



WINE CELLAR
PERSONAL INVESTMENT PORTFOLIO

FEBRUARY

2022 PIP

PERSONAL INVESTMENT PORTFOLIO

The easiest and most cost-effective way of investing in South African wine.

'As usual, I had to constantly verify retail prices, since coming off the back of 2019 Burgundy and 2018 Bordeaux [tastings], I had become accustomed to entry-level wines sometimes north of \$50.00 per bottle, the same price as a dazzling South African wine batting at Bordeaux Second or Third Growth or Burgundy top Premier Cru level. That's no hyperbole. This is where the best of the Cape now stands.' – NEAL MARTIN, 2021 SA REPORT

'South African wine remains a tremendous bargain, but the top brands are slowly attaining the prices they deserve, not least on the secondary market.' – TIM ATKIN MW, 2021 SPECIAL SOUTH AFRICA REPORT

Wine Cellar was
awarded 'Négociant
of the Year' in 2017
by **Kanonkop Wine
Estate.**

TABLE OF CONTENTS

1 Executive summary	02
2 The vintages	03
3 Wine selection and investment strategy	03
4 The market	05
4.1. Secondary market analysis and expected value growth	05
5 PIP index	06
6 'Buy now and drink for free'	06
7 Investment structure	06
8 Realising returns and exit	06
8.1. Drawing wine	06
8.2. Trading portfolios	07
8.3. Brokerage and auction	07
8.4. Maturity	07
9 Taxation, liquor regulations and VAT	07
10 Investors and transaction details	08
11 Cellaring information and ownership	08
11.1. Cellaring fees and insurance	09
12 Management and reporting	09
12.1. CV – Roland Peens	09
12.2. CV – James Pietersen	10
12.3. CV – Johan Malan	10
13 Contact	10
14 Investor application	11

1. EXECUTIVE SUMMARY

- The PIP is a diversified, blue-chip portfolio of **16** of the finest and most investable South African wines available on the market at the date of release.
- Each portfolio comprises **102 bottles at a cost of R50,000**, and is based on similar principles as previous investment portfolios.
- Each portfolio is offered with **2 years of free cellaring**. This constitutes a saving on cellaring costs of approximately **R3,712** per portfolio in current Rand terms – an **effective 7.7% discount** on the purchase price.
- The portfolio is tailored according to the most investable stock in the market, selected on quality, price, brand equity and critic ratings.
- The PIP includes bi-annual index calculation, free wine advice and quarterly wine investment reports.
- Investors are given access to Wine Cellar’s brokerage platform as well as Strauss & Co Fine Wine Auctions.
- Wine Cellar will assist in trading portfolios, or wines within the portfolio. With 20 years of trading experience, Wine Cellar is the leader in South African fine wine, professional cellaring and the secondary market. Wine Cellar’s secondary market sales grew 75% in value from 2020 to 2021.
- Wine Cellar’s first portfolio, VIP 2015, has shown **total price growth in excess of 80%** since its release in September 2018.

PIP February 2022	R 50,000
Bottles per portfolio	102
Estimated cellaring cost per portfolio	R 3,712
Estimated cellaring saving per portfolio	7,7%
Inception date	February 2022
Management fees until 28 February 2024	R 0.00
Cellaring fees until 28 February 2024	R 0.00
Free-cellaring end date	28 February 2024
Withdrawal of wines	Anytime

2. THE VINTAGES

With almost all prominent 2015s already filtered through the market and 2017 not far behind, vintage selection becomes all the more important. 2015 and 2017 are widely recognised as some of South Africa's finest vintages in recent memory. While 2016, 2018 and 2019 are regarded by many winemakers as tough vintages, these vintages highlight the experience and skill sets of the vineyard and winemaking teams. 2020 is still early to call on a broad scale for reds, but early releases are showing promise. Micro-climate per site and individual terroir can still produce wines of equal/superior quality to that of the great vintages. In terms of value, the PIP comprises 15% of 2015 wines, 16% of 2017 wines, 28% of 2018 wines, 35% of 2019 wines and 5% of 2020 wines.

