



FT Wine Bordeaux



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Sour market sweetens as exports grow

While prices have fallen in recent years, international demand is beginning to show signs of a revival, says *Lucy Warwick-Ching*

Bordeaux prices are picking up as demand for the French region's best-known wines is rising – driven by a limited supply and collectors keen to buy before values increase again.

Fine wine is one of the best-performing asset classes of the past 20 years but, until recently, prices for Bordeaux have been volatile. The region's vintages enjoyed a bumper period between 2005 and 2007 but took a hit in 2008 and again in 2011, when a Bordeaux bubble that inflated on the back of Chinese demand peaked and burst.

"Some of those vintages bought at the top of the market around 2011 lost a considerable proportion of their value," says Gary Boom, managing director at Bordeaux Index, which monitors fine wine prices. "At times prices were down by more than 50 per cent."

For example, a bottle of 2008 first-



growth Château Lafite was selling for £14,000 but today is valued at between half and a third of that price.

This has left a lot of investors out of pocket and, as a result, many of them are now reappraising the role of red Bordeaux, particularly the first growths, in their portfolios.

Now they are also looking at the fine wines from France's Burgundy and Champagne regions and even the New

World. "Whereas, before 2010-11, top red Bordeaux might have accounted for 90 per cent of a collector's portfolio, these days diversification is becoming important to investors as a hedge against volatility," says Boom.

He reckons that the excess supply that reduced prices has now worked out of the market and export demand is increasing again, driven this time by US collectors. "Bordeaux prices are slowly

Harvest time: the vineyards of Château Haut-Brion, a Bordeaux grand cru

Patrick Bernard/Getty Images

emerging from a prolonged correction. Last year was the fourth consecutive calendar year in which the main index fell, something completely unprecedented in the history of the fine wine market," says Boom.

He adds that wines traded on the Bordeaux Index's online dealing platform, LiveTrade, returned 27 per cent in 2009 and 2011 before going into negative territory. It returned minus 25 per cent

between June 2011 and June 2014.

The start of this decline began in 2009. Emerging from the very worst of the global financial crisis of 2008, Bordeaux wine received a big boost from the exponential growth in Chinese demand after the abolition of import duties into Hong Kong.

As with many such upturns, speculative demand began to ride on the back of the underlying improved conditions. These forces drove the Bordeaux Index up by 65 per cent in the two years to mid-2011.

With so much of the demand being created by speculation, a fall in price was inevitable, says Andrew della Casa, director of The Wine Investment Fund and The Wine Enterprise Investment Scheme Limited.

He says the adjustment began in the middle of 2011, when the then most-recent Bordeaux vintage, 2010, was released *en primeur* – the offering of wines for sale before they are bottled – at prices that were too high.

At the same time the eurozone crisis began to adversely affect macroeconomic conditions, while further successive misjudged *en primeur* campaigns affected sentiment. As the market slid, investors stayed away, reinforcing the downturn.

Prices might have stabilised in 2013, *Continued on page 4*



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FT Wine Bordeaux

Vineyard dreams could turn to vinegar without a detailed plan

Property There are about 7,000 wine-producing châteaux in the region, many potentially for sale, reports *Adam Thomson*

Less than a month ago, Frank and Glenda Kalyk were living in their native Sydney thinking about how to spend their retirement. Today, Frank, a lawyer, spends his days in France picking leaves from the vines on his Bordeaux vineyard while Glenda is busy doing up the château that sits on the land.

"We have always loved France and wanted to do something with our two great passions, wine and food," says Glenda. "When we came to Bordeaux, we just looked at each other and said, 'wow, this is it!'"

Bordeaux is an area in the Aquitaine region of southwest France that borders Spain and the Atlantic. The

Kalyks' decision to buy a château, and with it their own wine label, in one of the world's best-known wine-producing regions, is a dream shared by many the world over. Belgians, Germans, Britons and Australians have invested in the area in recent years and are now setting about making their own wine.

Since about 2010, Bordeaux has also been in the sights of Chinese investors, who have bought about 100 châteaux in the region – ranging from a relatively modest, family-run operation to at least two purchases that have exceeded €20m in value.

There are about 7,000 châteaux in the Bordeaux region covering 106,000 hectares of wine-producing land – providing plenty of choice for those looking to purchase a working vineyard.

Moreover, about 80 per cent of those properties and businesses are valued at €5m or under, with the next 15 per cent rising in value to up to €30m.

