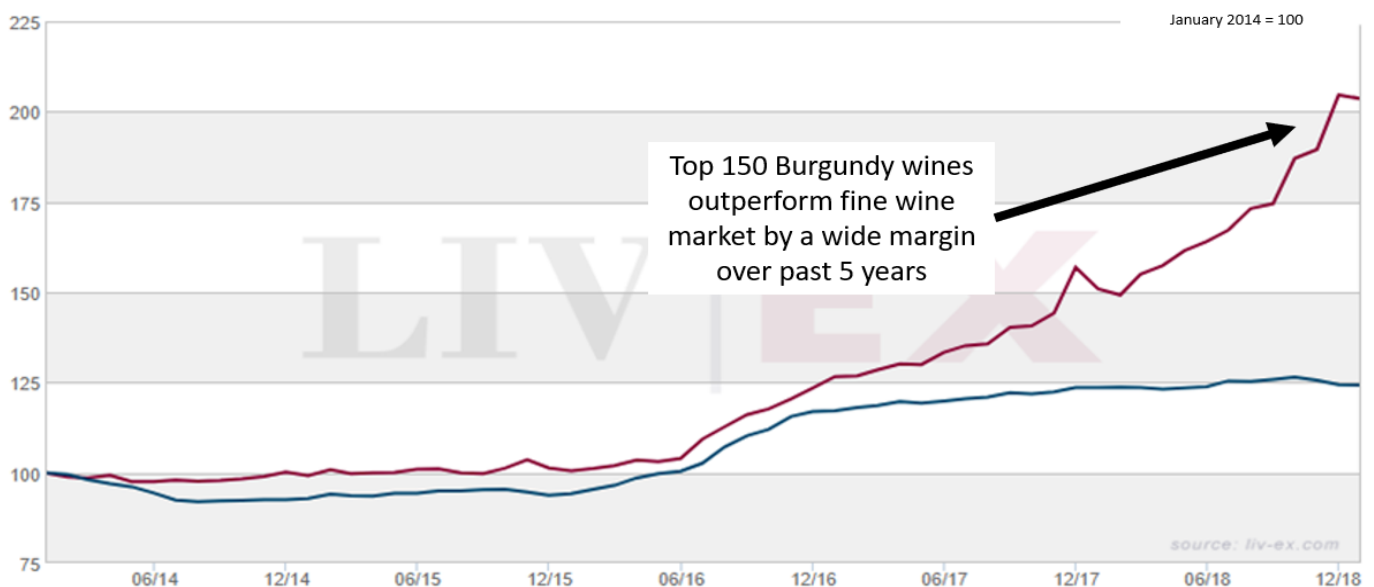




Is Top Burgundy Still a Good Long-Term Investment?

- Burgundy has **outperformed other wine regions** over the past 5 years, rising **104% in value**.
- This appreciation raises questions about the sustainability of prices, and whether **further price appreciation** can be expected from here.
- We analysed the top 80 Burgundy wines (by price) of the 2015 vintage.
- We found that top Burgundy Wines have a number of **characteristics** which are supportive of their secondary market pricing. Most important are:
 1. **Global demand** for Burgundy continues to grow.
 2. Vineyard **sizes and production are tiny** versus other investment wines.
 3. Burgundy is **rarely re-sold** once purchased.
 4. Top Burgundy wines are **long-lived**.
 5. **Cost of carry** (storage and insurance) for top Burgundy is negligible today.
- We conclude that **prices for top Burgundy are not unreasonable** given the supply / demand imbalance, the long-dated and high-quality nature of the assets and the low cost of carry. We see no reason why top Burgundy will not **continue its run of strong performance**.

The French region of **Burgundy** has outperformed other fine wine categories over the past five years:



source: Liv-ex.com (Burgundy 150 Index versus fine wine index)

Over the last five years, the top 150 Burgundy wines have returned +104%, compared with +24% for the fine wine universe in total. Since January 2004 Burgundy has returned **+497% return** (CAGR = 11.3%).