3. WINE SELECTION AND INVESTMENT STRATEGY

Selection for the PIP was based entirely on the investment potential of available stocks. Investment potential is considered according to price, volume, sales data, customer demand, brand equity, consistent quality, critic ratings and ability to age well. With many factors at play in determining the price of vintage wines within a small secondary market, release price and brand equity are the most important considerations. Wines that are under-priced compared to their peers, that have shown the highest price growth in previous vintages, offer the best opportunity to appreciate. This iteration of the PIP offers 16 different wines, ranging from traditional, well established producers, to more recent upcoming stars.

Sales at the Strauss & Co Fine Wine Auctions have shown strong demand at the R1,000 – R1,500 level, pushing through R2,000 and R3,000 levels on certain young wines. The price band that we believe holds the greatest potential value growth is the R300 – R800. However, there are wines which get selected, from time to time, that fall outside this band but they tend to be the exception rather than the rule.

Stellenbosch represents 57% of the portfolio value with 14% coming from the Swartland and 29% is shared between Constantia, Hemel-en-Aarde and Cederberg. **Boekenhoutskloof** continues to be among the top expressions of Syrah. The 2018 is of particular interest as 80% of the fruit came from Porseleinberg. A mini-Porseleinberg at a discounted price? It is stylistically different, but a top wine nonetheless. **Boschkloof** Syrah is included in the PIP with its 2019 vintage. Showing beautiful dark fruit, fynbos and fruit sweetness it is a fantastic rendition of the variety from what is fast becoming a home for Syrah in Stellenbosch. At R245 it offers plenty of room for value growth. The **Cape Point Vineyards** Isliedh is undisputedly one of the finest white blends in South Africa, made in a Bordeaux style. The piercing acidity and layers of fruit will allow this white to reach well beyond 10 years; if you have the patience. Priced well below R400, we believe it will outlive many other white wines that carry a heavier price-tag. Following its third release, **Damascene** is included with its Stellenbosch Cabernet Sauvignon and W.O. Cederberg Syrah. Its focus on varietal expression from regions across the Cape continues to offer immensely impressive wines. The Cabernet Sauvignon offers a wonderfully modern take on the variety from Stellenbosch, in the best sense, while the Syrah from the Cederberg region offers more power and perhaps longevity than the other 2 syrahs in the Damascene portfolio. Already established as some of the finest wines in the Cape, we believe that Damascene will only build value over time. **Glenelly's** Lady May 2015 is set to become a benchmark for the style and region from the 2015 vintage – a property that seems to be on the up. The **Klein Constantia Vin de Constance** continues its international distribution via Place de Bordeaux, building on the strong foundation already laid for this iconic wine. 2018 is another magnificent effort and will reward many years of cellaring. **Le Riche** continues to build on its reputation as one of the

finest Cabernet producers in the Cape. A last tranche of their 2017s has allowed us to include it in this portfolio. It is a monumental wine that we believe will be counted over time as one of the finest reds of this decade. **Overgaauw's** Tria Corda is the stuff of legends from the 80s, and we believe the wine is back. The 2017 is a pure-fruited wine with fine tannins and will last for many years. **Porseleinberg** is undoubtedly one of the greatest wines produced in South Africa on account of its great intrinsic quality, distribution and position in the market. It is a must-have in a fine wine portfolio. **Restless River** is included with its Ava Marie Chardonnay. In the case of 2019, it is certainly one of the finest on the market and, with its already cult-like following, is set to grow in value over time. **Reyneke** has been one of Wine Cellar's favourite Syrah producers over the years and continues to bottle wines of pure class. At a touch above R200 and with ratings to match Côte-Rotie, the Biodynamic Syrah is an absolute steal! **Stark-Condé** is on the up with its Cabernets and the 2018 Stellenbosch bottling is another fine effort below the R300-mark. It is delicious now but, with its ability to age well, we see value building over time. **Tokara's** two signature wines – Director's Reserve Red and White – are some of the finest examples of Bordeaux-style wines from Stellenbosch. The high slopes of the Simonsberg where these wines have their roots show beautifully and time will reward both bottlings. **Vergelegen** has produced a fantastic GVB Red from the great 2015 vintage – a classic wine that speaks unmistakably of its place. Allow for at least 8 years post-vintage and drink over the following 10 years thereafter.

