

Julius Bär

WEALTH REPORT ASIA

LUXURY WINE FEATURE

MAY 2018



Front cover:
Ao Yun Landscape, Yunnan, China
Photograph by Moët Hennessy

FULL-BODIED LUXURY

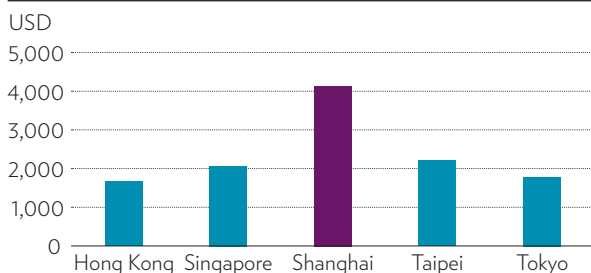
The Julius Baer Wealth Report Asia monitors the cost of living in luxury and wealth creation trends in Asia. Fine wine is one of the oldest luxury product categories and a key component of our lifestyle index. In this feature, we examine the demand drivers and price trends for fine wine across Asia.

THE POWER OF ASIAN TASTE

The luxury wine market's centre of gravity has tilted eastwards, reflecting the shift in economic power. With a population of more than 4.5 billion,¹ Asia Pacific is one of the key regions seeing a sharp rise in demand for fine wines, driven mainly by China and Hong Kong.

Consistent with previous years' findings, the price for a bottle of Château Lafite Rothschild 2000 remains most expensive in Shanghai at a cost of USD 4,142 and amongst the most price competitive in Hong Kong (USD 1,677). Luxury wines such as the Château Lafite Rothschild continue to be highly sought after in China because of the quality and perceived status symbol.

Prices of Château Lafite Rothschild 2000 across key wine markets in Asia

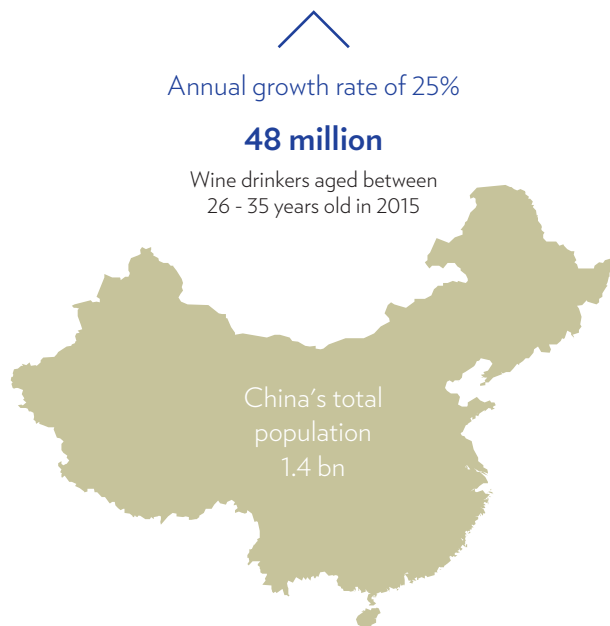


As of 20 April 2018

Source: Julius Baer Investment Publishing Asia

Apart from higher taxes in China, luxury wine prices are driven by continued strength in Chinese demand, amid rising disposable incomes, aspirational consumption, increasing westernisation, and the rapid sophistication of drinking rituals. As a result, consumption habits have evolved from buying wine as gifts to buying wine for personal consumption. Millennials are also catching on to this trend.

Wine consumption by Chinese millennials



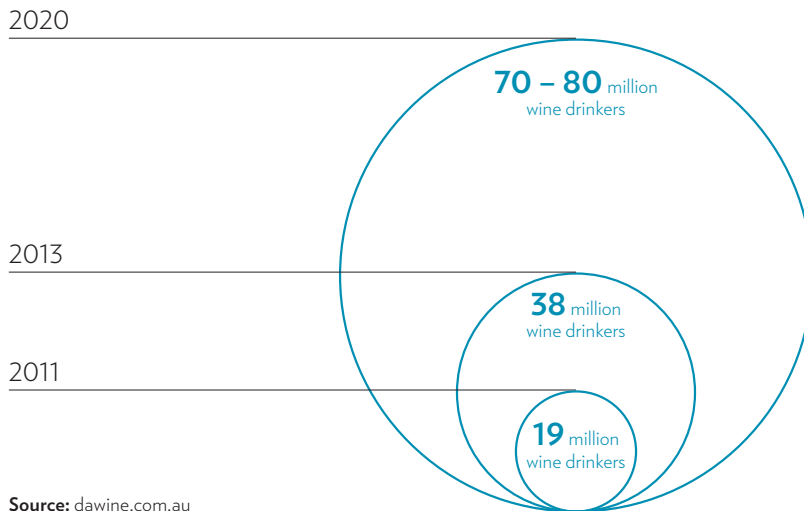
Source: Chinese Business Network Data, China Daily

