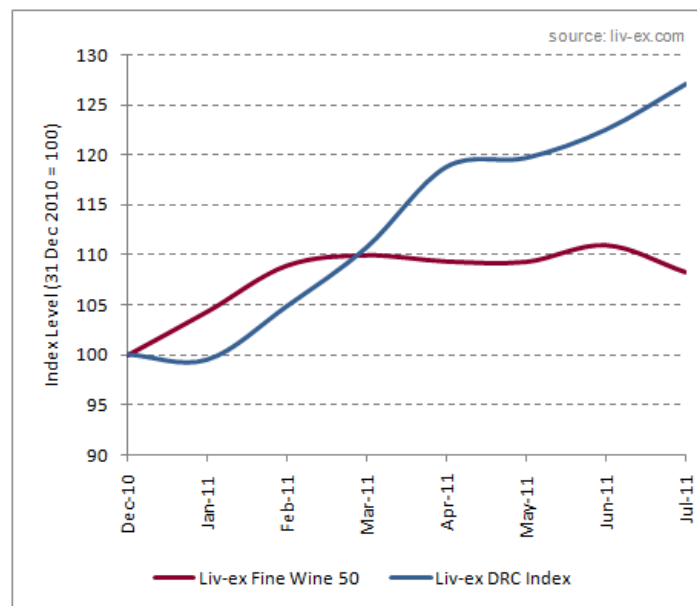


Summary of the Fine Wine Market 2011

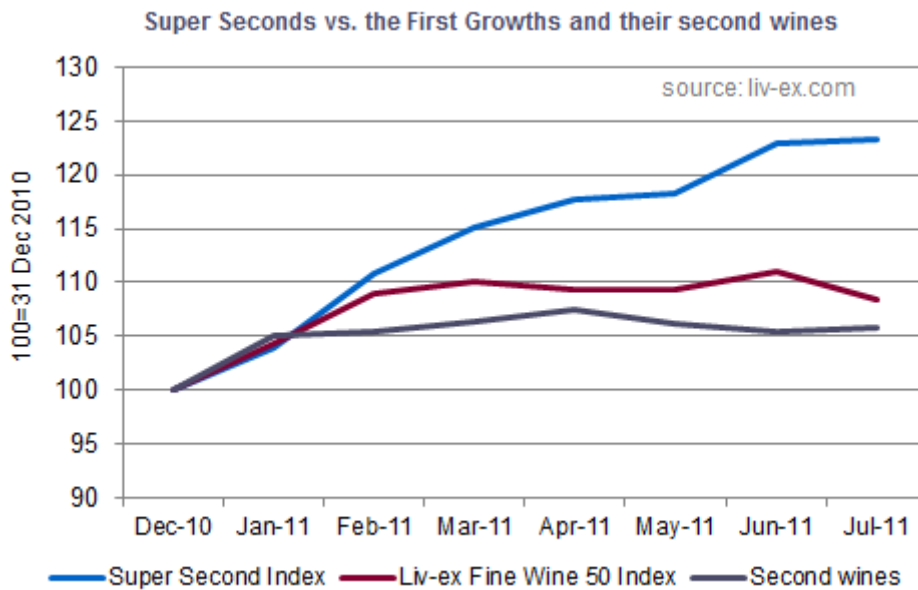
2011 began in a rather auspicious fashion with confidence in the market remaining high with the buying trends of 2010 very much continuing, the Liv-ex Fine 100 gathered pace in January - Liv-ex Fine Wine 100 closing at 346.14—an increase of 2.9 per cent on December. Bordeaux dominated the market with Haut Brion & Mouton Rothschild experiencing strong growth during this early period. Despite the hype that surrounded the Lafite ex cellar auction and the ‘lucky’ 2008 vintage, Lafite was underperforming its First Growth counterparts, only posting a rise of 2.5% in January. This was the first indication that Lafite prices were beginning to stabilise and demonstrated a broadening market place.



The auction market in Hong Kong underlined its meteoric rise to the top in 2011, accounting for more than half of global revenues for the first time since the government’s adroit decision to abolish duty on wine in February 2008. The highlight for the first half of the year being Andrew Lloyd Webber’s auction, where his wines naturally surpassed their estimate and grossed \$5.6m in total. An interesting pattern began to develop with renewed Far Eastern interest in Top Burgundy producers which eventually led to strong DRC price surge throughout 2011.

With First Growth prices faltering throughout the second half of 2011, the world’s most iconic fine wine outside Bordeaux continued to experience strong growth.

Whilst First Growth dictated trade in January, buyers began to move away from the top 5 brands and embark upon a greater search for value. Buyers and collectors alike started to pursue more affordable investment opportunities, focusing on 2nd- 5th Growth wines. As demand for the First’s and their second wines diminished ‘Super Second’ prices began to soar.



