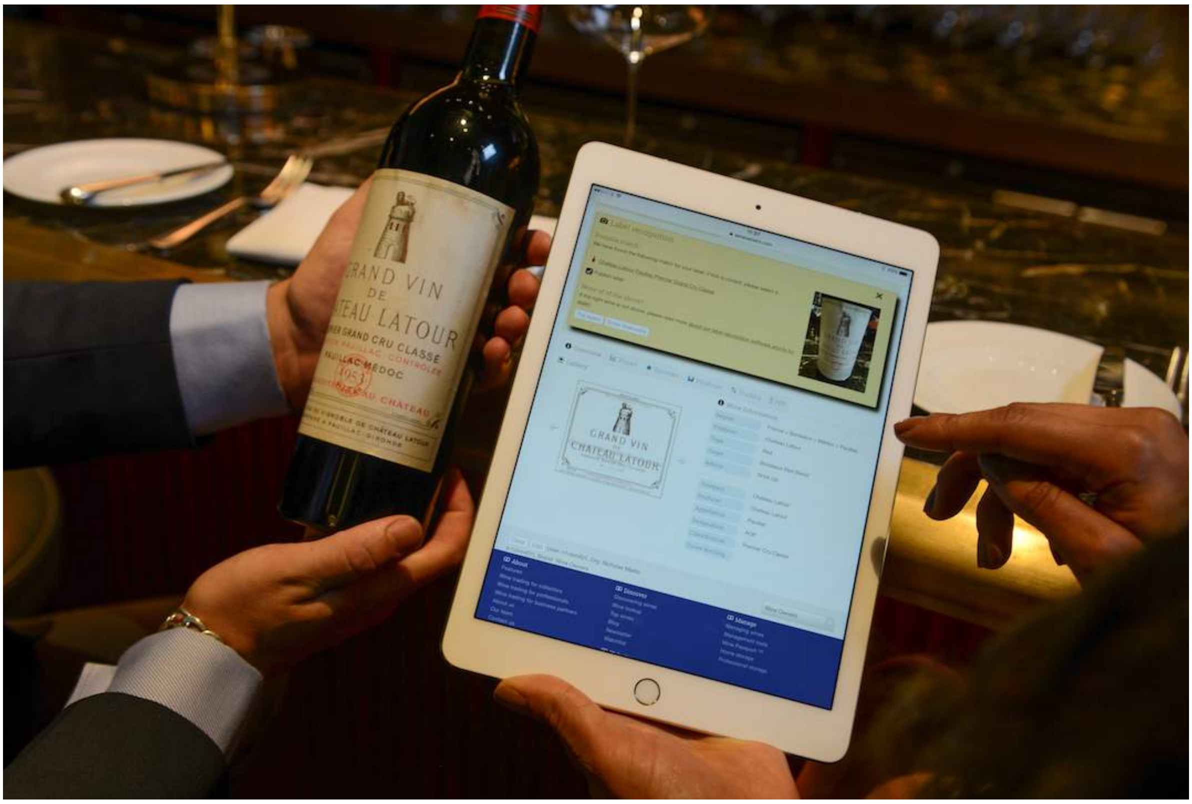
FINE WINE PREDICTIONS 2018



MARKET CATCHES UP | COLLECTORS’ PASSION

INTRODUCTION – MARKET CATCHES UP

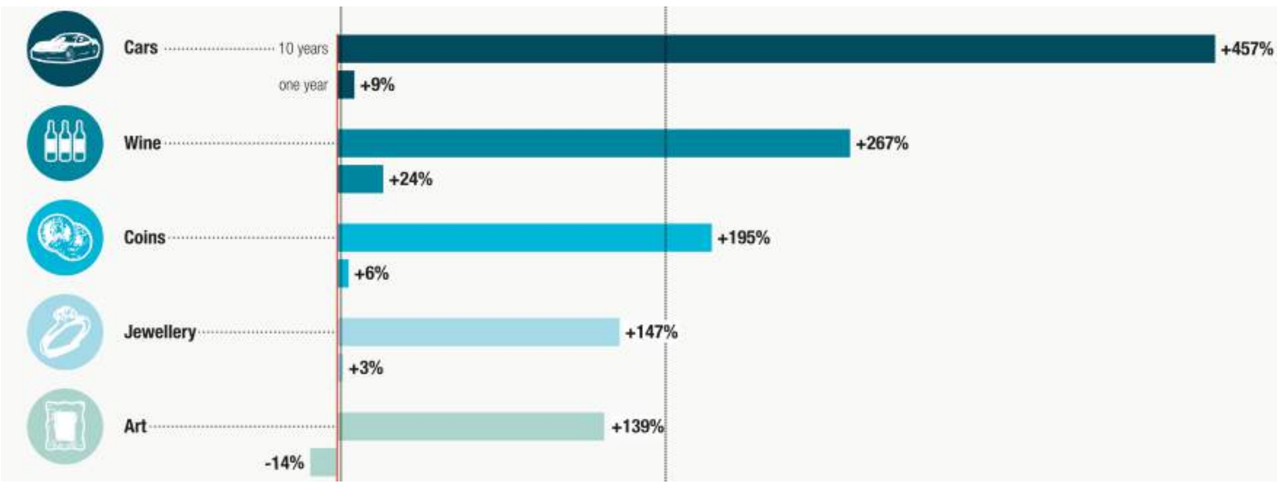
Global uncertainty may be greater than ever, with currency volatility bearing the brunt of geopolitical unpredictability, but the wine market has entered a period of relatively calm waters. In fact, the fine wine market is in rude health, and the all-important Bordeaux secondary market continues to strengthen.

The current wine investment market is a picture of rationality and stability compared with the period of Chinese speculation, and the subsequent Bordeaux market crash, of 2012-2014. Only Bordeaux took a heavy direct hit during that time – and rightly so in light of the massively inflated bubble of blue chip Bordeaux during in 2010 and 2011.

Although it may appear repetitive and churlish to recall that period which most collectors would rather forget, to do so provides a useful backdrop for the Bordeaux fine wine market in 2017, and context for a market outlook for 2018 and beyond. Moreover, it's important that producers and distribution channels learn from history – especially in consideration of global wine growth and an explosion in online distribution channels that may yet transform certain traditional aspects of the market over the next decade. History has a habit of repeating itself. Forewarned is forearmed.

The Knight Frank Wealth Report 2017 called out fine wine as the best-performing passion asset of 2016, based on the healthy 24% growth of the Knight Frank Fine Wine Icons Index (KFFWI). The KFFWI includes some scarcity-driven markets in its composition – reflecting high net worth interest in owning hard-to-find wines. The index is therefore constituted of wine such as blue chip Bordeaux with additionally some rarer wines whose secondary market pricing is influenced by scarcity. Over the previous decade the KFFWI– created and managed by Wine Owners – had risen 267%, second only to the classic car market that until last year had, literally, raced ahead.

The fundamentals for wine as an investment are encouraging; it is the world's most widely held collectible, and as the world gets richer, fine wine is catching on. Wine education is more accessible than ever before, too, with increasingly well-informed on-trade staff and sommeliers, and an explosion of fine wine on restaurant lists. Wine is one of the most intellectually stimulating of passion assets, and surely the most pleasurable. As demand grows, the top end of scarcity-led markets is seeing prices driven up, one of the concerns for 2018. First, let's focus on current market performance.