Many of them are potentially up for

sale as their French owners approach retirement age and, in many cases, their children have chosen different career paths. "French owners often sell because they are getting on a bit and their children would much rather live in the city and suffer a journey to work on the Paris metro every day," says Rory Ramsden, a buyers' agent and property finder in south-western France for Home-Hunts.com.

Yet Michael Baynes of Maxwell-Storrie-Baynes, which provides luxury property services and is a market leader in the sale of châteaux in the region, points out that, in spite of the potential availability, only between 25 and 35 wine-producing châteaux change hands every year.

"There are streets in Chelsea where you get more real estate sales a year than in the Bordeaux wine industry," he says. "Turnover is slow and it is a very complex and precise market."

One of the reasons for this, argues

Baynes, is that transactions can take a long time to close given the complexity of valuing a château and its assets.

And that also makes it harder for the estate agents. "You need to speculate on marketing but you often have to carry that cost for 12 months at a time," Baynes says.

Owning a vineyard in one of the best-known wine-producing regions is a dream shared by many



For the buyer, timing is also important, says Ramsden. Purchasing a business at certain times of the year can sometimes mean having to wait a couple of years before your château starts to return some of the investment you put into it. You might have to wait until harvest time in September, then for six months of vinification and, if the

château falls within the "Bordeaux Supérieur" appellation, wines must be aged at least 12 months before they can be sold.

So what are the most important things to think about before taking the plunge? Baynes, who handles about 20 per cent of the property market for châteaux in Bordeaux and whose business is an affiliate of Christie's International Real Estate, says that it is important to keep a cool head.

"Captains of industry can arrive here and start to look at everything with love in their eyes," he says. "But it is important to ground yourself and put your business shoes back on. The wine you are going to produce in most cases does not sell itself, meaning strategy and commitment are needed to make a successful project."

Ramsden agrees. If the intention is to run a business, he says, then you will have to make sure that you have a workable business plan, together with a

distribution network for your produce.

"It's lovely to have your own label and to drink your own wine while looking out over your vines," he says. "But if you don't have a business plan that stacks up, your dreams will turn to vinegar."

The Kalyk family looked at about 15 châteaux before finally deciding on one with five hectares of vineyard in Sainte Colombe, a stone's throw from the renowned Saint-Emilion appellation.

"We wanted a small vineyard with the grapes already there because we didn't feel we were young enough to grow the grapes from scratch," explains Glenda.

The couple have already hired a winemaker but they have yet to choose a name for their label.

So will their future bottled produce pay homage to their antipodean roots? Not a chance, insists Glenda: "We want to be in the Bordeaux region and be a part of the Bordeaux groups. There won't be any boomerangs or kangaroos."

Only now are collectors asking about authenticity

Fraud Experts say vendors must do more to reduce crime, reports *Judith Evans*

Once a regular at Los Angeles' most exclusive wine tastings, Rudy Kurniawan, 39, now resides in a Californian prison after last year becoming the first person to be jailed in the US for wine fraud.

Thanks to the persistence of a small group of experts, Kurniawan's counterfeit fine wine operation was shut down after producing millions of dollars' worth of fake Bordeaux – including Château Lafite Rothschild, Château Latour and Château Cheval Blanc – plus Burgundy and others.

The repercussions of his case continue. For example, not all of the Indonesian's output has been traced and in 2006 alone he sold \$55m worth of wine. The unavoidable conclusion, say experts, is that many collections around the world must contain fake vintages.

"Collectors of fine and rare wine are finally asking questions about provenance and authenticity," says Maureen Downey, a leading expert on wine fraud who worked with the FBI on the Kurniawan case. "They're finally holding vendors' feet to the fire."

But this is a long overdue conversation that is only just beginning. "There are so many fake fine wines out there and so few people who are qualified to find them," Downey says.

Wine fraud is illegal in most jurisdictions, including in the EU and US. Police have apprehended fraudsters in France, the US and Italy, but most counterfeiting goes unreported, experts believe.

Both Downey and Michael Egan, a Bordeaux-based counterfeiting expert, believe the responsibility lies with merchants, vendors, brokers and auction houses to ensure that the wine

they sell is genuine. "We are finding wine on the internet almost daily that is completely counterfeit, and most of it is in Europe. We are having issues with small auction houses in the UK like you won't believe," Downey says.

Collectors must only buy from trusted sources that establish the provenance of all the wines they handle, she adds, calling Berry Bros & Rudd, the UK wine merchant that supplies the royal family, a "gold standard" in this respect.

