



ENCARTA
Investment Group



FINE WINE INVESTMENT SPECIALISTS



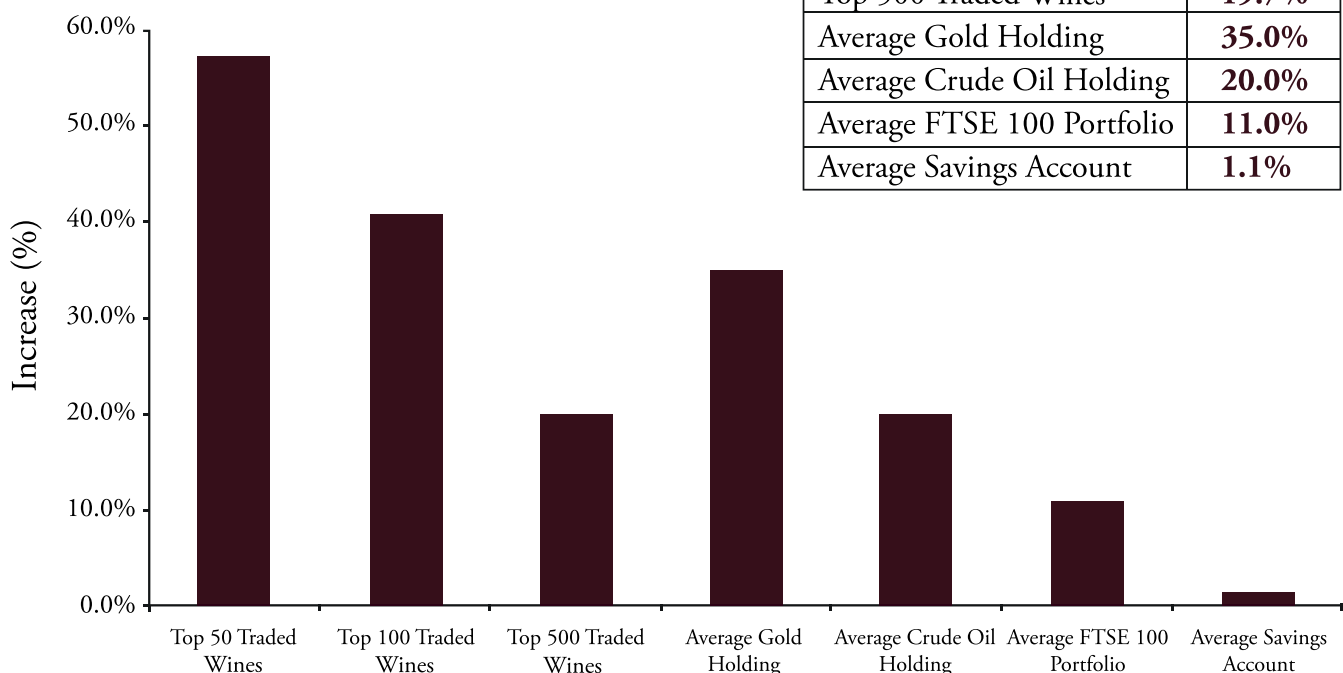
INTRODUCTION

Our immediate thoughts when we hear the word “investment” would generally be of stocks, shares and property. Investing in fine wine is an alternative traditional method of investment that has been around for over three hundred years. Although not as well known as certain other investments, fine wine has proven to be a highly lucrative alternative investment commodity.

The most successful and secure investment wines come from the Bordeaux region of France. The production of these top-quality wines is strictly controlled by the French Agricultural law “Appellation Controlee”. This results in strictly controlled limits on their annual production, which helps ensure quality and also maintains their scarcity. Ever-increasing global demand for these wines ensures that their values continue to increase.

Fine wine investments can have a stabilising effect on any investment portfolio. Fine wine investments have proven to be generally unaffected by the fluctuations of stock markets and are highly resilient during harsh economic times. Over the past thirty years fine wine investments have shown exceptional stability and growth and have also outperformed many fixed-income equities and various other major investments sectors.

Investment Comparison During 2010



What affects Wine Prices?

