

OWC Asset Management Limited

THE VINTAGE WINE FUND

Commentary

December's disappointing performance was due to two factors:

Firstly, a number of "bin-end" stocks were offered cheaply by wholesalers keen to clear out their stock holdings before the end of the year. These offers (which were for small quantities) were quickly sold but the reduced prices, which will not persist long into the New Year, have in many instances formed the basis of our mark to market.

The greatest impact on our valuation is coming, as it has done for the last few months, from the depreciation of sterling versus the Euro. We have described the situation in previous reports but as the (in our view temporary – see below) negative impact on our NAV has been significant it is important that investors are kept fully up to date on developments. Below is a summary of the position at present and our short term outlook:

- Many of our valuations are currently based on GBP prices offered by UK merchants for small quantities of stock which are being sourced from limited supplies held by private collectors within the UK.
- Many of these wine prices have remained constant in GBP terms for the last 6 months, so have **dropped** up to 7% in Euro terms.
- The Euro prices of the **same** wines on mainland Europe have been **rising** – typically by c.5% - on the back of strong demand.
- There is now an unsustainable gap (8% - 12%) between the prices at which wines are trading in Europe and in the UK. E.g Mouton 1986 – current lowest GBP price equates to 306 Euro per bottle. This wine is currently trading actively at 340 Euro.
- As a result, US and Far Eastern buyers (and even some Europeans who are typically very loyal to their domestic suppliers) are concentrating their purchasing in the UK. As UK based stock dries up prices will rise sharply, coming back into line with the rest of Europe.
- The closing of this gap may contain some retracement in Euro prices but the strong domestic demand reported throughout Europe suggests this will be limited – indeed prices are very firm.
- As a last resort, we could always start shipping the wines across the channel and sell at the higher prices! However, starting to dispose of our fantastic portfolio because of impatience with a temporary situation would, in our judgement, be a grave error.

Portfolio Breakdown - % NAV

	Red still	White still	Other
Bordeaux	61.1%	2.3%	0.0%
Burgundy	4.9%	0.6%	0.0%
Rhone	9.8%	0.0%	0.0%
Rest of France	0.0%	0.0%	1.7%
Italy	4.4%	0.0%	0.0%
Other	0.0%	0.0%	0.4%
TOTALS	80.7%	2.9%	2.1%

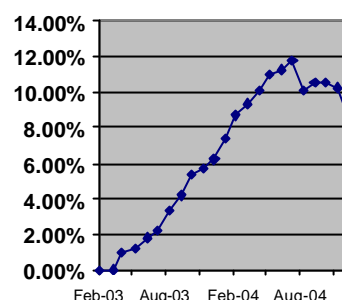
Cash – 14.3%

Wine – 85.7%

December 2004

ORDINARY SHARES

Price (€):	108.47
P&L on month:	-1.62%
Year to date:	2.12%
Since inception:	8.47%
Leverage:	0.00%



Investment Manager

OWC Asset Management Limited
6th Floor 159-173 St John Street
London EC1V 4QJ

Telephone: +44 (0) 20 7553 4314
Fax: +44 (0) 20 7553 4315
Email: info@owcam.com

Fund Structure

Domicile: Cayman Islands
Inception: 20th February 2003
Denomination: Euro (€)
Subscription: Monthly
Redemption: Quarterly
NAV: Month end by Administrator
Administrator: Olympia Capital
(Ireland) Limited

For Further Information Contact

The Investment Manager (see above)

2003	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Ord	-	-	0.02%	0.97%	0.24%	0.59%	0.42%	1.08%	0.82%	1.12%	0.29%	0.50%	6.22%
2004	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Ord	1.14%	1.17%	0.60%	0.66%	0.84%	0.24%	0.42%	-1.43%	0.35%	0.05%	-0.27%	-1.62%	2.12%

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