

Market Report | March 2010

"While fine art has risen by 9 per cent, collectable stamps by 61 per cent and residential property by 118 per cent over the decade to December 2009, some premium cases of wine from Bordeaux have risen by almost 900 per cent"

FT
25th Jan 2010

Background

Albany Portfolio Management (APM) was established early in 2009 to provide a broader base of investors with access to the fine wine market and operates in association with Albany Vintners, a highly renowned and long established wholesale fine wine merchant. APM has one simple objective; to add wealth to its customers.

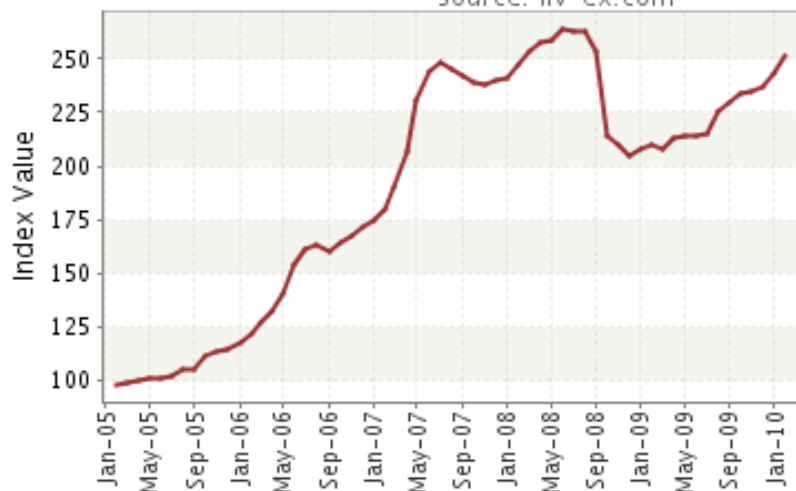
2010 kicks off with a bang...

The wine market has positively launched itself into the New Year with the Liv-Ex 100 - the industry's benchmark index - up some 5.8% by the end of February. The index has fully recovered from the credit crunch driven dip of late 08, and now sits tantalisingly close to its 2008 high (just 5% below). Notably Liv-ex's Fine Wine Investables Index, which tracks the 24 wines most commonly found in an investment portfolio, hit an all time high at the end of January.

Whether this pace can be maintained remains to be seen - at the current rate of growth we would find the market up by over 40% by the end of the year - but there is much cause to remain bullish. Whilst January's growth (2.7%) may have been bolstered by heavy buying in the lead up to the Chinese New Year, the subsequent higher increase in Feb (3%) is a sure consequence of mounting confidence and optimism. Crucially, demand from the now dominant Chinese and Asian markets continues to grow exponentially - the impact of which we cannot over emphasise.

Liv-ex 100

source: liv-ex.com



...and a great inaugural year for APM

The chart below documents the price performance for each of the wines recommended by APM during its first 12 months of trading from March 09 to Feb 10. All recommended wines have appreciated – some spectacularly – with prices having risen by an average of 23.8% to date and continuing to grow at an annualised rate of 56.8%. In the same period the Liv-Ex 100 has risen by 20.9%.

Due to the growth rate remaining high the volume of early profit taking has been understandably modest with few clients electing to cash in on their investments. Those that did realised an average return net of all costs including our management fee of 13.4% on an average hold of 6 months.

Disclosure

APM believe that investing in wine should be both enjoyable and profitable, but like any traded commodity there are risks and wine can go down in value as well as up. Albany Portfolio Management is **not** regulated by the Financial Services Authority

