WINE SOURCE FUND Q&A

1) Why invest in wine if you're not going to drink it?

The laws of **supply and demand** make fine wine a good investment. Over time the stock of the best wines and vintages dwindles as they mature and reach their "drinking window." Shrinking supply of the most desirable wine supports prices and the Wine Source Fund seeks to identify those that offer the best potential for this price appreciation.

Because it has its own market dynamic, wine is an "alternative" investment that **has a low correlation with the performance of financial securities**, notably equities and bonds. The Wine Source Fund's performance currently has a 0.081 correlation with the S&P 500 index of shares. This is important for investors who are looking to **diversify their portfolio, to reduce risk.**

2) What is the fund's performance track record and how does this compare with Liv-ex/other funds?

Fine wine is a long-term investment, reflecting the time needed for the best wines to reach maturity and be at their best for the end-consumer.

Wine Source Fund does not pay dividends and so the profits from its investments are reflected in its net asset value (NAV). Investors in the Wine Source Fund crystallise their profits by selling their units in the fund. Each month Wine Source Fund reports NAV based on valuations of its portfolio, which are verified by its independent administrator Alter Domus (a PWC company) on a monthly basis and on a yearly basis by its auditors, Deloitte. Pricing is provided by Wine Owners, an independent Wine and Fund valuer that works closely with a panel of 200 professionals and Liv-ex.

The fund started in September 2012, since then its NAV has appreciated by 32.2% (as of August 31, 2016). This represents an net annualised return of more than 7% net for investors.

This is a **significant outperformance of the fine wine investment market** compared to the 3.9% return of the Liv-ex 100 and the 11.8% return of the Liv-ex 1000 indices in the same period. In the current low interest rate environment **this also compares very favourably with the returns of other asset classes.**

3) How does the fund invest?

Wine Source Fund is unique among wine investment funds because it has two strands to its investment strategy.

- **The Classic approach**: It invests in wines and spirits acquired on the open market that the fund's managers expect have the best potential for price appreciation. Currently these make up 60% of the portfolio
- An **Impact Investing approach:** prescribed capital appreciations from inventory finance for producer-sourced wines. These wines make up 40% of the portfolio

4) Does the fund use leverage to boost performance?

No. The fund is structured to generate consistent and attractive returns for investors rather than increase the volatility risk.

5) How does the inventory finance mechanism work for the fund?

The fund buys fine wines at discounted wholesale prices directly from top producers through its affiliate, wine services company Wine Source Group. It stores them in selected bonded warehouses so that the wines can age in optimal cellarage conditions. Each month the value of these producer-sourced wines appreciates at a fixed rate and at the appropriate time the fund sells the wines at the cumulative price through Wine Source Group to an extensive network of fine dining establishments around the world, ensuring liquidity for the Fund investors.

This mechanism effectively sets the sale price for perfectly stored fine wines, with impeccable provenance sourced directly from the producer. This guarantee of provenance is critical for fine dining establishments at a time when the wine industry grapples with the growing problem of fraud and counterfeit wines. Buyers may find the same wines available at different prices, but they will struggle to match the guarantee and transparency of provenance provided by the fund.

The monthly increase in the value of the wines acquired directly from producers provides the fund with a regular NAV appreciation. This mechanism **counterbalances any volatility in valuations of the fund's other assets** acquired on the open market and gives the fund **smoother overall returns.**

6) How is this inventory finance mechanism make it an Impact Investment?

Impact investing is a term used in the asset management industry for investments that **deliver more than a financial return and brings social and environmental benefits**. The inventory finance mechanism serves an important purpose for wine producers and end-consumers.

Producing fine wine is an expensive business and few producers can afford to store and age their wines until they are ready for release onto the market. Most producers sell their wines as soon as they are bottled for reasons of cash flow to finance successive production. Afterwards they have little control over what happens to their wines.

