

RARE WHISKY | 101

RARE WHISKY DELIVERS STELLAR RETURNS!
Collectors and investors half year single malt scotch review 2016

CONTENTS

1 EXECUTIVE SUMMARY H1 2016

3 SUPPLY AND DEMAND

7 INSIGHT, INTELLIGENCE AND INDICES

11 THE MACALLAN - AN ANALYSIS IN AGED EXCELLENCE

15 OTHER INDICES - ANALYTICAL DYNAMICS

17 INVESTING FOR PROFIT

20 NOW AND THEN - QUALITY DECLINES

21 RARE WHISKY COLLECTORS RANKING - LEAGUE TABLE

25 RARE WHISKY INVESTORS RANKING - LEAGUE TABLE

28 CRYSTAL BALL GAZING - WHAT NEXT?

RARE WHISKY 101
EXECUTIVE SUMMARY H1 2016

Iconic single malt The Macallan sparkles in the half year with its highly sought after past 18 and 25-year-old releases delivering new record value highs in the UK auction market.

The number of collectable bottles of Scotch whisky sold at auction in the UK increased significantly by 28.5% to 26,527 (H1 2014 = 15,134, H1 2015 = 20,638).

The £ value of collectable bottles of Scotch whisky sold at auction in the UK rose by an impressive 25.4% at £5.771M (H1 2014 = £3.503M, H1 2015 = £4.604M).

Polarisation continues, as top end rarities excel and those bottles deemed undesirable continue to experience value declines.

Rare Whisky Apex 100 Index (the best performing 100 bottles) up 16.28% compared with H1 2014 = up 4.73%, H1 2015 = up 8.93%.

Rare Whisky Negative 100 Index (the worst performing 100 bottles) re-traces - 2.79% compared to +0.16% in H1 2014, H1 2015 - 6.74%.

The broader market continues to see increasing numbers of low value stock appear on the market. Falling numbers of collectable/investment grade bottles are pushing prices ever higher for cherished rarities.

Rare Whisky Apex 1000 Index (the best performing 1,000 bottles) accelerates up by 11.76% (H1 2014 = 8.06%, H1 2015 = 8.04%) and interestingly the Rare Whisky Negative 1000 Index (the worst performing 1000 bottles) re-traces by - 0.83%

The investment-based distillery league table shows a return to favour for Balvenie (up eight places), while values harden for Islay's Iconic Lagavulin (up 10 places) in its 200th year, and Orkney's Highland Park (up nine places) yields impressive results with its ever-popular limited releases.



Brexit and the forex impact may have been expected to drive demand for rare whiskies from buyers outside the UK, but according to Perth-based Whisky Auctioneer, this is not the case and many of the H1 gains in Macallan 18 and 25-year-old values are from buyers in the UK. We look forwards to reviewing the Brexit impact further in the 2016 full year report to be released in February 2017.

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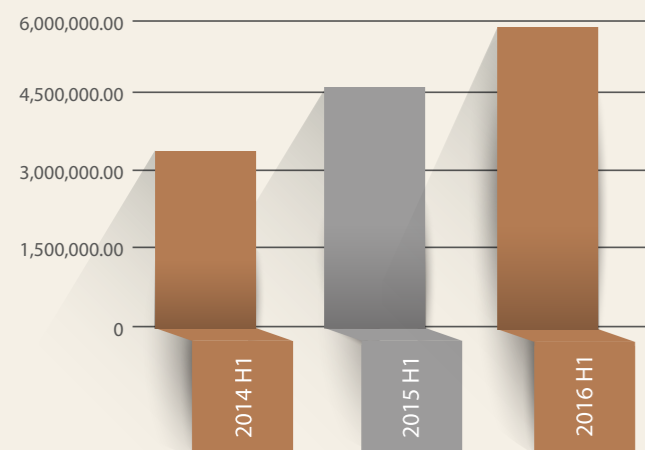
SUPPLY AND DEMAND

While impressive, the rate of growth in volumes appears to be slowing. As increasing numbers of dedicated whisky auctioneers compete for a finite pool of stock, a plateau is naturally to be expected. Much of the increase in supply has been in relation to lower value bottles. The half year 2016 v 2015 saw a 28.5% uplift in the number of collectable bottles on the open market. The same period in 2015 showed a 35.21% increase. We expect this trend to continue over the coming years.