Series	Current value	6m	12m	2y	5y
Burgundy 150	597	22%	35%	61%	104%
Liv-ex Fine Wine Investables	343	-1%	1%	6%	24%

source: Liv-ex.com

Burgundy's past performance is impressive, but it is no guarantee of the future. We need to understand what has driven prices up so we can determine if this performance is sustainable.

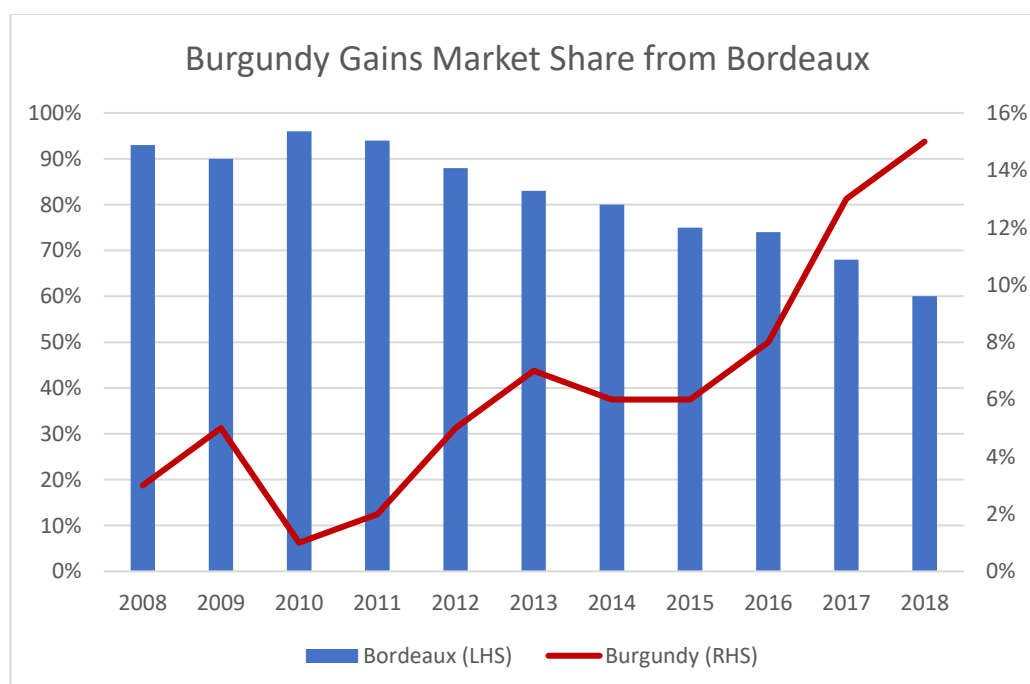
We looked in detail at the top 80 Burgundy wines (by price) from the **2015 vintage**. We found five major factors contributing to the run up in prices:

1. Global demand for Burgundy continues to grow.
2. Vineyard sizes and production quantities are tiny versus other regions.
3. Secondary market availability is almost non-existent.
4. Top wines have very long drinking windows.
5. Cost of carry (storage and insurance) is now negligible.

1. Global Demand for Burgundy is Growing

Fine wine experts often say that 'all roads lead to Burgundy'. They mean that while Bordeaux, Champagne or the New World are easier to learn, as collectors get more knowledgeable they gravitate towards more challenging and nuanced regions. Burgundy is the ultimate 'final destination' for many of the world's greatest collectors.

Ten years ago Bordeaux made up over 90% of the volume of sales (by value) on the Liv-ex fine wine exchange. By 2018 this percentage had fallen to 60%, with **Burgundy** rising from 3% to 15%.



Percentage of trading (by value). Source: Liv-ex.com

Our Asian trading desks are reporting steady year-on-year increases in interest in Burgundy as new collectors – who were buying mainly Bordeaux a decade ago – diversify into regions like Champagne and especially top Burgundy.

