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NICKOLLS AND PERKS

Independent Wine Merchants

Investing in Fine Wines



What makes a wine great?



Only a tiny element of the world's wine production can be considered investment grade. These wines are the produce of what are regarded as the finest vineyard sites on earth.

There are two broad contributing factors to the make up of a great vineyard. "*Terroir*" is the winespeak term covering the ideal physical conditions to

grow the finest quality fruit. This is fundamental and cannot be manufactured. Climatic conditions, soil content and make up, and the lie or aspect of the vineyard site all combine uniquely to create a phenomenal opportunity. The second element is human intervention, the wine-maker's skill. Here we go some way to explain why France is so dominant in the production of the world's finest wines. Over centuries

French winemakers have studied and tried to perfect their understanding of what makes a wine great. A recent talk by the great M. Pontalier, wine-maker at Chateau Margaux since



1986, underlined this, as he explained how his, previous and future wine-makers lives at Chateau Margaux, have and will be spent analysing and attending to every minutia of detail, in the vineyard and cellar with one sole aim in mind; to improve the quality of the wine in the bottle.

Here, without doubt, success breeds success, as the financial investment required is very considerable and a profit is essential to maintain this ethic over a long period. Bordeaux has more than any other region grasped this concept. The Bordelais continue to re-invest vast sums to keep ahead of the game, they are simply making the finest wines in the world today.

The Assets



Bordeaux Wines

Bordeaux wines have played the biggest part in the modern day fascination with wine investment. The simple and clear branding of Bordeaux's great chateaux has helped consumer's to understand and focus on these famous wines. There will only ever be one Chateau Lafite or Chateau Latour. Consistent re-investment and volume reductions have improved quality decade on decade, keeping demand high and pushing prices up.



The release price of a case of Chateau Lafite 1982 was £300...now trading in excess of £25,000!

En Primeur

It is not sufficient to just buy a case of noted Chateau in any vintage, though this would still bring considerable gain. The real deal is achieved by choosing the right chateaux in the right vintage. This is where the *En Primeur* assessment and our job comes into its own.

En Primeur is the stage at which wines are offered to the market, i.e. still in cask. The grapes are harvested in September/October and taken into the Chais to ferment prior to being laid to rest in Oak casks for up to 18 months. Merchants around the world are allowed to buy the wines forward before bottling to secure what they can of their favourite wines for their clients.

Tastings are held in Bordeaux at the end of the March following the vintage. Designated chateaux play host to wine buyers and journalists from all over the world, where the new wines can be assessed prior to the *Sortie*, the release of the wines to the Bordeaux Nogoces(wholesalers), who are given exclusivity to the Market.

Nickolls & Perks are among those invited to take up their allocation of each of the wines. Having tasted the wines we have our shopping list and buy what we can of the best wines to sell on to our clients. In a great vintage, demand can outstrip supply tenfold, the bidding war begins.

The wines are shipped over to the UK in the Spring two years after the vintage, at which stage, clients' further instructions are sought. Cases can be delivered home, transferred to private storage accounts or stored in our own [Client Storage](#) facility.

Champagne, Wine & Whisky

Champagne



Certain Vintage Champagnes have excellent investment potential. We recommended a client invested in Bollinger 1990 Vintage Champagne 10 years ago, having paid £300 per dozen, we recently sold a case on his behalf for £1200...400% gain in ten years! 2002 is a very fine Champagne year we will be recommending a punt here!

Burgundy

Burgundy wines are for many the greatest wines in the world, both for whites and reds. Investment wise, there are opportunities to be had but this market is very polarised, and much more specialised. Domaine de La Romanee Conti wines have proved successful and there are several other producers to look out for such as Domaines Georges Roumier & Armand Rousseau.

Whisky

Whisky specialisation is a recent development at Nickolls & Perks, David Gardener has become a noted expert in this field. Exclusive and select bottlings and barrel releases are followed by avid collectors, leading to some excellent investment opportunities. Please contact Dave by email for further advice. david@nickollsandperks.co.uk

The Market



Wine investment is certainly not a new phenomenon, it has been secluded to those in the know. For decades fine wine lovers have funded their imbibing, by purchasing, usually *En Primeur*, twice their personal drinking requirements, selling half the cases when mature 10-15 years later for a handsome profit.

The main difference today is that the knowledge is far more commonplace. And is growing exponentially.

Driving forces

There are currently three main forces driving the fine wine investment market: Lifestyle, Oriental Billionaires & Wine Investment Funds.