- Robert Parker, the acclaimed US 'Wine Critic', has astounding power. His power is such that the Bordelais will rarely release their latest vintage until Mr Parker has 'scored' the wines. A re-evaluation of any wine's score upwards can affect the price of a wine almost immediately, with an upgrade provoking a spike in the price as buyers chase the wine.
- Stock Availability: These are niche wines with tiny productions. With high demand and often cult followings, these wines can often reach astronomical prices. Each Château can only produce around 12,000 cases annually due to the French Law 'Appellation Controllee'. This means that they cannot mass produce the wines. If a vineyard has a low production, they must still use 95% of that year's grapes in each bottle. This ensures that the quality is not compromised and could result in less than 10,000 cases being produced in a year.
- The Seasons: There are many worldwide public holidays that effect a wine's price. These holidays produce significant increases in consumption levels. The law of supply and demand states that as a supply decreases, the only way the demand can go is up. So when high consumption levels come into play we see high price rises. These such times are Chinese New Year, The Moon Festival and Christmas/New Year. Please also note that the release of a new vintage can also push back-vintage prices up as we have seen with the release of the extraordinary 2009 vintage.

Fine Wine Investment – Important Points

Growth Rate

Traditionally wines have risen in value by an average of between 10-20% per year, though these rises are not necessarily uniform; movement is often sporadic. Over the past few years, some wines have accrued this level of increase in a matter of months, but this should not be seen as typical.

Tax

Wines are not subject to capital gains tax as the Inland Revenue considers them to be a "wasting asset". The definition of a "wasting asset" is an asset that's useful life is not likely to exceed 50 years. As wines reach their peak of maturity between 25 and 40 years, it would be very difficult to argue that they have a useful life of over 50 years.

The Classifications

For the 1855 Exposition Universelle de Paris, Emperor Napoleon III requested a classification system for France's best Bordeaux wines which were to be on display for visitors from around the world. Brokers from the wine industry ranked the wines according to a château's reputation and trading price, which at that time was directly related to quality. The result was the Bordeaux Wine Official Classification of 1855. The wines were ranked in importance from first to fifth growths (crus). All of the red wines that made it on the list came from the Médoc region except for one: Château Haut-Brion from Graves. The white wines, then of much less importance than red wine, were limited to the sweet varieties of Sauternes and Barsac and were ranked only from first great growth to second growth. Within each category, the various châteaux are ranked in order of quality and only twice since the 1855 classification has there been a change, first when in 1856 Château Cantemerle was added as a fifth growth (having either been originally omitted by oversight or added as an afterthought, depending on which of the conflicting accounts is correct) and, more significantly, in 1973, when Château Mouton Rothschild was elevated from a second growth to a first growth vineyard after decades of intense lobbying by the powerful Philippe de Rothschild.

First Growths (Premiers or 1er Crus)

Château Lafite Rothschild, Commune de Pauillac, Haut-Médoc (second wine – Carruades de Lafite)

Château Latour, Commune de Pauillac, Haut-Médoc (second wine – Les Forts de Latour)

Château Margaux, Commune de Margaux (second wine – Pavillion Rouge de Margaux)

Château Haut-Brion, The only Château situated in Graves rather than Médoc (second wine – La Clarence du Haut Brion)

Château Mouton Rothschild, Commune de Pauillac, (reclassified from Second Growth status in 1973; second wine – Le Petit Mouton)

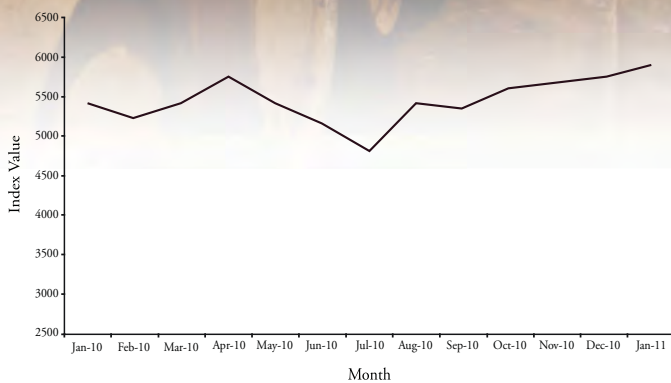
FINE WINE AGAINST THE MARKET

“Fine Wine –
best investment
of the decade”