It is a myth that “top Burgundy” means only **Domaine de la Romanée Conti** (“DRC”); and that Burgundy prices currently reflect a “DRC bubble”. In fact, of the top 10 highest priced 2015 Burgundy wines only two are produced by DRC. **Domaine Leroy Musigny 2015** takes top spot and **Domaine Leroy** contributes five wines to the top 10:

Top 10 Burgundy 2015 Wines by Current Market Price

Rank	Type	Wine	Vintage	Unit Size	Market Price (12x75cl) - January 2019
1	Red	Domaine Leroy, Musigny	2015	12x75	£ 396,000
2	Red	DRC, Romanee Conti	2015	12x75	£ 210,624
3	Red	Georges Roumier, Musigny	2015	12x75	£ 156,768
4	Red	Domaine Leroy, Chambertin	2015	12x75	£ 119,028
5	White	DRC, Montrachet	2015	12x75	£ 82,332
6	Red	Comte Liger Belair, Romanee	2015	12x75	£ 81,084
7	White	Domaine Leflaive, Montrachet	2015	12x75	£ 78,600
8	Red	Domaine Leroy, Romanee Saint Vivant	2015	12x75	£ 77,920
9	Red	Domaine Leroy, Richebourg	2015	12x75	£ 70,128
10	White	Domaine Leroy, Corton Charlemagne	2015	12x75	£ 69,300

source: Liv-ex.com

As the global community of serious collectors expands, we don't believe that the trend towards greater global interest in, and demand for, top Burgundy wines will abate. In fact, rather than baulking at prices at the highest level, our investment clients are increasing asking who the next Georges Roumier will be (this will be the subject of the next note in this series).

2. Burgundy Production Quantities are Tiny

If global demand for top Burgundy is growing, supply is certainly *not* rising to meet it. Burgundy is divided into thousands of classed strips and tiny parcels along the **Côte de Nuits** and **Côte de Beaune**. This escarpment is narrow, comprising just 25,000 ha under vine. The land is carved into a patchwork of ownership, with a dizzying array of small-holding domaines that divide further with each generation owing to Napoleonic-era inheritance laws.

The top 80 Burgundy 2015 wines in our sample have an average vineyard size of just 1.06 hectares (2.47 acres, or just 0.003 square miles). This means an average annual production of just 3,000 bottles per year for our sample. This isn't just 'small' production. Compared with most investable wines it barely registers.

It is also important to note that production from top Burgundy parcels is **fixed geographically**. In Bordeaux, château can buy neighbouring parcels and they become automatically re-classified. And wines like Super Tuscans, Penfold Grange and especially Champagnes can expand production by buying in additional grapes. In Burgundy this is not possible as the production is linked to specific rows of vines.

Burgundy Production is Swamped by Global Demand

Category	Burgundy	New World Icon	Bordeaux	Super Tuscan	Champagne	
Example	Top 80 Burgundy	Penfolds Grange	First Growth Bordeaux	Sassicaia	Cristal	Dom Perignon
Bottles produced annually	3,000	48,000	146,000	180,000	1,000,000	5,000,000

This means is that even with elevated prices, the amount of money needed to buy whole vintages from world famous producers is very modest.

Primary Market Cap: Amount Required to buy all the 2015 Vintage at Release (ex DRC)