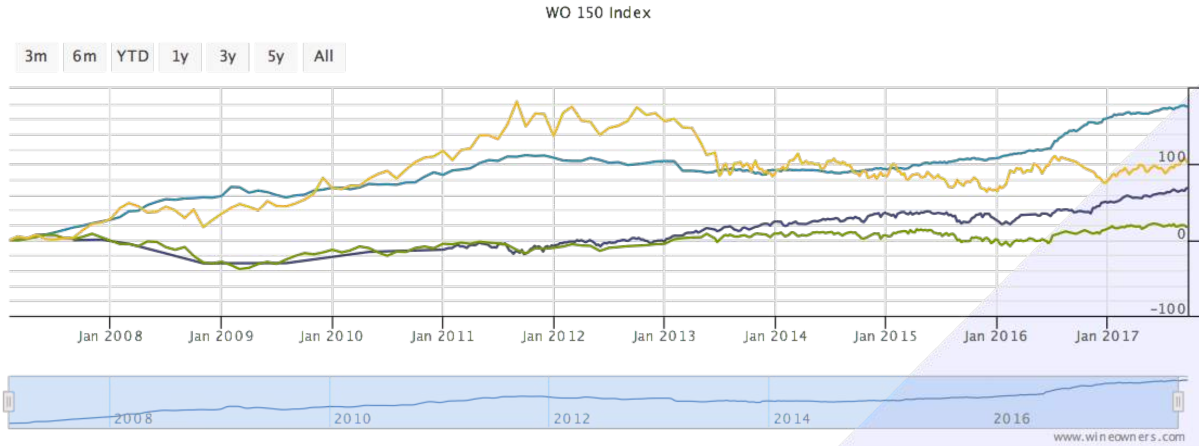
The Knight Frank Wealth Report has built up something of a reputation in its coverage of alternative, collectible asset classes, and given the global media coverage it receives, the report will inevitably influence the global fine wine market, strengthening it and perpetuating its desirability as an expression of wealth and lifestyle.

Less bullish than the 267% increase reported by the KWFR – but still substantial – was the 137% ten-year growth indicated by the Wine Owners 150 (WO 150) – the index that reflects a balanced collector portfolio of blue chip fine wines.

Designed as a market tracker, the WO 150 is heavily weighted towards blue chip Bordeaux, in order to reflect the trading splits in the secondary market, which is traditionally dominated by claret. The WO 150 includes all the top wines that fell furthest in the period of 2012-2014. Additionally, scarcity-led wine markets (such as Burgundy) have performed well, delivering consistent year-on-year growth.

As the comparison chart below illustrates, the WO 150's 10-year performance dwarfs equities (+18%) and gold (+99%).

Turquoise = Wine Owners 150 tracker Index
Yellow = Gold
Dark blue line = Dow Jones
Green = FTSE 100



TOP PERFORMERS IN 2016/17

The following table shows the top performers in 2016/17 within the Wine Owners 150, the index which reflects the market as a whole and serves as an effective market 'tracker'.

Top of the league was Palmer 2001 by the narrowest of fractions, ahead of Romanée-Conti 1999 at 42%. Notable is the number of 2001 Bordeaux wines in the top rank of annual price growth.

Vieux Chateau Certan's position in the top rank – with no fewer than 5 entries – reflects the brand's significant strengthening over the last couple of years, supported by the chateau's increasingly detailed, almost forensic, vineyard management techniques.

It's also interesting to see the most Burgundian and taffeta-textured of all Monfortino vintages, 2002, reflect market demand for its sophisticated charms, with a 26% increase.

Wine	Vintage	Percentage Change
Chateau Palmer Margaux Troisieme Cru	2001	41.89
Domaine de la Romanee-Conti Romanee Conti Monopole Grand Cru	1999	41.59
Chateau Ausone Saint Emilion Premier Grand Cru Classe A	2001	38.11
Chateau d'Yquem Sauternes Premier Cru Superieur	2006	36.88
Domaine de la Romanee-Conti La Tache Monopole Grand Cru	2001	32.54
Chateau Leoville Las Cases Saint Julien Deuxieme Cru	2001	28.68
Vieux Chateau Certan Pomerol	2000	27.94
Vieux Chateau Certan Pomerol	1998	27.37
Domaine de la Romanee-Conti Romanee Conti Monopole Grand Cru	2002	26.46
Domaine de la Romanee-Conti Richebourg Grand Cru	2005	26.39
Giacomo Conterno Monfortino Barolo Riserva DOCG	2002	26.28
Domaine de la Romanee-Conti Romanee Conti Monopole Grand Cru	2001	26.13
Vieux Chateau Certan Pomerol	2005	25.80
Domaine de la Romanee-Conti La Tache Monopole Grand Cru	1999	25.11
Chateau Le Pin Pomerol	2009	24.68
Domaine de la Romanee-Conti La Tache Monopole Grand Cru	2002	23.17
Domaine de la Romanee-Conti Romanee Conti Monopole Grand Cru	2005	22.58
Tenuta dell' Ornellaia Masseto Toscana IGT	1998	22.50
Vieux Chateau Certan Pomerol	2001	22.39
Domaine de la Romanee-Conti Richebourg Grand Cru	2002	22.14
Chateau Leoville Poyferre Saint Julien Deuxieme Cru	1996	21.69
Chateau Montrose Saint-Estephe Deuxieme Grand Cru Classe	2005	21.56
Joseph Phelps Winery Insignia	1997	21.00
Dominus Estate Napa Valley AVA	1999	20.20
Chateau Lafite Rothschild Pauillac Premier Cru	1996	19.98

Chateau Cos d'Estournel Saint Estephe Deuxieme Grand Cru Classe	1996	19.12
Penfolds Wines Grange Bin 95 Shiraz	1999	18.92
Chateau l'Evangile Pomerol	2001	18.44
Chateau Montrose Saint-Estephe Deuxieme Grand Cru Classe	1996	17.48
Chateau Mouton Rothschild Pauillac Premier Cru	2001	17.33
Chateau Haut-Brion Pessac-Leognan Premier Grand Cru Classe	2001	16.11
Chateau Mouton Rothschild Pauillac Premier Cru	2000	15.82
Chateau l'Evangile Pomerol	1998	13.30
Chateau Margaux Premier Grand Cru Classe	1996	12.83
Vieux Chateau Certan Pomerol	2009	12.41
Chateau Ducru Beaucaillou Saint-Julien Deuxieme Cru	1996	11.68
Chateau Ausone Saint Emilion Premier Grand Cru Classe A	1998	11.06
Domaine de la Romanee-Conti La Tache Monopole Grand Cru	2005	11.05
Chateau Haut-Brion Pessac-Leognan Premier Grand Cru Classe	1996	10.82
Chateau Leoville Las Cases Saint Julien Deuxieme Cru	2009	10.53

WINE AS AN INVESTMENT

Historically it's been sensible to think of wine investment as being for a minimum period of around five years, especially when it comes to futures releases (en primeur). Recent vintages of Bordeaux have not demanded this kind of patience, however, with good returns after 24-36 months as long as well-priced wines were selected (using tools such as the Wine Owners Relative Value Analysis, which assigns a score based on a wine's potential to appreciate).

Undervalued back-vintages have gone through a period of upward correction, making it even more important to buy on quality and relative value.

First Growths have shown their strength in the last 18 months, are consolidating those gains more recently, and are in high demand.

Scarcity is also a key driver of the global fine wine market, as collectors fight over allocations from the best cuvées from the best producers. Low production does not necessarily equate to illiquidity. In fact, liquidity exists at both supply extremes of the market – in Bordeaux (naturally, as the world's single-largest fine wine region) as well as in Burgundy, Northern Italy, California and Germany (particularly among limited-production wines from the respected producers).

Burgundy Grand Crus and Premier Crus from the best producers can show an immediate return for those lucky enough to enjoy primary market allocations, usually available only to clients who buy broadly across the range or throughout the year.

If your principle objective is value preservation coupled with personal enjoyment, and you're not so worried about very quick turnarounds on resale, scarcity coupled with proven demand is a good strategy.

Market correlation

Currency volatility appears to be the new normal. Assuming it continues, we will experience unpredictable spikes and sloughs of secondary-market demand from around the world. As we predicted, we saw a spike in demand for UK stocks from overseas buyers on the back of Sterling's depreciation in the last year. The resulting UK denominated market pricing growth has created momentum for the fine wine market generally.

Though wine markets have generally appeared not to correlate with the global economy over the last decade, we would not be surprised if this changed from 2018 onwards and for the next 5-10 years.

On the other hand wine is a luxury collectible rather than a commodity, and is unlikely to correlate with commodity prices as has been suggested.