APM performance: 12 months March 2009 – February 2010

Wine	From	Opening ¹ APM Price	Market ² Price Now	% Change ▲▼	Months	Monthly Growth (%) (compounded)	Annualised Growth (%) (compounded)
Ausone 99	Jan 10	3,700	3,772	1.9	2	0.97	12.3
Ausone 01	Nov 09	5,400	6,381	18.2	4	4.26	65.0
Ausone 03	Aug 09	11,950	15,716	35.5	7	3.99	59.9
Ausone 08	Jul 09	7,200	7,794	8.3	8	1.00	12.7
Cheval Blanc 00	Nov 09	6,600	8,207	24.3	4	5.60	92.2
DRC St Vivant 05	Nov 09	11,000	12,033	9.4	4	2.27	29.8
Duhart Milon 05	Aug 09	460	619	34.6	7	4.33	66.3
Haut Brion 05	Feb 10	5,400	6,307	16.8	1	16.8	n/a
Lafite 96	Jul 09	6,800	9,269	36.3	8	3.95	59.1
Lafite 01	Oct 09	3,800	5,020	32.1	5	5.73	95.1
Lafite 04	Nov 09	3,850	4,984	29.5	4	6.67	117.0
Lafite 06	Aug 09	3,300	4,494	36.2	7	4.51	69.8
Lafite 08	Jun 09	3,250	5,390	65.8	9	5.78	96.3
Latour 96	Mar 09	5,000	6,030	20.6	12	1.57	20.6
Le Pin 00	Aug 09	23,000	26,287 ³	14.3	5	2.71	37.8
Le Pin 01	Nov 09	14,000	20,671 ⁴	47.6	4	10.23	221.8
Le Pin 04	Aug 09	7,800	14,001	79.5	7	8.72	172.7
Margaux 90	Nov 09	7,700	9,208	19.6	4	4.57	71.0
Margaux 96	Mar 09	4,400	5,385	22.4	12	1.70	22.4
Mouton 04	Dec 09	1,900	2,194	15.5	3	4.91	77.8
Mouton 07	Jan 10	2,550	2,781	9.1	2	4.43	68.2
Mouton 08	Aug 09	1,850	2,641	42.8	7	5.22	84.15
Petrus 05	Nov 09	25,000	26,696	6.8	4	1.65	21.7
Petrus 08	Sep 09	18,000	21,840 ⁵	21.3	6	3.28	47.3
		183,910	227,720	23.8	5.75	3.82	56.8

¹ Excludes management fee

² Average prices reported on Liv-Ex www.liv-ex.com 01.03.10

³ No Liv-Ex data available. Figure represents recent auction price: Christie's Hong Kong 28.11.09

⁴ No Liv-Ex data available. Figure represents Fine & Rare Wines price quoted price on www.wine-searcher.com 01.03.10

⁵ No Liv-Ex data available. Figure represents Berry Bros & Rudd price quoted price on www.wine-searcher.com 01.03.10

"A 6-liter bottle of Chateau Lafite 1982 fetched HK\$363,000 (\$46,700), nearly twice its presale high estimate, at a sold-out wine auction in Hong Kong as the quest for rarity and inflation concerns drove prices higher"

Bloomberg
24th Jan 2010

The 'market price now' figure is the average price for the various wines as reported on Liv-ex at the time of composition. Liv-ex draws market feed information from dozens of leading merchants, brokers & auction houses. Please note that this figure is for general guidance only and is intended to give an indicative price that one would pay for the same wines today.

The illiquid nature and ultra scarcity of some wines – notably Pétrus, Ausone & Le Pin – means that trading and availability is both narrow and sporadic. Indeed, at the time of composition, the market was devoid of Le Pin 00 and Liv-ex was not quoting an average price for Le Pin 01 or Petrus 08. We have used a reasonable alternative in each instance. The wines from these Châteaux have a tendency to appear inactive for periods of time followed by sudden and often dramatic 'steps' in their yield curves so prices in the market may vary wildly at certain times. We would suggest that the 'market price now' figure for Le Pin 04 is unrealistically high.