Type	Wine	Vintage	Unit Size	Market Price (12x75cl) - January 2019	Vineyard Size (ha)	Class	Approx. Market Cap (Primary)
Red	Domaine Leroy, Musigny	2015	12x75	£ 396,000	0.2700	GC	£ 25,457,143
Red	Georges Roumier, Musigny	2015	12x75	£ 156,768	0.0996	GC	£ 4,572,400
Red	Domaine Leroy, Chambertin	2015	12x75	£ 119,028	0.5003	GC	£ 14,178,502
Red	Comte Liger Belair, Romanee	2015	12x75	£ 81,084	0.8452	GC	£ 27,028,000
White	Domaine Leflaive, Montrachet	2015	12x75	£ 78,600	0.0821	GC	£ 1,536,443
Red	Domaine Leroy, Romanee Saint Vivant	2015	12x75	£ 77,920	0.9929	GC	£ 18,420,659
Red	Domaine Leroy, Richebourg	2015	12x75	£ 70,128	0.7765	GC	£ 12,965,331
White	Domaine Leroy, Corton Charlemagne	2015	12x75	£ 69,300	0.4315	GC	£ 7,119,750
Red	Domaine Leroy, Clos Roche	2015	12x75	£ 67,208	0.6650	GC	£ 10,641,267
Red	Domaine Leroy, Clos Vougeot	2015	12x75	£ 66,000	1.9069	GC	£ 29,965,571
Red	Domaine Leroy, Corton Renardes	2015	12x75	£ 59,464	0.5014	GC	£ 7,098,869
Red	Dujac, Chambertin	2015	12x75	£ 56,652	0.7300	GC	£ 9,846,657
Red	Domaine Faiveley, Musigny	2015	12x75	£ 41,076	0.1270	GC	£ 1,242,060
Red	Georges Roumier, Chambolle Musigny Amoureuses	2015	12x75	£ 40,008	0.3963	PC	£ 4,730,946
Red	Armand Rousseau, Chambertin	2015	12x75	£ 38,000	2.5500	GC	£ 23,071,429
Red	Sylvain Cathiard, Romanee Saint Vivant	2015	12x75	£ 33,600	0.1700	GC	£ 1,360,000
Red	Domaine Leroy, Vosne Romanee Beaumonts	2015	12x75	£ 30,680	2.6113	PC	£ 19,074,925
Red	Armand Rousseau, Chambertin Clos De Beze	2015	12x75	£ 24,612	1.4200	GC	£ 8,321,200
Red	Domaine Leroy, Vosne Romanee Brulees	2015	12x75	£ 22,212	0.2713	PC	£ 1,434,789
Red	Georges Roumier, Bonnes Mares	2015	12x75	£ 22,000	1.3919	GC	£ 9,318,833

source: Liv-ex.com and Cru estimates

Domaine Leflaive Montrachet 2015 might seem expensive at over £80,000 per 12x75cl, but if you were lucky enough to be allocated all of the approximately 230 bottles produced annually you would only have paid £1.5 million to buy the *entire vintage*. For many collectors, this is inconsequential amount to pay for 100% of the whole production of such a famous wine, from a great year like 2015.

Of the top 20 highest priced Burgundys (ex DRC), no fewer than 11 would require less than £10 million to buy the entire production for that year.

Contrast this with Bordeaux's **Château Lafite**, which in 2015 produced roughly 195,000 bottles which sold for a total of over £70 million. Or even Dom Perignon, whose vintage Champagne releases of perhaps 5 million bottles require over £550 million of demand to clear the market.

3. Burgundy: Almost No Secondary Market Supply

Price corrections occur when a number of people (or algorithms!) sell an asset at the same time, in significant quantity.

Under what scenario is does a meaningful amount of top Burgundy wine appear on the secondary market for urgent sale? Unlike other most markets where supply is elastic with price, the recent rise in Burgundy prices has resulted in barely any discernible increase in supply¹.

To our shock, when we performed our analysis, we found that the *entire global secondary market supply* of 80 Burgundy 2015 wines amounted to under £5.0 million² including all DRC (see below).

¹ London residential property has also had a significant rise over the past decade. But there are 12,500 properties currently offered for sale in London over £1 million, a total offered value of almost £20 billion offered for sale.

² We even counted single bottle offers, although we do not generally regard loose bottle as 'investible' and do not generally recommend them.

Secondary Market Cap: Amount Required to buy all the 2015 Vintage Available Today

