

# THE VINTAGE WINE FUND

## Commentary

August was the first month since inception in which our net asset value decreased. There are two main reasons for the fall:

Firstly, in the summer months smaller merchants with tight cash flows often sell stock very cheaply. Once the stock is snapped up, the price reverts quickly to previous levels and so the impact is generally short lived. This effect has been seen on a number of our larger holdings including first growth 1996 Bordeaux. In the case of these wines, the price falls may be a bit more persistent as there continues to be selling by frustrated individuals who purchased the wines at inflated prices from unscrupulous wine companies which were in operation around five years ago. This process has in fact been going on for some time and we have been careful in timing our entry into these wines. However, although the prices are totally out of line on any relative value assessment, stock does continue to be placed on the market and until these holdings have been cleared out, prices will not come back into line. We are certainly nearing the end of this process but it could take a few more months. The important thing is that there is no question over the quality of the wines.

The other negative impact comes from movements in the EUR/GBP exchange rate. If the lowest price in the market happens to be a GBP price from a UK based merchant, the EUR equivalent of this price obviously depends on the exchange rate. If sterling declines against the Euro, the Euro mark to market of this wine will decrease for as long as this GBP price is the lowest available. Ultimately, when the UK merchant restocks (paying in Euros) the FX movement will be reflected in the new (higher) GBP price. i.e. this negative effect should only be persistent for wines where there are very large holdings already within the UK reducing the need to restock in Euros. However, even when this is the case, the stock will tend to be sold from the UK to Euro buyers (to whom the price looks cheap) and the effect is gradually ironed out. The recent 2.5% drop in sterling has accordingly impacted on our bottom line but for the above reasons this effect should be temporary.

We remain very positive on the outlook for the next few months. The market is very buoyant with traders reporting good demand. In particular, top older Bordeaux - of which we have built significant positions - gets scarcer by the week and we are beginning to see prices squeeze up.

## Portfolio Breakdown - % NAV

	Red still	White still	Other
Bordeaux	51.0%	1.9%	0.0%
Burgundy	4.7%	0.6%	0.0%
Rhone	10.1%	0.0%	0.0%
Rest of France	0.0%	0.0%	1.8%
Italy	4.7%	0.0%	0.0%
Other	0.1%	0.0%	0.1%
<b>TOTALS</b>	<b>70.6%</b>	<b>2.5%</b>	<b>1.9%</b>

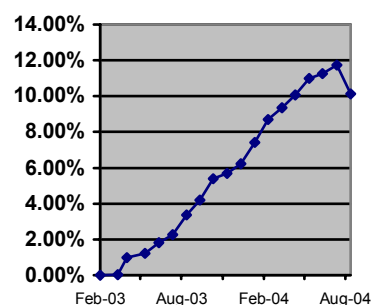
Cash – 25.0%

Wine – 75.0%

## August 2004

### ORDINARY SHARES

Price (€):	110.13
P&L on month:	-1.43%
Year to date:	3.68%
Since inception:	10.13%
Leverage:	0.00%



## Investment Manager

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## Fund Structure

Domicile: Cayman Islands

Inception: 20<sup>th</sup> 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
<b>Ord</b>	-	-	0.02%	0.97%	0.24%	0.59%	0.42%	1.08%	0.82%	1.12%	0.29%	0.50%	<b>6.22%</b>
2004	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>Ord</b>	1.14%	1.17%	0.60%	0.66%	0.84%	0.24%	0.42%	-1.43%					<b>3.68%</b>