For producers this wine inventory mechanism is highly beneficial because

- It protects their "brand" by ensuring the wine arrives in the end-consumer's glass in an optimal condition
- There is transparency in how the prices will evolve as the wines reach their drinking window
- They know that their wine is going to be consumed and is not a speculative investment commodity

This inventory finance role that protects the interests of producers makes the Wine Source Fund **an integral part of the fine wine industry value chain, or ecosystem.** Investors in the fund are therefore making a valuable contribution to preserve and protect the viability of the best wine producing estates in the world.

7) What happens when the indexing of these producer-sourced wines generates a sale price that exceeds what is available in the open market?

The indexing of these "inventory" wines generates a benchmark price that reflects the impeccable sourcing and storage of the wine. There is a premium value for these wines over those of unknown provenance. Naturally the managers of the Wine Source Fund monitor the open market values of the fund's holdings constantly so that the indexing of wines does not produce an inflated price that is unobtainable when the fund comes to sell its investments in the open market. The fund turns over about one third of its portfolio each year, which mitigates any price anomalies.

8) How big is the fund and how does it ensure portfolio diversification?

The fund's assets under management are currently c. €10 million with a 60:40 mix in the portfolio between market-sourced and direct producer-sourced wines. (See above for advantages)

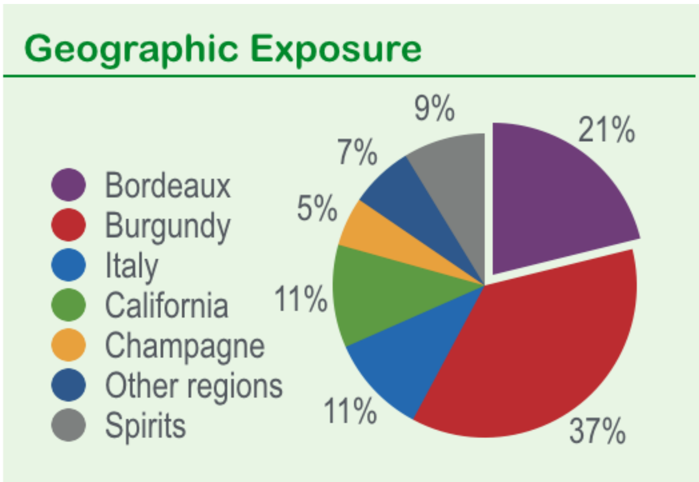
Since Bordeaux and Burgundy wines are the most actively traded in the fine wine market, combined they represent more than 50% of the portfolio's assets.

The fund currently invests in more than 1,000 different wines and spirits to balance its risks. No single position (wine, winery or brand) may exceed 10% of the Fund assets. The wines originate from the top producers in the world, located mainly in France, Italy, Spain and the USA.

Spirits account for almost 10% of the portfolio.

9) What are the biggest holdings?

The Wine Source Fund is not disclosing individual wine holdings in its portfolio since this is commercially sensitive, however we are happy to discuss the fund's investment strategy by theme or by region.



10) What is the minimum investment in the fund?

The fund is open-ended, meaning there is no limit in the number of its units. It has three classes of units denominated in euros (the base currency of the fund given the weighting of its European investment), US dollars and pounds sterling. The minimum investment is €75,000 or $75,000 or £75,000. Subscriptions are monthly with a five-day notice period.

There is another way of investing in the fund: by selling a wine collection of equivalent or higher monetary value as the minimum subscription level in return for shares in the fund. Wine collectors who sell their collection to the fund may redeem 50% of their holdings in the fund after 18 months and the remaining 50% after 24 months. This is a very attractive option for those investors who built up a collection but have had difficulty in selling it.

11) What has been the best investment made by the fund to date? And the worst?

The best investments made by the Fund were in wines from the Burgundy region at a time when the entire industry was primarily focused on Bordeaux. Similarly, the Fund made some very early investments in the Macallan Lalique bottlings when they were trading at a fraction of their current prices. We pride ourselves in having in-depth industry understanding and for being ahead of the curve in our assets strategy. This is the result of our involvement in an investment platform as well as a strong industry player, which gives us valuable insights on the inner workings of supply/demand in the wine and spirits market.