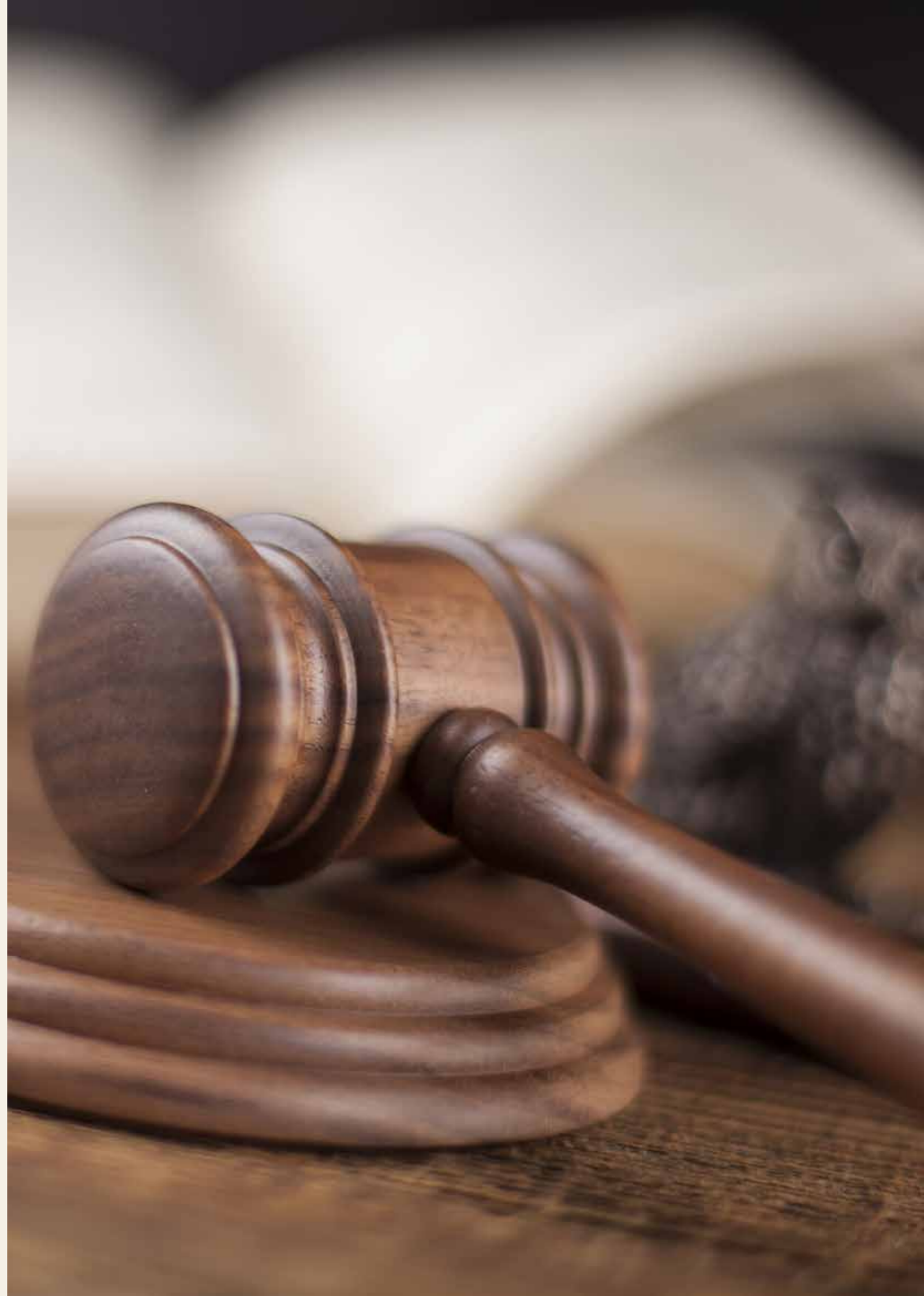
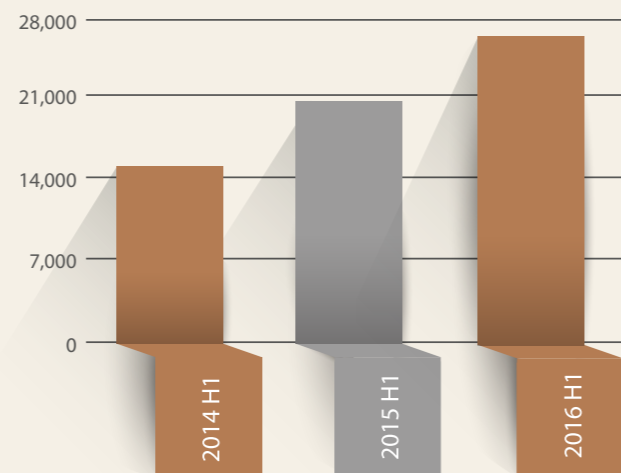
The continued proliferation of lower value bottles appearing at auction has resulted in a slight depression of the average bottle price from £223.08 end June 2015 to £217.56 at the end of June 2016.

Turning to overall values we see a continued trend upwards for Single Malt Scotch sold at UK auction. H1 2016 approached £6M in total sales closing the half year at £5.771M, up some 25.4% versus Last Year.

VALUE OF BOTTLES SOLD - UK AUCTIONS



VOLUME OF BOTTLES SOLD - UK AUCTIONS

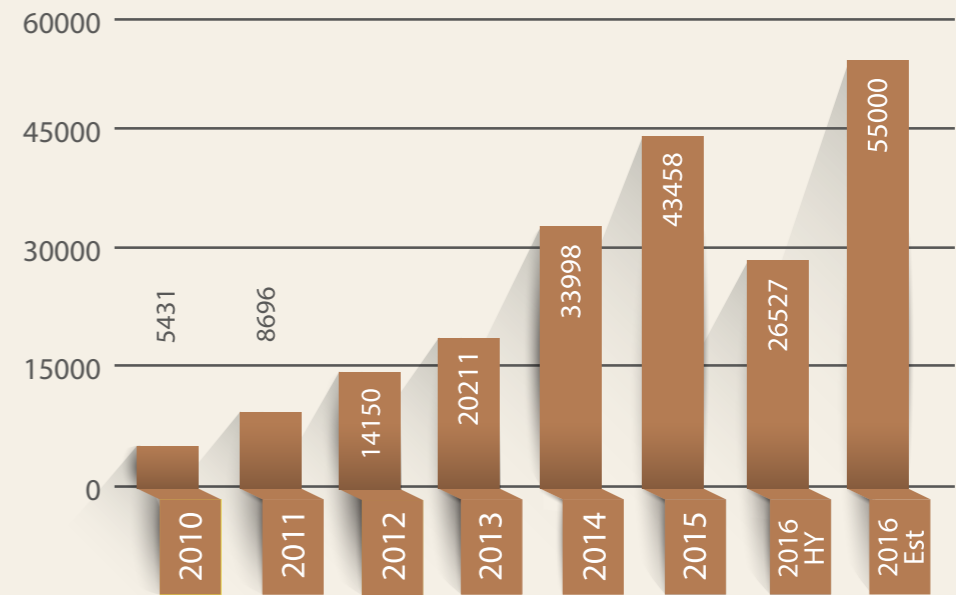




Breaking through the £5M H1 ceiling for the first time ever we see the first half of 2016 as something of a milestone. We are expecting the £10m mark to be breached for the first time by the end of 2016 - some ten times 2010s £1.17m - and suggest that £12M may be a more accurate forecast.