Although wine markets have generally appeared not to correlate with the global economy over the last decade, we would not be surprised if this has changed from 2016 onwards and for the next 5-10 years.

Look back in time to the recession of the early 1990s, the Asian Crisis of 1997, the dotcom bust following Y2K, and the Iraqi invasion of Kuwait in 2003; and you will see that all these events that negatively affected global sentiment and equity markets also affected the fine wine market.

Go back further to the oil crisis of the 1970s, and wine plunged then too. But that was a different epoch.

Whilst the fine wine market has further globalized and broadened since the mid 2000s, people are still people: with the same human response to economic positives and negatives; that in turn reflects in levels of investment, spending and so on.

The fact that this is a discussion at all is down to the banking crisis and what happened in the period 2009-2015. Initially as stock markets tanked, the wine market rose, then rocketed in line with commodities and safe haven assets such as gold bullion.

But it was counter-intuitive. The response of the Bordelais in April 2009 was rational, to cut release prices to levels not seen for several years.

This was largely due a discontinuous, one-off event, namely China's rapid industrialization, and what that did to commodity prices. In our opinion this does not mean that fine wine correlates with commodities. Or gold. As variously has been posited. You could just as easily correlate corruption, grafting and the adoption of fine wine as an alternative store of value for various indirect purposes within China during that period.

Wine is not a commodity. It happens to be one of the most commodity-like luxury collectibles, but that is not the same thing.

Wine is not a safe haven asset like gold bullion. When the world goes south wine warehouses do not fill up.

The basic question is whether wine is a hedge against the economic cycle? Historically it wasn't. Recently it appeared to be but discontinuities are just that, so it's not a reliable period upon which to form an opinion. Is the broader base upon which we now sit a game changer, where the laws of supply and demand, and the effect upon that of greater consumption, take over?

Scarcity has relentlessly driven Burgundy and cult Californians to new undreamt of heights, with top Baroli in hot pursuit. Will relative scarcity do the same for Bordeaux, or has the global base broadened at the same time as traditional markets, USA included, have shrunk?

And irrespective of all of the above, will the market continue to punish excessive pricing when things get out of hand?

WINE MARKETS

BORDEAUX

The Wine Owners 150 posted its best performance for several years during 2016, rising 25%. Although growth in the first half of the year was moderate, at 6%, the second half of the year was set alight by two events.

First came the Brexit vote in late June, followed immediately by the devaluation of the UK's currency (Wine Owners indices are denominated in £ Sterling). Second was the overwhelming demand during Vinexpo Hong Kong for back-vintages of Bordeaux. Producers returned from Vinexpo with bulging order books that took a bite out of their chateau reserves of back-vintages. With the 2015 futures campaign not yet concluded by that stage, rising Asian demand lit the touch paper, igniting sharp rises for the remaining unreleased wines.

But these two events were simply catalysts to an already-rising market. In general, Bordeaux had been on the rise since August 2014, and the First Growths had started to gently rise in Q3/Q4 2015. Sentiment had once again turned positive during this period of market bottoming, the number of buyers duly increased, and the 2014 vintage saw some excellent wines produced at low release prices not seen since the 2008 vintage. Successful new vintage releases feed into positivity.

Sentiment in Bordeaux had turned sour when prices started to crumble in 2011. Negative sentiment accelerated the collapse in prices, and the secondary market dried up. No one wanted to catch a falling knife.

The market was due a catch-up in 2016, and the second half of the year delivered exactly that; the Wine Owners First Growth Index romped home with full-year growth of 32%.

First Growth Index – 2016

Given the stellar performance of First Growths in 2016, it is only natural that 2017 paints a more modest picture – one of single-digit growth and consolidation of gains achieved in the preceding two years. With further falls to £ Sterling in the period January–August 2017, the best that can be said is that the market is flat.

First Growth Index – Jan – October 2017

2016 was a banner year for all classified growths in the Medoc, not just the Firsts; the Wine Owners Medoc Classed Growth Index, which comprises every classified growth, rose 26% in 2016, improving on the 10% increase it enjoyed in 2015.

Medoc Classed Growth Index – 2016

The Medoc Classified Growth index added moderate single-digit rises in the first nine months of 2017. This is just as expected; the lower classification tiers invariably lag slightly behind the top tier during periods of growth.

The above means that Classified Growths in the Medoc have risen in value an average of 40-45% over the last 3 years. This has lifted buyers of the 2009 and 2010 vintages back into the black, having languished in negative territory for the previous 5 years. If you were one of those (there were lots of us!) you will know how positive that feels. Naturally, many of those buyers have rejoined the market as sellers, creating two clear effects: 1) increased market activity in general, and 2) greater market liquidity for those great – and therefore important – vintages.

Medoc Classed Growth Index – last 12 month

Bordeaux futures market

This year, the 2016 Bordeaux futures release continued to make gains over the 2015s. In Euro terms the average rise was 15% – very reasonable, and quite justifiable given the extraordinary quality of 2016 wines from certain appellations, most notably the year's most climatically blessed communes – St Estephe, Pauillac and St Julien. Great wines were certainly made elsewhere in 2016, but not with such extraordinary homogeneity as in the upper Medoc.

A few chateaux which came out with big 2016 releases inevitably caught the headlines, but they were the exception rather the rule.

Below the first Growths, we are now flirting with the levels of 2010 release pricing. Whilst we are sanguine on pricing levels of the vintage given the excellent quality, further price rises in 2017 need to be very carefully considered given the relationship that en primeur campaigns can have on general market sentiment.

What's particularly interesting is that many established U.S. collectors we speak with were turned off participation at current release levels. We had expected U.S. consumers to be strong buyers of the 2016 campaign, given the relative strength of the Dollar vs the Euro in the summer, but this has not turned out to be the case. These collectors see no clear price advantage to buy early, and draw a clear distinction between Bordeaux releases that are plentiful and will be easy to buy in the future, and those wines whose future availability is likely to be extremely limited (notably from top producers in Burgundy, California and Piedmont).

These days, the top 60-100 chateaux are the only section of the en primeur market that appears worth bothering with, but which no longer have a pressing financial need for consumers to fund the next vintage. A small proportion of those made a financial case for buying early in 2016. Make no mistake there will be an *embarras de choix* in 10 years' time when the vintage will start drinking, but they will be readily accessible to buy on the secondary market.

Change is afoot in Bordeaux, but as with any deeply embedded distribution structure comprised of multiple layers, change can take time. For those small- to medium-sized négociants going it alone with modest stockholdings, the next few years are going to be tough. The withdrawal or reduction of *primeurs* supply by chateaux will further weaken those parts of the wholesale market that lack either a strong asset base or the resources to add value.

Chateaux are in the process of rationalising their routes to market, allocating their release quantities to fewer and fewer négociants, and developing ultra-high net worth relationships. They will value and appreciate those négociants with the people and know-how to offer a complete sales and marketing package to help them build their brands and increase customer engagement.

This rationalisation may be partly due to an interest in holding more stock at chateau, with a view to releasing at a market premium further down the road. But it may also be part of an implicit strategy to force consolidation within the supply chain, giving chateaux further control over pricing and geographical market allocation.