The strength of the ‘Super Seconds’ dominated much of the market in 2011 and proved to be one of the shining rays of light on a descending market, suffering from the wider economic situation. The contribution of high First Growth prices, broadening buying habits in the Far East, apathetic First Growth drinkers and speculators looking for new prospects which led to wines such as Ducru Beaucaillou, Pichon Baron and Montrose filling the void left by the lack of demand for the top 5 labels.

Parker’s ‘Magical 20’:

As the Wine Future Hong Kong drew to a close in November 2011, Parker announced twenty great Bordeaux estates comparable in quality to their First Growth associates.

For a list of Parker’s selection of twenty ‘wines to watch’ [click here](#).

In the words of Parker-*“I have chosen estates that produce wines of ‘First Growth quality’ although technically not First Growths...and because of that are under-valued and very smart acquisitions.”*

Many of the wines such as Pontet Canet, Lynch Bages and Leoville Las Cases had already seen a price surge in 2011, but across the board the ‘Magical 20’ tasting did little to inspire consumers; much of this can be attributed to the market sentiment at that time. There is no question that Parker’s Magical 20 offers interest for the consumer with some of the wines trading at an 85% discount to First Growth but its effect on the prices of these wines has yet to impact.



The table below taken from Jackson Taylor's Wineyields demonstrates a wide variance of performance for Parker's 2009 *Magical 20* wines. Whilst performance has been mixed, these are certainly estates to keep an eye on in 2012.

Wine	9 Nov	25 Nov	Change
Brane Cantenac	457	485	+6.12%
Malescot St Exupery	579	595	+2.76%
Smith Haut Lafitte	596	653	+9.56%
Rauzan Segla	649	675	+4.00%
Clos Fourtet	691	687	-0.57%
Gay	810	740	-8.64%
Haut Bailly	929	895	-3.65%
Pape Clement	962	912	-5.19%
Pichon Baron	945	1,029	+8.88%
Lynch Bages	1,073	1,066	-0.65%
Leoville Poyferre	1,086	1,086	+0.00%
Pontet Canet	1,086	1,086	+0.00%
Pichon Lalande	1,321	1,266	-4.16%
Conseillante	1,490	1,490	+0.00%
Fleur Petrus	1,789	1,998	+11.68%
Leoville Las Cases	2,091	2,150	2.82%
Angelus	2,014	2,254	+11.91%
Cos d'Estournel	2,319	2,322	+0.12%
Palmer	2,256	2,385	+5.71%
Trotanoy	2,740	2,740	+0.00%

Courtesy of wineyields.com

The Magical 20 tasting was the first public tasting of the 2009 vintage from Bordeaux since the wines were bottled. Parker described the vintage as *"one of the greatest vintages of my lifetime."* And even quipped, *"I'm probably going to swallow a bit of each of these wines because they are too good to spit completely."*

The 2009 vintage has clearly been vindicated by Parker and one can expect this to be reflected in high in-bottle scores for the 2009 late spring. The combination of the new interest sparked by the *Magical 20* tasting in Hong Kong and scores surpassing those of previous vintages could lead to a scramble for the 2009s and renewed interest in Bordeaux.

The particular estates featured in Parker's 'Magical 20' signify a broadening market and identifies potential areas for investors to observe throughout 2012. Whilst performance of Pontet Canet, Lynch Bages, Pichon Baron & Cos d'Estournel has been relatively muted in the last few months, they are expected to lead the way forward. Some of the wines featured for instance, Ch. Le Gay & Ch. Brane Cantenac should be treated with an air of caution as they represent great interest for drinkers as opposed to investors and collectors.

First growth retreat:

Various factors have contributed to the sharp recoil of First Growth prices experienced in 2011. The combination of profit taking, the backlog of stock on the Hong Kong market (Lafite in particular), and an expensive and drawn out En Primeur campaign has led to a sustained dip in First Growth prices for Q3/4 of last year.

Amongst the biggest losses of the declining market was Lafite Rothschild 2008 which reduced by 45% in price. In January 2011, Lafite 2008 peaked at around £14,500 per case (12x75cl) and now trades just above £8,400. This is a stark contrast from the buzz surrounding many First Growth 2008 vintages after well-publicised auctions in November 2010. Lafite having been the market's driving force over the past 24 months has subsequently led the retreat. The demand for Lafite has certainly abated which has been reflected across auction performance in Q4 of 2011. Furthermore, the Liv-ex Claret Chip consisting of the top First Growth vintages, in effect your 'blue chip' wines also decreased 26% in the second half of 2011.