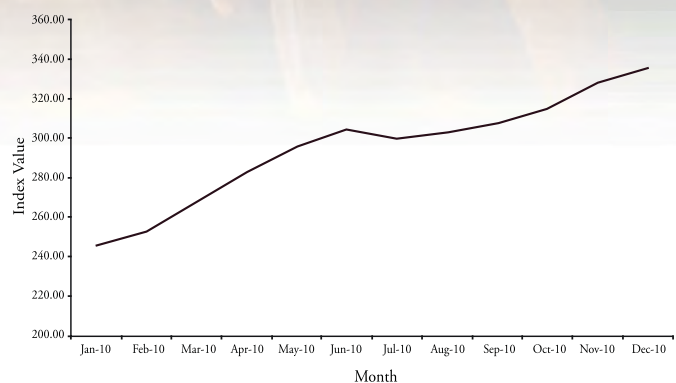
The Guardian

The correlation between the financial and fine wine markets is relatively small. The market as a whole has been resilient when compared with more traditional investment markets. The reason for this is relatively easy to explain: fine wine is a tangible asset, it is a luxury product that we aspire to own, consume and know more about. For many people it's much more useful than gold, and easier to enjoy than art. Interest in wine is growing at all levels. Most importantly is supply, which is limited; the supply of any particular vintage for instance Château Margaux, is constantly diminishing and in the case of younger vintages is constantly improving.

FTSE 100 over 2010



Top 100 Traded Wines over 2010



Fine wine 'bigger than gold or crude'

Liv-Ex

Tuesday 4 January 2011 by Richard Woodard

Fine wine from Bordeaux has been a more lucrative investment over the past 12 months than gold, crude oil or shares, according to the Liv-Ex Fine Wine Exchange.

The index said its Liv-Ex Fine Wine 50 – which tracks the top five Bordeaux châteaux across ten different vintages – had risen by 57% during 2010, breaking through the 400-point barrier in December.

That compares to a 35% rise in the value of gold over the same period, while crude oil has risen by only 20%. Leading share indices the S&P 500 and the FTSE 100 moved up by 13% and 11% respectively.

Liv-Ex said this year's increases had been driven by 'exceptionally strong' demand from Asian markets, China and Hong Kong in particular.

Lafite-Rothschild continued to lead the market, with some vintages doubling in value over the past year.

Encouragingly, the market broadened considerably in the last few months of 2010 to encompass a number of its Bordeaux peers.



FINANCIAL TIMES
Business



In June 2010, China strengthened its image as a rapid evolving wine market during Vinexpo Asia-Pacific in Hong Kong. This was a huge jump from just two years ago, when industry members were still exploring how to get their feet wet in the Chinese market. The 2010 expo has seen a gold rush atmosphere, with everyone looking to get a piece of the action, especially sales of the 2009 Bordeaux futures.

The Chinese focus on brands, rather than vintages, has also changed the investment side of the market. Now, more and more newcomers, especially from mainland China, are eager to bid in Hong Kong. Asia's appetite for Lafite over the past three years is strongly indicative of the impact the region will have on the fine wine market as a whole. Due to the greater actual physical consumption in China of the various released Lafite vintages, the supply of Lafite stock for these vintages is decreasing faster than that of its peers. The Chinese love affair with the brand is decreasing the length of time an investor needs to hold the wine before increasing scarcity value becomes relevant. The 1996 and 2000 vintages, which are not due to be consumed for at least another 10 years, are already being consumed now.

Other brands are following suit. These include Lynch Bages, Mouton Rothschild, Haut Brion, Latour, and Margaux. In time the whole market will benefit from the growing culture of fine wine appreciation in the Far East, predominantly represented by the grand cru classé reds of Bordeaux.

U.K. merchants used to sell some 40 percent of their stock to U.S. trade and private customers; now those sales have shifted to buyers in Hong Kong. Those merchants sold \$80 million of still wine to Hong Kong's five top importers in the first seven months of 2009 -- more than in all of 2008 and nine times what was sold in 2006. Recent years had seen positive indications of greater interest in En Primeur wine among Asian investors. In all of 2009, during the 2008 Bordeaux vintage campaign, Asian sales of 2008 Bordeaux exceeded those in the UK for the first time ever.

