

Fine Wine Industry Analysis 2021



Overview

As deposit interest rates remain low, investors are keen to explore alternative assets with low risk and high upside and returns. Investors have gravitated to markets in property, precious metals, share markets, exchange traded funds (ETF's) and even cryptocurrency as a way to put money to work and drive returns.

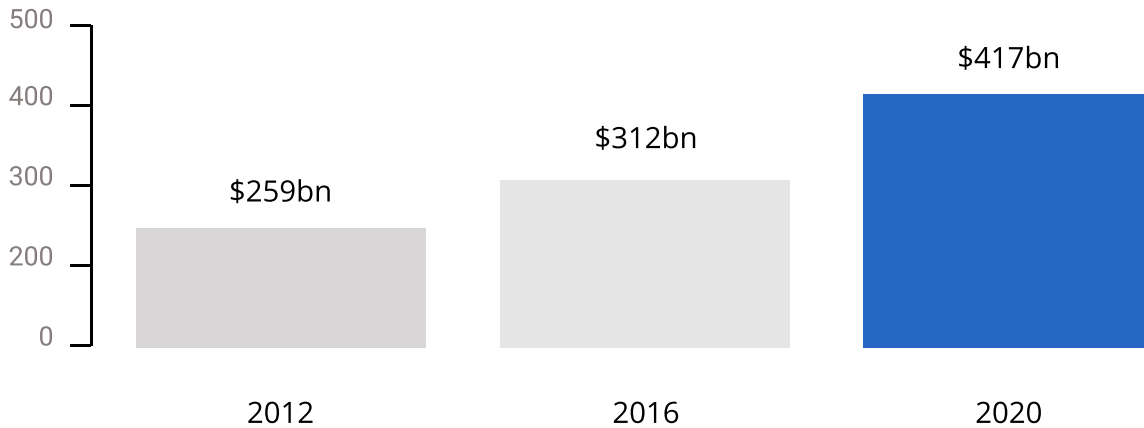
More recently investors have moved towards aspirational investments like classic cars and fine wine. With this in mind, we've conducted some research in fine wine as an investment strategy and what to consider. We've broken this analysis down into the following topics.

- Fine wine market analysis
- Fine Wine as an Asset
- Characteristics of Investment Grade Wine
- How do you buy, sell and store Investment Wines?
- Tax benefits from Fine Wine

Fine wine market analysis

The fine wine market has matured over the last few decades and has steadily grown in value and eager investors. Globally, the overall wine market US\$417.85bn in 2020 and is expected to grow to \$685.99bn by 2025 with CAGR of 6.4% from 2021 to 2028.

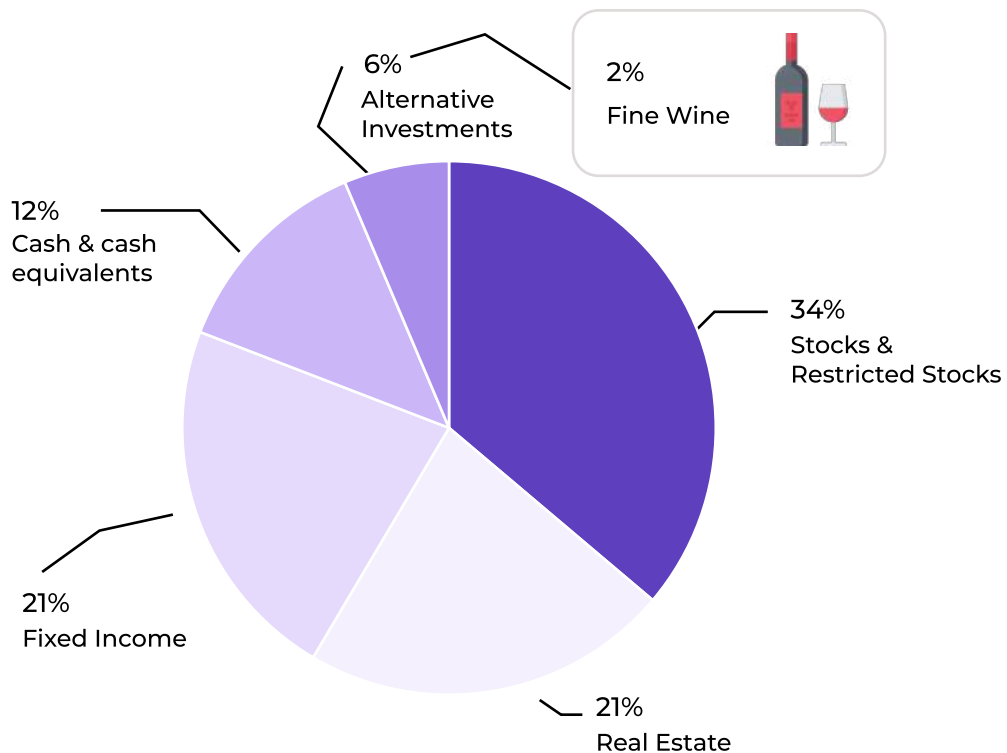
Figure 1 - Wine industry market size globally