By 2020, China is set to become the world's second-largest wine market.² Wealthy Chinese are not only scooping up fine wines, they have also developed a taste for Bordeaux vineyards. Notably, Hong Kong has become an important sourcing hub for mainland consumers and is the second most important wine auction market in the world after New York City.

¹ Worldometers.info, 10 April 2018

² FT.zcom - 'China's growing pains', 15 April 2016

Number of Chinese wine consumers



Source: dawine.com.au

By 2020, China is set to become the world's second-largest wine market.

'MADE IN CHINA' ? LIKE!

Premium no longer solely equates to foreign. Recent surveys have shown that the mainland's affluent millennials, the bulk of the wine drinking population, are more open-minded and less dismissive of locally produced goods compared to their parents' generation.

According to Euromonitor International, China is likely to come of age as a producer. With major international houses investing heavily in production in the country, Chinese wine exports will soon make their presence felt on the international stage. Mr Christophe Bourrie, Managing Director of Prestige Brands at Moët Hennessy, comments, "I would say luxury Chinese wines will be coming into the market in the near future."

A GLASS ABOVE THE REST

An example of such a wine is Moët Hennessy's first luxury wine brand in China, Ao Yun, a Cabernet Sauvignon that costs more than USD 300. Since its launch in 2017, its rarity and high quality have already drawn attention from the global wine industry.

Ao Yun, which is Mandarin for 'flying above the clouds', is a reference to the Himalayan foothills in which the grapes are grown.

The justification behind its USD 300 plus price tag lies in the production process, which, quite literally, remains an uphill task. "There are multiple difficulties making a great wine like Ao Yun in Yunnan. The altitude is a logistical challenge. You have to make a four-hour drive from Shangri-La, and then finally you are going to produce this wine from four different villages, up to 2600m in altitude in the region," says Mr Bourrie.

Why did a luxury company known for elegant champagnes choose China as its production site?

“The location is really the determinant, with most quality wines coming from terroir (a particular region’s climate, soils, and terrain that affect the taste of wine). We specifically chose Yunnan for the weather and soil quality, and it’s very similar to Bordeaux,” explains Mr Bourrie.

How does Ao Yun fare on the taste scorecard?

“I think Ao Yun being a Chinese wine has been one of the most highly regarded wines by experts and journalists all over the world. And they are amazingly surprised when they discover it’s a Chinese wine because they had a preconceived idea about it. In China, you can do excellent wines that are comparable to those in Bordeaux, Napa vineyards, and Australia. I would say the wine cycle is seven to ten years. So we bet on the future,” says Mr Bourrie.

READING THE WINE DREGS

If wine is a bet on the future, what do the dregs say about the investment outlook for fine wines?

According to Cult Wines, China’s stricter capital controls have given the impetus for China-based clients to look at alternative investments such as fine wine. This trend is expected to continue. As far as alternative investments go, fine wine has a few advantages. Although wine’s intrinsic value may be debatable, its market value is not.

Purchasing fine wines has become more popular, not just as a passion, but also as an investment. The industry’s leading benchmark, the Liv-ex 100 Fine Wines Investables Index, tracks the most ‘investable’ wines on the market – around 200 wines from the top 24 Bordeaux châteaux. This index has been less volatile than stocks or commodities, including gold, which is typically seen as a safe haven asset. Over the 12-year period, it has returned more than 250% in GBP terms. As such, investors would do well to take a long-term view on their wine investments.