Along with fine art and fast cars, Fine Wine is well and truly part of the lifestyle of the rich and famous. From Bankers to movie stars, footballers to rap artists, the big brands of Bordeaux and Burgundy are accessible and fun.

The Chinese billionaires have fallen in love with Fine Wine. Demand is already ferocious and is only likely to increase. Hong Kong recently scrapped all previously heavy wine import duties, in recognition of the potential market. India is already showing signs of following suit though currently duty penalties are set quite high.

Dozens of Fine Wine Investment Funds have been set up in recent years, taking considerable stocks out of the market increasing the pressure on prices only one way.

There was a considerable correction in prices beginning in the spring of 2012, prices of many wines fell considerably and continued slow downward trend for three years hence. Prices have steadied gradually and have turned upwards since the beginning of 2015 with quickening annexed to the weakening on Sterling post Brexit.

Robert Parker

Robert Parker Junior

There is no doubt that one man has influenced the Fine wine market more than any other in history, he has developed a surreal following of consumers traders and even wine makers who wait on his every word and has the ability to almost single handed to make or break a particular Vintage as well as Chateaux reputations.

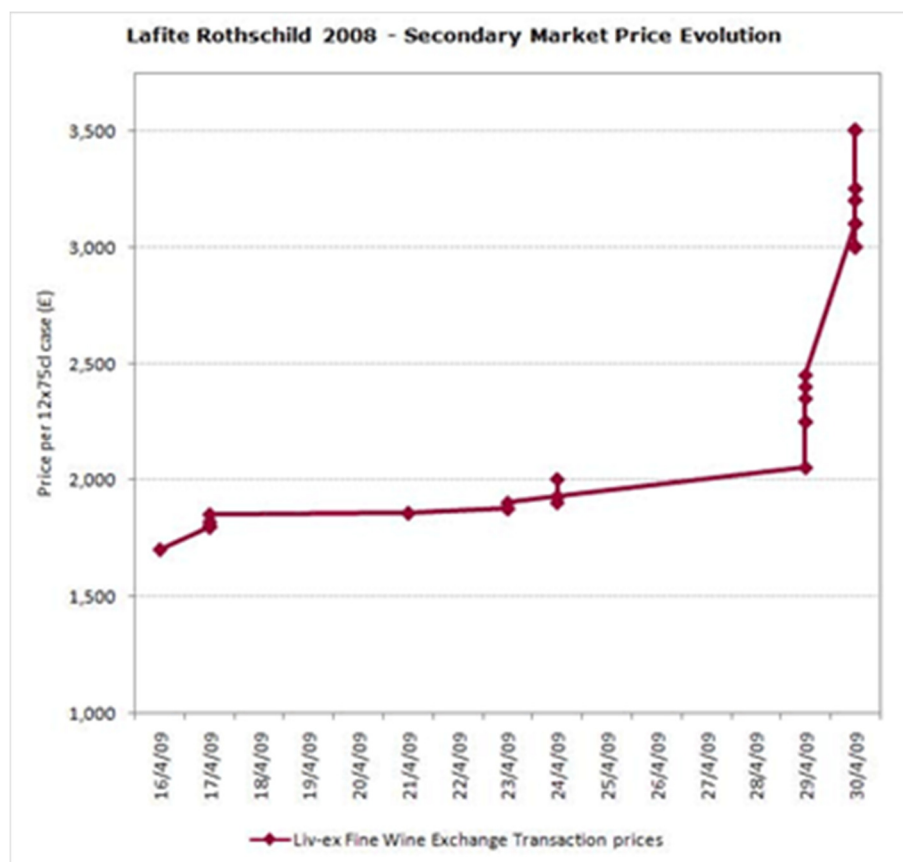
Parker Power...

The most influential impact of Parker's writing is his 100-point ranking system. The scale ranks wine on a scale from 50 to 100 points, on colour and appearance, aroma and bouquet, flavour and finish, and overall quality level or potential. His 100-point ratings and florid tasting notes define wine criticism, and are a major contributor to the prices for newly released Bordeaux wine.

Vintage after Vintage, Chateau owners, wine merchants, brokers, and collectors all wait for Robert Parker's opinion and scores before setting their own strategies. The most recent example is the 2008 Vintage; whilst other critics suggested it would be a 'average' to good year, Parker claimed 'magical'. His scoring of these wines created panic buying and the wines he had marked highly and overnight their value rocketed!