PIP FEBRUARY 2022

R 50,000 PER UNIT

Wine	Vintage	Avg. score	Price	Bottles	Total value
Boekenhoutskloof, Syrah	2018	94.3	R 490	6	R 2,940
Boschkloof, Syrah	2019	93	R 245	6	R 1,470
Cape Point Vineyards, Isliedh	2019	93.3	R 350	6	R 2,100
Damascene, W.O. Cederberg Syrah	2020	93.5	R 435	6	R 2,610
Damascene, W.O. Stellenbosch Cabernet Sauvignon	2019	93	R 435	6	R 2,610
Glenelly, Lady May	2015	93.8	R 630	6	R 3,780
Klein Constantia, Vin de Constance	2018	96.8	R 1,260	6	R 7,560
Le Riche, Reserve Cabernet Sauvignon	2017	94.2	R 825	6	R 4,950
Overgaauw, Tria Corda	2017	93	R 550	6	R 3,300
Porseleinberg, Syrah	2019	96.5	R 650	6	R 3,900
Restless River, Ava Marie Chardonnay	2019	94.5	R 400	6	R 2,400
Reyneke, Biodynamic Syrah	2019	93.3	R 210	12	R 2,520
Stark-Condé, Stellenbosch Cabernet Sauvignon	2018	91.4	R 290	6	R 1,740
Tokara, Director's Reserve Red	2019	92	R 430	6	R 2,580
Tokara, Director's Reserve White	2018	92.3	R 300	6	R 1,800

Vergelegen, GVB Red	2015	93	R 390	6	R 2,340
Totals		93.6		102	R 50,130

- The average score considers the average weighted ratings from WineMag.co.za, Vinous.com, Platter's Wine Guide, Tim Atkin MW and RobertParker.com. Where wines have not yet been rated, previous vintage scores are used.

4. THE MARKET

South Africa continues to reach new heights in fine wine with sustained praise from local and international critics. This new level of wine quality is driven today by more diverse vineyards, older vines and a better understanding of fine wine. The prices however continue to lag behind the rest of the world; the average price of a 90+/100 South African wine was quoted by Wine Spectator in 2014 as the cheapest world-wide. While there have been substantial increases since, the average PIP retail price of R491 per bottle is dramatically lower than fine wines from Bordeaux, Napa Valley, Italy or Burgundy.

The small but growing fine wine market has been buoyant considering the weak economy. New vintages of South Africa's finest wines have sold well in 2021; wines sold on allocation such as Sadie Family, Boschloof Epilogue, Kanonkop Paul Sauer and the Alheit single vineyards have sold out briskly. While South Africa produces 4% of the world's volume, our fine wine market is extremely small. The market above R100 per bottle is likely just R2 – 3 billion and at the R500 per bottle level, the revenue of South Africa's fine wine is equivalent to that of one Bordeaux château.

The Strauss & Co. Fine Wine Auctions grew and maintained a strong position in the auction market in 2021. Top producers were all represented on auction, echoing our selection across PIPs with Sadie Family Wines, Kanonkop, Meerlust, De Toren, Mullineux, Klein Constantia, Alheit Vineyards and Porseleinberg. The live online auctions, themed formats and greater adoption by the industry has produced more competitive bidding and higher sell-throughs. Growth in sales, record pricing for some categories, as well as white-glove sales, are a testament to the market's demand for curated, high-value lots that offer both vinous reward and collectability.