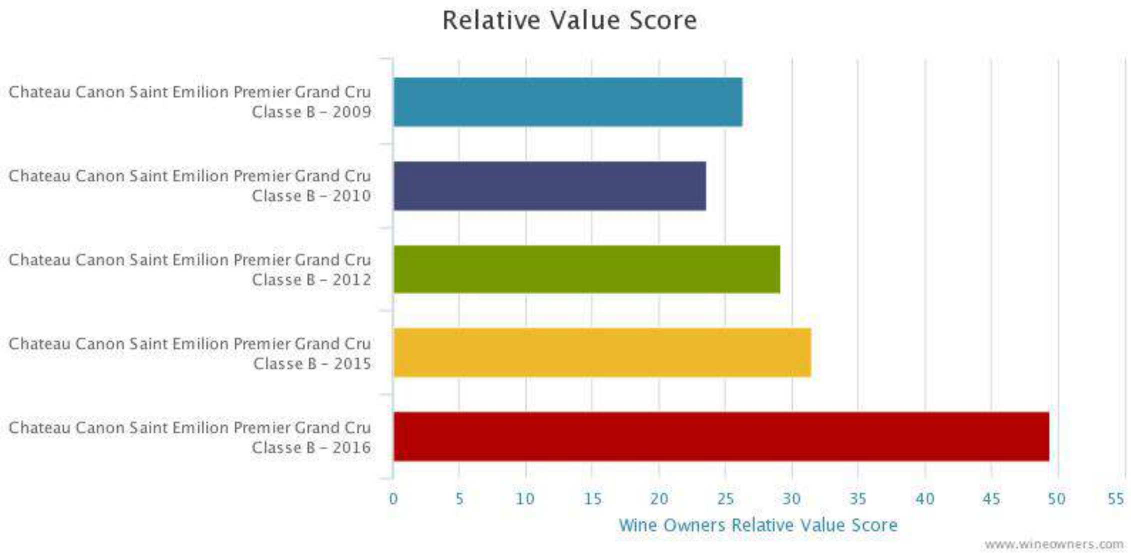
In the meantime, La Place is modernising, and introducing trading tools to give chateau owners more market transparency.

BORDEAUX 2016 PROSPECTS AND LOOKING FOR VALUE

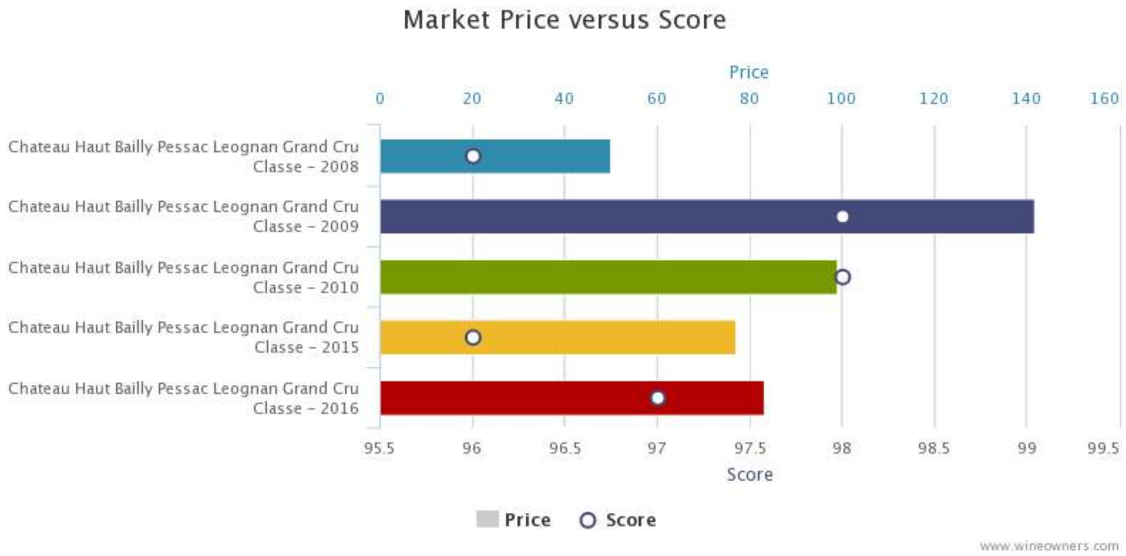
Immediate, obvious value was once again focused on a limited number of wines. Examples are provided below.

The chart below is a price-per-point snapshot comparing the new 2016 vintage with comparable back-vintages. All prices and scores are as at mid-2017.

'Relative Value Score' identifies vintages with relative greater potential. The higher the score relative to other comparable vintages (the longer the bar), the bigger the potential gain.

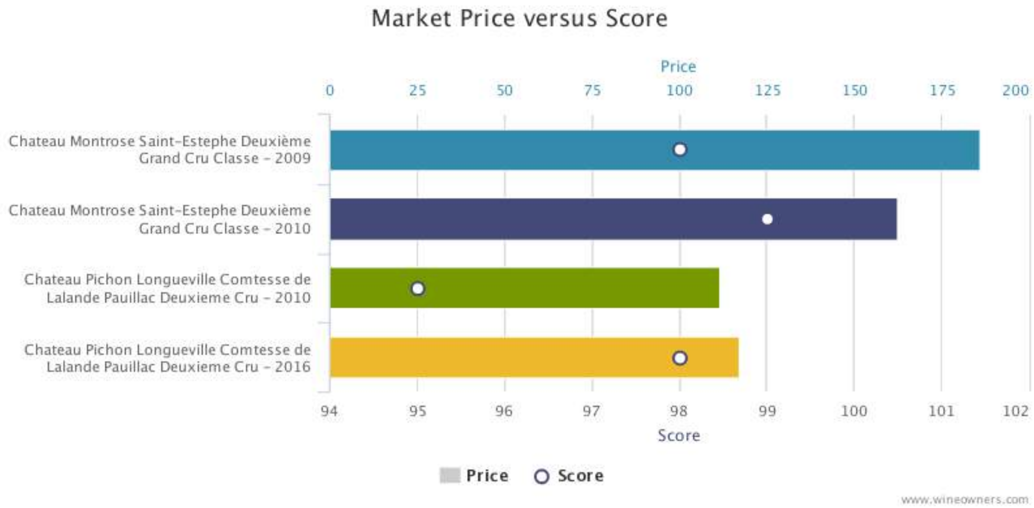


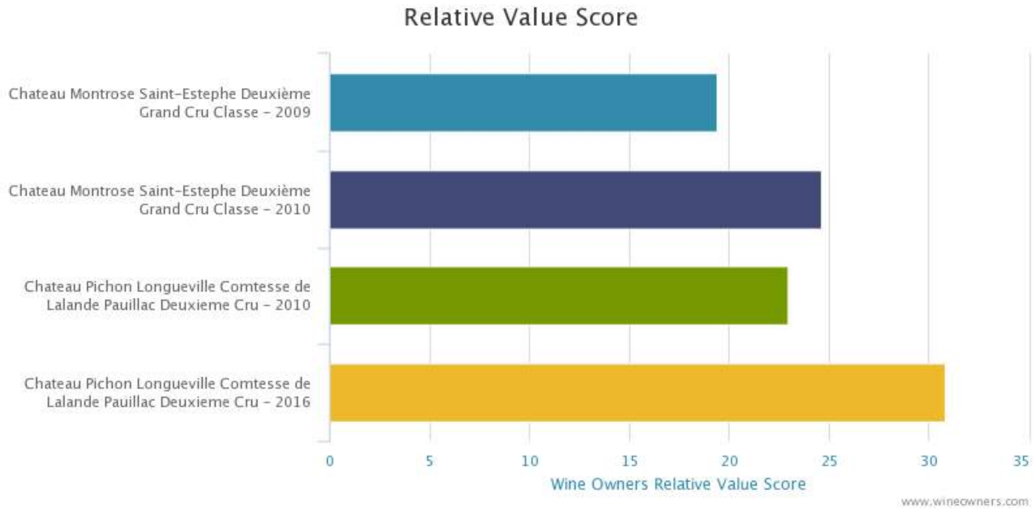
Haut-Bailly 2016 shows as rationally priced when looking at the market price snapshot, and relatively well rated, compared with the 2009 (but the standout has to be the excellent, classic 2008 that is offers very good value and plenty of upside).