Hong Kong has become an auction hub that rivals London and New York. Five major houses now hold regular sales, and they're pulling in record prices for the hottest labels.

What pushed this vibrant city into the wine big league was its decision to abolish all taxes on wine, on February 27, 2008. Sotheby's combined April and October sales last year brought in more than \$14 million, including a record-breaking price for an imperial of 1982 Chateau Petrus (which holds as much wine as eight regular-sized bottles): \$93,077.

Sophisticated Hong Kong has long had highly knowledgeable Bordeaux lovers with extensive cellars, such as Henry Tang, the city's chief secretary. Most of them made their purchases in the U.S. and the U.K. and kept their wines there to avoid paying taxes. In the past few years, an increasing number of Asian buyers have regularly snapped up many of the most expensive lots.

Now, more and more newcomers, especially from mainland China, are eager to bid in Hong Kong. They start with the best; it's like buying a Lamborghini as your first car.

Andrew Lloyd Webber's wine auction fetches £3.5m

A selection of Andrew Lloyd Webber's wine collection has been sold for £3.5 million at auction in China.

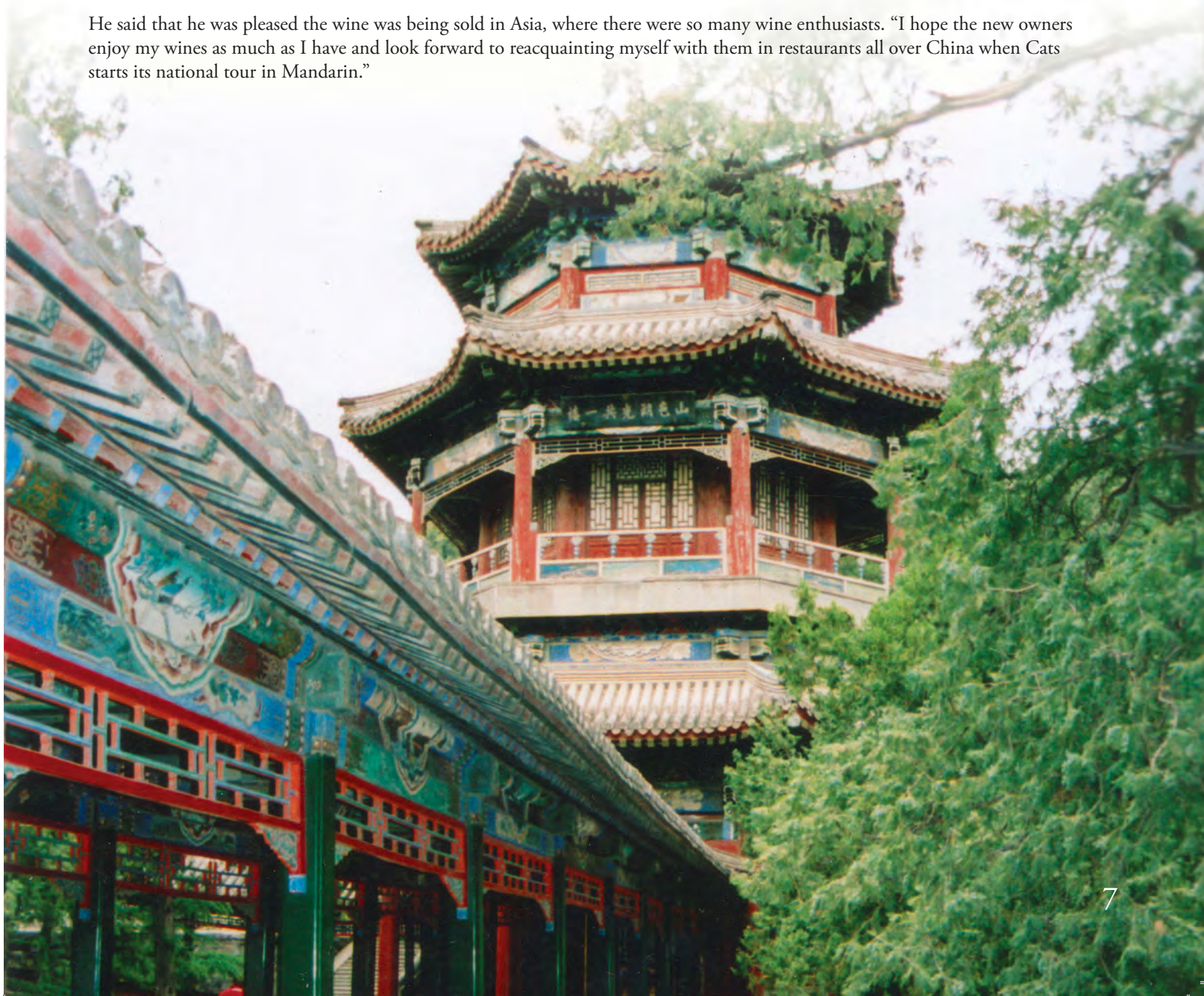
He's made his fortune through musicals such as *Cats* and *Phantom of the Opera*. And now Andrew Lloyd Webber has added an extra £3.5 million to his bank balance with the sale of some choice bottles from his vast wine collection.

