

Spirits Investment



BORDEAUX INDEX

Fine Wines & Spirits

Introduction

- In recent years the premium spirits market has experienced outsized demand and showed very attractive investment performance
 - The Scotch Whisky market has led the gains across a ten-year period, but other areas – Japanese whisky, cognac and rum – have also seen strong performance more recently
- While headlines tend to refer to new record prices for old vintages of The Macallan, Glenfarclas etc, in fact the compelling underlying market dynamics mean that attractive performance is seen much more broadly across the space
- A realistic size range for a whisky investment portfolio is within the £100k to £10m size range
 - Portfolios would generally contain ~60-70% Scotch whisky
 - Casks have high return potential and can be an important portfolio component, but require particularly careful and detailed analysis
 - Our analytical approach combines deep market insights and judgement with (especially for casks) detailed financial modelling where this adds to the specific investment thesis
- A key part of constructing and managing portfolios is constantly monitoring and considering exit strategies – Bordeaux Index’s global distribution insights and capabilities are key in this context



Selected Press Observations



“Beyond property, interest in the world of collectables will continue to expand into new areas. Expect a boom in investment in one drink in particular. A 580% rise over the past decade in Knight Frank’s Rare Whisky 100 Index, new direct flights between Edinburgh and Beijing, 40% annual growth in sales of Scotch to India and China, and a new record sale price of £1.2 million for a single bottle should have Scotland’s distillers raising a dram or two”

Wealth Report 2019 - reported whisky as the year’s best performing luxury asset.



“Demand for fine, rare and collectable Scotch whisky is at an all-time high”



“The dynamic economies and burgeoning middle classes of mainland China and India have not even got to the starting blocks yet, let alone begun to try and win the rare whisky acquisition race”



“Traditional collectors, the professional investors and the curious connoisseurs are creating an almost perfect bull market where demand consistently exceeds supply. Some of the most sought after bottles had tiny volumes released globally, so getting hold of them can be a huge challenge”



Market Observations

- The nature of the premium spirits marketplace means that there are no indices which are optimally placed to reflect completely secondary-market price performance
- However, the Rare Whisky 101 indices shown in the chart below – which use auction datapoints – are a good reflection of market movements over the past 5-10 years
- The indices tend to understate performance by utilising (especially for the Icon index) more commonly available whiskies which have more datapoints but generally less intrinsic rarity value

Figure 1: 5 year returns

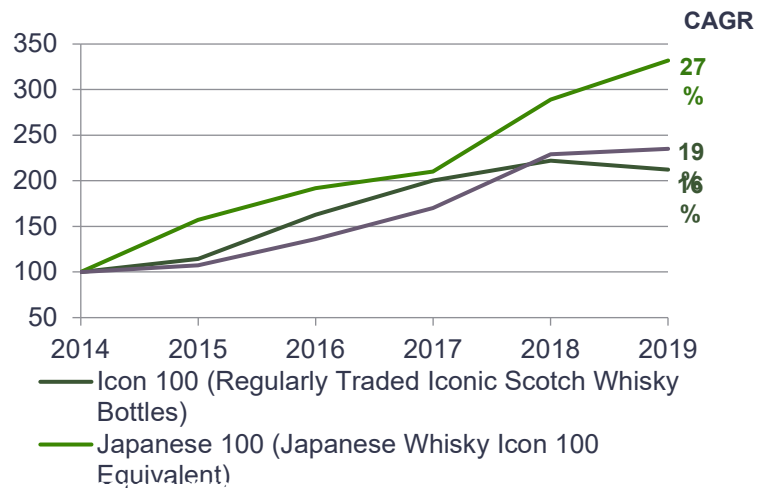
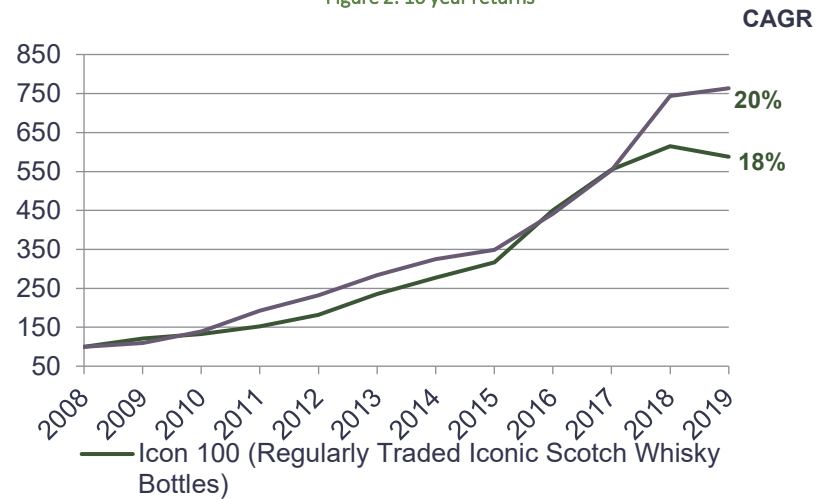


Figure 2: 10 year returns*



Current Market Dynamics & Outlook

- Single Malt Scotch whisky exports pushed above £1bn for the first time ever in 2017 which reflects the worldwide demand for Scotch whisky especially from the emerging markets of India and China, but also in the US
 - We are seeing many signs that this is a sustainable, consumption-driven pool of demand
- This increase in demand puts an even bigger strain on the whisky supply that is currently in the market
 - The nature of the slow production and maturation of whisky makes it very tough to keep up with demand and bottles disappearing from the market are not being replaced quickly enough
 - Indeed, the amount of demand for non-age-statement whisky means that average ages of whisky stocks in Scotland are continually falling
- In the early years of this decade, the focus was very much on Scotch whisky, but as prices rose in that category, the market has increasingly also focused on other areas where high quality products appeared undervalued: Japanese whisky, US bourbon and rye, cognac, rum
- We believe that conditions continue to be favourable for further value appreciation, with the premium spirits market remaining a long way from reaching equilibrium



Overview of Investment Approach

AGE & RARITY CONSIDERATIONS

- Price appreciation occurs at varying rates at different ages and rarity levels – we focus on the optimal inflexion points
- For casks, there is a further element of “financing” further aging at attractive implied rates

STOCK PICKING & SOURCING

- True market expertise and judgement is a rare commodity in the space, while sourcing capability is equally important
- We pick bottles/casks having particularly desirable qualities, from distilleries with positive market dynamics

MARKET POTENTIAL

- Our analysis is initially based on current prices, not assuming broader spirits market appreciation
- We then overlay market supply/demand dynamics to determine the overall price outlook



Portfolio Liquidity & Exit

- Most assets are held for 3+ years in order to maximise value appreciation from age progression, albeit performance can come through more quickly
- After this point in time, exit can be via various routes, depending on which is most suitable for the specific asset in order to generate highest returns
- It is important to begin to assess the exit route before entering the investment position, given the potential value and timing impacts different routes may have

HNW / INVESTORS

HNW drinkers / collectors or indeed other investors, usually via BI's own distribution network, are often the most likely distribution channel and tend to maximise economics

TRADE / BROKER

Despite BI's strong global distribution network, there may be strong demand from other trade players or brokers (e.g. more restaurant-focused or with Mainland China presence)

AUCTION

Auctions have higher fees but for certain items can achieve results beyond those which would be rationally experienced in the open market



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