Fine wines outperformed global equities and gold

Total % returns in GBP terms (rebased to 100)

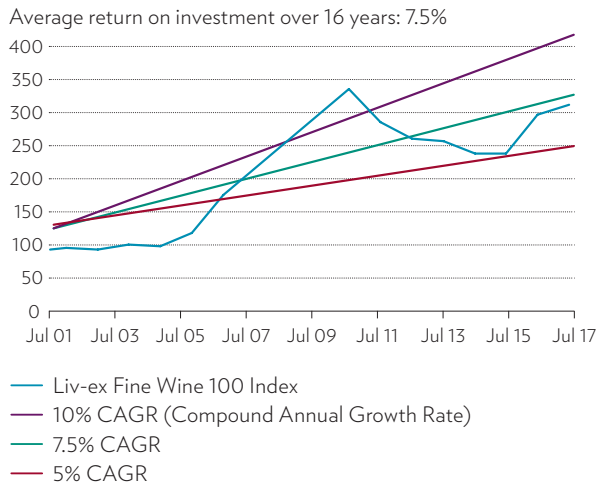


— Liv-ex 100 Fine Wines Investables
— MSCI All Country World Index
— Gold price

As of 28 February 2018

Source: Bloomberg Finance L.P., Julius Baer Investment Publishing Asia

A buying opportunity



Source: Liv-ex.com

Characteristics of wine for investment

- Secondary market
- Ability to age
- Long track record
- Critical acclaim

However, fine wine is a luxury investment that carries risks. Supply depends on the whims of weather and demand can fluctuate. Other risks include low liquidity, given that the market is small and dealing

costs are high; lack of independent regulation and currency risk, as the best wines are mainly traded in sterling; and lack of sufficient physical storage. Investors would do well to undertake due diligence with respect to the potential pitfalls such as pricing and limited liquidity.

Nevertheless, with demand rising year-on-year and the quality of wines improving at a similar pace, we are likely to see an upward price trend in the world's most sought-after wines over the next five to ten years. Better availability of price information and increasing demand in emerging markets, particularly China and Hong Kong, have created a bull market for fine wine. This underscores China's rising status in the luxury wine world. We see a strong potential for this market as the number of collectors and consumers continues to grow.

In conclusion, investors can take into consideration that this liquid asset is not only drinkable, but also investable.

We are likely to see an upward price trend in the world's most sought-after wines over the next five to ten years.

FINE WINE BY THE NUMBERS



The most expensive bottle of wine sold was the Château Lafite Rothschild 1787, which went for **USD 160,000** in 1987. Once owned by Thomas Jefferson, this wine will likely never be consumed.

Source: Forbes

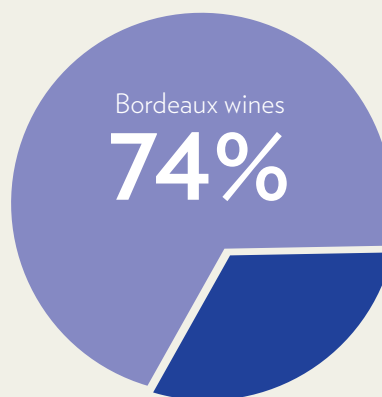
The Moldovan wine collection “Milestii Mici”, with **1.5 million** bottles and stretching **200 km**, is the largest wine collection in the world.

Source: Liv-ex



Bordeaux wines accounted for 74% of **Liv-ex** trade (as of January 2018).

Source: Guinness Book of Records



IMPORTANT LEGAL INFORMATION

This publication is not the result of independent financial/investment research. Therefore it has not been prepared in accordance with the legal requirements regarding the independence of financial/investment research and is not subject to any prohibition on dealing ahead of the dissemination of financial/investment research.

The information and opinions expressed in this publication were produced by Bank Julius Baer & Co. Ltd., Singapore branch, which is regulated by the Monetary Authority of Singapore, as of the date of writing and are subject to change without notice. This publication is intended for **information purposes only and does not constitute an offer**, a recommendation or an invitation by, or on behalf of, Bank Julius Baer & Co. Ltd., Singapore branch, or of its subsidiaries or affiliated companies (Julius Baer) to make any investments. Opinions and comments of the authors reflect their current views, but not necessarily those of other Julius Baer entities or any other third party.

Services and/or products mentioned in this publication may not be suitable for all recipients and may not be available in all countries.

Clients of Julius Baer are kindly requested to get in touch with the local Julius Baer entity in order to be informed about the services and/or products available in such country.

This publication has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Before entering into any transaction, investors should consider the suitability of the transaction to individual circumstances and objectives. Any investment or trading or other decision should only be made by the client after a thorough reading of the relevant product term sheet, subscription agreement, information memorandum, prospectus or other offering document relating to the issue of the securities or other financial instruments. **Nothing in this publication constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate for individual circumstances, or otherwise constitutes a personal recommendation for any specific investor.** Julius Baer recommends that investors independently assess, with a professional advisor, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences. **The value of investments may fall as well as rise, and returns may be affected by exchange rates. The investor may not get back the amount invested. Past performance is not a reliable indicator of future results. Performance forecasts are not a reliable indicator of future performance.**

Although the information and data herein are obtained from sources believed to be reliable, no representation is made that the information is accurate or complete. Julius Baer does not accept liability for any loss arising from the use of this publication. This publication and any market data contained therein **shall only be for the personal use of the intended recipient** and shall not be redistributed to any third party, unless Julius Baer or the source of the relevant market data gives their approval. This publication is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) such publications are prohibited.