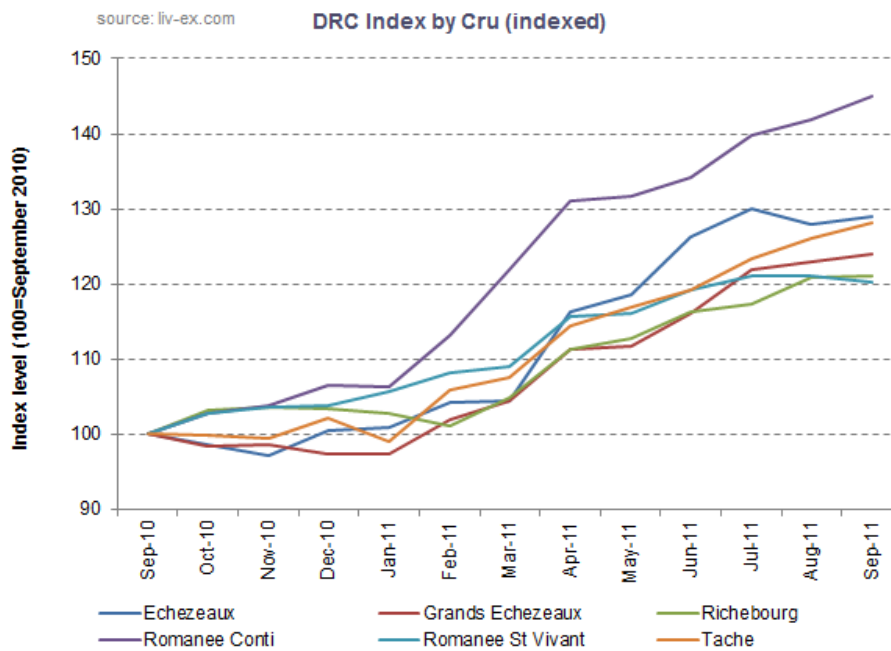
First Growth wines will always be the mainstay of an investment portfolio in this market and some would argue that the sudden retreat witnessed in the last quarter of 2011 has led to a superb buying opportunity. Particularly, for those First Growth vintages that are scored 95+pts, some available at a third less of the price; they were trading at rates seen prior to the market slump.

Outside First Growth Claret:

Whilst an investment portfolio in this market should include well scored First Growth vintages, it should also be diverse enough to moderate the damage caused by a sustained dip in the top 5 labels. Interest outside First Growth claret and Super Seconds has predominantly led to strong performance for DRC, Yquem and Super Tuscan wines in 2011.

Domaine Romaneé Conti:

Interest in Burgundy gained traction in 2011, with prices for its top asset Romaneé Conti experiencing an average rise of around 40%. The 2006, 2002 and 2000 all increased in value by upwards of 40 per cent. The stable's other wines also performed admirably providing an obvious display of the command the brand yields, particularly in the Far East.



DRC represents the most elusive of all fine wine; it is unsurprising that performance has been so spectacular in Far East auctions in 2011. For collectors driven by exclusivity, paucity and status; nothing represents this better in the fine wine world than DRC.

Burgundy in 2012:

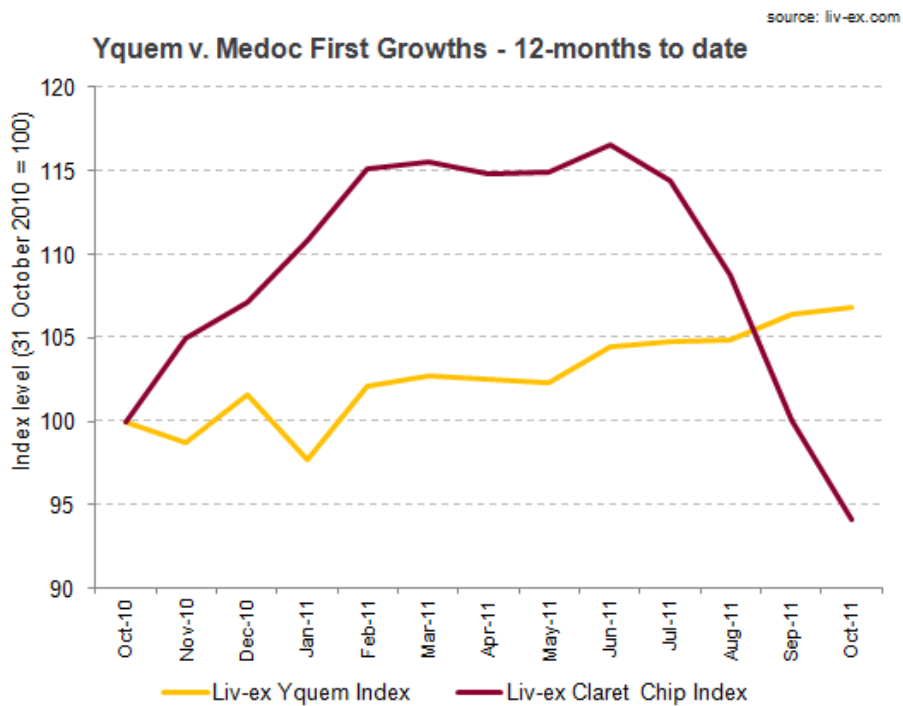
It is not surprising that DRC has reignited Far Eastern interest in Burgundy and has led the way in terms of performance. We expect buying habits to diversify away from the elusive DRC stable and look towards other Top Burgundy producers such as Rousseau and Mayer. Burgundy will continue to gain popularity in the Far East this year due to the quality and noticeable value. The influence of female wine drinkers may potentially impact on the Burgundy market due to a preference for white wines. Much like their male counterparts, there is a growing trend for young females to drink the finest white wines from around the world. In addition, the 2010 Burgundy vintage has encouraged positive acclamation and with yields expected to be low, any growing buying trends could have a strong effect on the burgundy market.