The lowest performing investments are usually from Champagne, which is a great investment asset in the long term but typically underperforms when it is young. The Fund's robust platform is designed to allow these wines the 20 years of appreciation time that is needed.

12) What are the fund's most valuable assets?

This is commercially sensitive and so we are not disclosing this information. You can get the full positions by region as per our disclosed materials on a monthly basis.

13) Is the fund regulated?

Yes, the fund is listed in Malta and so is regulated by the Malta Financial Services Authority. It is also compliant with the European Union's Alternative Investment Fund regulations. Combined, this means the fund is subject to the highest level of regulatory screening available, making it very secure for private or institutional investors.

14) What is the notice period for redemptions?

The minimum investment period is 12 months. Redemptions are quarterly with a 60-day notification period.

15) Has the fund ever failed to meet its redemption obligations?

No, never. In its four years of existence the fund has handled redemptions that amount to the equivalent of one third of its assets under management, returning money to investors within the prescribed period with solid returns.

16) How do you protect the interests of the fund's remaining investors when managing redemptions?

The fund turns over approximately one third of its portfolio each year, meaning that it is able to meet redemptions.

Within the portfolio there are exceptional wines with tremendous ageing potential and these the fund is holding onto in order to crystallise the full price appreciation of these assets.

17) Can an investor take delivery of the wines in the fund for their personal consumption?

Personal consumption requests of fund investors are handled by the concierge service of partner Wine Source Group, the Melchior Club.

18) What proportion of the portfolio does the fund sell each year?

Approximately one third of the fund's wines turn over each year. This provides liquidity for redemptions. (See above).

19) What proportion of the fund is made up of wines with long-term ageing potential?

Roughly half of the assets in the Fund have an ageing potential of 3-10 years, 20% of the assets in the Fund have an ageing potential of more than 10 years.

20) What are your fees and how are the managers incentivised?

The fund uses the classic hedge fund fee structure: an annual management fee of 2% and a 20% performance fee with a "high watermark" structure so that investors do not suffer a double fee payment.

To ensure full alignment of interests with investors, The Fund's managers Benjamin Billarant and Philippe Kalmbach are also investors.

21) What happens if one or both of the managers leave?

The Fund is designed to be structurally sound if one or two of its managers leave, since the assets under management are all actively tradable. Both the fund managers have waived their fees for several years to support investors and are investors themselves in the fund, so they have no incentive to leave the fund without ensuring they are replaced.

22) How do you address the problems that led so many other wine funds to wind up in 2013?

The fund is structured in a way that avoids the problems faced by the funds that wound up. See sections above and below on:

- Liquidity – turnover of portfolio
- Diversification of the portfolio
- Long-term core holdings and inventory finance mix in portfolio
- Regulation – totally compliant before the EU regulations came into force in 2014
- Audited with checks and balances

23) How do you manage the conflicts of interest between Wine Source Group and the fund?

Wine Source Fund has rigorous checks and balances in place to protect the interests of investors.

a. Its administrator is Alter Domus, one of Europe's leading administrators of alternative fund structures
b. The auditor is Deloitte, which checks invoices and market valuations to verify that values are reported correctly

c. The fund is fully compliant with the EU's Alternative Investment Fund Managers Directive (AIFMD)
d. Fund manager and investor Benjamin Billarant has no involvement with the wine services provided by Wine Source Group and so has a vested interest in ensuring that the relationship is arms length
e. The Wine Source Fund's investment strategy is independent of the interests of the Wine Source Group and so there is no "force-feeding" of the wine merchant's agency wines
f. Wine Source Group charges the fund fees that are below the industry standard for wine merchants (sub 2% net fees vs a typical 5%+ for the industry)
g. Producer-sourced wines are purchased at discounts to the wholesale price charged for wine merchants
h. The indexing mechanism in pricing for inventory finance producer-sourced wines is transparent and prescribed so producers can monitor what Wine Source Group charges fine dining establishments for their wines.