Where the sale is private or where there is no evidence of a wine's provenance, collectors should seek a second opinion from a trusted merchant or other expert.

"Fine wine is being traded with more and more frequency between private individuals. A bottle of wine can have many owners before it is consumed, and then its provenance comes into play," Egan says. While Kurniawan specialised in historic vintages, modern wines are also under attack, says Egan, prompting growers to take measures including special inks and papers in labels and different bottle moulds each year.

The Bordeaux Wine Council (CIVB) has been quietly working for years to combat wine fraud.

Old before its time: a bottle of wine used as evidence during Kurniawan's trial



Wine crime fighter: Maureen Downey outside the US federal court where Rudy Kurniawan was convicted of fraud in 2014 — Stan Honda/Getty Images

Spot the fakes Tell-tale signs

- Check the vintage is genuine. Counterfeiters sometimes neglect to make sure the wine they are faking was actually made in the year they made a label for.
- Check the label. Tell-tale pixels may indicate it is photocopied or came off a modern printer — a giveaway for labels supposedly made before such printers existed.
- Check the fill. Wines from the 1960s or earlier will generally have several centimetres of empty bottle at the top because of evaporation, says Michael Egan, who detects wine counterfeiting.
- Check the capsule (the cork covering). Is it intact?
- Check the cork: young cork in old bottles can be a giveaway.
- Does the whole bottle look convincing? Look for consistency, says wine fraud expert Maureen Downey. Fakers may "distress" different parts of a label so look for marks and stains that do not correspond.
- Ask about provenance and be wary of improbable stories about a wine's history.
- Be ready to walk away. "What's the point of the whole chase, of finding this holy grail wine you've been searching for, only to buy a fake?" Downey asks.

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The French finance ministry runs a specialist laboratory in the region and an app, Smart Bordeaux, enables buyers to check the details of vintages by taking a photo of a wine label or scanning in a bar code.

A series of private companies has also developed technologies aiming to "watermark" bottles of new wine in ways that it is claimed cannot be copied, including using microchips, but Christophe Château, the CIVB's spokesman, says these can be double-edged: "The counterfeiters are becoming better and better... Once you've got a copy of the [watermarking] technology, the consumer will be sure that the [counterfeit] product is genuine. It's better not to have any technology than one that can be faked."

Downey argues that high-tech solutions should not be discussed publicly so that only trusted employees at a winemaker can check for them. "There are a number of producers who are doing that very successfully," she says.

She has just launched a website, wine-fraud.com, to act as a resource for its members — primarily from within the industry, but also including collectors and enthusiasts — to find the detailed information they need to spot fakes of particular vintages. "It's a first step in due diligence so that vendors can no longer hide behind ignorance," she says.

Downey believes that some influential figures in the wine trade turn a blind eye to counterfeiting, and calls Kurniawan a "patsy" whose creations made more money for others than for him.

She also says that counterfeiting will grow. "It's incredibly lucrative. If I were a criminal, I would totally go into wine fraud," she says.

China could be an even bigger market now boom is over

Asia The bull run is history, but can the country offer steady growth? Report by *Barney Thompson*

The Chinese government probably had several intentions when it announced the start of what would turn out to be a ¥4tr (\$645bn) stimulus package at the end of 2008 — such as boosting infrastructure and housing, and covering bad bank loans. It probably had no intention of giving a shot in the arm to the Bordeaux wine trade, but that was certainly one of the consequences.

As Guy Ruston, Asia managing director of fine wine merchant Bordeaux Index, says, China was "absolutely pumping". From government officials to property tycoons, wine, especially fine wine, "was the asset class to buy and been buying", he says.

This boom was further boosted by a drastic fall in tax on imported alcohol to Hong Kong, the main entry point to the Chinese market — from 80 per cent in 2006 to 40 per cent in 2007, and then to zero in March 2008.

China was soon driving the whole market. "There were 'mom and pop' [supposedly small and independent] wine companies springing up all over Hong Kong," says Ruston, "flipping cases and cases of Lafite, Mouton, Carraudes and so on across the border. Meanwhile, rogue wine investment companies were popping up in the UK, selling the story of the China market."

The Bordelais were keen to join in this rush. "There was a sense that, because they only produce so many cases and this was such a huge market, they could just keep raising their prices because they would never have enough," says Justin Gibbs, co-founder of the London International Vintners Exchange, known as Liv-ex, a fine wine market.