Right:

This is a chart that shows the trading price for Chateau Lafite Rothschild 2008 from its 'En-Primeur' release on the 16th April to when Parker released his notes 13 days later:



The Gains



Fine Wine has consistently outperformed traditional investments such as stock markets etc, with annual compound growth of over 10% for over 50years.

The facts speak for themselves!

The release price of a case of Chateau Lafite 1982 was £300...now trading in excess of £35000!

Historical Performance of Fine Wines

FACT: From 1950-1985 the Vintage Claret Index average annual compound return of 15.2%
*

FACT: From 1983-2002 the Fine Wine Index average annual compound growth of 12.3% **

FACT: From 2003-07 the Liv-ex 100 Index annual average compound growth rate was 15.3% ***

Source:

* "The Successful Investor". 1988 (Robin Duthy)

** "Wine Investment for Portfolio Diversification". 2005 (Manesh Kumar)

*** Liv-ex.com

CHATEAU	VINTAGE	JUNE 2002	JUNE 2005	JUNE 2009	JUNE 2016	% GAIN
LAFITE	1996	£2,100.00	£2,650.00	£6,700.00	£8,500.00	400%
LATOUR	1996	£1,700.00	£1,850.00	£5,700.00	£6,200.00	305%
PETRUS	2000	£8,850.00	£12,500.00	£31,000.00	£45,000.00	508%
MARGAUX	1990	£3,575.00	£4,475.00	£8,100.00	£8,650.00	242%
HAUT BRION	1989	£3,100.00	£3,800.00	£9,675.00	£16,800.00	542%
CHEVAL BLANC	1990	£4,000.00	£5,150.00	£9,200.00	£9,200.00	230%
MOUTON	1986	£2,500.00	£3,175.00	£5,800.00	£8,000.00	320%

Taxation & Wine Investments

One of the main advantages and attractions for investors with Fine Wine are the benefits regarding Tax exemptions. Below we have set out the principle rules set by HRM Revenue & Customs.

Income Tax:



Provided Claret is held in the name of a private individual who is not a wine trader or dealer, under current UK taxation rules, it is considered by the Inland Revenue that no income as such is derived from the holding of Fine Claret stocks. If you keep the wine in bond, you also avoid paying VAT and Duty!

Capital Gains Tax:

You do not usually have to pay income or capital gains tax (CGT) on any profits. 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.

Fine Claret is normally considered to be a "wasting asset" by the Inland Revenue, which is not subject to Capital Gains Tax. However, the following points should be considered:-

- Again, it is essential that a private individual, who does not trade in wine, owns the wine.
- The definition of a "wasting asset" as defined by S.37 CGTA 1979, is "an asset with a predictable life not exceeding 50 years and, in relation to tangible movable property, life means useful life, having regard to the purpose for which the tangible assets were acquired".
- In our professional opinion, all the wines we offer will certainly have reached their peak of maturity within 25-40 years, and we believe it would be very difficult to argue that they have a "useful life" exceeding 50 years.

Inheritance Tax:

The wine will form part of your estate for Inheritance Tax (IHT) purposes. The definition of wine given by the Capital Tax Office is that of a 'wasting asset/chattel'. The Revenue practice has been to value wine at acquisition cost, not current value. Again, the "wasting asset" and "not having a predictable useful life exceeding 50 years" conditions apply. Therefore, as long as proof of the purchase price can be provided, the value of the Claret will be based on its original cost for the purposes of Inheritance Tax, and not on any "appreciating value".



At Nickolls & Perks, we only advise on which wines to buy. We do not offer financial advice, however we do advise our clients to seek this information from an IFA or HRM Revenue & Customs: <http://www.hmrc.gov.uk/index.htm>

PLEASE SEEK ADVICE FROM YOUR ACCOUNTANT/FINANCIAL ADVISOR FOR YOUR OWN CIRCUMSTANCES - AS NOT ALL RULES MAY APPLY.

Conclusion

There is no doubt that investment in Fine Wine can sit comfortably alongside a diversified portfolio. It will never be regarded as a traditional investment as there are complex issues which are beyond the laws of economics, such as weather patterns and fashion, and degradability.

The old adage that the best will always do well, is certainly prevalent, but the emergence of branding has challenged this, the release prices and market pressures are more critical than ever. Ultimately an expert view is required hurdle well and come out on top. Please call Will Gardener 01384 394518 or email if you would like to discuss the options further. will@nickollsandperks.co.uk