Philippe Kalmbach is CEO of Wine Source Group and his involvement with its wine merchant business provides him with a priceless insight into the fine wine market's dynamics, notably:

- Changing consumer trends in fine dining establishments
- Overview of wine transaction flows
- Direct contact with wine producers to assess production quality and investment potential

24) Are storage, transportation and other costs covered by the management fee?

These costs are covered in the acquisition cost of the products. Assets are either purchased under Bond (i.e. in bonded warehouses) or delivered with costs insurance paid.

25) What safeguards are in place to protect the interests of investors?

See responses for questions 11, 21

26) What alignment of interest do investors get from the fund's manager?

Fund manager Benjamin Billarant is an investor in the fund, ensuring full alignment of interests with investors. Philippe Kalmbach has invested more than

€700,000 of his own money in the Fund and the Wine Source Group to ensure their optimal development.

27) How do you ensure that investors get a fair value price for the fund's investments when they buy and sell through Wine Source Group?

Producer-sourced inventory finance wines are subject to a transparent indexed pricing mechanism. Auditor Deloitte verifies that for the classic investment type wines pricing corresponds to market values.

28) Who values the fund's assets?

The Fund administrator Alter Domus values the Fund's assets on a monthly basis using mark-to-market pricing provided by Wine Owners, an independent company specialising in price discovery, on the one hand, and the index price mechanism for the producer-sourced inventory financing wines, on the other. Additional screens are carried out against Wine Searcher and Liv-ex prices on a monthly basis. Each year, auditor Deloitte verifies the enforcement of these processes, runs checks on more than 10% of the physical assets to assert the quality of the goods and ultimately validates the Fund's net asset value. These three independent companies ensure that investors' interests are protected at all times.

29) For the wines you buy on the open market, how do you protect the fund's investors from fraud or fake wines?

For market-sourced investment wines the fund makes every effort to verify the provenance of the assets. Market intelligence gleaned through wine merchant activities of Wine Source Group allows the fund managers to assess risk of fraud or counterfeits. Forty percent of the portfolio is producer-sourced wine and this eliminates this risk.

30) Would you not get a better price for the fund's "inventory finance" wines by selling them on the open market instead of to fine dining establishments?

The indexing of asset values in the inventory finance mechanism avoids this issue by setting a prescribed and transparent price path for wines with a provenance guarantee direct from the producer. Buyers may find the same wines available on the world market at different prices, but they will struggle to match the guarantee and transparency of provenance provided by the fund.

31) Are there any "fringe benefits" from investing in the fund?

Investors benefit from membership of Wine Source Group's Melchior Club, a concierge a service that offers a bespoke sommelier service for personalised advice on wines and spirits for their own consumption, wine education, tasting and dining events. The concierge service is part of a broader lifestyle package that offers assistance in reservations at the world's top restaurants and hotels to handling special travel and individual charter requests.

32) What do you consider the optimal mix for the portfolio between inventory finance wines direct from wineries and speculative ones sourced from the market?

The best balance is a 50% mark-to-mark portfolio and 50% inventory finance wines. This ensures liquidity at all times and guaranteed returns on half of the portfolio. The Fund managers regard keeping this balance of liquidity and return as critical from risk management purposes.

33) Is there a difference in pricing for wines with a full provenance record and those without one?

Yes and this is increasingly important. Fine wine buyers want to know that the wine in the bottle is genuinely what it is purporting to be on the label. There have been a number of high profile scandals and lawsuits involving fraud or counterfeit wines affecting the fine wine market. This has propelled security of provenance to the forefront of buyers' concerns when they are paying substantial sums of money for expensive wine. Wine Source Fund, as the name implies, seeks to address this issue head-on by providing producers, investors and fine dining establishments with a guarantee of provenance.

34) How do you manage the fund's currency risk?

Wine Source Fund has three classes of shares denominated in euros, dollars and pound sterling. Investors are not able to switch their class of shares upon redemption.

Most of the Fund's assets are euro-denominated. The Fund has a multi-currency hedging strategy, however, to eliminate the volatility that can undermine its performance and deliver stable returns to its investors.

Ends.