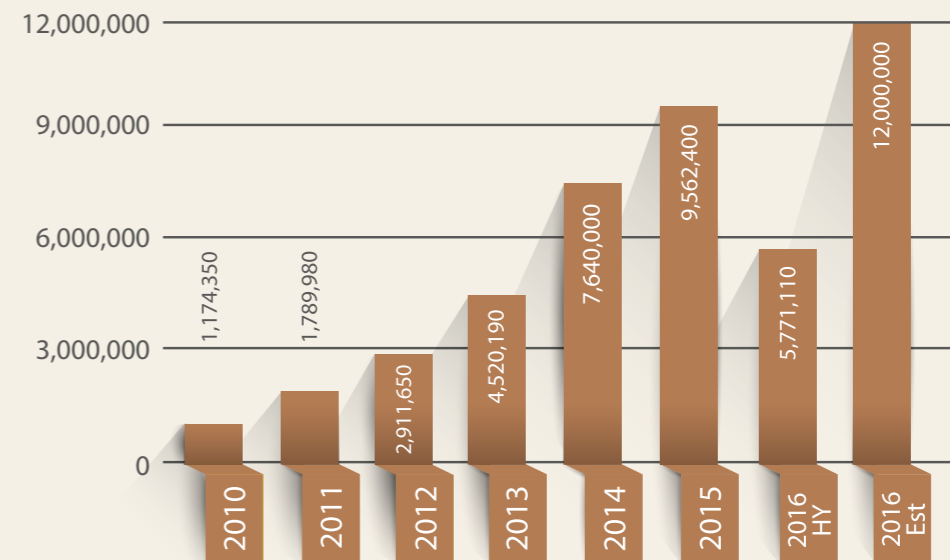
The availability of Japanese whisky at auction continues to increase, led by the highly sought after Karuizawa.

TOTAL VOLUMES - SCOTCH



Total volumes forecast to reach 55K bottles for FY 2016 - some 10 times the level of 2010!

TOTAL VALUES - SCOTCH



RARE WHISKY 101

INSIGHT, INTELLIGENCE AND INDICES

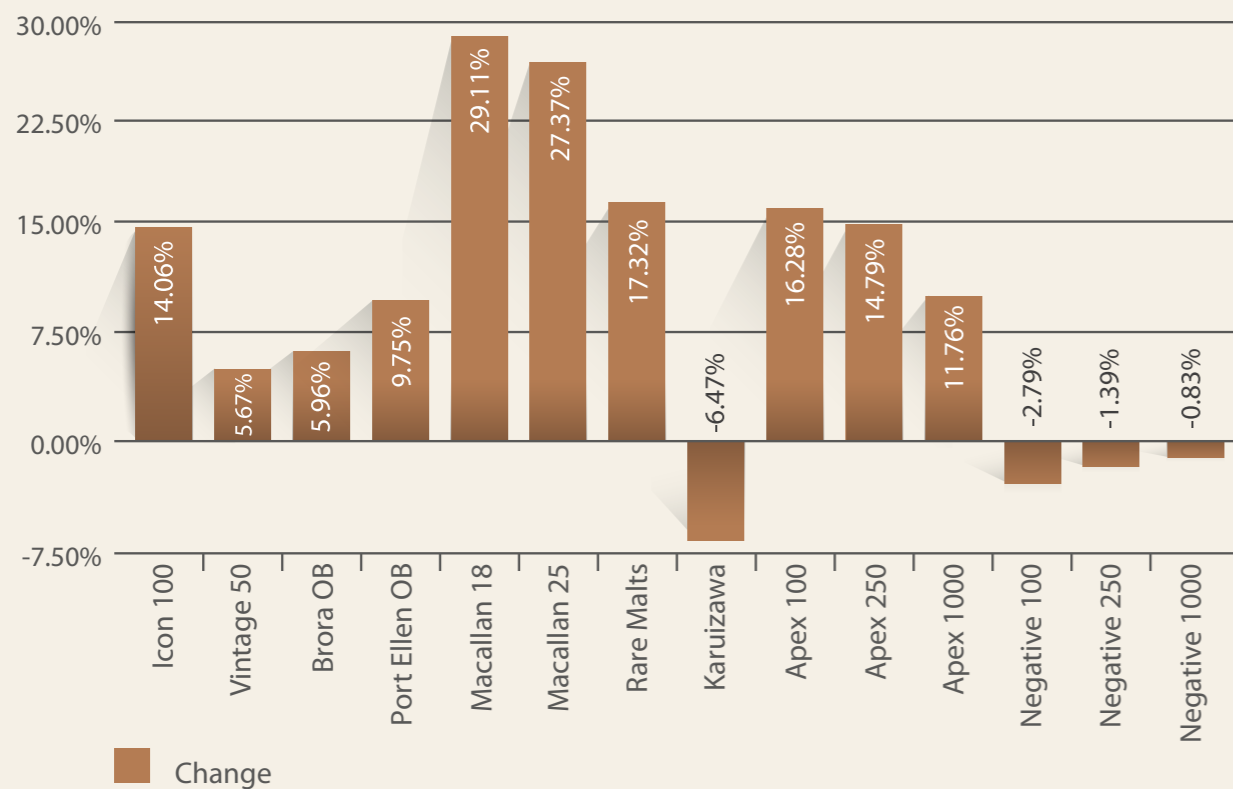
In order to develop benchmarks which can be tracked monthly, quarterly, half yearly, annually and over the longer term we created an index model that starts in 2008 at 100 points. This “origin” or “start point” allows us to track performance of a wide range of bottles in each of our key indices illustrated below:

INDEX	2008 START	END 2015	H1 2016	CHANGE
ICON 100	100	308.61	351.99	14.06%
VINTAGE 50	100	349.39	369.21	5.67%
BRORA ORIGINAL BOTTLING (OB)	100	390.26	413.5	5.96%
PORT ELLEN OB	100	428.51	470.31	9.75%
MACALLAN 18 YEAR OLD	100	238.54	307.99	29.11%
MACALLAN 25 YEAR OLD	100	278.74	355.02	27.37%
RARE MALTS	100	208.44	244.55	17.32%
KARUIZAWA	100	379.67	355.1	-6.47%
APEX 100	100	627.43	729.58	16.28%
APEX 250	100	510.94	586.53	14.79%
APEX 1000	100	365.68	408.53	11.76%
NEGATIVE 100	100	31.59	30.71	-2.79%
NEGATIVE 250	100	38.74	38.2	-1.39%
NEGATIVE 1000	100	54.1	53.65	-0.83%

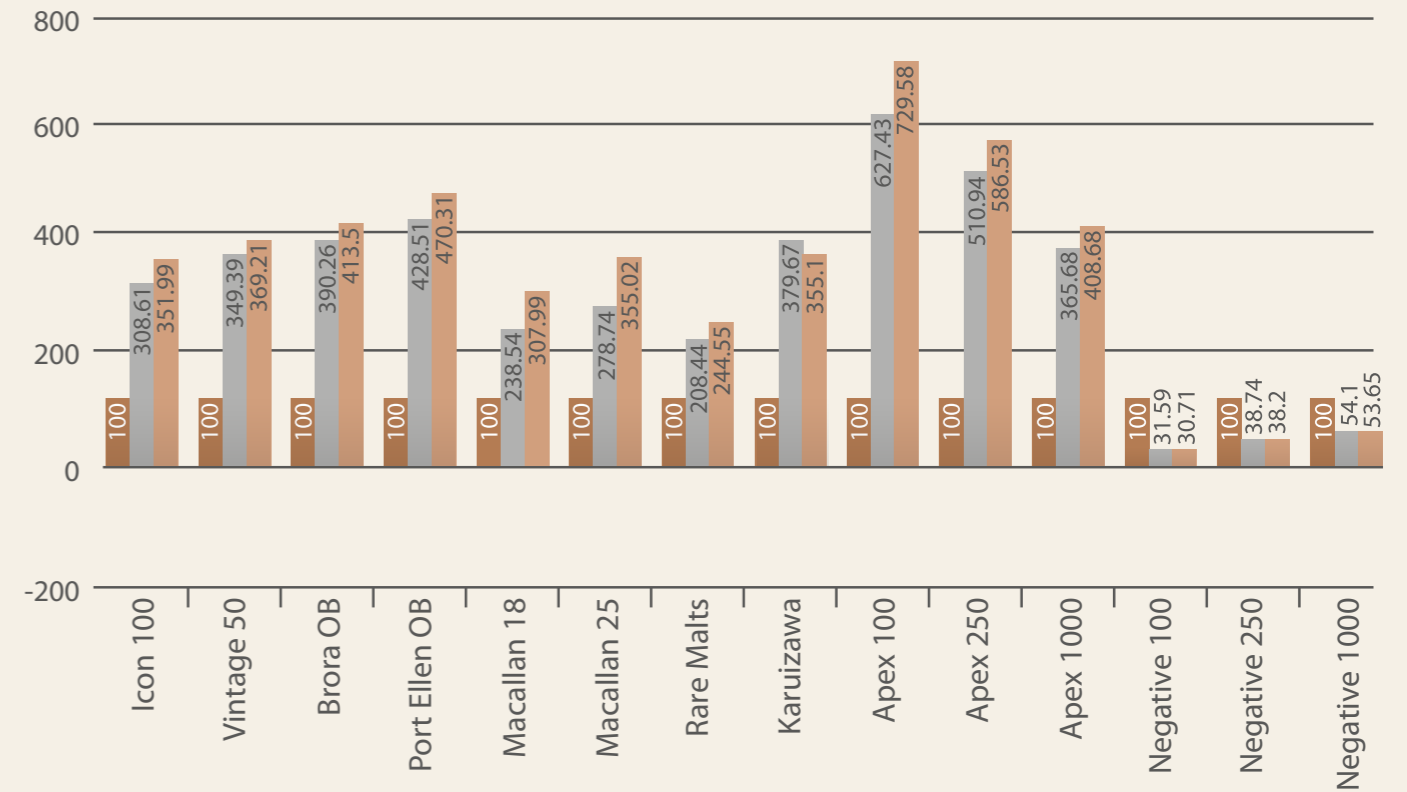


For H1 2016 we see that all the key composite indices (bottle composition of the index is constant) finished positive, (six-month performance 31st Dec 2015 – 30th June 2016) for Scotch single malts.

H1 2016 INDEX % CHANGE



MOVEMENT OF INDICES



The general trend since Index creation from data at end 2008 is ever upwards for all the core benchmarks. Although Karuizawa has dipped in the last six months it has experienced dramatic rises over recent years.

The dynamic indices - where bottles enter and exit the index depending on performance - continue to show dramatic polarisation.

The positive indices of top 100, 250 and 1000 bottles rise inexorably while the negative 100, 250 and 1000 continue to soften.