High Net Worth Portfolio Analysis

A recent survey from Barclays Bank on the private banking and high-net worth clients, 28% of the segment had a wine collection and wine made up 2% of their total net worth or portfolio.

Figure 2 - Barclay's Bank High Net Worth Asset Allocation



Sources:
Barclay's Bank Alternative Investment Analysis 2020
Fine Wine 2020 Report Vin-Ex

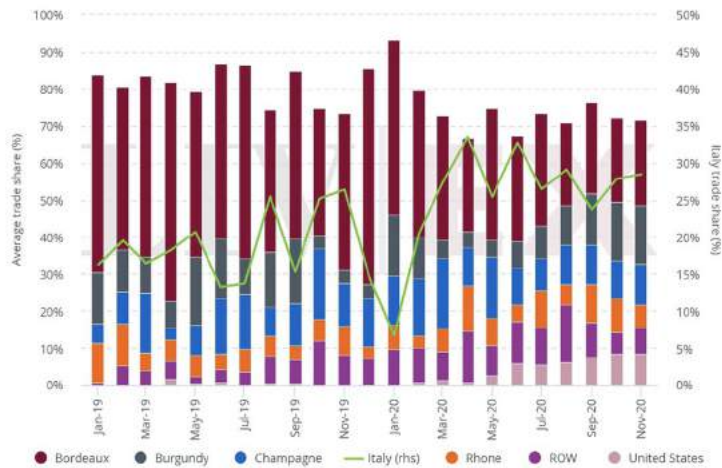


Fine wine market analysis cont.

Trump-era on Fine Wine Market

During the Trump-era, European wine imports saw a 25% tax introduced on European wines over 14% abv, which came into effect in October 2019 which impacted global markets as the demand for Champagne (usually under 13% abv) skyrocketed and outperformed Burgundy and Bordeaux wine indexes during that period.

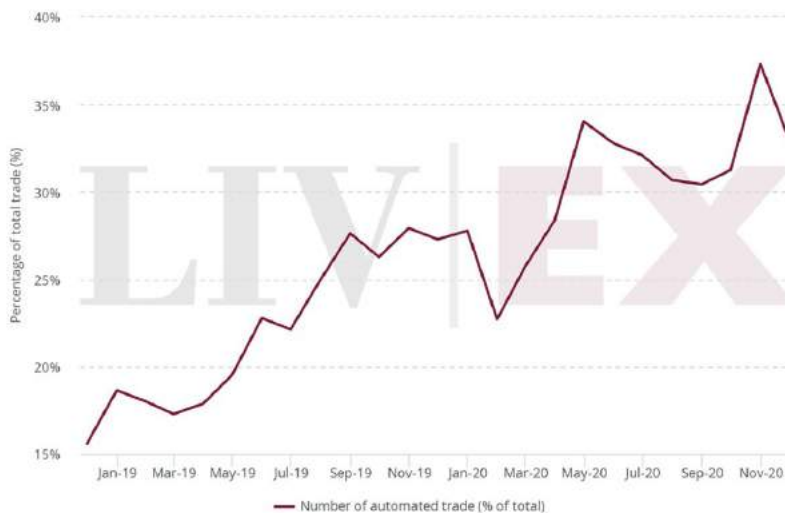
Figure 3 - Fine Wine Index analysis June 2019 - November 2020



Automation in fine wine industry trading

Not missing out on the data revolution, investors have begun to use robo-traders to trade wines as market platforms like Liv-Ex operate 24/7.

