



NOBLE ROT

FINE WINE INVESTMENT . COM



CHAMPAGNE THE NOBLE ROT REPORT

A concise report on the growing market
for investment-grade Champagne

MEMBER OF

LIV | EX

THE FINE WINE MARKET

THE NOBLE ROT

SUMMARY

At Noble Rot, we have allowed our gaze to drift a little from Bordeaux, to track the ongoing progress of the vintage champagne market and, as more data has become available, we have decided that serious analysis of the region was relevant to our members.

What we have found is a region whose top vintage wines have delivered **compound annual growth of 9.52% since 2004**. This is all the more remarkable because the champagne index has proved a stable hedge against events which have otherwise negatively affected the financial markets or the wider Fine Wine market.

Over the past five years the Champagne index has appreciated by 43%, outperforming the Fine Wine 100 (18%) and the FTSE 100 (5%). In this report you will find two example portfolios made up of vintage champagnes, both of which have **appreciated by 40% or more in two years**.

Whilst investing in any asset should naturally come with caveats, champagne does seem to present investors with an opportunity for strong and stable annual growth and, particularly importantly for whatever brexit may or may not hold for us, a hedge against whatever downturns the financial markets may take.

Liv-ex have recently produced a thorough report on the champagne market which I heartily recommend to you ([click here](#)). Pleasingly, Liv-ex's report supports our own findings.

Should you have any questions or wish to discuss the opportunities available for investing in champagne, then please don't hesitate to contact us.

Dominic Brennan
Executive Manager

CONTENT

7 REASONS WHY YOU SHOULD INVEST IN VINTAGE CHAMPAGNE	4
.....	
THE STATE OF THE CHAMPAGNE MARKET	6
.....	
DETERMINING FACTORS: WHAT MAKES AN INVESTMENT- GRADE CHAMPAGNE?	8
.....	
EXAMPLES PORTFOLIOS	10
.....	
CONTACT US	12
.....	



7 REASONS WHY YOU SHOULD INVEST IN VINTAGE CHAMPAGNE

Corks continue to pop for Champagne as it positions itself as a Fine Wine region that demands investors' attention.

1 | A HEDGE AGAINST MARKET DOWNTURNS



Champagne has performed admirably over the past fifteen years, delivering compound annual growth of 9%. Even more noteworthy, it remained unaffected by major market events which caused the Liv-ex Fine Wine 100 index to rise and fall between 2008 & 2014, burnishing its credentials as an excellent hedge.

2 | DEFINITIVE INVERSE SUPPLY CURVE

Vintage champagne is a particularly in-demand luxury item with a huge market, but limited supply. The inverse supply curve that drives Fine Wine investment is particularly strong here, with vintages not often declared and some producers making a few as five thousand cases available to the worldwide market. As vintage champagne is often aged for ten years or more before release, anticipation grows and drives up demand.

3 | AN EMERGING SECONDARY MARKET

Whilst champagne has long been a favourite for consumers, it is only recently that the region has established itself as a key player in the secondary Fine Wine market. Champagne's share of the secondary Fine Wine market has risen from 1% to 8%: that is enough to make us and investors sit up and take notice.

4 | OUTPERFORMING THE WIDER MARKET

Whilst the Liv-ex 100 index has outperformed the FTSE 100 over the past five years, the Champagne 50 index has outperformed them both, by some margin. Over that period, the Champagne index is up 43%, as opposed to the Fine Wine 100's 18%. At Noble Rot we strive to identify assets that will outperform their peer group and in this sense, champagne is an extremely attractive proposition.

PERFORMANCE OVER THE PAST 5 YEARS



5 | SUBSTANTIAL & VARIED WORLDWIDE

Champagne is a drink for all occasions, served at state banquets, weddings, nightclubs, on oligarch's yachts, and so on. Demand for vintage champagne is insatiable, for bottles of all sizes and all vintages. There is therefore a captive audience competing toward the end of champagne's life cycle, ensuring liquidity for when the time comes to sell. As with other Fine Wine assets, if bought judiciously it can be traded quickly, relative to other far less liquid alternative assets such as art or classic cars.

6 | TAX-EFFICIENT FORM OF INVESTING

Because of its status as a wasting chattel, like all Fine Wines, vintage champagne is considered to have a special tax status and so is exempt from several types of capital taxation, including Capital Gains Tax.

7 | A ROBUST MARKET LIFECYCLE

The market lifecycle of vintage champagne is different to Bordeaux red, in that rather than being released to the market the year after the vintage *en primeur*, it remains in the producers' *crayere* for up to ten years to mature in bottle before release. Upon release its value often rises within the first year as the wine is traded on the secondary market. After a period of one to two years of market placidity the wine then tends to behave like the second wines of the First Growths in Bordeaux, in that it appreciates in value over time regardless of critical rating. Whilst there are caveats relating to certain producers and vintages, this provides the investor with a seemingly reliable roadmap for what to expect in terms of annual growth.