From exporting a mere 12,000 hectolitres to China in 2005, according to figures from the Bordeaux Wine Council (CIVB), that number had rocketed to 538,000 hectolitres by 2012. Inevitably, there was a reckoning.

The fall really started in June 2011 with the release of the 2010 vintage — the most expensive *en primeur* release ever. "A lot of traditional buyers in the US and UK turned away — they were not going to pay that much any more," says Gibbs. "The market was becoming more and more dependent on Hong Kong and China, though how much was going into consumption, gift-giving or speculation is very hard to know."

As 2011 wore on, the Chinese market began to turn dramatically, and with

their traditional buyers looking elsewhere, the Bordelais were in trouble. Over the next few months, China began to worry about austerity. Illegal imports from Hong Kong were curtailed and newly installed leader, Xi Jinping, came down hard on corruption, corporate gifts and ostentatious state spending.

Suddenly, a hugely overpriced bottle of Bordeaux — of which the cachet and the price tag had been far more important than the contents — was no longer affordable or desirable. The CIVB's China exports data are eloquent: in 2013, exports by volume fell to 452,000 hl. In 2014 they were down to 366,000 hl, with a turnover of €221m, or a fall of 21 per cent on the year before.

Yet, despite the past few years of declines, China has, from this tale of boom and bust, remained as the number-one market for Bordeaux, both by volume and by value.

"The market has caught its breath," as the CIVB puts it, "and is headed towards greater maturity. Its distribution channels need to be adapted and Bordeaux, an emblematic brand on the market, is now very well established."

Ruston hopes to tap a wider audience than the prestige-obsessed market of the wonder years. "The size of that audience is potentially incredible. Even during the bull run, the wine trade had barely scratched the surface."

538,000 Hectolitres of wine exported from Bordeaux to China in 2012	366,000 Hectolitres of wine exported from Bordeaux to China in 2014
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China's consumers are now focused more on finding out about wine than treating it as a commodity to win favour, he adds. "There is a big thirst for knowledge and it is spreading quickly. That desire to learn is the sign of a strong market."

Gibbs adds the market probably bottomed out last summer: "The Liv-ex 100 [the group's benchmark index] year-on-year ending in June will be flat to a small gain, which may sound like a poor result but for some people will be very welcome news."

So have the Bordelais, from château to importers, learned their lessons? Gibbs thinks so. "I certainly hope that demand... will emerge in a more stable manner. Everyone in the chain will be more cautious and careful."

Importers hope that in the future improved infrastructure in mainland China, such as proper storage facilities, lower import duties and simplified paperwork, will make it easier to ship fine wine. Ruston says: "At the moment it is both expensive and complicated, which is a real barrier to entry."

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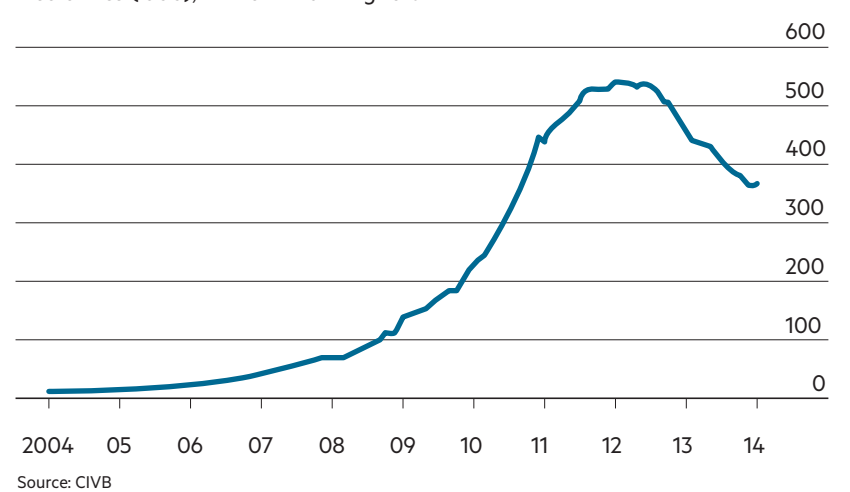
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Bordeaux wine exports to China

Hectolitres ('000), 12-month running total



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Will promising vintage justify a high price?

PERSONAL TASTE

Jancis Robinson



If you've been writing about Bordeaux for nearly 40 years, as I have, you cannot help but be struck by the cyclical nature of its wine business. When I started out, the Bordeaux wine trade was recovering from a relabelling scandal affecting one of the smartest merchant families, Cruse (in 1847 they bought the entire crop of Château Lafite), and the disastrous effects of the 1970s oil crisis that saw first growths selling cheaply in Augustus Barnett's unglamorous off-licences.

