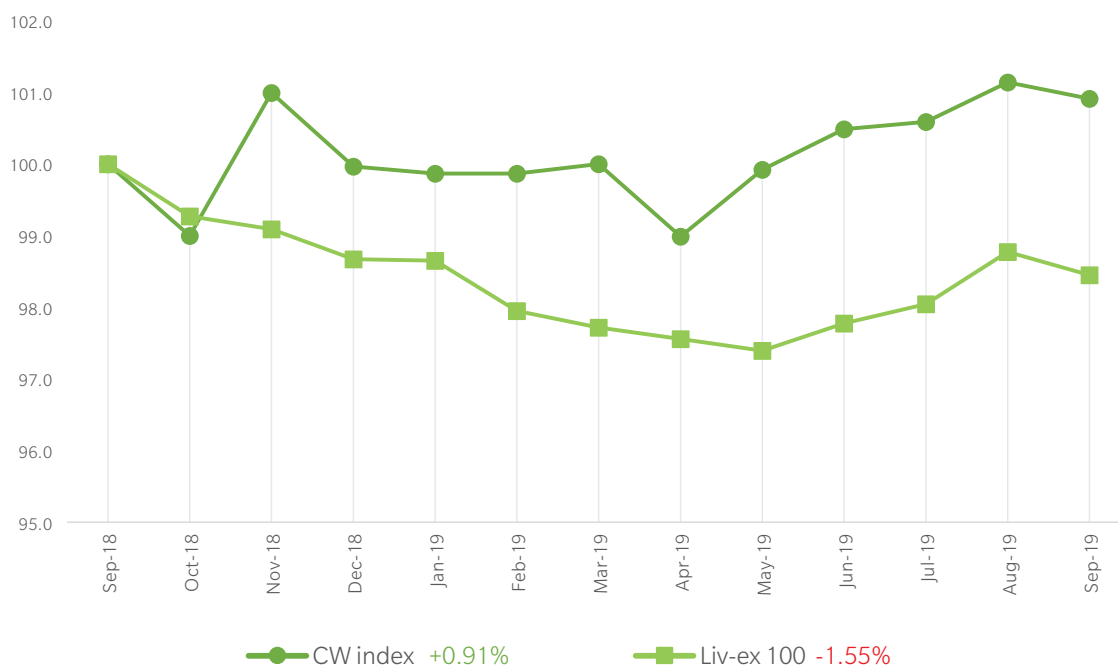
**The CW ROW index**, which captures the price performance of wines from Spain, Chile, Rhone and USA, continued to deliver consistent returns this quarter, extending its previous nine-month gain. Of the CW's ROW index constituents, **Vega Sicilia, Unico** from Spain and **Penfolds** from Australia are the names to watch, with a few selected vintages of these respectable producers performing well in Q3. Within CW ROW index, US in particular was up 0.8%, and the major contributors to this quarter's positive performance were Promontory, Cardinale and Verite Joie.

Within CW Champagne index, **Delamotte, Blanc De Blancs 2008, Taittinger, Comtes Champagne 1999**, and **Bollinger, Grande Annee 2008** were among the top performing wines for the quarter, delivering consistent on-average returns of 25% for investors. As one of CW's best performing sub-regions, **CW's Champagne index** delivered 2.5% in Q3, next only to CW Burgundy and CW Italy. Increased trading activity of the region has also helped lift the broader market up for the year, according to Liv-ex.

With increased recognition of new territories and greater brand awareness, investors have gradually shifted their focus to US and some emerging regions of the wine market, Chile and Australia in particular, global demand for wines from these regions rose significantly in recent years. From our research, we expect the global expansion of the fine wine investment market to continue in the fourth quarter in 2019, with investors' exposure of distinct wines from US and emerging wine markets increasing to an unprecedented level.