4.1. SECONDARY MARKET ANALYSIS AND EXPECTED VALUE GROWTH

Analysing 2021 data from the Wine Cellar secondary market sales suggests more trade, at a higher Rand-per-bottle value. Yet, as the market grows, simply analysing wine performance is becoming more complex as the market builds depth. Of course, the availability of wine for trade via Wine Cellar is a function of various factors – the availability of back-vintages, performance of the auction market (thus drawing wines away from Wine Cellar trade), 100-point allocations and informal trade.

The long-term Rand depreciation, supply-led inflation and a general upswing in quality has caused many producers to reposition their wines in the market. Wines such as Vin de Constance, Vilafonté Series C and MR de Compostella have shown annual price release growth over a decade of well above 10%. High price-growth directly influences the prices of vintage stocks and hence investment returns.

** Sales data is available on request to Wine Cellar investment portfolio holders.*

5. PIP INDEX

Wine Cellar will follow the price growth of each PIP and send the index value to the investor bi-annually. Indices for once-off portfolios, such as the VIP 2015, will be posted on www.winecellar.co.za and can be used to gauge price growth. In time, current prices and returns will be available real-time on each customer's login portal.

Holders of Personal Investment Portfolios older than 6 months show an average annualised price growth of 12.5% across the PIPs sold since 2019. The older portfolios naturally have higher growth rates, which we believe will peak 4 – 8 years from release.

6. 'BUY NOW AND DRINK FOR FREE'

Investing in Wine has its roots in Europe where collectors would buy a large volume of fine wines for investment in order to fund their future drinking. One case of Grand Cru Classé Bordeaux would be sold on maturity in order to pay for the bill of the initial two cases. The Investment Portfolios can be viewed with the same strategy.

Each investor will have full access to their stock and can draw or sell their stocks at any time. However, if the portfolio is held purely for investment growth purposes, we recommend keeping the integrity of the portfolio for as long as possible, for portfolio trading and realising maximum value.

7. INVESTMENT STRUCTURE

Wine Cellar has consulted widely in deciding on the best structure in which to hold a wine investment. There was a desire to formalise and unitise the asset as much as possible in offering the investor a share of the asset rather than physical wine. The following options were considered but were either deemed illegal or carried a high administration and cost burden; Venture Capital Company, Public Unlisted Company, Partnership.

Naming the product a 'fund' requires registration with the FSB and would require one of the above structures.

We believe that the most flexible and cheapest option in which to invest in wines is the vintage investment portfolio. A closed, 2-year investment into physical wine stocks.

8. REALISING RETURNS AND EXIT

Wine Cellar offers arguably the best access into the South African secondary fine wine market. With growing ecommerce traction, Wine Cellar offers high-level South African penetration as well as an international presence. The following options will be available to the investor:

8.1. DRAWING WINE

Stock will be available for inspection and withdrawal at any time, provided a 24-hour notice period is given. If wine is drawn before maturity:

- Included cellaring fees cannot be recovered.
- The portfolio composition will change and lose its index rating.

8.2. TRADING PORTFOLIOS

Portfolios can be privately traded, and ownership can be transferred at any stage at no cost. Privately traded wines or portfolios incur no charges unless transport is required. Wine Cellar will broker portfolios at a commission of 5% plus VAT. Since PIP is not linked to a specific vintage, we believe they offer less liquidity than VIP 2015 or VIP 2017 as an entity. However, wines within the PIP have the same investment potential.

Trading a unit will result in a loss of the free-cellarling period. Units or portfolios can be traded, but free-cellarling (in part or whole, depending on the time of the transaction in relation to the remaining free-cellarling time) is not transferable and is lost for both the seller of the portfolio and the buyer. This applies to private transactions or trades conducted through Wine Cellar.

8.3. BROKERAGE AND AUCTION

Investors can mandate Wine Cellar to broker their stocks at any time or be open to bids from the market. We expect to be able to bring opportunities to the investor, for those investors seeking to realise value or to exit.