Type	Wine	Vintage	Unit Size	Market Price (12x75cl)	Vineyard Size (ha)	Class	Secondary Market Cases Available	Secondary Market Singles Available	Market Cap (Secondary)
Red	Domaine Leroy, Musigny	2015	12x75	£ 396,000	0.2700	GC	0	3	£ 99,000
Red	DRC, Romanee Conti	2015	12x75	£ 210,624	1.8100	GC	3	33	£ 895,152
Red	Georges Roumier, Musigny	2015	12x75	£ 156,768	0.0996	GC	0	2	£ 26,128
Red	Domaine Leroy, Chambertin	2015	12x75	£ 119,028	0.5003	GC	0	2	£ 19,838
White	DRC, Montrachet	2015	12x75	£ 82,332	0.6700	GC	1	32	£ 260,718
Red	Comte Liger Belair, Romanee	2015	12x75	£ 81,084	0.8452	GC	1	12	£ 121,626
White	Domaine Leflaive, Montrachet	2015	12x75	£ 78,600	0.0821	GC	0	6	£ 39,300
Red	Domaine Leroy, Romanee Saint Vivant	2015	12x75	£ 77,920	0.9929	GC	1	4	£ 64,933
Red	Domaine Leroy, Richebourg	2015	12x75	£ 70,128	0.7765	GC	0	5	£ 29,220
White	Domaine Leroy, Corton Charlemagne	2015	12x75	£ 69,300	0.4315	GC	0	2	£ 11,550
Red	Domaine Leroy, Clos Roche	2015	12x75	£ 67,208	0.6650	GC	1	4	£ 56,007
Red	Domaine Leroy, Clos Vougeot	2015	12x75	£ 66,000	1.9069	GC	5	18	£ 264,000
Red	Domaine Leroy, Corton Renardes	2015	12x75	£ 59,464	0.5014	GC	6	6	£ 208,124
Red	Dujac, Chambertin	2015	12x75	£ 56,652	0.7300	GC	0	0	£ -
Red	DRC, Tache	2015	12x75	£ 56,652	6.0600	GC	7	45	£ 410,727
Red	Domaine Faiveley, Musigny	2015	12x75	£ 41,076	0.1270	GC	2	8	£ 68,460
Red	Georges Roumier, Chambolle Musigny Amoureuses	2015	12x75	£ 40,008	0.3963	PC	0	10	£ 33,340
Red	Armand Rousseau, Chambertin	2015	12x75	£ 38,000	2.5500	GC	0	21	£ 66,500
Red	Sylvain Cathiard, Romanee Saint Vivant	2015	12x75	£ 33,600	0.1700	GC	5	3	£ 92,400
Red	DRC, Richebourg	2015	12x75	£ 32,628	3.5100	GC	3	41	£ 160,421
Red	Domaine Leroy, Vosne Romanee Beaumonts	2015	12x75	£ 30,680	2.6113	PC	12	18	£ 230,100
Red	DRC, Romanee Saint Vivant	2015	12x75	£ 25,644	5.2900	GC	7	49	£ 194,467
Red	DRC, Grands Echezeaux	2015	12x75	£ 25,080	3.5300	GC	8	44	£ 192,280
Red	Armand Rousseau, Chambertin Clos De Beze	2015	12x75	£ 24,612	1.4200	GC	2	20	£ 65,632
Red	Domaine Leroy, Vosne Romanee Brulees	2015	12x75	£ 22,212	0.2713	PC	1	2	£ 14,808
Red	Georges Roumier, Bonnes Mares	2015	12x75	£ 22,000	1.3919	GC	4	15	£ 71,500
White	Coche Dury, Meursault Genevrieres	2015	12x75	£ 20,748	0.2100	PC	0	7	£ 12,103
Red	Bernard Dugat-Py, Chambertin	2015	12x75	£ 20,400	N/A	GC	1	2	£ 13,600
Red	Domaine Leroy, Nuits Saint Georges Boudots	2015	12x75	£ 19,480	1.1968	PC	1	6	£ 19,480
Red	DRC, Corton	2015	12x75	£ 19,152	2.3000	GC	3	15	£ 52,668
Red	Domaine Leroy, Volnay Santenots Milieu	2015	12x75	£ 18,920	0.3510	PC	4	3	£ 42,570
Red	DRC, Echezeaux	2015	12x75	£ 18,660	4.6700	GC	8	47	£ 147,725
Red	Emmanuel Rouget, Vosne Romanee Cros Parantoux	2015	12x75	£ 18,312	0.7200	PC	0	15	£ 22,890
Red	Meo Camuzet, Richebourg	2015	12x75	£ 18,180	0.3035	GC	0	13	£ 19,695
White	Ramonet, Montrachet	2015	12x75	£ 17,400	0.2590	GC	1	12	£ 26,100
Red	Domaine Leroy, Nuits Saint Georges Vignerondes	2015	12x75	£ 16,920	0.3780	PC	1	3	£ 12,690
White	Comtes Lafon, Montrachet	2015	12x75	£ 16,752	0.3182	GC	0	17	£ 23,732
Red	Domaine Leroy, Vosne Romanee Genevrieres	2015	12x75	£ 16,750	1.2331	V	11	6	£ 100,500
Red	Comte Liger Belair, Vosne Romanee Reignots	2015	12x75	£ 16,420	0.7319	PC	0	1	£ 1,368
Red	Meo Camuzet, Vosne Romanee Cros Parantoux	2015	12x75	£ 16,212	0.3035	PC	0	6	£ 8,106