THE STATE OF THE CHAMPAGNE MARKET

CONSISTENT GROWTH

In comparison to the wider Fine Wine market, the Liv-Ex Champagne 50 index has risen steadily over the past fourteen years or so. What is most compelling about the Champagne index is how it has remained unaffected by events that otherwise impacted the wider financial and Fine Wine markets.



1. Sept' 2008 *Start of the financial crisis as Lehman Brothers files for bankruptcy*
2. Nov, 2008 *China announces economic stimulus package driving Chinese interest in Fine Wine, a popular gift among party officials*
3. May 2011 *The 2010 Bordeaux vintage is offered at record-high prices*
4. July 2012 *China announces a crack-down on gift-giving amongst officials*
5. July 2014 *The Market hits its lowest point since before the China-led boom*
6. June 2016 *The UK votes for 'Brexit'. Sterling weakens, boosting the market.*

What is most remarkable about the graph above is that the Champagne index has continued in an almost linear fashion over the last 14 years, showing annual compound growth of 9.52%. As impressive as the returns has been the champagne market's low volatility compared to other Fine Wine regions. Whilst Fine Wine is demonstrably less volatile than other asset types, champagne stands apart as an investment that seems unlikely to be ruffled by any winds coming its way - a particularly important characteristic given the uncertainty around the UK's impending withdrawal from the European Union.



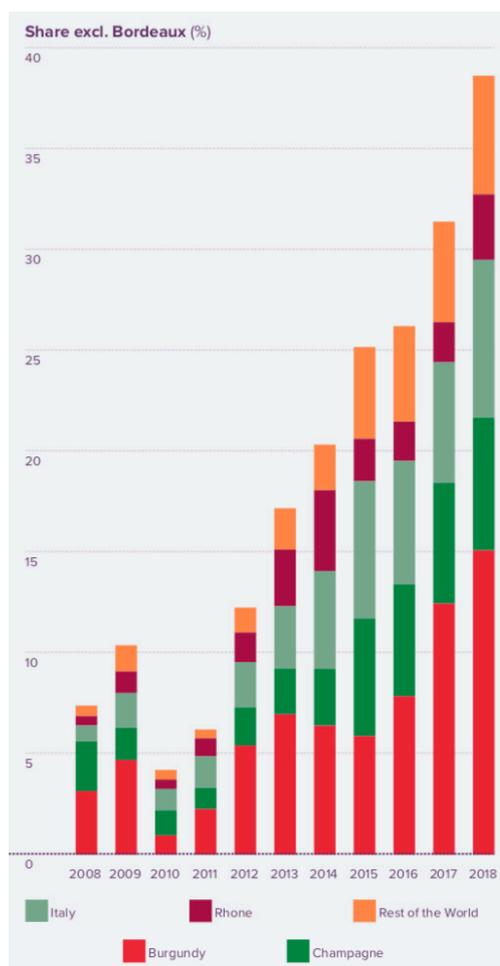
A GROWING MARKET

Alongside the impressive steadiness of the Champagne market's growth is the consistent expansion of its share of the Fine Wine investment market. Between 2008 and 2014 the region's overall market share was between 1-3% by value. That share of the market has risen to over 8%, up from over 6% last year, placing it on a par with Italian wine and beaten only by the ever-impressive Burgundy index.

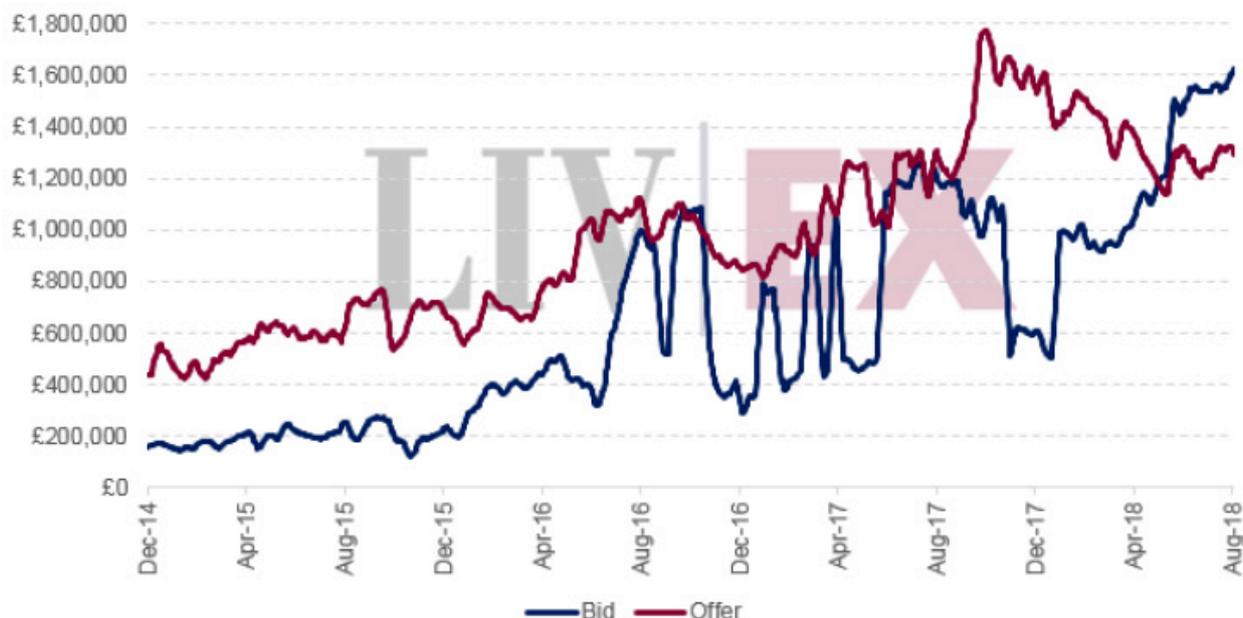
In addition to a tangible increase in market share, the number of unique champagne labels trading on the Liv-ex exchange is up to around 140 different labels from fewer than 20 in 2008, a quite staggering evolution.