External Asset Managers/External Financial Advisors: In case this marketing publication is provided to an External Asset Manager or an External Financial Advisor, Julius Baer expressly prohibits that it is redistributed by the External Asset Manager or the External Financial Advisor and is made available to their clients and/or third parties. By receiving any marketing publication, the External Asset Managers or the External Financial Advisors confirm that they will make their own independent analysis and investment decisions, if applicable.

Austria: Julius Baer Investment Advisory GesmbH, authorised and regulated by the Austrian Financial Market Authority (FMA), distributes this publication to its clients. Neither the legal requirements regarding the independence of investment research nor the prohibition of trading prior to the announcement of financial analyses do apply.

Chile: This publication is for the intended recipient only.

Dubai International Financial Centre: This publication is distributed by Julius Baer (Middle East) Ltd. It may not be relied upon by or distributed to retail clients. Please note that Julius Baer (Middle East) Ltd. offers financial products or services only to professional clients who have sufficient financial experience and understanding of financial markets, products or transactions and any associated risks. The products or services mentioned will be available only to professional clients in line with the definition of the Dubai Financial Services Authority (DFSA) Conduct of Business Module. Julius Baer (Middle East) Ltd. is duly licensed and regulated by the DFSA.

Germany: Bank Julius Bär Europe AG, authorised and regulated by the German Federal Financial Supervisory Authority (BaFin), distributes this publication to its clients. If you have any queries concerning this publication, please contact your relationship manager.

Guernsey: This publication is distributed by Bank Julius Baer & Co. Ltd., Guernsey branch, which is licensed in Guernsey to provide banking and investment services and is regulated by the Guernsey Financial Services Commission.

Hong Kong: This publication is distributed in Hong Kong by and on behalf of, and is attributable to Bank Julius Baer & Co. Ltd., Hong Kong branch, which holds a full banking licence issued by the Hong Kong Monetary Authority under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong SAR). The Bank is also a registered institution under the Securities and Futures Ordinance (SFO) (Chapter 571 of the Laws of Hong Kong SAR) licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities with Central Entity number AUR302. This publication must not be issued, circulated or distributed in Hong Kong other than to 'professional investors' as defined in the SFO. The contents of this publication have not been reviewed by any regulatory authority. If you have any queries concerning this publication, please contact your Hong Kong relationship manager. Bank Julius Baer & Co. Ltd. is incorporated in Switzerland with limited liability.

India: This publication is for the intended recipients only. This is not a publication of Julius Baer Wealth Advisors (India) Private Limited (JBWA) or any of its Indian subsidiaries under the SEBI Research Analyst Regulations, 2014. This publication has been produced by Bank Julius Baer & Co. Ltd. (Julius Baer) and it does not have a banking license in India. This publication should not be construed in any manner as an offer, solicitation or recommendation by JBWA or any Julius Baer entity globally.

Israel: This publication is distributed by Julius Baer Financial Services (Israel) Ltd. (JBFS), licensed by the Israel Securities Authority to provide investment marketing and portfolio management services. Pursuant to Israeli law, 'investment marketing' is the provision of advice to clients concerning the merit of an investment, holding, purchase or sale of securities or financial instruments, when the provider of such advice has an affiliation to the security or financial instrument. Due to its affiliation to Bank Julius Baer & Co. Ltd., JBFS is considered to be affiliated to certain securities and financial instruments that may be connected to the services JBFS provides, and therefore any use of the term 'investment advice' or any variation thereof, in this publication should be understood as 'investment marketing', as explained above.

Japan: This publication shall only be distributed with appropriate disclaimers and formalities by a Julius Baer entity authorised to distribute such a publication in Japan.