Selection policy & portfolio composition

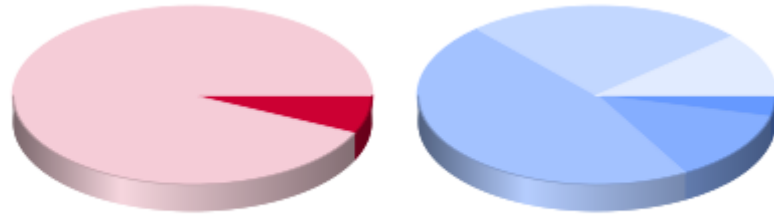
APM's aim is to identify low risk, high capital appreciation opportunities. In consequence our portfolios are built generally from the top Châteaux of Bordeaux (currently 93%) and Burgundy (7%). APM deals in well established, internationally renowned estates with a proven, demonstrable track record and ready secondary market. The wines are selected from the following categories:

1. Bottled vintages approaching optimum drinking: As wines approach this important juncture in their lifespan they become more desirable leading to an increase in demand. They also display a helpful characteristic not seen in any other asset class; a perfect inverse supply curve. Each bottle drunk can never be replaced.
2. En Primeur (wine futures): This is where the wine is still in the barrel and generally at its cheapest price. Highest potential for gain but traditional volatility and higher risk necessitate caution

“Behind the price surge is a limited supply and an influx of new-money buyers from China and the rest of Asia. Specialists reckon that, as China continues to industrialise, prices for fine wine will continue to soar”

The Guardian
21st Nov 09

3. Undervalued wines from recent vintages: We carefully track buying patterns, demand and fluctuations in taste (particularly from China) for wines from recent vintages to identify undervalued opportunities.



Bordeaux | Burgundy 82-94 4% | 95-99 13% | 00-04 46% | 05-07 25% | 08 11%

APM is risk averse when it comes to New World wines due to narrow exit markets and lack of clarity in pricing. To date APM has not promoted the wines of any New World estate.

Market Summary

The 1996 vintage, which forms the backbone of many of our clients’ portfolios, has dominated trading in the formative months of 2010, accounting for some 16% of trading on Liv-Ex in January. 1996 produced huge, complex and powerful wines in the Médoc that are held in the highest esteem by critics. These wines required long cellaring and patience and are only now entering their optimum drinking age; hence the increased attention.

These wines are now being purchased to be consumed, further increasing their desirability, shortening supply and exerting upward pressure on prices. Only Lafite has so far has shown its true colours – appreciating by 36% since we first recommended it in July 09 – but trading was up across all 5 first growths in January with Latour taking the lead. We have been a touch disappointed with the comparatively modest appreciation to date for the Latour and Margaux (20.6% & 22.4% respectively) but feel sure that these are set to be shining stars for our clients in 2010. Latour 96 was Liv-Ex’s featured wine in their February market report.

Elsewhere, an interesting polarising effect in the market is developing. While top brands thrive there is a huge stock of lesser Bordeaux Château from respectable vintages (as well as poor Vintages) for which the buyers are rather thin on the ground. This gives two different pictures of the market with some Merchants and Négotiants struggling to survive whilst at the very top end the market forges ahead. This polarising effect has been compounded by the Diagio Châteaux & Estates sell off in the states, but it now seems safe that this will have little or no knock-on effect on the investment market.

A rising star.....

For some time we have been tipping Château Duhart-Milon-Rothschild which looks set for a very bright future. Until relatively recently the estate produced some pretty unspectacular wines and even the use of ‘Château’ in the moniker seemed a little optimistic; Duhart has no stone building on the estate, so ‘Large Shed’ would be a little more apt.

However, the estate was bought by the Rothschild dynasty in 1962, and following significant investment, new vines and a touch of Domaines Barons de Rothschild magic, quality has sharply improved, as has image and pedigree. Since 1999 Duhart has been under the control of Charles Chevalier, general manager of Lafite and credited with elevating the profile of its second wine, Carruades De Lafite, to such a degree that it is now shares a similar standing to the First Growth.

Couple this with a Rothschild re-branding (go on, we challenge you to spot the difference between the two bottles pictured: Duhart to the left and Lafite to the right) and demand is going through the roof – particularly in China with her love of all things Rothschild.

We believe this wine will follow in the footsteps of Carruades De Lafite, which under Chevalier’s helm has enjoyed stratospheric growth (the 05 leapt from £500 to £2000 in the last two years alone). We first tipped Duhart 05 last year at £460 and continue to tip it today at £600.



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