Figure 4 - Automated Trading % of total Liv-Ex trading



Typical wine trades can take days to complete, whereas robo-trading is autonomous. Automation has been a key driver behind the broadening of the market. It has made it easier for merchants to list stock for sale, exposing their diverse inventory to an ever-growing marketplace. More wines (and vintages) from more regions are now available to more collectors at the click of a button.

Fine wine market analysis cont.

Big winners in 2020

Table 1 - Most popular wines for 2020 by sell volume

Rank	Wine	Vintage	Market Price (12x75)
1	Giacomo Conterno, Barolo Monfortino Riserva	2013	£8,196
2	Chateau Lafite Rothschild, Pauillac	2016	£6,600
3	Taittinger, Comtes de Champagne Blanc de Blancs	2008	£1,070
4	Dom Perignon	2008	£1,332
5	Louis Roederer, Cristal	2012	£1,516
6	Tenuta San Guido, Bolgheri Sassicaia	2017	£1,556
7	Chateau Lafite Rothschild, Pauillac	2010	£7,300
8	Antinori, Toscana Tignanello	2016	£974
9	Petrus, Pomerol	2016	£34,000
10	Harlan Estate, Napa Valley	2016	£11,250



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Sources:
Liv-Ex Platform

Fine Wine as a Asset

Among mainstream markets, volatility threatens to derail many investment strategies. Over the last decade, the fine wine market has proven to be a stable, tax efficient asset with international appeal, even during times of economic turbulence.

The top end of the fine wine market is self-contained and, to a large extent, divorced from financial markets, because it shadows the movement of wealth around the globe rather than being permanently attached to a single economy. This unique characteristic means it is less susceptible to the fluctuations witnessed in conventional markets and, more importantly, provides flexibility, as its appeal is less open to fashionable interpretation than other luxury collectables.

The added advantage of scarcity and limited production runs open to only a few, has stabilised up fine wine's year on year growth as an investment. As an example, leading Bordeaux wine producer Château Margaux, whose Grand Vin flagship wines are regularly purchased before the vintage is bottled, only produces around 12,000 cases a year.

Each fine wine that meets a rating by a reputable system like Robert Parker's Wine Rating system or Wine Spectator are mostly used to standardise ratings of vintages.

Investors looking to invest in fine wines should consider researching fine wine indexes like they do for shares or commodities. Several companies including Bloomberg, Liv-Ex, Vin-ex or Thomson Reuters have indexes to follow and analyse.

