

## Fine Wine Investment Report: 2015 Review

### BI Investment Group, February 2016

- **Fine wine prices remained stable with some modest growth**
- **Asia remained the largest market but fell slightly; UK/USA performed strongly**
- **Pre-2000 and 2005 were top-performing Bordeaux vintages**
- **Lafite tops sales by value; Haut Brion and Mouton best price performers**
- **Right Bank and Super Seconds make good headway**
- **Burgundy volumes fall, prices rise; Italy and Champagne show solid growth**

#### 2015 in context

2015 was a year of continued normalisation in the fine wine market as turnover and prices edged up slightly. The BI Live Trade (LT) Index closed at 114, an appreciation of almost 1.5%, the first positive return since 2010. This must be considered particularly good news given the numerous and varied economic and political headwinds faced. Moreover, with strong Q4 turnover and robust demand ahead of Chinese New Year, there are solid grounds for modest optimism. A bold surmise perhaps given the tumult in financial markets through the opening weeks of 2016; but in contrast to debt and equity markets fine wine has already negotiated its major correction through the painful 2011-2013 period.

Comparisons with equity and commodity markets are not generally helpful but they do provide some useful context which, in this instance, goes to support the narrative of recovery. The FTSE100 fell 4.5% in 2015 (down 12% by mid Jan 2016); the DJIA fell 2.5% (down 12% by mid Jan 2016) and the roller coaster that is the Shanghai Composite Index closed up over 9% (but down over 45% from mid-year highs). As for commodities, their alarming correlation with fine wine snapped in 2015 as oil, copper, steel etc slumped by an average of a quarter on excess production and waning demand from China. Yet for BI, Asia was again the largest market by a good distance at a little under half of total trade (by value). Within the bracket there were some significant shifts with sales to mainland China falling markedly whilst other Asian markets took up the slack. Europe as a whole has shown growth of almost 5%, although in truth this has been driven by a very good performance from the UK – up just over 7%. The USA has delivered further growth, with an increase in sales of just over 10%.

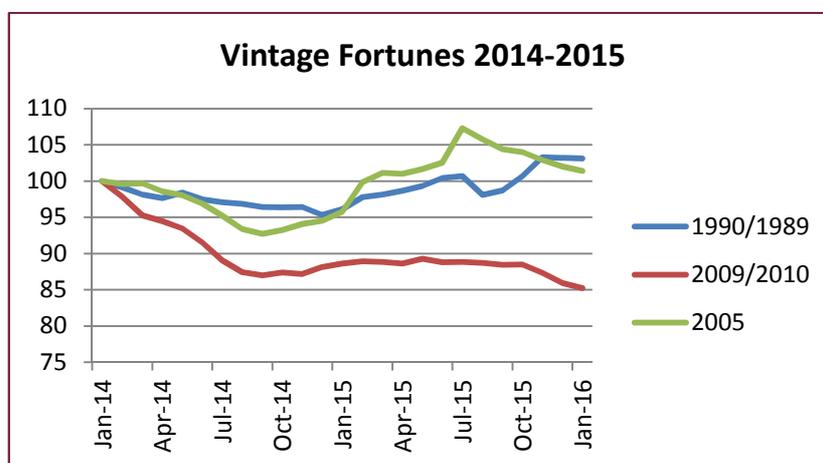
#### Bordeaux Performance

As noted, the BI Index showed a welcome positive return but as ever there were plenty of ‘winners and losers’ amongst them. Looking at the performance from a vintage perspective provides some interesting headlines. Firstly, 2015 saw steep falls in turnover for the benchmark Bordeaux vintages of 1996, 2000 and 2003. Superficially this is surprising given the enduring popularity of these semi-mature vintages and the success of, for example, Latour’s 2003 ex-Chateau release; however the decline speaks clearly of the absence of large pools of investment stock that appeared repeatedly through 2011-2014. It seems reasonable to believe that the large, concentrated investment holdings, the inelegant divestment of which crushed prices, have now been dispersed and with this we can expect trading to be more predictable, rational and positive henceforth.