Today Emmanuel Cruse runs third-growth Margaux Château d'Issan impeccably, and in May celebrated the anniversary of wine from this estate having been served at the 1152 wedding of Eleanor of Aquitaine and Henry II that brought Bordeaux under the English crown for three centuries — with a dinner at Westminster Abbey, no less. None of us quite understood why the 863rd anniversary was so worthy of celebration, but we lapped up an imperial (eight bottles in one) of 1985 Issan in the Abbey's Cellarium.

Last month's biennial international wine fair Vinexpo was punctuated by a series of lunches and dinners more lavish than in any other wine region. The busiest tradespeople in Bordeaux currently are not in the wine business but the *traiteurs* who provide all these meals, and the builders who tart up the masonry of the better-known

producers as though there were a Best Kept Château competition (there isn't). Nor is there much tourism business in the Médoc, considering the *réclame* of so many of its châteaux. (Compare and contrast, *messieurs et mesdames*, with that other centre of Cabernet Sauvignon greatness, the Napa Valley.)

Such spending is commonplace at Bordeaux's better addresses because, although the last four *en primeur* campaigns have been damp squibs, the château proprietors made such a killing with the 2009 and 2010 vintages. I recently came across this passage in *The Wines of Bordeaux*, a magisterial work by my predecessor as FT wine correspondent, Edmund Penning-Rowsell: "... speculation had encouraged growers to ask and secure prices unrelated either to the cost of production or to the ability or willingness of the consumer to pay". He was referring to the early 1970s, when the current system of offering six-month-old wines *en primeur* to consumers was born, but it could have applied to the situation 40 years later.

With the lacklustre 2011, 2012 and 2013 vintages, sold — or rather offered — while prices for the 2010s and 2009s were falling, the wine-buying public became increasingly unenthusiastic about laying out money in advance for embryonic, unproven wine. The much better quality 2014 vintage offered the Bordeaux trade a chance to recoup

Vineyard vignette: Saint-Émilion
Jean-Pierre Muller/Getty Images

Many Bordelais seem not to care that their wines are currently out of fashion

some goodwill and re-engage potential *en primeur* buyers by reducing prices to attractive levels, but (perhaps because still financially cushioned and/or egotistically convinced that opening prices are a measure of status) too few proprietors did so. The first growths set a decent example and were far from rapacious with their 2014 pricing, albeit these were set at a premium level. And those smart names, whose owners deserve a special mention for relatively friendly pricing of their 2014s include, most notably, Lynch-Bages, with Armailhac, Calon Ségur, Canon, Domaine de Chevalier, Haut-Batailley, Pichon-Lalande, Prieuré-Lichine, Rauzan-Ségla and Talbot. Some more modestly priced 2014s

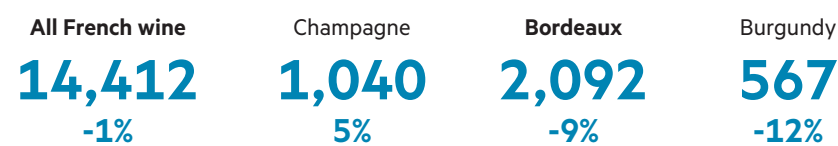
that took my fancy include Capbern, Le Boscq, Bernadotte, Bellevue, La Croix de Beaucaillou, de France and Gloria, although there is probably no need to buy these less sought after names *en primeur*. The strengthening of the US dollar has helped reinvigorate the Bordeaux market a little in both the US and Asia, but too many Bordelais seem not to care that their wines are currently out of fashion with so many of the world's wine drinkers and, significantly, the opinion-forming sommeliers. The two most prominent St-Estèphe châteaux, Montrose and Cos d'Estournel, seemed particularly out of touch, metaphorically thumbing their noses at buyers via ambitious 2014 pricing.