GROWING MARKET EXPOSURE

An excellent indicator of champagne's growing presence on the secondary Fine Wine market is rising exposure for the region on the Liv-ex exchange. Exposure is the total value of bids and offers on the market.



The graph below demonstrates the rise clearly, with the value of bids/offers on the exchange some ten times higher than three years ago. The champagne market is growing, resilient, and offers investors an excellent opportunity to invest in an asset that can diversify their portfolio holdings and act as an additional hedge against current geopolitical uncertainties.



DETERMINING FACTORS

A LOOK AT WHAT MAKES AN INVESTMENT-GRADE CHAMPAGNE

THE KEY PRODUCERS

CHAMPAGNE



PHILIPPONNAT
CHAMPAGNE



CHAMPAGNE
POL ROGER

LOUIS ROEDERER
CHAMPAGNE

THE KEY VINTAGES

— Denotes a vintage declared by Salon

	<u>1982</u>	<u>1985</u>	<u>1988</u>		1989	
<u>1990</u>						<u>1999</u>
	<u>2000</u>	<u>2002</u>	<u>2004</u>		2008	
				1998		



Noble Rot has built a matrix to analyse the champagne market for wines that we feel will deliver returns for investors. For us a champagne needs to fulfill the majority of the following criteria to be worthy of investment:



TOP PRODUCER

Whilst there are a myriad of producers in the region making excellent non-vintage champagne, there are only a few that make consistently superb vintage champagnes with the quality, production levels and captive investment market to make them worthy investment grade wines.



EXCELLENT VINTAGE

Vintages aren't always declared in Champagne and some producers, like Salon, rarely produce a vintage wine: This ensures wines of a higher quality. Similarly, the best vintages are always in demand, even more so as time goes on & supply dwindles, pushing up their value.



DEMONSTRABLE APPRECIATION

As with any financial investment it is key to note that past performance is no indicator of future success. However, it is important to assess, in detail, a vintage champagne's performance in the market to date, with a focus on growth since release, and growth in the past year.



HIGHLY RATED

Whilst critics have a limited influence on the price of champagne, ratings can positively affect a score. Krug 2002, for example, increased by over 30% in the month after release after being called "the greatest Champagne release in recent years" in *Decanter*.



GOOD LIQUIDITY

With vintage champagne having a large and ever-present buying market, wines are traded through brokers, at auction or via the Liv-ex platform. We assess producers' production levels against the number of cases traded each year to find the most liquid assets.



OUTPERFORMING PEER GROUP

At Noble Rot, our primary goal is to outperform the market. When it comes to champagne, we have looked for wines which outperform the Champagne 50 index. The results are illuminating, with Salon considerably outperforming the index with a gain over the past ten years of 163%.

OUR RESULTS - KEEPING AN OPEN MIND

We analysed wines across the thirteen vintages (where applicable) noted on page 8, for the following, specific labels: Salon Mesnil, Dom Perignon, Krug Vintage, Louis Roederer Cristal, Philipponnat Clos Goisses Brut, and Pol Roger Winston Churchill. Overall, thirty-one wines of the seventy-two analysed were deemed investable, per our rigorous criteria.

Whilst all of the above criteria are, we feel, excellent markers of the potential of an investment-grade champagne, it is important that we remain agnostic and forward-thinking regarding investment avenues in this emerging market. For example, whilst Salon's outperforming of the Champagne 50 index is hugely impressive, we should not focus solely on that producer. Indeed, as with any investment, investors should aim for a diversified holding of wines, mitigating the risk of overdependence on one brand.