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A second feature of the vintage picture was the bounce in 2005 sales (from 5<sup>th</sup> in 2014 to 1<sup>st</sup> in 2015). Parker's review (alongside our own Flagship 'Ten Year On' tasting), and the string of upgrades it contained, helped give this esteemed vintage an 'official' standing that many of us have long believed it merited and, as the chart below shows provided a fillip to prices – with a full 5 of the top 15 LT performers coming from this vintage. Looking more broadly at the vintage 'winners', it is striking that all of the top performing wines, away from the re-reviewed 2005s, were from 2000 or older - reinforcing a view we have long articulated that the demand/supply is increasingly positive at the drinking end of the spectrum.

Finally, before our optimism becomes too heady, we must balance the vintage review with another weak year for the 2009/10 pair. 6 of the 15 worst LT performers in 2015 hailed from these great vintages that just happened to be released at the wrong price. With prices of some leading 2009/10s having fallen by over two-thirds since release there is a reasonable case to be made that they are at last bottoming out. It is hard to be so positive about the more recent Bordeaux vintages (particularly 2011, 2012 and 2013) where prices have continued to slide as physical trade has picked up.

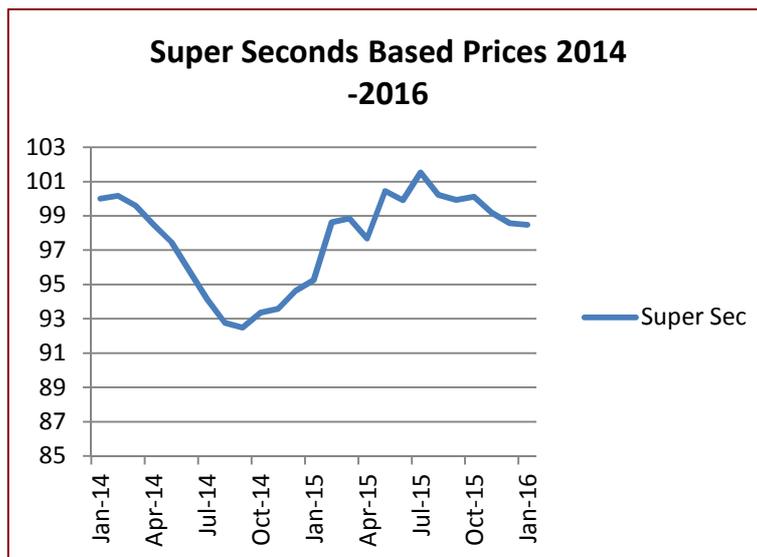
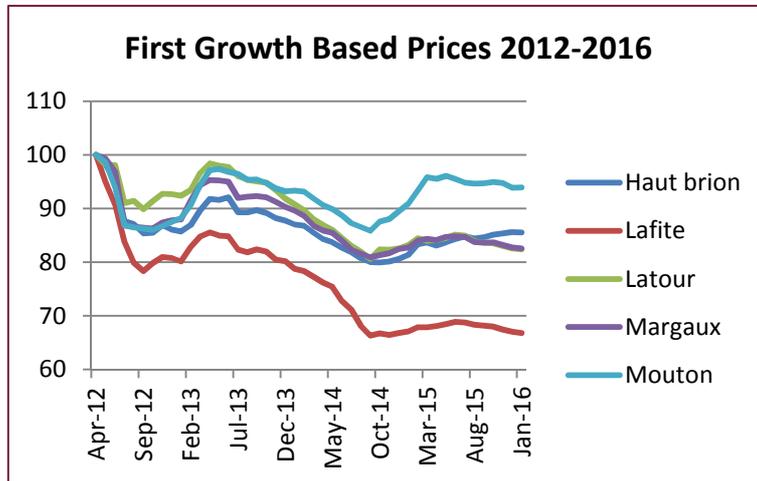