But, being part of such a massive and cyclical wine-selling machine, the Bordelais have clearly not been plunged into gloom by the title of an event I attended recently at the modish Clove Club in Shoreditch, called "So uncool it's cool? A Bordeaux Lunch." Meanwhile, it looks as though my beloved Rule of Five (whereby vintages divisible by five have been pretty good throughout France since 1985) may be coming into play for the forthcoming 2015 vintage. The flowering went exceptionally well and, so far, it looks as though they may just have a seriously promising vintage on their hands at long last — and perhaps justification for high prices. See more at JancisRobinson.com

Aquitaine - home of the Bordeaux region

Export of wine type

Hectolitres ('000) and annual % change, 2014



Aquitaine wine and cognac

Exports, 2014

€3.8bn

Second largest region in France, corresponding to 28% of national exports



Aquitaine population

Fourth largest region in France by population size with 5.9m inhabitants

Population growth 1999-2014



Aged over 60 2014



GDP

Per capita, 2013



Aquitaine total GDP, 2013

€158bn

7.7% of national GDP

Third largest region after Île-de-France and Auvergne-Rhône-Alpes

Tourism

2014



Tourist spending

€12bn

Represents 8% of regional GDP

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FT Wine Bordeaux

Scion steps into the spotlight as he takes over family business

Interview Philippe Sereys de Rothschild talks to Jane Anson about following his famous forebears

The first Baron Philippe was a charismatic playboy-poet who landed in France as part of the D-Day landings, raced Bugatti Grand Prix cars and introduced the practice of chateau bottling that is now the hallmark of quality wine estates world over. He then spent decades stubbornly lobbying the French government until Mouton Rothschild was promoted to first growth in 1973, joining his cousins over at Lafite Rothschild at the top of Bordeaux's 1855 classification (which ranked chateaux on price).

On paper, the man before me with an open-necked blue shirt and black jeans, having just wandered in from the vineyards, has taken a more serious route into wine than his grandfather and namesake. Business school, Lazard investment bank, Harvard MBA, chief finance officer of Dalkia Energy in Milan. But look closer and you can see why he says: "We are the branch of the family that does things differently."

For a start, Philippe Sereys de Rothschild is determined not to use his inherited title. "Baron Philippe was my grandfather. It's not me."

And then there is the fact that with him in the vineyard is Carole Bouquet, former Bond girl and an icon of French cinema (he was previously married and has three children). He and Bouquet were first publicly seen as a couple at the 2014 Cannes Film Festival, after which

the French press ran articles demanding "Who is Philippe Sereys de Rothschild?" despite a long family association with the event. (His grandfather started a partnership between Mouton and the festival back in 1981 and his mother Philippine de Rothschild and father Jacques Sereys were regulars at Cannes after successful careers with the Comedie Française theatre in Paris.)

This and the assumption of his duties at the family business have added to his celebrity in France.

Sereys de Rothschild spent two years at Lazard and then headed operations for Dalkia, an energy company, for which he took a 10-day crash course in Italian before becoming a Frenchman overseeing 500 Italian workers.

From there he returned to France, investing in various technology start-ups either through direct involvement or via board positions with Natixis and Jolt Capital, private equity firms.

More recently, the purchase of the Cours Hattemer school in Paris — Jacques Chirac, Françoise Sagan and Brigitte Bardot were students — turned out to be the first step towards founding the Alma Learning Group.

This has about 60,000 students, more than 80 per cent taking elearning programmes. As of 2014, the group has a €44m turnover with 400 full-time staff, and all profits are reinvested.

Sereys de Rothschild has also spent



Glamorous: Carole Bouquet and Philippe Sereys de Rothschild — Reuters/Benoit Tessier

just under a year as president of the supervisory board of Baron Philippe de Rothschild SA (BPDR), a role he assumed after the death of his mother in August 2014. He now works on strategy for a vast international enterprise comprising the family chateaux of Mouton Rothschild, Clerc Milon, d'Armailhac and Baron'arques, together with the branded Mouton Cadet wine, and joint wine-producing ventures his grandfather and mother started in Napa and Chile, Opus One and Almaviva.

Sereys de Rothschild's previous experiences and his modern outlook may help him to take BPDR forward in a complicated world for classified

'What I've learnt is that all markets are unpredictable and it is wrong to think that we can control them'

chateaux. These are caught between the traditions of the past and a fragmented, fast-moving market that is increasingly blind to the old wine elite.

"Certainly what I've learnt is that all markets are unpredictable," he says in his impeccable English accent, the result of three years at Sunningdale School, a boarding school in Berkshire. "And it is wrong to think that we can control them. We are producers of an agricultural product, and I believe

strongly that our goal is to make the best wine in the world quite simply, to apply excellence at all levels."

He says wine needs a different approach. "In most of the other businesses that I have been involved with — in fact in most other businesses full stop — plans are made for the next five, maximum 10 years. Here the timescale for decision making is 20, 30, 40 years."