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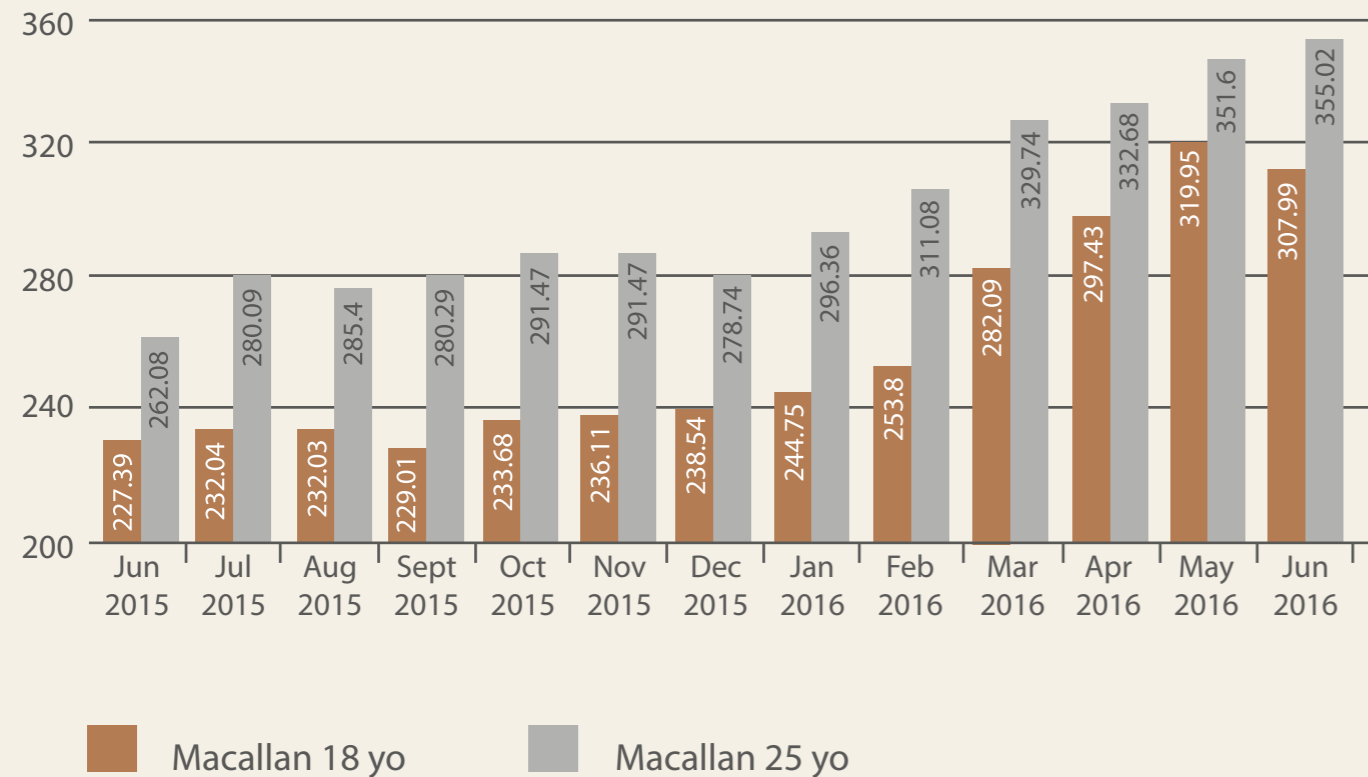
THE MACALLAN

An Analysis in Aged Excellence

The stellar performers over H1 2016 have been Macallan 18 and 25-year-old indices, experiencing incredible six-month rises of 29% and 27% respectively.

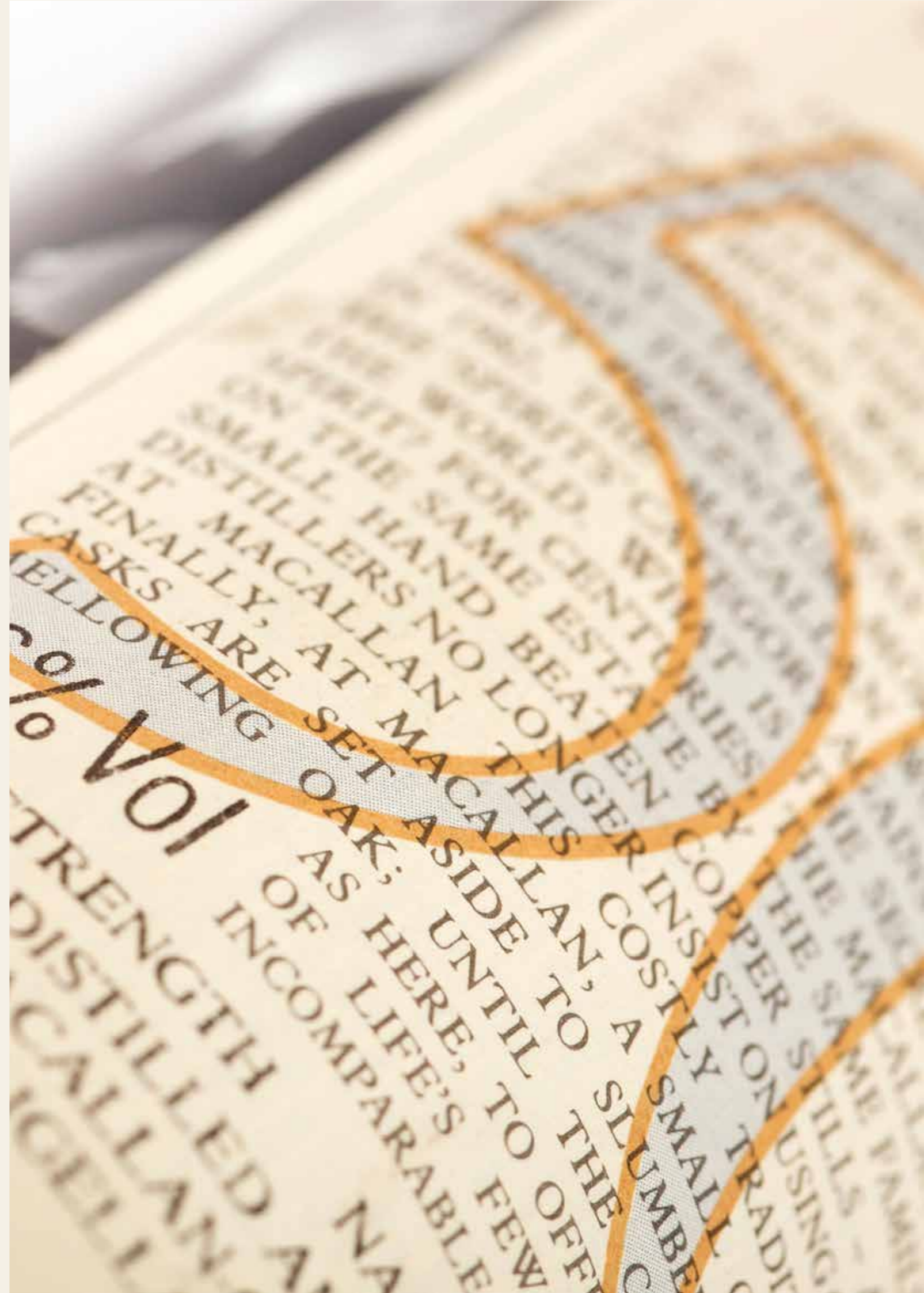
We believe this is, in part, a result of the perceived decline in quality, and de-aging of contemporary Macallan bottlings, driving connoisseurs, collectors and investors to look to the secondary (auction) market to find the treasures they desire.