### A Closer Look at Bordeaux

Bordeaux remained the overwhelmingly dominant region at over 60% of the total. This is a very small increment on 2014, which is certainly consistent with our sense of how recent years have played out with the market for Bordeaux bottoming out in autumn 2014. Predictably Lafite again finished top of the sales table with 30% of 1<sup>st</sup> Growth LT sales but surprisingly Mouton was pipped into third place by Haut Brion (19 and 20% of 1<sup>st</sup> Growth LT sales respectively) which had as busy an end to the year as Mouton did a beginning. Latour followed and Margaux brought up the rear with a disappointing 15%. Much more interesting was the change in turnover which saw steep falls for the 1<sup>st</sup> Growths, from Haut Brion which held up fairly well through to Margaux whose volumes were crushed (down by a half primarily as a result of the heavily diminished pools of existing stock which were available throughout 2014). Strange as it seems as we approach Chinese New Year and the avalanche of 1<sup>st</sup> Growth demand that accompanies it, the continued weakness of the investment market and these changed market dynamics have undoubtedly diminished the 'peerless' status that this elite group once enjoyed. In contrast, the giants of the Right Bank enjoyed a stellar year with Cheval Blanc and Petrus showing double digit sales growth. Away from the very top tier, there was excellent activity in the likes of Pichon Baron, Ducru, Cos and Pontet Canet whilst Las Cases and Pavie laboured hard in comparison.

Looking at the price performance from a 'brand' perspective the subsequent charts show a generally benign

picture, although it should be noted that most of the growth was achieved in the first half of the year. Of the LT 1st Growths Haut Brion and Mouton were the clear winners (up 3%) with wines such as Haut Brion 1989 and Mouton 1986 both performing very strongly. In contrast Lafite and Latour weakened still further (-1.5%) forced down mainly by the 2009s and 2010s (-8%). Elsewhere there were rumbustious returns for the likes of Pichon Lalande 2003 (+10%), Mission 2005 (+30%), Cheval 2005 (+30%) whilst Pavie struggled (2000 off over 5%) and both Cos and Montrose 2003 suffered (-6%).



### **Bordeaux En Primeur 2014**

A quick word on EP 2014. By the standards of the past decade or so, the 2014 campaign was another disappointing instalment. Whilst many of the wines delivered very good quality, the prices were not quite compelling enough for many and as a result the campaign delivered modest sales. Again it gave the impression that the producers have not fully grasped the extent of the challenge they face in winning back the hearts, minds and wallets of their erstwhile consumers. That said, 2014 was significantly healthier than the risible efforts of the previous year which saw an all-time low in sales. The mood music for 2015 is encouragingly upbeat certainly in quality terms - but until there is clarity on pricing, we remain cautious about the value that can realistically be offered. It is very much a case of ‘watch this space’.

## Outside Bordeaux

### **Burgundy**

Burgundy continues to inspire and frustrate in equal measure. Quality has never been better and, having tasted our way through the very fine 2014s, there is nothing to suggest that our, and indeed the world's, love affair with Burgundy is going to end any time soon. At the top end, there is little sign of a slowdown in interest for many of the favoured growers, including DRC, Leroy, Ponsot and Rousseau all of which saw healthy sales growth in 2015. However there was less success for the likes of Jayer, Meo-Camuzet and Ligier-Belair. Generally, prices were stable for the big names having risen at a bewildering rate for over the past several years. Whilst last year it looked like the pause in prices could presage a rapid deflating of the bubble, this year the pause looks more sustainable or perhaps even a prelude to a further step up.

### **Italy**

For those of us looking for high-quality, grower-driven, small-production, terroir-specific wines at a good price – there's always Italy. 2015 was driven by sales of the highly-rated 2010 Brunellos and 2012 Super Tuscans, following on from 2014's success with the 2010 Barolos. 2016 looks set to continue a run of form for Italy, with an excellent vintage in Tuscany (2013) about to be released alongside some very fine 2012 Barolos and a reportedly 'new benchmark' for Barbaresco with their 2013s. That said, it is worth observing that in recent years the top 'brands' of Tuscany (Sassicaia and Tignanello etc) have become a point of refuge for those fleeing the Bordeaux market. Whilst much of this could be a structural re-positioning it seems sensible to assume that past performance may well be a particularly poor indicator of future returns.

### **Champagne**

2015 saw Champagne releases coming thick and fast, with 2 vintages (2005/2006) of Dom Perignon released in a single year (for possibly the first time ever) in addition to superb new vintages of Clos des Goisses (2006), Cristal (2007), Comtes de Champagne (2006) and Bollinger RD (2002). Overall sales were maintained at the impressive level of the previous year with the usual suspects remaining the most powerful and best-selling brands. It remains to be seen whether we are simply in a run of good vintages, or whether the trend of making a prestige cuvee every year is the new normal; if the latter is true, global consumption will need to trot along in order to continue with what has previously been a very satisfying supply-demand ratio.

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