Baroness Philippine left just as indelible an imprint on Pauillac and Bordeaux as her father. However, where their strong, indomitable spirits held sway, running the business will be a joint effort this time — sister Camille Sereys de Rothschild and brother Julien de Beaumarchais de Rothschild are also on the supervisory board. A management team takes the daily operational decisions, but this is a family company in a way that few leading Bordeaux chateaux are today.

"When a company is not publicly traded, you have time to reflect," Sereys de Rothschild says. "The first vintage of Opus One was 1979, and it was not an immediate success."

"If this had not been a family business we might have sold it at the end of the 1980s, but we listened to people telling us 'it's agriculture, it's long term', and we decided that, as long as the product is good and can age, then we can keep going. The difference is that where a normal business leverages a brand, a family protects it."

Sour market sweetens as exports begin to grow

Continued from page 1

but in that year the Chinese government launched measures against excess and corporate gift-giving in an effort to reduce corruption, but also hurting the makers of luxury goods.

The Bordeaux Wine Council says that in 2012 the region exported 538,000 hl. However, by 2014 this had fallen to 366,000 hl with turnover of €221m, a fall of 21 per cent on the year before (see graph page 2).

To make matters worse, currency fluctuations led overseas demand to drop. The net overall result was a 36 per cent fall in the London International Vintner Exchange's Liv-ex 100 index, which represents the price movements of 100 of the most sought-after fine wines, from the mid-2011 peak to June 2014. This was the largest correction since reliable records began in 1982.

The share of Bordeaux's trade on Liv-ex was 65.5 per cent last month, compared with a monthly average of 74 per cent for 2015 so far. This is significantly lower than the 95 per cent market share Bordeaux recorded in 2010, and lower even than the 79 per cent it enjoyed in 2014.

But experts say that since mid-2014 conditions have improved. Demand from China is lower than before, but it has begun to pick up, and conditions in traditional markets such as North America are also gradually improving.

Despite the weak market from 2011 to 2014, the long-term performance of fine wine overall as an asset remains positive. Over the past 10 years the Liv-ex 100 index has returned 139 per cent, compared with the FTSE 100's 41 per cent.

The story with other physical assets is similar: since 1993, when the first monthly wine index began, wine prices have risen 12-fold, while gold has increased just 3.6-fold and the FTSE 100 has only slightly more than doubled.

"The record of wine as an investment remains strong and the current market situation appears favourable," says della Casa. "Add to this the other attractions of wine as an asset, not least its ability to provide real diversification as part of a

wider investment portfolio, and the case for maintaining a holding . . . remains very compelling."

Others say that, since the financial crisis, the demand for more diversified investments has been fuelled by volatile markets and record low interest rates. This has led to an intensified interest in many physical assets that have intrinsic value, particularly where supply is limited, such as rare and fine wine.

However, as with all collectibles, Bordeaux and other fine wine should be viewed as a medium to long-term investment. "You should be patient," says Adam Brett-Smith, managing director of independent wine merchant Corney & Barrow.

"People — because of what's happened in the past 10 years, which has been quite severely corrected in the past three or four — have the idea they're going to do well quickly, which is erroneous." Although there are some exceptions, "for a wine you need to wait for five years in terms of drinkability or value".

Brett-Smith also stresses that fine wine investment is appropriate only for people who have a genuine interest in wine. "If you treat it as a commodity it is a rather dry way of looking at it. The irony is the investor needs the drinker to make the investment work."

Jancis Robinson, the FT's wine correspondent, adds a note of caution for inexperienced buyers looking to dabble in such markets for the first time.

She recommends would-be investors check out the blog "I wouldn't buy wine from these companies" at investdrinks-blog.blogspot.co.uk.

Robinson adds that wine investment schemes are notorious for attracting fraudsters, and investors should buy only from well-known companies with established reputations, and to be especially wary of cold callers.

FT On FT.com
The trend of buying fine wine online is increasing as brokers set up shop
ft.com/bordeaux

Blue-chip reputation remains despite increased competition

Hints and tips
Susannah Gold talks to wine experts about what careful investors need to look out for

Bordeaux is still the blue-chip of wine investing, despite the improvement in quality from competitors around the world, says Robin Kelley O'Connor, an international wine judge.

"Burgundy is coming on strong but Bordeaux is really second to none," O'Connor says.