Kingdom of Bahrain: Julius Baer (Bahrain) B.S.C.(c), an investment business firm which is licensed and regulated by the Central Bank of Bahrain (CBB), distributes this publication to its expert and accredited investor clients only. Please note that Julius Baer (Bahrain) B.S.C.(c) offers financial products or services only to expert and accredited investor clients in line with the definition of the CBB's rulebook that contains regulations, directives and rules pursuant to the CBB rulemaking powers under the CBB law. This publication may not be relied upon by or distributed to retail clients. The CBB does not take any responsibility for the accuracy of the statements and information contained in this publication nor shall it have any liability to any person for any damage or loss resulting from reliance on any statement or information contained herein.

Lebanon: This publication has been distributed by Julius Baer (Lebanon) S.A.L., which is an entity supervised by the Lebanon Capital Markets Authority (CMA). It has not been approved or licensed by the Lebanon CMA or any other relevant authority in Lebanon. It is strictly private and confidential and is being issued to a limited number of individual and institutional investors upon their request and must not be provided to, or relied upon, by any other person. The information contained herein is as of the date referenced and Julius Baer (Lebanon) S.A.L. shall not be liable to periodically update said information. The quotes and values provided herein are for indicative purpose only and shall in no way refer to tradable levels.

Luxembourg: This publication is distributed by Bank Julius Baer Luxembourg S.A. authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) 283, route d'Arlon L- 1150 Luxembourg. This publication has not been authorised or reviewed by the CSSF and it is not intended to file it with the CSSF.

Monaco: Bank Julius Baer (Monaco) S.A.M., an institution approved by the Minister of State for Monaco and the Bank of France, and Julius Baer Wealth Management (Monaco) S.A.M., an asset management company authorised in Monaco, distribute this publication to their clients.

Netherlands: Julius Baer (Netherlands) B.V., authorised and regulated by the Netherlands Authority for the Financial Markets (AFM) and authorised to (i) receive and transfer orders from clients, and (ii) provide investment advice, disseminates this publication to its clients. Bank Julius Baer Luxembourg S.A. is authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) 283, route d'Arlon L-1150 Luxembourg and authorised to provide banking and certain investment services in the Netherlands on a passported basis.

Panama: The relevant services and/or products mentioned in this publication shall only be promoted in Panama by a Julius Baer entity authorised to provide such services/products in Panama. Financial instruments mentioned in this publication are neither registered with nor under the supervision of the Superintendence of the Securities Market (formerly the National Securities Commission). The exemption from registration is based on Article 129 of Decree Law 1 of 8 July 1999 as amended and organised into a single text by Title II of Law 67 of 2011 (the Securities Law). In consequence, the tax treatment established in Articles 334 to 336 of the Securities Law, does not apply. This publication is for the intended recipient only.

Republic of Ireland: Julius Baer International Limited, Ireland branch, which is authorised and regulated by the Financial Conduct Authority (FCA) in the UK and regulated by the Central Bank of Ireland (CBI) for conduct of business rules, distributes this publication to its clients and potential clients. Some of the services mentioned in this publication that are available to clients of the Ireland branch may be provided by members of the Julius Baer Group based in other EU jurisdictions. Rules made by the FCA and/or CBI for the protection of retail clients do not apply to such services and the Financial Services Ombudsman will not be able to resolve complaints in respect of such services.

Singapore: This publication is available from Bank Julius Baer & Co. Ltd., Singapore branch, for accredited investors only. As Bank Julius Baer & Co. Ltd., Singapore branch, has a Unit exemption under Section 100(2) of the Financial Advisers Act, Cap. 110 of Singapore (the FAA), it is exempted from many of the requirements of the FAA, amongst others, the requirement to disclose any interest in, or any interest in the acquisition or disposal of, any securities or financial instruments that may be referred to in this publication. Further details of these exemptions are available on request. This publication has not been reviewed by and is not endorsed by the Monetary Authority of Singapore (MAS). Please contact a representative of Bank Julius Baer & Co. Ltd., Singapore branch, with respect to any inquiries concerning this publication. Bank Julius Baer & Co. Ltd. is incorporated in Switzerland with limited liability. The term 'independent' as used in this publication does not mean that Bank Julius Baer & Co. Ltd. (the Bank), or any asset manager or family office in Singapore which the Bank may associate with or have a connection to, is independent within the meaning of the FAA, Cap. 110.

South Africa: This publication is distributed by Julius Baer (South Africa) (Pty) Ltd, which is licensed by the Financial Services Board of South Africa as an authorised Financial Services Provider (FSP no. 49273)

Spain: Julius Baer Agencia de Valores, S.A.U., authorised and regulated by the Comisión Nacional del Mercado de Valores (CNMV), distributes this publication to its clients. The relevant services and/or products mentioned in this publication shall only be provided in Spain by a Julius Baer entity authorised to provide such services/products in Spain.