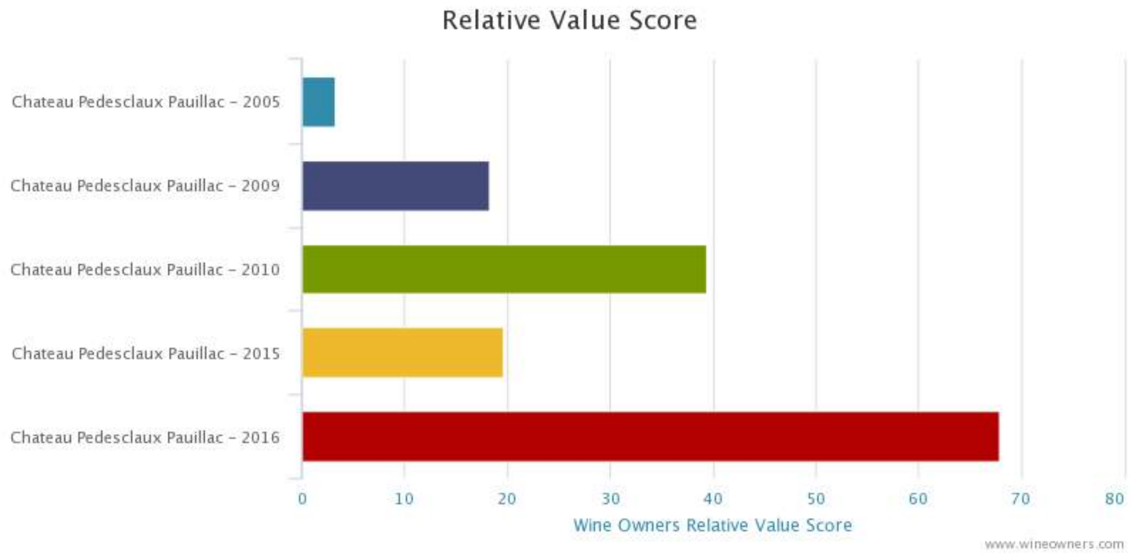
Pichon Lalande 2016 may have seemed expensive, but as one of the wines of the vintage, and with potential for a future perfect score, it too has significant upside.

Comparing it with the most successful vintages of Montrose (whose release pricing has been similar since 2010), we may well see a 35% rise over the coming 3 years.

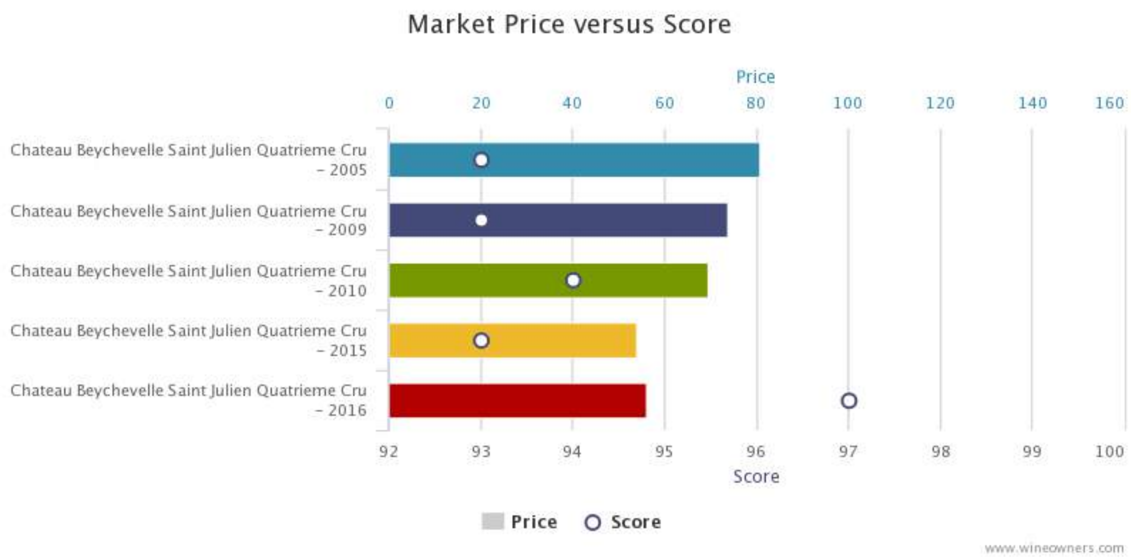


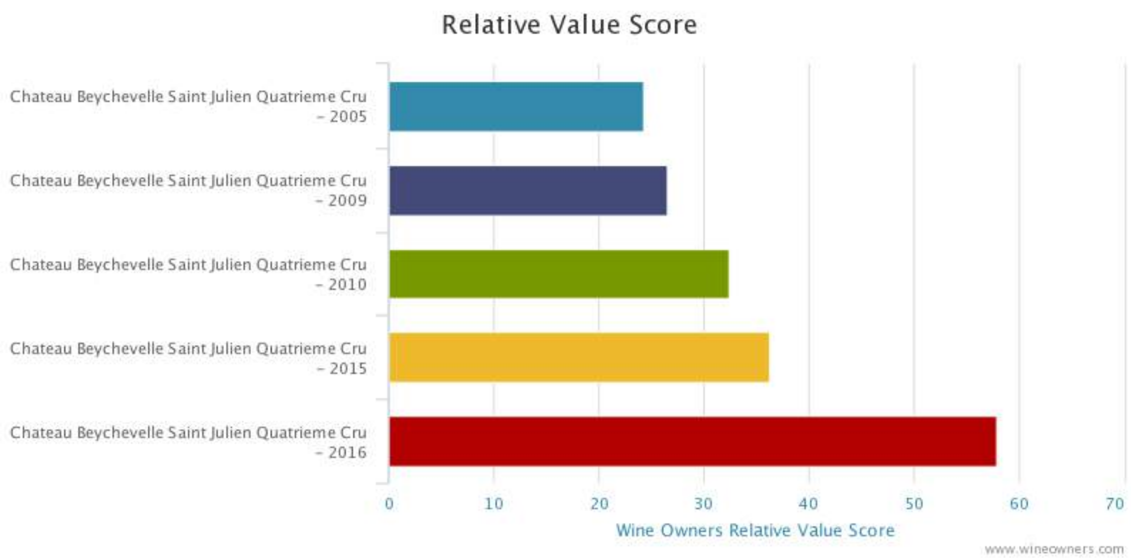


Up-and-coming producers represent an opportunity to buy early. A good example is the excellent Pédésclaux, a property that is transformed since changing hands in 2009. Even though its 2016 price increase seemed eye-watering as a percentage, that increase was from a low base price, and the wine itself was of top classed-growth quality.



Beychevelle 2016 was clearly a step up in quality over recent vintages. Its new cuverie signals ambition, and with an established Asian following, it exhibits a potential upside of 40%+ vs release.





Last but not least, and in fact the first major release of the campaign, Cos d’Estournel was universally acclaimed in the vintage, and we expect it has a 2-3 year upside of 35%-40%.

Relative market value should be considered in context of historical performance.

Ducru-Beaucaillou, for example, traditionally takes quite some time to gain market value, as demonstrated by the price graph for the excellent 2009 vintage, below. If that trend were to continue, there would no immediate rush to buy it at first release.

Bordeaux predictions

Value opportunities still exist across back-vintages. The rises we predicted of left bank 2005 and 1996 vintages have happened, and prices are substantially up compared with 2 years ago when we highlighted the value within those years. Nevertheless, there is scope for further rises.

It's also time to take a look at 2009 and 2010, focusing on those chateaux which showed restraint and moderation. What was far too expensive at release 7 years ago is now starting to look like better value as we approach the start of their drinking windows.

Shoulder vintages, or those that were less successful overall, can be a good hunting ground for value within the first decade after release, as vintages like 2002, 2001 and 1999 have proved. The more recent vintages to focus on are 2008, selectively 2011s and the best performers of 2012.

The unloved, and originally taciturn, 2011 vintage is said to have evolved well, showing excellent terroir definition, and with some notable top performers in Pomerol. Current values are still below their release prices, which were certainly far too high following on the back of the high prices achieved for the 2010s.

The Bordeaux brands most in demand will be those whose winemaking is classical and balanced – much better suited to Eastern cuisines than some of the bold, more extracted wines of the last couple of decades. Back-vintages with perfect provenance are likely to rise in value over the next few years, as new markets discover the magic of fully mature Bordeaux and supply becomes increasingly limited.