David Elswood, international head of wine Christie's, an auction house, agrees: "Although Bordeaux is going through a period of changing prices, it remains the number one category of wine in all our salerooms globally." He adds that it represents 75-80 per cent of Christie's worldwide market.

Miles Davis, a partner in UK-based Wine Asset Managers, says: "Bordeaux is really the only wine that you can consider for a fund of a decent size because of quantity . . . it will always make up the majority of the investment as it lends itself better to trading on the secondary market."

The Liv-ex Fine Wine 100, a benchmark index, is weighted toward Bordeaux, indicating fine wines from the region should make up the lion's share of a portfolio if the intention is to sell in the future.

Justin Gibbs, founding director of Liv-ex, says: "Bordeaux remains the main play. Wine funds must be in this space, where there is a tighter spread between bid and offer, and therefore a lower cost of trading."

But which wines to buy from the hundreds of chateaux? Should you buy from the left bank or right bank? And which vintages and appellations (legally protected names indicating the region in which they were produced) to consider?

Mary Gorman McAdams, a master of wine and North American market adviser for the Bordeaux Wine Council, says buyers should first "know your objectives and why you are investing".

McAdams also advises buying a whole case plus a few bottles to enjoy, as whole cases retain their value better (see box).

Buyers must educate themselves, she says: "Brush up on what has traded over

Dans la cave Storing wines

For storage at home:

- Bottles must be kept on their sides, away from vibrations, at 50°F-55°F [10°C-12.5°C] and at a humidity of 65-70 per cent, with minimal fluctuation.
- Light can damage wine. Bottles need to be kept in a dark, cool place so that the corks do not dry out. But it should not be too damp, to prevent mould growing.
- If you do not have a cellar, converting a closet is usually more economical than buying a storage cabinet if you plan to keep more than 100 bottles, advises David Glancy, master sommelier at the San Francisco Wine School.
- Have double the storage space required for the number of bottles you initially wish to buy. Wine collecting is habit-forming. If you have a cellar, fit shelves that can accommodate large-format bottles, which may otherwise be hard to store.
- If amassing a large collection, it is advisable to turn to professional storage under bond, in the wine's original carton or case. David Elswood from Christie's says: "If you're drinking the wine, the original wooden case is far less important."

SG

the last 10 years. Know the fine wine market and read lots of wine reviews." Renowned US critic Robert Parker's Wine Advocate website is one to watch, according to experts.

Investors should ensure they buy only pristine stock with a known and provable history, such as bonded warehouse records, says Elswood at Christie's.

As to which are the best vintages, Jeff Zaharia, president of Zachy's wine auctions in the US, says: "I'm looking at the 2009s and 2010s."

"These are two great vintages, both have come down in price over the last few years and seem to have bottomed

out. I look for these wines to come up 5 per cent to 15 per cent over the next few years."

Others mark the 2005 vintage as a must for every cellar. Parker rescored the 2005 at the end of June and many expect prices could rise dramatically for some chateaux.

However, older vintages could also be worthwhile. Chris Smith, an investment manager with The Wine Investment Fund in the UK, says he is bullish on vintages that are 10-25 years old.

Max Lalondrelle, fine wine buying director at Berry Bros & Rudd, a London-based wine merchant, says: "One has a good chance of making money if investing in wines from the left bank with a maturing vintage and a middle-to-top brand as well."

For new investors, first growths from the 1855 classification (which ranked wines from first to fifth growth) may seem the best option.

But wines produced by the Cru Bourgeois — a classification for red wine that lists some chateaux not included in the 1855 classification from the Médoc, on the left bank of the Gironde estuary — are less expensive, though are not always considered to be investment class wines.

Brinda Bourhis, director of Winevox, a specialist wine communications firm in Bordeaux, says that 267 Cru Bourgeois wines were selected for the 2012 vintage and most cost \$25-\$50 per bottle.

Many experts have also noted that a few chateaux on the right bank were also showing well, such as Vieux Château Certan from Pomerol.

While some experts think that *en primeur*, also known as "wine futures" (investing in vintages before they have been bottled), has become passé, Lalondrelle says it can still be a good bet for certain wines.

Meanwhile Hortense Bernard, from Millésima, a New York and Bordeaux-based wine merchant, says that buying *en primeur* also provides a chance to invest in larger-format bottles, which are favoured by some collectors.

However, one thing the professionals agree on is that investing in wine should be something done for pleasure. Then, even if the monetary rewards are less than expected, drinking the wine will still provide pleasure for years to come.

Cuvée Rosé.
The Ultimate.