THE MACALLAN 18 YEAR OLD & 25 YEAR OLD - 12 MONTH INDEX



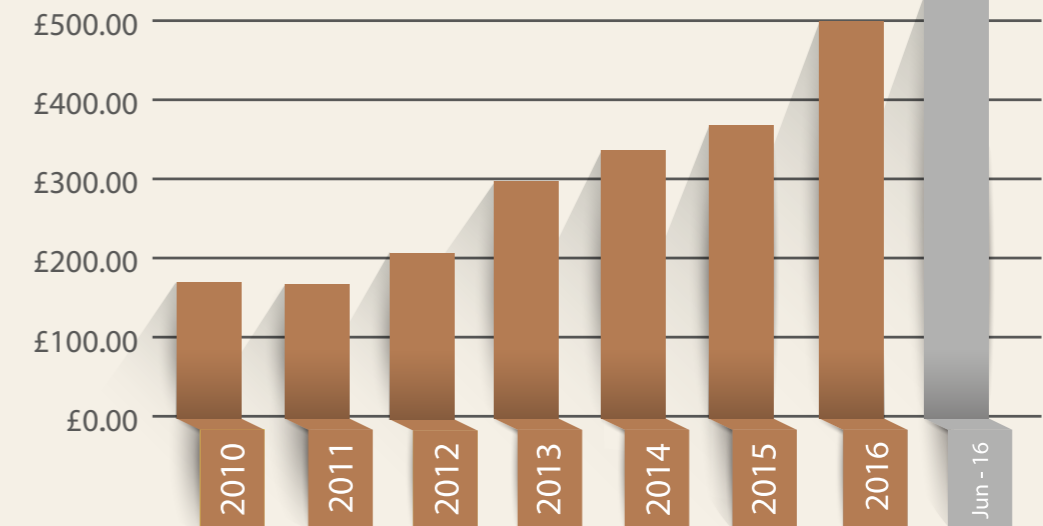
Since 2008, the most significant growth remains with the 25 year old Anniversary Malts, however the vintage 18 year olds have been catching up rapidly. Over the past 12 months the 18 year olds have increased by 35.45% and the 25 year olds by an exceptionally close 35.46%. Adding context to the sheer gravity of these increases, it's worth remembering the Macallan indices increased by a little over three percent throughout the whole of 2014.

Further analysis of the 18 year olds over the past six and a half years shows a dramatic increase in the average price for the bottles.





AVERAGE PRICE - 1980'S VINTAGE MACALLAN 18 YEAR OLD



Annual Average UK Auction Price for the 1980's Vintage Macallan 18 Year olds

Taking an annualised view of the 1980's vintages (1980 - 1989 inclusive) shows an average per-bottle price of £166.78 in 2010. That stands at £499.57 in 2016, an increase of 199.54%. June's spot average shows further increases, highlighting vast demand for these bottles.

Such is the pull of past bottles from Macallan, even the standard entry level 10 year old variants are showing huge increases. The 'Easter Elchies Summer' packaged bottles (1990's released) were selling for around £90 per bottle in June 2015. Twelve months later and that number has now increased to £130 per bottle.

As could be expected, we are witnessing a continued increase in the number of fake bottles hitting the market. The vast majority of the UK's dedicated and knowledgeable whisky auctioneer's are consistently policing the market where they have 'eyes-on' and can identify rogue sellers and/or bottles. We urge caution against buying ANY rare/old bottles from websites where private vendors list their own bottles and there are no third party counterfeit checks in place.

We have recently confirmed significant collections of Macallan as being 100% fake where they have been purchased via privately listed auction sites.