Switzerland: This publication is distributed by Bank Julius Baer & Co. Ltd., Zurich, authorised and regulated by the Swiss Financial Market Supervisory Authority FINMA.

The Bahamas: This information is distributed by Julius Baer Bank & Trust (Bahamas) Limited, an entity licensed by the Central Bank of The Bahamas and regulated by the Securities Commission of The Bahamas. This document does not constitute a prospectus or a communication for the purposes of the Securities Industry Act, 2011, or the Securities Industry Regulations, 2012. In addition, it is only intended for persons who are designated or who are deemed 'non-resident' for the purposes of Bahamian Exchange Control Regulations and Rules.

United Arab Emirates: This publication has not been approved or licensed by the UAE Central Bank, the UAE Securities and Commodities Authority or any other relevant authority in the UAE. It is strictly private and confidential and is being issued to a limited number of sophisticated individual and institutional investors upon their request and must not be provided to or relied upon by any other person.

United Kingdom: Julius Baer International Limited, which is authorised and regulated by the Financial Conduct Authority (FCA), distributes this publication to its clients and potential clients. Where communicated in the United Kingdom, this publication is a financial promotion which has been approved by Julius Baer International Limited for distribution in the United Kingdom. Some of the services mentioned in this publication may be provided by members of the Julius Baer Group outside the UK. Rules made by the FCA for the protection of retail clients do not apply to services provided by members of the Julius Baer Group outside the UK and the Financial Services Compensation Scheme will not apply. Julius Baer International Limited does not provide legal or tax advice. If information on a particular tax treatment is provided, this does not mean that it applies to the client's individual circumstances and it may be subject to change in future. Clients should obtain independent tax advice in relation to their individual circumstances from a tax adviser before deciding whether to invest. Julius Baer International Limited provides advice on a limited range of investment products selected for the Julius Baer product and service platform (restricted advice).

Uruguay: In the case this publication is construed as an offer, recommendation or solicitation for the sale or purchase of any securities or other financial instruments, the same are being placed relying on a private placement exemption (oferta privada) pursuant to Section 2 of Law No. 18,627 and are not and will not be registered with the Financial Services Superintendence of the Central Bank of Uruguay to be publicly offered in Uruguay. In the case of any closed-ended or private equity funds, the relevant securities are not investment funds regulated by Uruguayan Law No. 16,774 dated 27 September 1996, as amended. If you are located in Uruguay, you fully understand English, the language in which this publication and all documents referred to herein are drafted, and you have no need for any document whatsoever to be provided in Spanish or any other language.

United States: NEITHER THIS PUBLICATION NOR ANY COPY THEREOF MAY BE SENT, TAKEN INTO OR DISTRIBUTED IN THE UNITED STATES OR TO ANY US PERSON.

This publication may contain information obtained from third parties, including ratings from rating agencies such as Standard & Poor's, Moody's, Fitch and other similar rating agencies, and research from research providers such as MSCI ESG Research LLC or its affiliates. Issuers mentioned or included in any MSCI ESG Research LLC materials may be a client of or affiliated with a client of MSCI Inc. ("MSCI") or another MSCI subsidiary. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third party. Third-party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings or research, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third-party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings or research. Credit and/or research ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the market value of securities or the suitability of securities for investment purposes and should not be relied on as investment advice.

© Julius Baer Group, 2018



JULIUS BAER GROUP

Head Office
Bahnhofstrasse 36
P.O. Box
8010 Zurich
Switzerland
Telephone +41 (0) 58 888 1111
Fax +41 (0) 58 888 1122
www.juliusbaer.com

BANK JULIUS BAER & CO. LTD.
Hong Kong branch
39/F, One International Finance Centre
1 Harbour View Street, Central
Hong Kong
Telephone +852 2899 4788
Fax +852 2899 4789

BANK JULIUS BAER & CO. LTD.
Singapore branch
8 Marina View
#43-01, Asia Square Tower 1
Singapore 018960
Telephone +65 6827 1999
Fax +65 6827 1995
www.juliusbaer.com/asia

The Julius Baer Group
is present in more than
50 locations worldwide,
including Zurich (Head Office),
Dubai, Frankfurt, Geneva,
Hong Kong, London, Lugano,
Luxembourg, Monaco,
Montevideo, Moscow, Mumbai,
Singapore, and Tokyo.