The eagerly-anticipated sale, held at the Mandarin Oriental hotel in Hong Kong, featured 8,837 bottles of classic French wines, including what experts regard as the finest white ever for sale in the region.

Pre-sale estimates suggested that the 746 lots (mainly cases of 12 or six bottles, but also some individual bottles) would fetch £2.6 million but the salesroom was filled to capacity with what Sotheby's said was "spirited and jovial bidding from all over Asia." Buyers bid in person, over the internet or by telephone.

Lord Lloyd-Webber is known for being a keen wine collector and connoisseur. He began accumulating select bottles when he was a teenager, and would have fine vintages delivered to him at Westminster School, where he was a student.

He said that he was pleased the wine was being sold in Asia, where there were so many wine enthusiasts. "I hope the new owners enjoy my wines as much as I have and look forward to reacquainting myself with them in restaurants all over China when *Cats* starts its national tour in Mandarin."

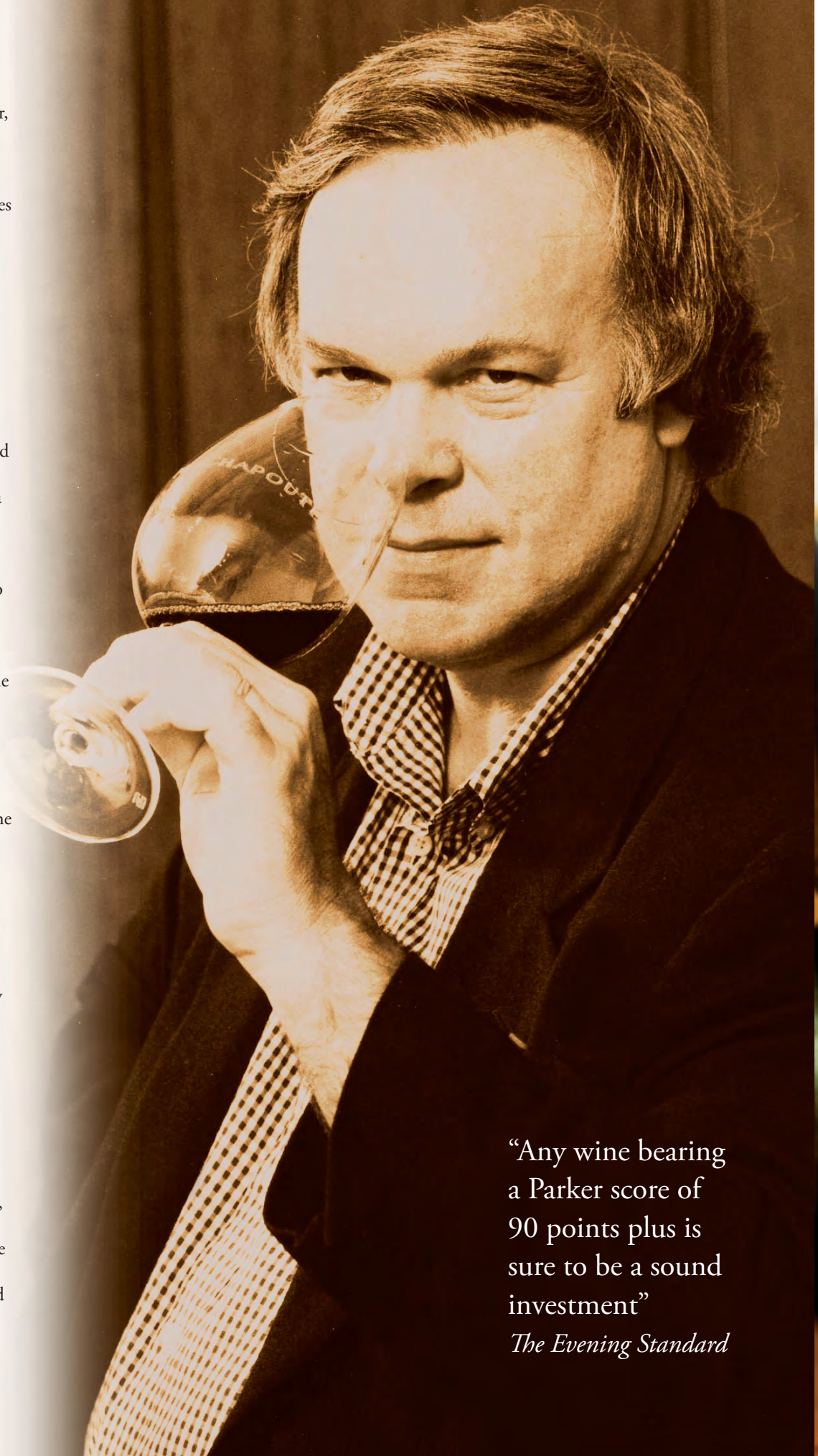


ROBERT PARKER JNR

Robert Parker is the most influential wine critic in the world. His bi-monthly newsletter, *The Wine Advocate*, was first publishing in 1978 and now has a profound effect both on prices and market demand for fine wines around the world. His *Wine Advocate* journal and related website use his version of the 100-point scale which, like the *Wine Spectator*, has 50 as the lowest possible score.

The brainwave to start a factual guide to Fine Wine was in 1975, when Parker compared the information available and decided it was shoddy and sometimes irrelevant. What he needed was a guide to quality, a handbook for the truly great wines. This whole idea of course seemed like a pipe dream to friends and family, who dismissed the idea and suggested he immediately go back to the world of law. His first creation was *The Wine Advocate* magazine in 1978. He initially had less than 600 people working in the industry to send this to and it started to talk and document in the way he had hoped, but obviously it was a long way off the long term goals that he had set.