Burgundy producers to look out for in 2012: Henri Mayer, Armand Rousseau, Domaine Leroy, Comte Georges De Vogue

Ch. d’Yquem:

With the prospect of faltering prices, Ch. d’Yquem the world’s most famous Sauternes estate has been steadily climbing in price throughout 2011. Following the lifting of a sulphites restriction on wines imported through Hong Kong around 12-months ago, the sweet white wines of Sauternes and Barsac became eligible for import into China; the promise at that stage seemed huge. Although, we are yet to see sharp price spikes across d’Yquem vintages, rises of around 10% have been well received. It seems that the wine is finding a firm market in Asia. A case of 2001 sold for £6,338 at one of Acker’s Hong Kong auctions last year – over 26% above recent Liv-ex trades. But topping estimates at auction is not a new phenomenon for d’Yquem. Headlines were made in 2006 when a 135-year vertical was sold by The Antique Wine Company at a London auction for \$1.5 Million, the record for a single lot of wine at the time. In July this year, Stephen Williams, Managing Director at AWC, sold a single bottle of 1811 Château d’Yquem at a private auction in London’s Ritz Hotel, making it the most expensive bottle of white wine ever sold.



With steady gains in a depressed market and high volumes of trading reported on the exchange, we anticipate the world’s premier sweet wine to trigger further interest in 2012.

En Primeur Campaign 2010:

The 2010 En primeur campaign wasn’t a huge success across the board. An amalgamation of the Bordeaux Chateaux overpricing wines, withholding stock and releasing late led to some discomfort

within the industry. Last year's En Primeur campaign was always going to be challenging due to the hype surrounding yet another 'stellar' vintage, coupled with the unfavourable GBP: EUR rate.

Some Chateaux pricing was way off the mark and other wines, although up on 2009 pricing have found their market and stabilised in price. Lynch Bages & Pontet Canet were released 39% up on 2009 but still saw great demand and sold through strongly.



Pontet Canet was a highlight of the excellent but expensive 2010 vintage

Other successes have been Montrose, Pichon Baron, Ducru Beaucailou and Grand-Puy Lacoste. On the other side, wines such as Cheval Blanc 2010 released 21.4% up on 2009 struggled to sell. Similarly, Rauzan Segla released 40% up on 2009 and was subsequently boycotted by large Bordeaux Negociant Barriere Freres, refusing to sell Chateau Rauzan Segla because of its 'ludicrous' price.

The 'aggressive' pricing for many 2010 First Growth may well have contributed to the decline in pricing which subsequently followed the long winded campaign, as buyers became frustrated with prices for Top Bordeaux. The increase in pricing for the 2010 top labels also prohibited the Chinese market from buying large quantities of En Primeur; some might say a missed opportunity!

One thing that we hope has been learned is that the Bordelais need to take into account the long term health of the market prior to releasing En primeur prices. If the prices for the 2010 vintage had come out lower and allocations had been bigger, it might have been a successful campaign.

Looking forward we feel that only time will tell the investment value of the 2010 vintage. Much like 2009, if Parker re-affirms his in barrel scores, we could have another 'must have' vintage on the



horizon. The 2011 En primeur campaign has a big part to play in direction of the market in 2012, if pricing is fair and represents good value, then the renewed interest in Bordeaux could have a similar effect on the market as the 2008 campaign. In particular, First Growth En Primeur buyers will pour back into the market if there is value.

Key developments to monitor in 2012:

- Chinese Wine Investment Fund
- Parker's 2009 in bottle scores
- En Primeur 2011 campaign
- India- new area of interest?