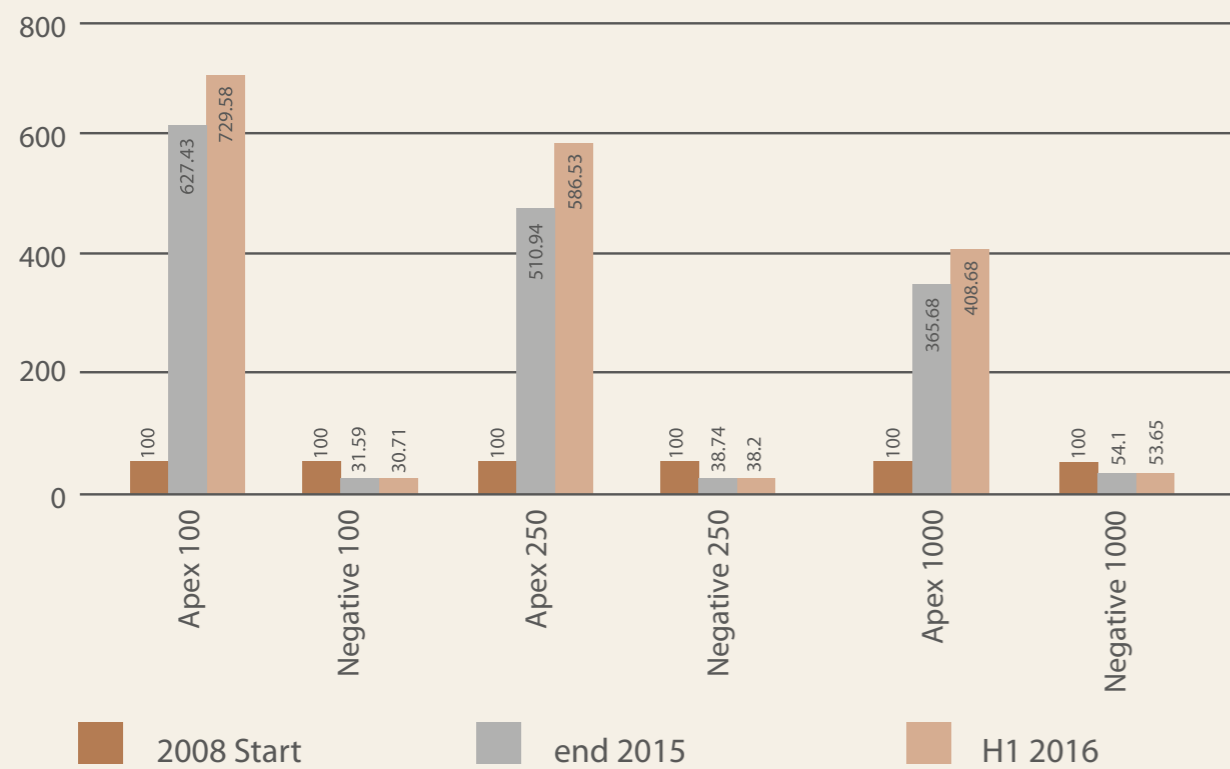
RARE WHISKY 101 OTHER INDICES

Analytical Dynamics

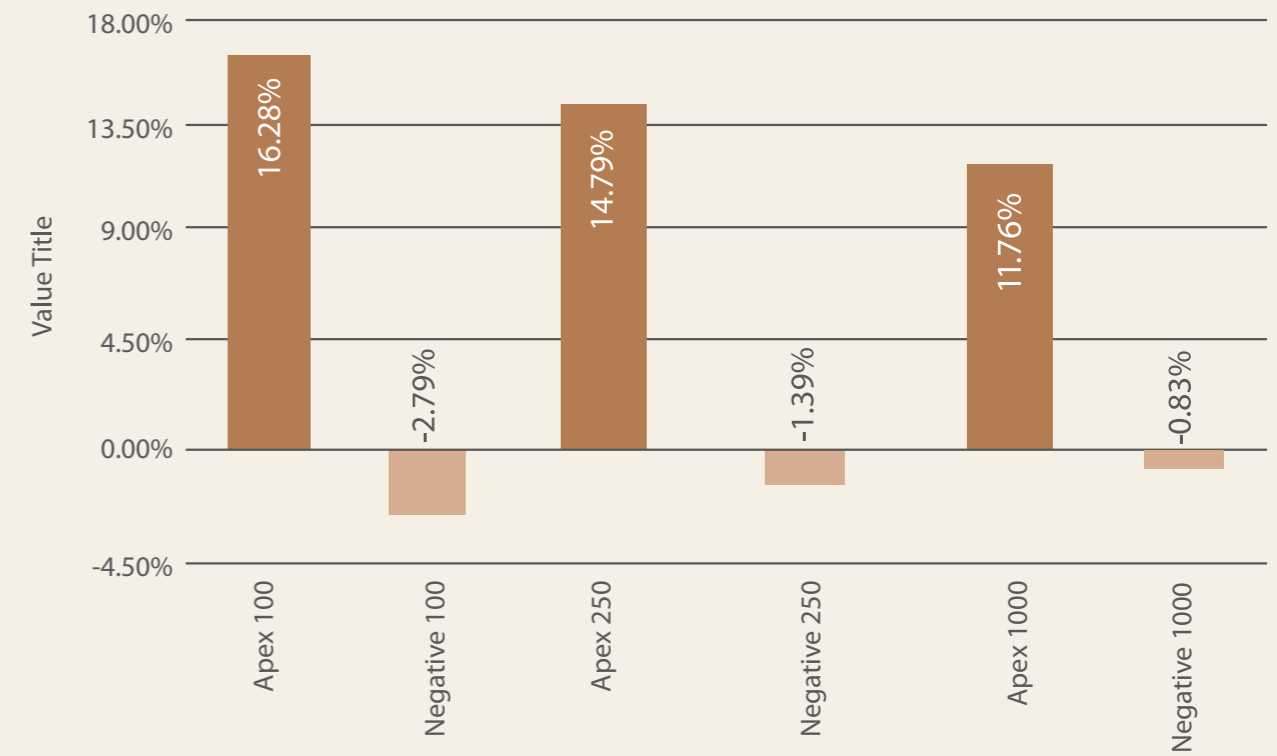
Diageo's Rare Malts series - another iconic collection - has performed strongly as has the Apex indices 100 and 250. Even our broadest metric, the Apex 1000 has delivered growth of almost 12% in the half year.