Three decades later and the publication is sold in over 30 countries and to over 500,000 people. This one publication is thought to shift entire buying power in any one country simply by his grades, his words and the sheer power of the name Robert Parker JR. Robert Parker is not just resigned to one publication, he writes for *Food and Wine Magazine* and also the highly respected 'Business Week'. He has posts at English magazine, 'The field', and French magazine, 'L'Express' The first ever time a non-Frenchman has ever held the post! He has also been featured in magazines such as 'TIME' and 'The Robb Report'.



“Any wine bearing a Parker score of 90 points plus is sure to be a sound investment”

The Evening Standard

What are Wine Scores?

The practice of assigning 'scores' has had an extraordinary effect on the wine market. They enable potential investors and traders to take a position and affect the market, without necessarily knowing anything about the wine. They empower new wine drinkers to make decisions independently of wine traders. And because, unlike tasting notes, they can be understood universally, they can guide potential wine buyers all over the world. Wine scores, for example, played a part in Asia's dramatic and inflationary entry into the fine wine market in the 1990s. Scoring enables new, good, wine producers to make a name for themselves and their wines very much faster than ever before. The downside for wine drinkers, is that prices inevitably rise steeply. Scores are generally written as follows: RP 85 advising the consumer that Robert Parker has awarded the wine 85 points out of 100. Some wines have a range of points, for example: RP (85-90), and this is usually because the wine was tasted and scored before bottling and finishing.