EXAMPLE PORTFOLIOS

Using our data matrix we have curated two portfolios of the highest-scoring, investment-grade champagnes for differing capital amounts. Both portfolios demonstrate the returns that would be seen today had one invested in them two years ago, in November 2016.

£25,000 PORTFOLIO

Wine	Vintage	Antonio Galloni Rating	Bottles	Nov' 2016 Cost	Nov' 2018 Value	% Change
Salon, Mesnil	1996	99	12	£4,748	£6,600	39%
Louis Roederer, Cristal	2002	96+	6	£1,035	£1,275	23%
Moët & Chandon, Dom Perignon	2002	98	12	£1,340	£1,520	13%
Salon, Mesnil	2002	97	12	£3,300	£4,600	39%
Krug, Vintage Brut	1990	97+	6	£1,800	£2,975	65%
Salon, Mesnil	1999	95	6	£2,880	£4,400	53%
Moët & Chandon, Dom Perignon	1990	93+	6	£1,044	£1,500	44%
Salon, Mesnil	2004	97+	12	£3,140	£4,440	41%
Pol Roger, Winston Churchill	1999	94	6	£600	£900	50%
Krug, Vintage Brut	1995	95	6	£1,194	£1,475	24%
Moët & Chandon, Dom Perignon	1999	93+	12	£1,000	£1,500	50%
Pol Roger, Winston Churchill	1998	94	6	£960	£1,200	25%
Moët & Chandon, Dom Perignon	1996	97	12	£1,800	£2,400	33%
Total				£24,841	£34,785	40%

We have used Antonio Galloni's critical ratings as they are more expansive and detailed than those of 'The Wine Advocate'

This portfolio delivers excellent diversification across a number of exceptional champagne labels and vintages and whilst it is dominated by Salon and Dom Perignon, there is still space for Krug, Cristal and Pol Roger 'Winston Churchill'. All but one wine have outperformed the already impressive growth of the Champagne 50 index and we anticipate will continue to do so.



| £10,000 PORTFOLIO

Wine	Vintage	Antonio Galloni Rating	Bottles	Nov' 2016 Cost	Nov' 2018 Value	% Change
Salon, Mesnil	1996	99	6	£2,374	£3,300	39%
Louis Roederer, Cristal	2002	96+	6	£1,035	£1,275	23%
Moët & Chandon, Dom Perignon	2002	98	6	£670	£760	13%
Salon, Mesnil	2002	97	6	£1,650	£2,300	39%
Moët & Chandon, Dom Perignon	1996	97	12	£1,800	£2,400	33%
Salon, Mesnil	1999	95	6	£1,440	£2,200	53%
Moët & Chandon, Dom Perignon	1990	93+	6	£1,044	£1,500	44%
Total				£10,013	£13,735	37%

Even with a lower capital investment of £10,000, this portfolio delivers diversity across four producers and four vintages, appreciating by **37%** over the past two years, over nine times that of the FTSE 100 in the same time period.

| THE NOBLE ROT CONCLUSION

As an investment advisor we have consistently advised clients to invest in the most critically-acclaimed red wines from Bordeaux, as there is a firm guide that one can follow, based on decades' worth of data. In addition, entry into the region isn't cost-prohibitive, unlike the best-performing, investment-grade wines from Burgundy. However, champagne is a sleeping giant of a region that is beginning to rouse, something we can now tangibly analyse thanks to the phalanx of data on offer from Liv-ex, the world-leading, global Fine-Wine trading platform.

Champagne offers a relatively low-cost entry into the Fine Wine investment field and an asset that will always be in demand around the world for a wide variety of buyers and occasions. Most remarkable, from an investment point of view, is the champagne index's ability to resist the major events that have rocked both the wider financial world and Fine Wine over the past decade or so. Champagne, therefore, is a superb investment hedge, rare enough to offer good liquidity on the market, and an asset that is appreciating handsomely.

At Noble Rot we anticipate the remaining 2008 vintage releases from Champagne with keen interest and have no hesitation in recommending them to investors. Should you wish to invest in vintage champagne to add to your Fine Wine holding then please do get in touch with us: we would be delighted to assist you.



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CONTACT US

We believe in close relationships with our clients. Get in touch to find out how we can help you create and grow a Fine Wine investment portfolio

WE'D LIKE TO HEAR FROM YOU

Get in touch if you'd like a **free valuation** of your current Fine Wine holdings or if you'd like to discuss the options and investment opportunities available to you with Noble Rot. Our clients have seen their investments appreciate handsomely, so why not join them?

DOWNLOAD OUR CONCISE FINE WINE INVESTMENT GUIDE

You can download our concise Fine Wine investment guide via our website. It includes a wealth of additional information on the Fine Wine market and our investment strategy.



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