Wine Cellar charges commission of 10% plus VAT on brokerage sales. Wine Cellar will credit the investor's account on sale and pay proceeds upon receipt of funds.

Wine Cellar's joint venture with Strauss & Co offers investors a new and transparent platform for brokerage. See www.straussart.co.za/strausswine or contact Sarah Jordaan on wine@straussart.co.za for more information.

8.4. MATURITY

The free-cellarling period expires after two years. From that time on standard cellaring rates apply (**see Cellaring Information and Ownership**). However, this must not be viewed as the indicator for the wines being ready to drink or the portfolio having reached its maximum growth potential. Sales data suggests that South African investment wines reach their optimal annualised growth rate 4 – 8 years from release. White wines within the PIP will age at least five years and red wines will easily reach eight years. Most of the wines will comfortably reach 20 years, depending on your preference for older wines.

9. TAXATION, LIQUOR REGULATIONS AND VAT

The taxation liability of proceeds made from the resale of wine is considered the responsibility of the investor. In order to exclude CGT (Capital Gains Tax), the investment must be considered mainly for non-trade. Therefore the 'sell half, drink for free' approach is advised.

Exclusion of CGT is defined by SARS as *'a capital gain or loss determined in respect of the disposal of a personal-use asset of a natural person or a special trust must be disregarded'*.

A personal-use asset is defined by SARS as *'an asset of a natural person or a special trust that is used mainly for purposes other than the carrying on of a trade'*.

*'Examples of **personal-use assets** include artwork, jewellery, household furniture and effects, a microlight aircraft or hang glider, veteran cars, private motor vehicles (including a vehicle used mainly for business purposes in respect of which a travel allowance is received), stamp or coin collections (but excluding gold or platinum coins whose value is mainly derived from the metal content). In order to qualify as a personal-use asset the asset must be used 'mainly' for non-trade purposes. The word 'mainly' has been held to mean more than 50%.'* – SARS

The sale or trade of any Liquor requires a liquor license in South Africa. There is, however, provision to liquidate one's private cellar, which creates somewhat of a grey area. We deem this to allow customers without liquor licenses to broker or sell their investment.

Since there is no bonded fine wine market, stores expire after 2 years and the duty on wine is low, there was no need to store the investment in bonds.

Investors with VAT registration will be able to claim back 15% VAT on their investment. Private individuals should consider VAT as part of their investment. This does pose the question for future sales in exporting the investment or selling to a VAT registered entity. There is however the following clause in the VAT law of South Africa where VIP can be considered a second hand good.

Value-added Tax Act 1188. Second-hand goods June 2004:

The VAT Act allows vendors to claim an input tax deduction where second-hand goods are acquired from a non-registered VAT vendor.

Definition of 'second-hand goods':

The VAT Act has prescribed a narrow definition to the term and it is important to adhere to the requirements before an input tax deduction is claimed.

Second-hand goods means goods which were previously owned and used, but does not include animals; and gold coins issued by the Reserve Bank in terms of section 14 of the South African Reserve Bank Act.

10. INVESTORS AND TRANSACTION DETAILS

Upon confirmation of order, new cellaring customers will be required to sign a cellaring agreement. Payment is required on invoice. Wine Cellar will not disclose investor information.

11. CELLARING INFORMATION AND OWNERSHIP

Wine Cellar holds approximately 300,000 bottles of customers' wine in Price's Park, Nelson Road, Observatory, Cape Town. Price's Park is an old candle factory with 1,000m of secure, underground, temperature-controlled storage. Cellars are kept at between 13-14 degrees Centigrade and 70% humidity. Currently 30% of Wine Cellar's power consumption is drawn from PV Solar Panels. A further 150,000-bottle cellaring capacity was added in 2018, at Securistore, 609 Voortrekker Road, Maitland. Both premises are available for inspection with prior arrangement. Each investor will receive a login to view or trade their portfolio on the website. While Wine Cellar is the service provider of the PIP and custodian of the wines within the portfolio, the investor holds ownership of the physical wines.