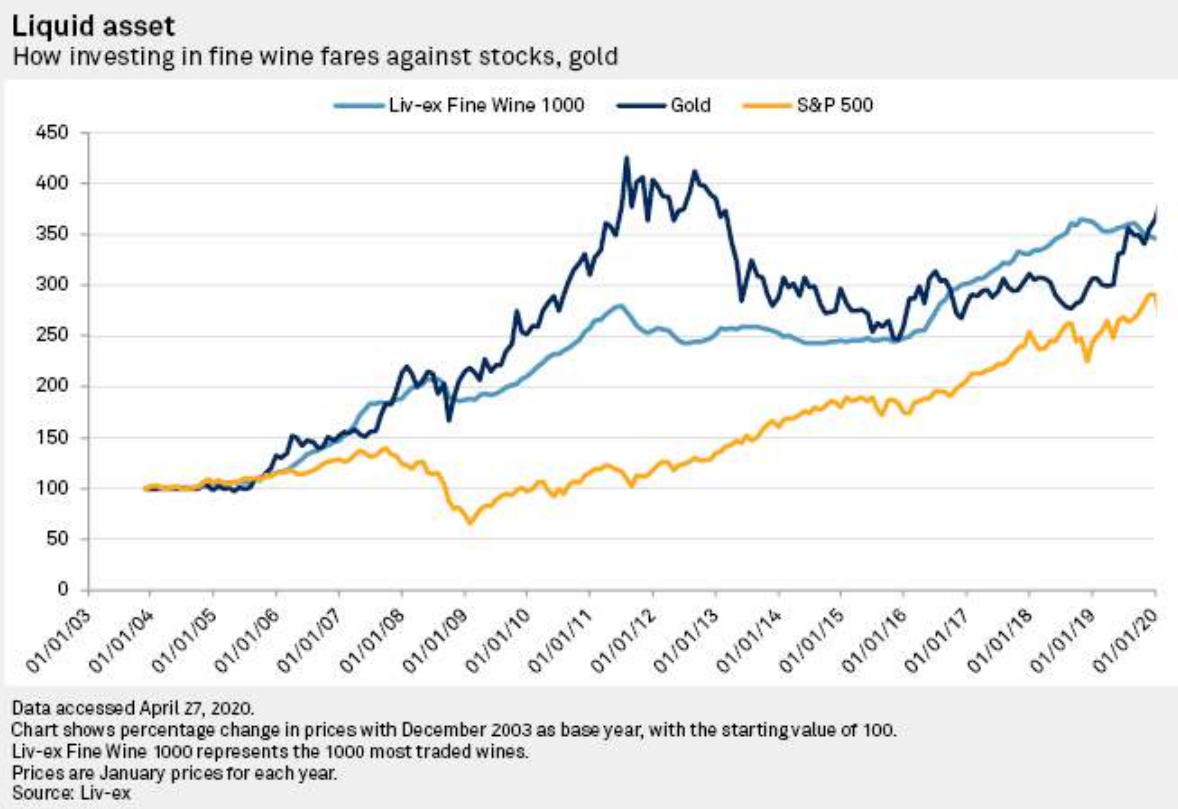
Table 2 - Fine Wine Index analysis

Index 31/07/2021 (monthly close)	Level	MOM	YTD	1yr	5yr
Liv-ex Fine Wine 1000	380.88	1.31%	6.85%	9.35%	39.36%
Liv-ex Bordeaux 500	336.95	0.77%	5.05%	7.70%	25.41%
Bordeaux Legends 40	409.03	1.59%	5.97%	9.25%	28.07%
Burgundy 150	592.93	1.67%	9.80%	11.31%	79.37%
Champagne 50	460.59	2.78%	8.50%	13.15%	59.07%
Rhone 100	213.67	0.94%	7.10%	10.53%	29.72%
Italy 100	334.79	0.53%	3.80%	10.28%	46.51%
Rest of the World 60	308.05	2.11%	8.01%	7.74%	32.43%

Fine Wine as a Asset cont.

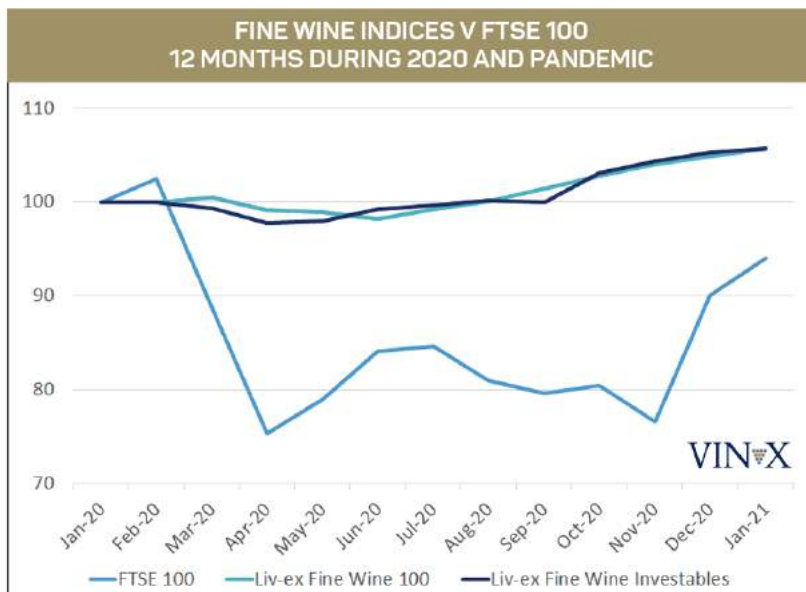
Fine Wine as a liquid asset

Table 3 - Fine Wine Index analysis



During COVID, it's no secret that the alcohol consumption rose significantly, and that meant that fine wine indexes strengthened their growth as the stock markets globally fell through the floor before starting their recovery.

Figure 5 - Fine Wine Indices vs FTSE 100



Fine Wine as a Asset cont.

What's in these indexes?