Parker's tastings are done in peer-group, single-blind conditions, which mean that the same types of wines are tasted at the same time, though the producer of each wine is not disclosed at the time of the tasting. In his journal, Parker notes that he gives every wine an initial 50 points. General colour and appearance can merit up to 5 points. Aroma and bouquet merit up to 15 points. Flavour and finish merit up to 20 points. Finally, the "overall quality level or potential for further evolution and improvement-aging" merits up to 10 points. Parker explains his ratings in this way:

Score Explanation

- | | |
|--------|--|
| 96-100 | An extraordinary wine of profound and complex character displaying all the attributes expected of a classic wine of its variety. I think wines of this calibre are worth a special effort to find, purchase and consume. |
| 90-95 | An outstanding wine of exceptional complexity and character. I consider these terrific wines. |
| 80-89 | A barely above average to very good wine displaying various degrees of finesse and flavour, as well as character with no noticeable flaws. |

Robert Parker's influence on fine wine prices cannot be overstated. As one observer once noted, "When Robert Parker spits, the world listens". Historically the wines that Robert Parker gives high scores to, particularly scores over 90 points, tend to be the wines that show the biggest increase in value. Many Bordeaux producers now wait for Parker's ratings before setting the release price of their wines.

Why do fine wines go up in value?

Fine wine matures and improves with age. A limited amount is produced every year and as bottles are consumed, the supply of the wine becomes smaller. As supply diminishes, it cannot meet demand which continues to rise as the wine matures. Moreover, demand and interest in fine wine is growing around the world and the supply of the top wines cannot be increased.

Do I need to know much about fine wine?

You do not need to have much knowledge in the subject, leave that to your fine wine investment advisor. However, we strongly recommend seeking advice when investing in wine as not all well-known wines are suitable for investment and so it is possible for potential investors to put funds into the wrong type of wines. Always look out for wines that have a score of 90 Robert Parker points and above. These wines are classed as investment grade wines and are more desirable to consumers.

In a nutshell, what are the advantages of wine over other investments?

Finite Product:

You are investing in a tangible, improving asset that has a limited annual production but a huge global demand base. The supply of this already limited asset then declines over the years as the wines are consumed.

Tangible Asset:

Shares that fall in value are good for nothing, save for selling at a loss. Wines that do not perform financially as well as expected can be consumed and enjoyed.

Tax:

You do not have to pay capital-gains tax (CGT) on any profits from wine investments with a total value not exceeding £250,000. Wine is exempt from CGT because it is regarded by the Inland Revenue as a "wasting asset" with a predicted lifespan of less than 50 years.

Performance:

There is little doubt that wine has performed very favourably amongst the strongest investments over the past few years. Even in times of macro-economic downturn, wine tends to remain more robust than many other investments.

Inflation Hedge:

An inflation hedge is an asset that loses little value in periods of rising prices. Thus, it holds its value and its purchasing power during inflation. This also applies to hyperinflation. An investor expecting inflation will buy this asset to hedge against inflation. In general, tangible assets hedge better than paper assets. Good hedges have a few key properties. One key property of a hedge is that it holds its value. It should lose little value over time. Cars lose value over time. Wine does not. It will continue to appreciate with age.

What sort of wines should I Invest in?

As a rule of thumb, only ever invest in the top wines of Bordeaux and a handful of wines from Burgundy. Whilst other parts of the world make great wines, the global secondary market has limited demand for these, so sticking to the best from Bordeaux is realistically the safest strategy. Only 1% of the world production of wine is classed as investment graded wine. Of that 1%, 90% is Bordeaux red.

Where are the wines stored?

Our wines are stored with London City Bond. Wine is stored in the Vinothèque Building. The massively constructed 19th c. grade II listed building offers the perfect environment for the long term cellarage of fine and maturing wine. In the last two years in excess of £1million has been spent upgrading and enhancing the warehouse to ensure storage conditions and security are second to none.

How do you ensure that my investment is safe?

You are covered for damage or theft for up to £250,000 whilst in Bond.

How long should I hold the investment for?

Vintage Fine Wine Investment is an industry that has consistently proven itself. Fine Wine Investments have proven to be very successful over short (2 years) and medium terms. If you decide for a long term investment, the returns can be astronomical. We advise our clients to hold on to their wine portfolios for a minimum of 24 months.





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