11.1. CELLARING FEES AND INSURANCE

Current cellaring fees are listed on www.winecellar.co.za. Cellaring of a 6-bottle case for the 2020/2021 billing period is charged at R93.08 per annum. Included is insurance of up to R450 per bottle for all cellared wines, including wines within the PIP.

12. MANAGEMENT AND REPORTING

Wine Cellar has been importing and trading fine wine since 2001. In the 2019/2020 financial year Wine Cellar traded approximately 120,000 bottles of wine in the super-premium market and currently manages 400,000 bottles for 900 private customers. We have traded 19 Bordeaux en-primeur campaigns and offered South Africa's first Stellenbosch en-primeur campaign.

In 2017, Wine Cellar was awarded the honour of 'Négociant of the Year' by Kanonkop Wine Estate.

Services will be administered by Wine Cellar (Pty) Ltd, Company registration no.: 2014/026268/07. CEO, James Pietersen, and Investment and Brokerage Manager, Johan Malan, will manage customer investment portfolios.

12.1. CV – ROLAND PEENS

Education:

- St. Stithians College, Randburg
- BCom Economics: University of Stellenbosch 2004
- Wine Diploma: Cape Wine Academy 2004-2005

Achievements:

- Master of Wine – Chairman's scholarship 2008
- Michael Fridjhon Tasting Academy Distinction Certificate 2008
- South African Wine Tasting Team member and Competitor in 2013 World Championships

Industry participation:

- WINE magazine, Grape.co.za, Platter's Wine Guide panel taster and contributor (2007 – 2011)
- WineMag.co.za Panel taster and contributor (2011 – present)
- Nederburg Auction committee member (2015 – 2018)
- Strauss & Co Fine Wines Board member (2019 – present)

Employment history:

- Various positions in marketing, sales, export and as a Sommelier before joining Wine Cellar.
- Wine Cellar Director and Shareholder (2005 – 2020)
- Active Wine Cellar Shareholder (2021 – present)

12.2. CV – JAMES PIETERSEN

Education:

- Paarl Gymnasium High School
- BA Social Sciences University of Stellenbosch
- Cape Wine Academy Diploma

Achievements:

- Michael Fridjhon Tasting Academy Distinction

Industry participation:

- Platters' Wine Guide since 2007 – 2021, served as roving chair in 2016 and 2017
- Winemag.co.za anchor panellist (2011 – present)
- Old Mutual Trophy Wine Show Panel Chair and panellist intermittently (2008 – 2021)
- Standard Bank Chenin Blanc Challenge Panel Chair 2020, 2021 and 2022

Employment history:

- The Vineyard Connection – Wine Buyer
- Slick Restaurant Group – Head Sommelier
- Wine Cellar – Head of Sales (2014 – 2020)
- Wine Cellar – Chief Executive Officer (2021 – present)

12.3. CV – JOHAN MALAN

Education:

- Afrikaanse Hoër Seunskool, Pretoria
- BCom Marketing Management: North West University, Potchefstroom
- MCom International Trade: North West University, Potchefstroom

Employment history:

- Academic interpreting in various fields
- Procurement and sales roles within the South African fruit trade industry as well as international fruit trade
- Wine Cellar – Investment and Brokerage (2018 – present)

13. CONTACT

For more information, please contact Johan Malan via johan@winecellar.co.za or on +27 21 448 4105.



WINE CELLAR
PERSONAL INVESTMENT PORTFOLIO

2022 PERSONAL INVESTMENT PORTFOLIO
INVESTOR APPLICATION

Investor entity/name:	
Contact name (if different to the above):	
Home address:	
Email:	
Contact number:	

Qty. 2022 PIP units @ R50,000 per unit	
Total	R

Date: _____ Investor signature: _____