## Cult Wines vs Liv-ex 30th September 2018 – 30th September 2019



## Further Diversification into US and Emerging Markets

Our latest piece of research draws attention to the high growth investment opportunities in untapped regions for the fine wine market. Wine consumers around the world, going in search for value and new experiences, are beginning to discover a range of producers across emerging regions such as US, Spain and Australia as well as Chile and Argentina. Our analysis shows us that these wineries, many established by famous producers of the Old World, are gaining market share and, in many cases, can deliver formidable performance.

Over the course of 2018, Liv-ex launched the California (CA) 50 index as the region has taken an increased share of the wine market. Since its inception, the California 50 index climbed to 219.8 % at the end of 2018. The biggest name in the US – Screaming Eagle – has significantly contributed to this gain. This upward trend suggests that the fine wine market is more than ready to embrace the growing demand for US wines as the need for diversification is fast becoming a priority for investors.

Taking a closer look at the annual growth rate for sub-region indices within Liv-ex 1000 – the broadest measure of the fine wine market, it’s interesting to note that in 2018 the existing trend accelerated, the CA 50 index outpacing the other sub-regions with an annual return of 20.96%.

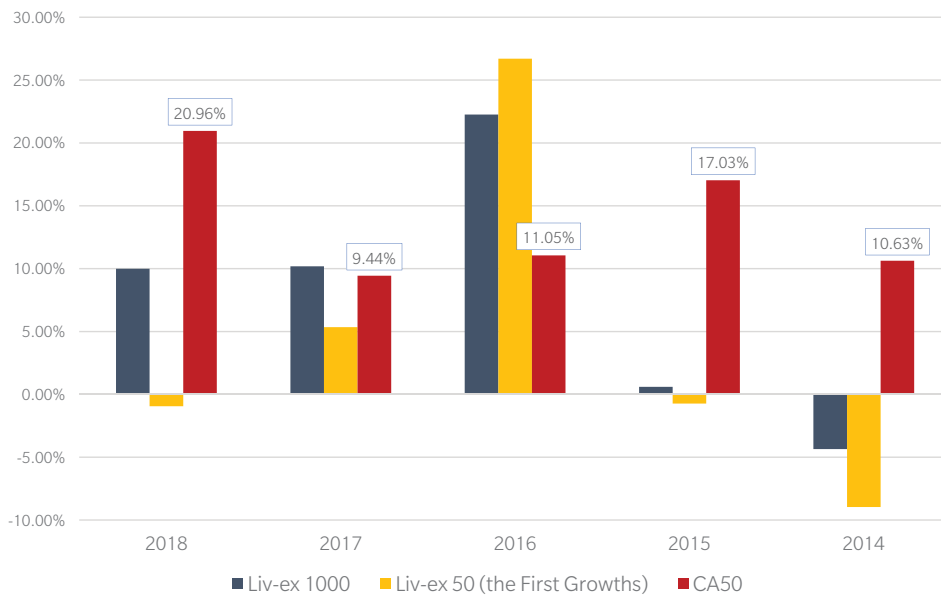
We found that Liv-ex’s CA 50 has delivered positive returns for five consecutive years since 2014 with an average five-year return of 13.82%, outperforming both Bordeaux 500 and Liv-ex 50, which tracks the Bordeaux First Growths. The buying trend is primarily due to collectors sophisticated taste and better knowledge of the ultra-high-end, boutique producers across California and becoming more open to investing in New World wines.

The market’s developments are underpinned by fundamental changes and trends – such as the need for further diversification, the hunt for value and the shift in consumer taste. All of these factors indicate a promising future and fuel growing confidence for emerging market wines as an investment.