BURGUNDY

In our last report July 2016 Mid-Summer Predictions, we discussed the effect of land values on the price of wine.

In Burgundy, land values have been climbing inexorably for years; in 2017 land in the region's top crus is now worth twenty times what it was in the 1990s. Inheritance tax liabilities have therefore increased too, often to a crippling extent; assets valued at over €900,000 are taxed at 40%. This is forcing some producers to sell small parcels of their land, in order to settle the financial position for the next generation.

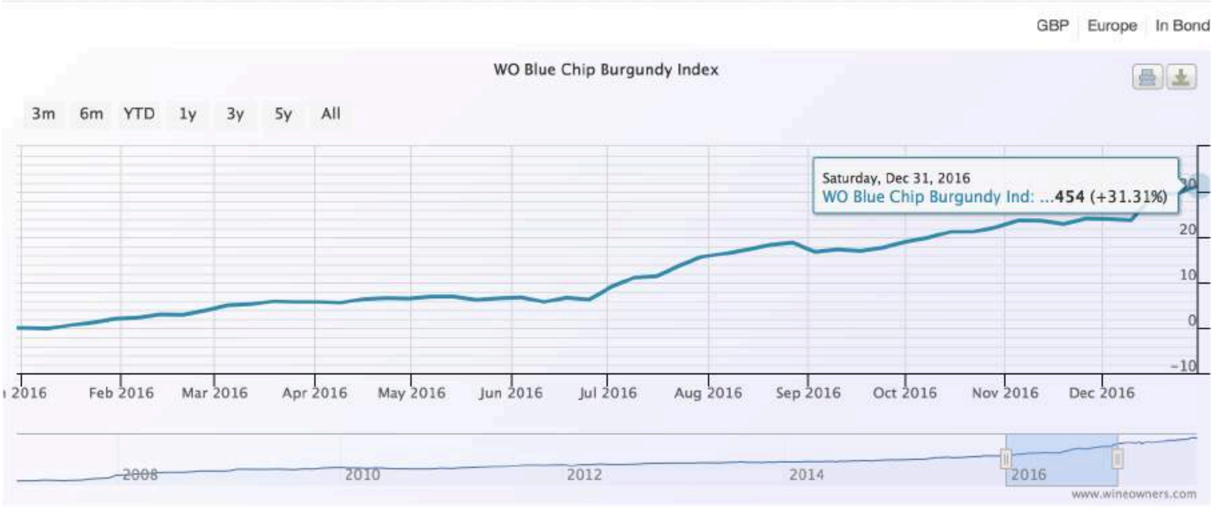
There is now a substantial disconnect between the value of land in top crus and the likely returns to be made from that land; the price of the land has increased faster than the price of the wine. But Burgundy's wine producers have traditionally invested for future generations (plural), so they appear sanguine about the exceptionally long-term return on their capital.

Land is the ultimate store of future value and continuity for a Burgundian. Global uncertainty and decades of punishing French taxes make investing in a sliver of the golden slope seem a relatively attractive prospect. Assuming that one can gain access, that is.

The above all puts long-term upward pressure on wine prices, which is at present compounded by the relative scarcity of product caused by a run of short harvests and the singular devastation of the 2016 frosts. Prices are pushing ahead.

2016 saw secondary market prices rise by over 31%.

Burgundy Blue Chip Index – 2016

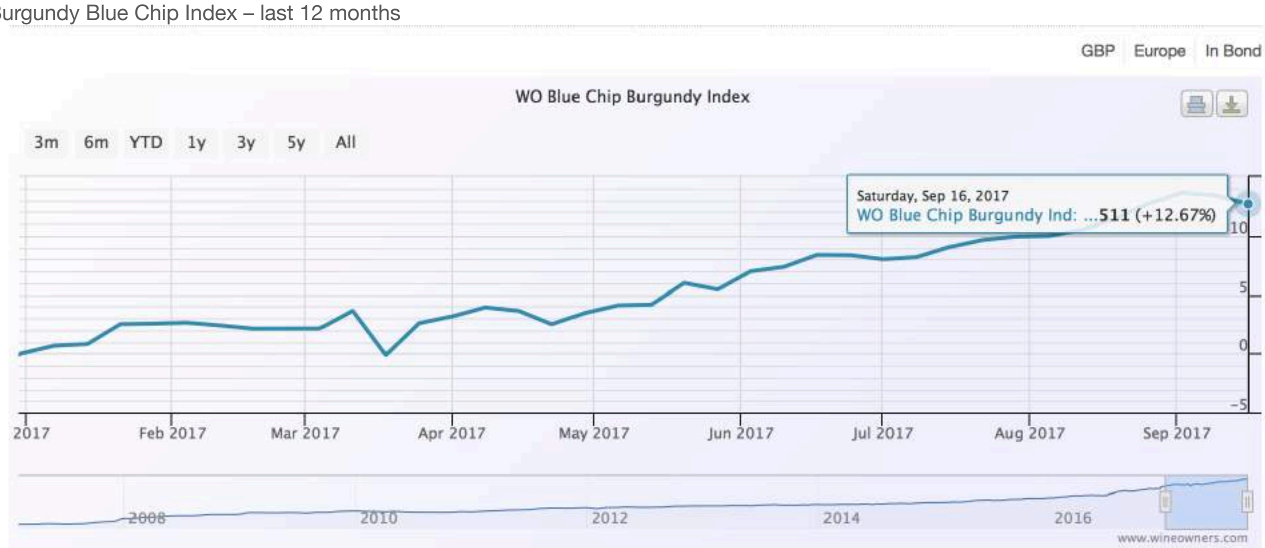


The high prices achieved with the 2015 vintage releases in early 2017 can only lend further support to the secondary market. Although more long-term collectors are dropping their allocations than ever before, there are plenty more Pinotphiles to take their place.

Where are these allocations going? Increasingly Asian buyers are stepping in, even if an increasing proportion of their purchases are stored in the UK and Europe, ensuring better provenance and future resale.

In a scarcity-driven market such as Burgundy, the demand–supply disequilibrium for new vintages seems to be more or less guaranteed. At the same time though, it doesn't take many buyers to ensure that sought-after crus are snapped up in the secondary market.

Burgundy Blue Chip Index – last 12 months



Burgundy is one of the few markets showing double-digit growth in 2017. It really has been a most remarkable run, and one that shows no sign of going into reverse, yet.

Though fundamentals remain strong, it's quite hard to imagine that Burgundy prices can carry on performing in the same way as they have over the last decade.

Burgundy predictions

In the short term, 2016's limited quantities will only drive prices higher. In the meantime, USA auction room prices are pushing the top wines skywards – a dynamic that will pull along prices in the following group of producers.

The 2017 vintage will see a return to cellars filled with barrels of good-quality Pinot, so perhaps that'll cool things down a little.

Land value increases, on the other hand, show no sign of abating, with Clos de Tart the latest large monopole to sell out (to Pinault: for a reported cool €250,000,000). Where else would agricultural land cost you €32,000,000 per hectare? As Steen Öhman says below, there's a lot of it made, and it is plentiful on the secondary market: can market price increases be sustained on this basis?

Meanwhile, the conveyor belt of domaines transformed by the new generation is an effective source of well-priced top Burgundy. The elapsed time between 'discovery' and price escalation seems to be getting shorter and shorter, however. If you don't get in within the first few years you may be shut out of merchant allocations; such is the premature frenzy over new discoveries.

Our good friend and leading Burgundy critic, Steen Öhman kindly agreed to share his thoughts on the Burgundy market, as follows:

"The Burgundy market is certainly getting more calculative and speculative these days. With rising prices, a larger share of the wines are acquired for investment purposes. I would expect this to give more volatile prices for wines that are produced in fair quantities or should I say - wines that are rather abundant in the market at current prices."

"I would indeed be careful to invest in wines where one can find fine older vintages of the wine at a lower or the same price as the latest release. I would expect these wines to be the first to depreciate if, or should I say when, the Burgundy luck changes. This could be wines like Clos de Tart ... rather lacklustre demand even at current prices and what seems to be a quite ample supply of older vintages."