Red	Joseph Drouhin, Musigny	2015	12x75	£ 15,790	0.6700	GC	3	8	£ 34,212
Red	Jean Grivot, Richebourg	2015	12x75	£ 15,676	0.3100	GC	0	9	£ 11,757
White	Arnaud Ente, Meursault Goutte d'Or	2015	12x75	£ 14,500	0.2200	PC	1	7	£ 15,708
Red	Jacques Frederic Mugnier, Chambolle Musigny Amoureuses	2015	12x75	£ 14,052	0.5300	PC	1	9	£ 17,565
Red	Prieure Roch, Chambertin Clos De Beze	2015	12x75	£ 12,500	1.0136	GC	0	4	£ 4,167
Red	Fourrier, Gevrey Chambertin Clos St Jacques Centenaire	2015	12x75	£ 12,300	0.8900	PC	2	5	£ 17,425
White	Coche Dury, Meursault Caillerets	2015	12x75	£ 12,252	0.1800	PC	0	12	£ 12,252
White	Hubert Lamy, Criots Batard Montrachet Haute Densite	2015	12x75	£ 12,168	0.1200	GC	0	12	£ 12,168
Red	Domaine Leroy, Pommard Vignots	2015	12x75	£ 11,688	1.2599	V	2	9	£ 20,454
Red	Jacques Frederic Mugnier, Bonnes Mares	2015	12x75	£ 11,352	0.3600	GC	0	9	£ 8,514
Red	Domaine Faiveley, Chambertin Clos De Beze Ouvrees Rodin	2015	12x75	£ 11,180	0.3296	GC	3	4	£ 20,497
Red	Comte Liger Belair, Vosne Romanee Suchots	2015	12x75	£ 11,040	0.2192	PC	0	3	£ 2,760
Red	Dujac, Bonnes Mares	2015	12x75	£ 11,000	0.5900	GC	0	4	£ 3,667
White	Comte Vogue, Musigny Blanc	2015	12x75	£ 10,900	0.6600	GC	0	10	£ 9,083
Red	Bernard Dugat-Py, Mazis Chambertin	2015	12x75	£ 10,850	N/A	GC	1	15	£ 18,988
Red	Dujac, Clos Saint Denis	2015	12x75	£ 10,800	1.4600	GC	2	5	£ 15,300
Red	Comte Liger Belair, Echezeaux	2015	12x75	£ 10,728	0.6157	GC	0	4	£ 3,576
Red	Lucien Le Moine, Richebourg	2015	12x75	£ 10,599	N/A	GC	0	4	£ 3,533
Red	Denis Mortet, Chambertin	2015	12x75	£ 10,590	0.1500	GC	3	3	£ 18,533
Red	Georges et Henri Jayer, Echezeaux	2015	12x75	£ 10,500	1.4300	GC	1	0	£ 5,250
Red	Armand Rousseau, Gevrey Chambertin Clos St Jacques	2015	12x75	£ 10,200	2.2100	PC	2	28	£ 34,000
Red	Henry Lamarche, Vosne Romanee Grande Rue	2015	12x75	£ 10,184	1.6500	GC	13	24	£ 86,564
Red	Cecile Tremblay, Echezeaux Dessus	2015	12x75	£ 10,052	0.1000	GC	0	3	£ 2,513
White	Guy Roulot, Meursault Perrieres	2015	12x75	£ 10,044	0.2600	PC	0	20	£ 16,740
White	Arnaud Ente, Puligny Montrachet Champ Gain	2015	12x75	£ 10,000	0.2200	PC	0	9	£ 7,500
Red	Sylvain Cathiard, Vosne Romanee Malconsorts	2015	12x75	£ 10,000	0.7400	PC	6	21	£ 47,500
Red	Comte Vogue, Musigny Vv	2015	12x75	£ 9,796	7.0000	GC	17	35	£ 111,838
Red	Comte Liger Belair, Vosne Romanee Chaumes	2015	12x75	£ 9,600	0.1175	PC	0	2	£ 1,600
Red	Vougeraie, Musigny	2015	12x75	£ 9,600	0.2104	GC	2	9	£ 16,800
Red	Dujac, Clos Roche	2015	12x75	£ 9,590	1.9500	GC	3	16	£ 27,172
Red	Sylvain Cathiard, Vosne Romanee Suchots	2015	12x75	£ 9,100	0.1600	PC	3	5	£ 17,442
White	Coche Dury, Puligny Montrachet Enseignerres	2015	12x75	£ 9,000	0.2023	PC	4	19	£ 32,250
Red	Fourrier, Griotte Chambertin Vv	2015	12x75	£ 8,820	0.2500	GC	3	10	£ 20,580
Red	Louis Jadot, Musigny	2015	12x75	£ 8,500	0.1665	GC	1	13	£ 13,458
Red	Cecile Tremblay, Echezeaux	2015	12x75	£ 8,100	0.1000	GC	0	4	£ 2,700
Red	Mugneret Gibourg, Ruchottes Chambertin	2015	12x75	£ 8,040	0.6400	GC	0	8	£ 5,360
Red	Emmanuel Rouget, Echezeaux	2015	12x75	£ 7,920	1.4300	GC	4	24	£ 31,680
Red	Bizot, Echezeaux	2015	12x75	£ 7,476	N/A	GC	0	6	£ 3,738
Red	Perrot Minot, Griotte Chambertin	2015	12x75	£ 7,239	N/A	GC	1	0	£ 3,620
Red	Jacques Prieur, Musigny	2015	12x75	£ 7,200	0.7700	GC	3	18	£ 21,600