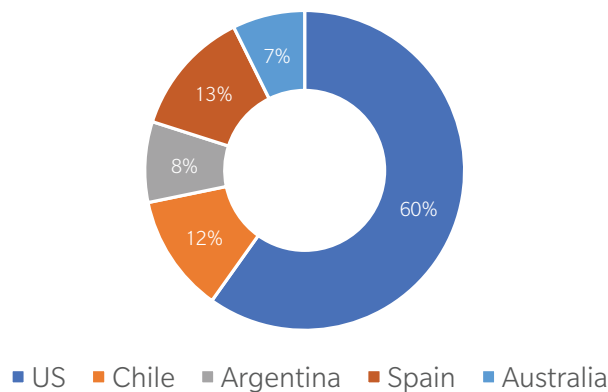
We have recently published our US & Emerging wine markets report to share some of our views regarding this important trend of the fine wine market and highlight the opportunities for investors considering diversification of their wine portfolios.

[Download 2019 Emerging Markets Report](#)

**Exhibit 1: Annual Performance % California and First Growths Bordeaux**



**Exhibit 2: Country weights of sample portfolio - US Focused Diversified Portfolio**



*\*Holdings subject to changes*

# CW Best Performing Wines in Q3

| CW Bordeaux            | Q3 Return |
|------------------------|-----------|
| Monbousquet 2010       | 63.5%     |
| Pin 2018               | 62.3%     |
| Carmes Haut Brion 2018 | 58.8%     |
| Pin 2006               | 58.4%     |
| Lafleur 2018           | 57.3%     |

| CW Burgundy  | Q3 Return |
|--|-----------|
| Alain Hudelot Noellat, Vosne Romanee 2017          | 90.5%     |
| Armand Rousseau, Mazis Chambertin 1999             | 85.2%     |
| Oliver Bernstein, Chambolle Musigny Lavrottes 2017 | 81.2%     |
| Domaine Leroy, Nuits Saint Georges Allots 2011     | 77.1%     |
| Prieure Roch, Chambertin Clos De Beze 2014         | 70.9%     |

| CW Champagne                      | Q3 Return |
|-----------------------------------|-----------|
| Delamotte, Blanc De Blancs 2008   | 28.8%     |
| Taittinger, Comtes Champagne 1999 | 23.5%     |
| Bollinger, Grande Annee 2008      | 21.5%     |
| Perrier Jouet, Belle Epoque 2008  | 16.7%     |
| Louis Roederer, Cristal 2005      | 14.2%     |

| CW Italy   | Q3 Return |
|--|-----------|
| Casanova di Neri, Brunello Montalcino Tenuta Nuova 2008  | 52.1%     |
| Antinori (Castello della Sala), Cervaro Sala Bianco 2006 | 42.9%     |
| Biondi Santi, Brunello Montalcino 2016                   | 35.5%     |
| Bruno Giacosa, Barbaresco Asili Riserva (Red Label) 2011 | 29.6%     |
| Gaja, Sori San Lorenzo 2010                              | 26.6%     |

| CW USA                                   | Q3 Return |
|--|-----------|
| Promontory 2013                          | 32.5%     |
| Cardinale, Proprietary Red 2010          | 32.4%     |
| Verite, Joie 2012                        | 31.7%     |
| Screaming Eagle, Cabernet Sauvignon 2005 | 29.6%     |
| Colgin, IX Estate 2007                   | 28.4%     |

| CW Rhone   | Q3 Return |
|--|-----------|
| Domaine Jean Louis Chave, Hermitage 2011         | 81.0%     |
| Domaine Jean Louis Chave, Hermitage 2006         | 65.7%     |
| Domaine Jean Louis Chave, Ermitage Cathelin 2009 | 53.9%     |
| Domaine Jean Louis Chave, Hermitage Blanc 2010   | 51.6%     |
| Chapoutier, Ermitage Meal 2002                   | 35.0%     |

| CW Rest of World               | Q3 Return |
|--------------------------------|-----------|
| Vega Sicilia, Unico 1996       | 22.6%     |
| Penfolds, St Henri Shiraz 2014 | 10.7%     |
| Penfolds, Bin 389              | 10.5%     |
| Flor Pingus 2010               | 10.0%     |
| Vega Sicilia, Unico 2004       | 8.8%      |



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