"So, my advice is to check the market for older vintages – how is the supply of back-vintages (ample supply could indicate future volatility) and how are the prices compared to latest release."

Expect too to find value in some of the more plentiful vintages as well. Production volumes can have a qualitative effect on Pinot Noir, something that only becomes apparent with age, but those producers who were successful in vintages such as 1996 or 2007 have made exceptionally good wines that should become more apparent with time.

NORTHERN ITALY

Talking of strong markets, we've been arguing that Piedmont is another 'Burgundy' waiting to happen. The fundamentals of a scarcity-driven market are similar, not to mention small productions of single vineyard 'crus' and top reserve cuvées.

The best producers are making wines of restraint, transparency, aromatic complexity and elegance, and it's those that are attracting strongest interest.

The WO Northern Italy index, including Piedmont and Tuscany, rose 27% in 2016.

Northern Italy Index – 2016

To the end of September, 2017 remains strong as anticipated, with the remaining quarter likely to see further gains in back-vintages, as Barolo 2013 offers for blue chip producers are emailed out.

Northern Italy Index – last 12 months

Northern Italy predictions

18 months ago, we posed the question ‘will Piedmont finally pick up momentum in the next 2-5 years?’ We argued there was future value to be achieved, and noted that substantial gains at the very top of the market had yet to translate into broad-based growth across the region.

Well, it’s happened; a string of great vintages helps (2010, 2013, 2014) with some exceedingly toothsome years in between.

Do not expect to see Piedmont follow the same pattern as Burgundy though, in terms of the ripple effect across the region, but for now there is a growing group and ‘A’ listers and ‘B’ listers whose prices are destined to substantially increase.

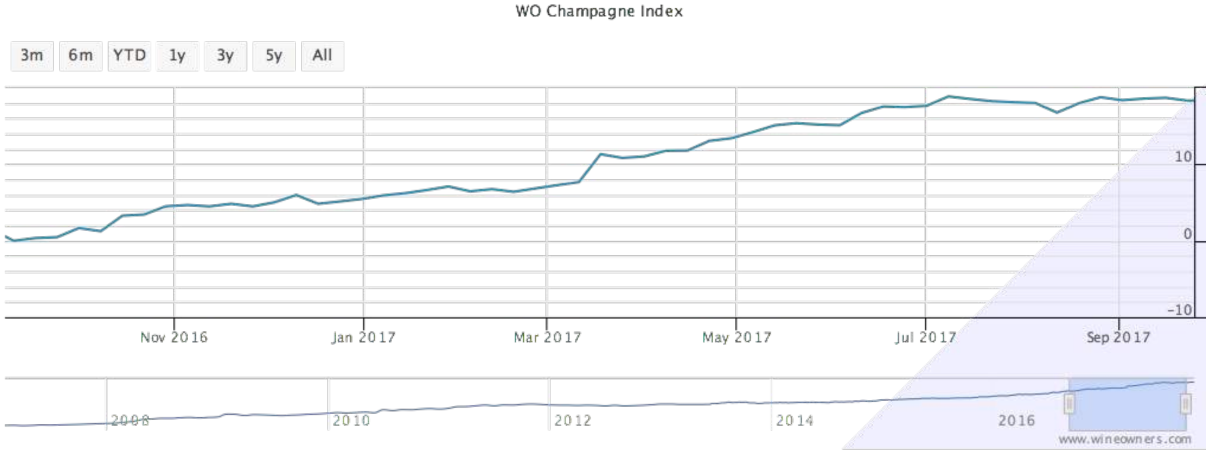
Soon after its release earlier this year, the Monfortino 2010 saw a dramatic price escalation, indicating either irrational exuberance or that a massive price rebasing is taking place for this iconic wine; prices rose from £6,000 to £13,000 in a matter of months. Either way, this inflation is likely to have an impact over the next 12 months on the price of other top-quality, low-production Baroli. Expect initially to see price appreciation in the smaller-production wines (less than 500 cases), followed in the coming years by those produced in larger volumes of 1,000+ cases.

CHAMPAGNE

Premium Champagne continues to perform well. The Wine Owners Champagne Index is unusual in that it focuses exclusively on older vintages. Because production quantities tend to be vast, our base assumption is that most wines produced by the Grande Marque Houses take a few years to appreciate in value as demand and supply equalize.

The Wine Owners Champagne Index is up 18.3% over last 12 months.

WO Champagne Index – last 12 months



Champagne market analysis shows that appreciation is driven by the top vintages and back-vintages. Rising prices in Champagne are linked to the rate at which stocks of specific vintages deplete; buyers can end up waiting several years before that happens.

This brings us back to theme of relative scarcity; lower-production super-cuvées from houses such as Salon, Selosse, Krug and Bollinger (Vieilles Vignes Francaises) are likely to deliver more predictable returns. Add to that mix the top echelon of small independent producers, and vintage or special cuvées from producers such as Egly-Ouriet from top vintages.

Champagne predictions

Of the new releases, 2008 is highly rated, and it would be a good place to start a Champagne collection of limited release wines now, and larger-volume premium Champagnes in a couple of years' time.

2004 may not have attracted the plaudits of 2002 but it wasn't far behind in a rounder style. After several years of flat-lining now may be the time to catch an upward price swing. 1996 is unquestionably great and long-lived, and whilst more expensive there are values to be had.

Top performers:

Bollinger Vieilles Vignes Francaises Blanc de Noirs	1996	77.43%
Bollinger R.D. Extra Brut	2000	52.29%
Bollinger R.D. Extra Brut	1996	48.57%
Pol Roger Cuvee Sir Winston Churchill	1998	46.38%
Taittinger Comtes de Champagne Blanc de Blancs	2000	45.83%
Philipponnat Clos des Goisses	1996	40.31%
Bollinger Vieilles Vignes Francaises Blanc de Noirs	1998	39.51%
Dom Perignon Rose	1996	39.06%
Krug Brut	1996	35.42%
Dom Perignon Oenotheque	1998	35.11%
Krug Brut	2002	24.59%
Louis Roederer Cristal Brut Millesime	2000	23.70%
Jacques Selosse Blanc de Blancs Millesime Grand Cru	1998	23.67%
Krug Clos du Mesnil Blanc de Blancs	1998	23.40%
Philipponnat Clos des Goisses	2000	23.29%
Philipponnat Clos des Goisses	2002	18.67%
Krug Clos d'Ambonnay	1998	18.37%
Dom Perignon Oenotheque	1996	17.95%
Agrapart & Fils Venus Blanc de Blancs	2002	17.86%
Taittinger Comtes de Champagne Blanc de Blancs	1998	16.80%
Krug Brut	1998	16.13%
Krug Clos d'Ambonnay	1996	15.56%
Krug Brut	2000	14.81%
Krug Clos du Mesnil Blanc de Blancs	2000	14.65%
Taittinger Comtes de Champagne Blanc de Blancs	1996	14.54%
Bollinger Vieilles Vignes Francaises Blanc de Noirs	2004	13.64%
Louis Roederer Cristal Brut Millesime	2002	13.64%
Jacques Selosse Blanc de Blancs Millesime GC	1996	10.41%
Salon Cuvee S Le Mesnil Blanc de Blancs	1996	10.31%

RHONE VALLEY - NORTH

The wines from the Northern Rhone Valley have continued their resurgence of 2015/16, yet still represent some of the very best values in the wine world for wine lovers and passion-led collectors.

Northern Rhone Index – last 12 months

The Wine Owners Northern Rhone Index was up 8.7% in 2017, and dominated by older vintages of Cote Rotie (20 out of the top 30).

Meanwhile recent vintages of Guigal's Cote Roties may still be feeling the after-effects of being used as a staple by too many wine investments funds – the bad as well as the good.

Recent vintages have seen strong growth in places, along with the positive theme of back-vintages performing consistently better, where Cote Rotie is most represented among the strongest performers.