To be clear what this means, if you were to buy *every case* and *every bottle* currently available *in the world* of the top 80 Burgundy 2015 wines you would have to spend less than £5 million.

Given the: 1) tiny quantities initially produced, 2) amount which is consumed each year and 3) fact that no owners of these wines are levered, we cannot foresee a realistic scenario in which top Burgundy comes to the market in anything like the quantities which would be needed to put serious downwards pressure on prices.

4. Top Burgundy: Very Long-Dated Assets

It is sometimes not appreciated how long great Pinot Noir (red Burgundy) and Chardonnay (white Burgundy) can improve for. According to the *Wine Advocate*, the average maturity of the top 80 2015 Burgundy wines is 2051. This means that these wines will continue to improve in quality for an average of over 35 years in bottle. This longevity is in line with, or better than, the longest dated wines from Bordeaux³.

5. Cost of Carry is Cheaper than Gold

It is sometimes argued that fine wine is an expensive asset to maintain. For top Burgundy wines this is simply not the case. Using Cru's costs of storage and insurance, the average wine in our sample can be cellared in perfect condition (and insured to market value) for 4 bps (0.004%) a year.

Average Case Price	Annual Storage Charge	Storage for 20 Years	Annual Cost of Carry	Total Cost of Carry for 20 Years
£ 16,616	£6.60	£132.00	0.04%	0.79%

Given that investment management accounts like that offered by Cru have no platform charges, it is actually cheaper to maintain a fine wine portfolio of top Burgundy than most equity investments (where the equities don't pay a dividend). And it is far cheaper to store top Burgundy than gold, art, diamonds, silver, oil or other commodities.

Conclusion

Top Burgundy pricing is underpinned by two crucial factors:

- 1) The absolute amount of money needed to buy up whole vintages of globally famous wines is still (in most cases) very low compared with other fine wines; and
- 2) Secondary market volumes are non-existent, so prices are set (and reset!) by individual marginal buyers.

We conclude that Burgundy prices have risen due to market fundamentals of supply and demand. We believe that the market dynamic of rising global demand meeting hugely insufficient demand will continue to sustain price growth over the next decade and that top Burgundy remains an attractive long-term investment.

³ Some critics ascribed a slightly short drinking window to top Burgundy wines, but there is actually no evidence that wines passing out of their optimal 'drinking window' impairs the value.

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