Each index has a collection of ranked wines that make up the indexes. Below is a summary of the Liv-EX Power 100 for 2020

Table 4 - Liv-Ex Power 100 2020 top 10

LIV-EX POWER 100 TOP 10 FINE WINE BRANDS 2020					
Wine	Region	Ranking 2020	Ranking 2019	Average Trade Price	Average Price Growth
Leroy	Burgundy	1	3	£2,878	8.68%
Leflaive	Burgundy	2	41	£2,199	5.99%
Gaja	Italy Piedmt.	3	34	£1,801	7.02%
Sassicaia	Italy Tuscan	4	7	£1,305	9.31%
Penfolds	Australia	5	30	£3,129	3.27%
Ornellaia	Italy Tuscan	6	91	£1,171	9.56%
Dom Perignon	Champagne	7	9	£1,601	3.73%
Ch. Haut Brion	Bordeaux	8	16	£3,796	1.34%
Masseto	Italy Tuscan	9	72	£5,457	5.71%
Louis Roederer	Champagne	10	5	£1,761	2.21%

Source: Liv-ex Power 100 Report, 2020 (published January 2021)

Demand for indexed fine wines has increased 30-40% in the last two years, and is forecast to grow further. Chineses and HK fine wine markets have grown incredibly over the last 2-3 years. After a drop in demand during 2020 with COVID, demand has already passed 2019 levels. Globally, the global consumption growth rate is expected to be 6.17% over the next five years.

Characteristics of Investment Grade Wines

When reviewing the market for fine wines there are several aspects to take into consideration. These include:

- Scoring of the Wine
- Provenance of the wine
- Brand / Wine house Pedigree
- Wine longevity
- Price Appreciation
- Liquidity in strong demand
- Other factors

Scoring of the Wine

The wine must have been awarded with a score of 95 or above on the 100-point scale, by one or more noted wine critics.

Provenance

When it comes to purchasing fine wine for investment purposes, provenance and pedigree is of utmost importance.

Literally speaking, provenance is the history and chronology of the ownership, custody or location of an object. In the case of assets of value, like fine wine, the clearer the chain of its source and the reputation of where it has been stored all have a significant impact on the price that can be commanded at the point of exit.

The highest quality provenance is acquiring wine directly from the wine producer, shipped straight from their cellars to your own storage arrangement.

Brand / Wine House pedigree

The wine should be produced by a well-known or prestigious Chateau or Wine House with an exceptional reputation. The wine can be from a smaller chateau or producer however, it's often harder to be noticed or to provide enough liquidity through larger scale production, yet maintaining quality and standards.

Wine Longevity

Investment grade wines should reach peak maturity at least 10 years after bottling and must be able to last for at least 25 years.

Characteristics of Investment Grade Wines cont.

Price Appreciation

As the wine matures and reaches optimal maturity, so should the price appreciation. The wine should begin to grow in value once the vintage has reached a 10-year anniversary.

Liquidity in Strong Demand

Supply and liquidity is also a consideration as there must be enough wines available on the market to make the wine a tradable asset. If a wine is produced in small quantities, it could be rare that the wine be sold, reducing that wine's usefulness as an investment.

Other key factors

Other key factors to consider on reviewing fine wine as an investment include:

- Storage in the optimum conditions to maintain the quality of the wine
- Storage in bond (overseas) to benefit from the tax treatment
- Security
- Insurance

How do you start a wine portfolio?

Starting a wine portfolio is like any other investment or asset class. Conduct research, analyse the market and demand for certain wines and vintages, then find a suitable method to acquire the wine.

Depending on the pedigree of the wine, most buying occurs at auctions or at the cellar door. There are a host of wine merchants and auction houses like Langtons, Sotherby's, Bordeaux Index or Vins Gran Crus who host regular wine auctions, showcasing fine wines that meet investment grade criteria.

Pre-COVID, often fine wine investors travelled to the auction houses, château's or cellar doors where you have a chance to speak with wine experts, sommeliers, wine makers or other astute investors. In COVID, video auctions or off market buying became the preferred method.

As for delivery and storage, you have a range of options including delivery to your address, bond warehouse, cellar or keep the wine at the wine merchant's storage cellar. Be mindful of the tax implications which we address in the next section.