See below:

Domaine Jamet Brune Cote Rotie	1991	261.40%
M. Chapoutier La Mordoree Cote Rotie	1991	148.94%
Domaine Jean Louis Chave Hermitage	1991	61.69%
Domaine Jamet Cote Rotie	2009	60.63%
Domaine Yves Cuilleron Vertige Condrieu	2010	49.27%
E. Guigal Ex Voto Ermitage	2003	48.80%
Domaine Jamet Cote Rotie	2001	48.80%
Domaine Jamet Cote Rotie	2007	45.29%
Domaine Georges Vernay Coteau du Vernon Condrieu	2009	41.50%
Domaine Jamet Brune Cote Rotie	2001	40.58%
Delas Freres Domaine des Tourettes Hermitage	2003	40.06%
Domaine Jean-Michel Gerin Les Grandes Places Cote Rotie	2003	39.47%

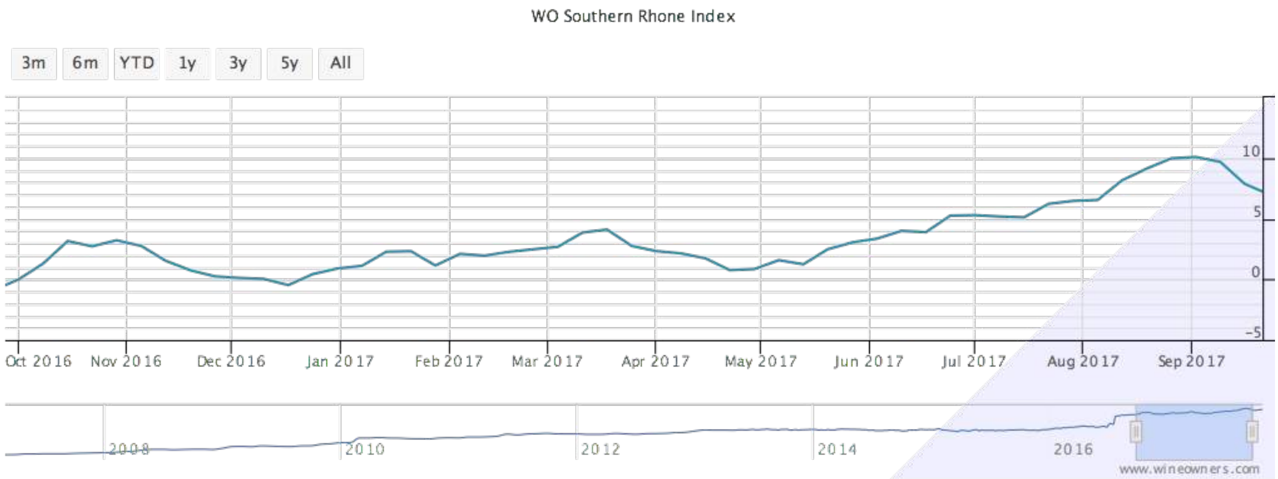
Domaine Jamet Brune Cote Rotie	2003	39.41%
Paul Jaboulet Aine La Chapelle Hermitage	2001	33.15%
Domaine Jean-Michel Gerin Les Grandes Places Cote Rotie	2001	32.90%
M. Chapoutier Ermitage Le Meal Blanc Hermitage	2010	32.05%
Domaine Georges Vernay Coteau du Vernon Condrieu	2007	29.14%
Domaine Jamet Cote Rotie	2003	28.06%
M. Chapoutier Ermitage Le Meal Hermitage	1999	25.44%
Domaine Jamet Cote Rotie	1990	23.48%
Domaine Jean-Michel Gerin Les Grandes Places Cote Rotie	2007	20.58%
E. Guigal La Mouline Cote Rotie	2007	20.21%
E. Guigal La Turque Cote Rotie	1991	18.91%
E. Guigal Chateau d'Ampuis Cote Rotie	1999	16.90%
Domaine Jamet Cote Rotie	1999	16.25%
Domaine Jamet Brune Cote Rotie	2010	15.00%
Domaine Yves Cuilleron Vertige Condrieu	2009	14.09%
Domaine Michel Ogier Cote Brune La Belle Helene Cote Rotie	2003	13.51%
Paul Jaboulet Aine La Chapelle Hermitage	1999	13.34%
E. Guigal La Mouline Cote Rotie	1991	13.17%
Delas Freres Bessards Hermitage	2001	12.97%
E. Guigal La Turque Cote Rotie	2007	12.78%
E. Guigal La Mouline Cote Rotie	2001	11.96%
Domaine Jean Louis Chave Hermitage	1999	11.75%
M. Chapoutier Ermitage de L'Oree Blanc Hermitage	2001	11.17%
Domaine Jean Louis Chave Hermitage	2007	10.60%
E. Guigal Chateau d'Ampuis Cote Rotie	2007	10.43%
E. Guigal Ex Voto Ermitage	2010	10.03%

RHONE VALLEY - SOUTH

The Wine Owners Southern Rhone Index is also up 8% over the last 12 months, showing more of a roller-coaster shape to the price graph, which perhaps reflects less stable demand for its top wines.

Young Chateauneuf-du-Pape is great value at release, and there is some price advantage to buying in the primary market at initial allocation. The secondary market is less liquid and – for now at least – takes more time to sell through. Its relative illiquidity means that it's sensible to focus on top producers such as Beaucastel, Giraud, Paul Avril and Pegau.

Southern Rhone Index – last 12 months



USA

Having risen by 25% over the previous 3 years, and up 426% over the last decade, the last 12 months have been all about consolidation, with growth of 5.7%.

The USA's performance has been very similar to Burgundy over a 10-year span, although the graph hides some big winners and losers. Whether falls of some index constituents (up to 30%) indicate a toppy market or simply relative illiquidity remains to be seen.

We may also be seeing the market favour a fresher, more classical style of winemaking.

WO California Index – last 12 months

The fact remains that market fundamentals have supported very strong growth in Californian fine wine over the last decade, and we've said before that growth in scarce and sought-after boutique/ cult wines tends to be non-linear. Periods of prolonged growth or short-term spikes can be followed by declines, as in-market buyers recalibrate relative value.

Of all the market fundamentals previously discussed, the direct-to-consumer model appears to have the greatest effect on secondary market pricing, because it ensures that a material proportion of each new vintage is already spoken for before it gets into traditional distribution channels.

WINE COLLECTING: TOP 4 TIPS

Diversify

As with any investment, spread your risks. A portfolio will inevitably include Bordeaux, given the region's dominance of the fine wine market, along with components that may include Burgundy, Champagne, Northern Italy, Northern Rhone and California.

Think of markets being either large and liquid (Bordeaux) or scarcity-led and in-demand (top Burgundy). Avoid the large middle market except for your own drinking pleasure.

Personal preferences or interests should quite rightly influence your portfolio. For example, if you are familiar with (and like) top Californians you might choose to buy Harlan, Bryant, Ridge etc.

Buy the best you can afford

Wines are stored in bonded warehouses, where they can be kept for years or decades without requiring tax and duty to be paid. It's worth considering this when buying wine for investment, since storage charges of around £12/ case per annum can disproportionately eat into the profits of lowest-priced fine wine.

In Bond duty status

The UK is still, for now, a fine wine trading hub. It's a truly global market, with buyers from all over Asia, The Americas, Europe and parts of Africa. Storing fine wine in bond means not paying VAT and duty – costs you would never recuperate on the secondary market.

'In Bond' status also reassures the buyer that the wine has been professionally stored its whole life, which helps establish good provenance. The exception is older wines that nonetheless should have traceability of history.

Beware of cold-callers

Don't buy wine from cold-callers unless you have satisfied yourself beyond all reasonable doubt that they are reputable, and that their prices are competitive. Ask yourself why they are cold-calling you and whether you are comfortable with that approach.

Use Wine Owners to check the true market value for a given wine at any point in time. Typically, cold calls come from 'wine investment companies' who call consumers with the promise of extravagant returns. In a regulated market many entities such as these would be open to accusation of mis-selling. If in doubt, put down the phone!