Figure 6 - Example of a Fine Wine Index Portfolio

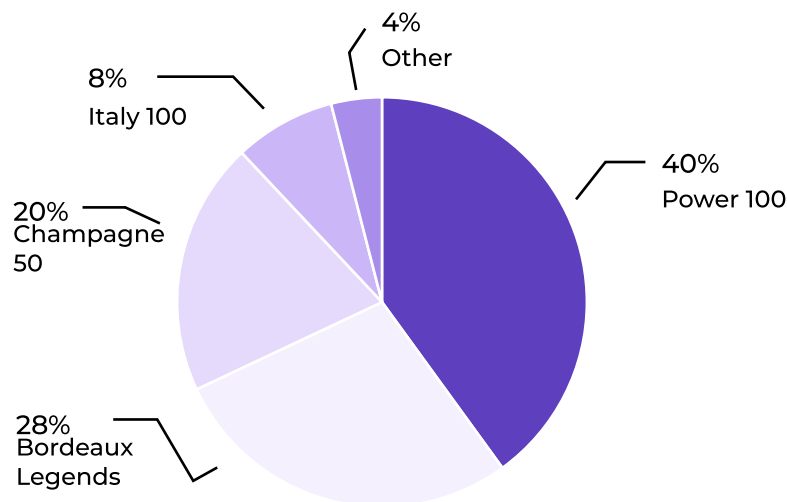


Figure 7 - Sotherby's Auctions



Fine Wine tax in Australia and storage

When purchasing wine, particularly from overseas where the majority of the fine wines are sourced from, the amount of tax should be a consideration when it comes to importing back to Australia or storage overseas.

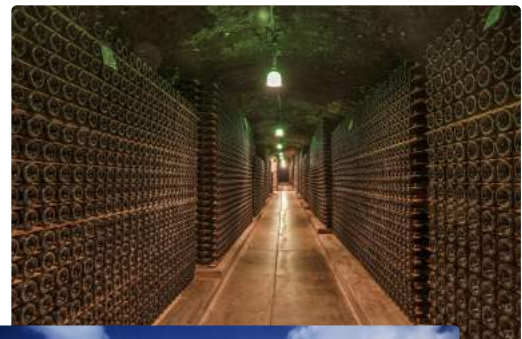
In Australia, Wine Equalisation Tax (WET) taxes wine at 29.00% on the wholesale price of an imported wine, regardless if you purchase via a company structure or as an individual. The tax is payable at customs clearance.

For Australian wines, WET tax still applies and is usually paid as part of the purchase price when purchasing wine wholesale or at the cellar door. For retail purchases, WET and GST is already applied.

This taxation is often a blocker for Australian fine wine investors to bring their fine wines to Australia. In Europe and the UK, many investors purchase fine wines and store them in a bonded warehouse in the UK or Europe which provides an optimum environment for storing wines by carefully regulating elements such as humidity, temperature, light and other micro-climatic factors.

There are several benefits to storing wine in bond warehouses in the UK which are summarised below.

- There is no requirement to pay Duty or Value Added Tax on the wine until such time as the wine is removed from bonded storage. If you acquire and sell the wine and it remains under bond these charges will not be triggered.
- If you choose to have your wine delivered out of bond the VAT will become payable on the original price of the wine at time of purchase and NOT its current market value.
- Wines stored in bond warehouses are more attractive to prospective buyers including merchants. There is much greater transparency on traceability and provenance with the corresponding certainty that the wines will have been correctly stored to maintain quality and protect value.



We recommend that you consult your accountant or financial advisor on the best method to buy, sell and store your wines.

*Sources:
Department of Trade - WET Tax*

Summary

As deposit rates at Banks continue to be marginal, investors are looking for creative and aspirational ways to grow their portfolio. Unlike many assets or investments, fine wines can also be enjoyed, celebrated or treasured adding an interesting talking point to any meeting or family event.

Fine wine also offers a greater degree of stability than traditional markets and its historically negligible correlation with traditional markets makes it a crucial buffer, diversifying and securing your investment portfolio against market risk.

Fine wine has consistently offered investors double-digit returns year-on-year, with the market assessed as growing \$4bn per annum. Demand from emerging markets is also set to ensure continued significant price appreciation.

Should you be interested in building a fine wine portfolio, please contact Gallantree.

About Gallantree:

Gallantree's mission is to help family offices, entrepreneurs and businesses with a range of bespoke services including investment preparation, financing and investment analysis.

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