Conversely, the negative indices continue to fall and for the -100, -250 and -1000 they have dipped 2.79%, 1.39% and 0.83% over the past six months. Proof, if yet more proof was needed, of the necessity of picking stock wisely should you be collecting and investing.

APEX AND NEGATIVE INDICES



% CHANGE FOR APEX AND NEGATIVE INDICES



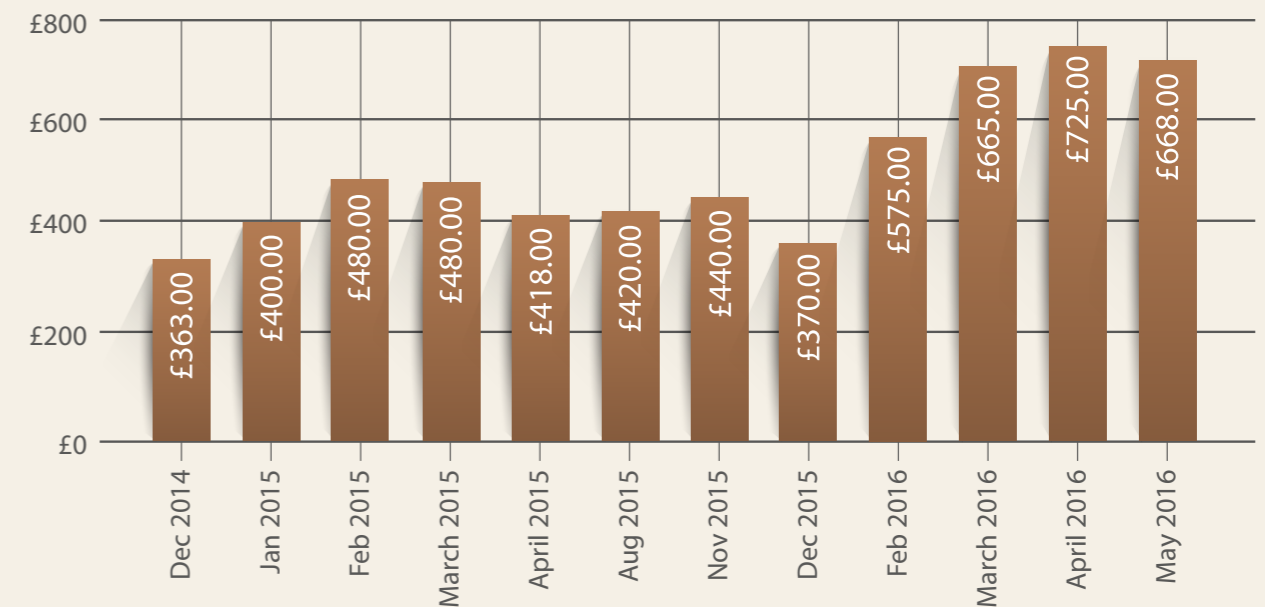
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 INVESTING FOR PROFIT

Many of our clients over the last three years have been connoisseurs who became collectors and were pleasantly surprised by the increase in value of some of their bottles.

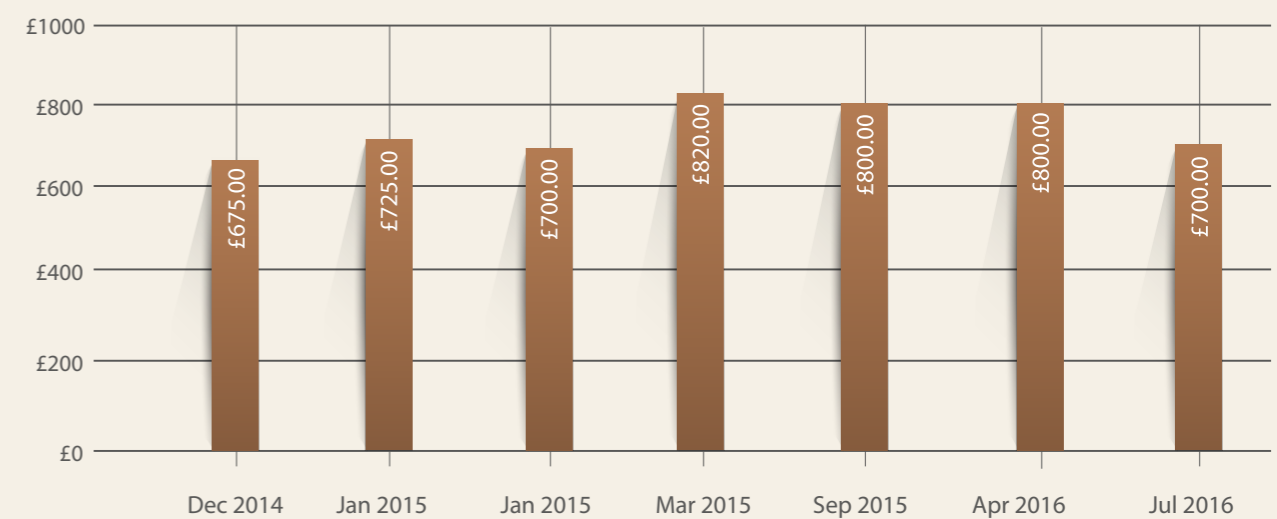
What has changed in more recent times is the entry to the market of High Net Worth investors and sophisticated/professional buyers. Many believe this will drive prices upwards but our experience is that few of these buyers seek to acquire at auction. They are too big, too well capitalised and too busy to spend time buying bottle by bottle at auction. However, we do see some smaller operators and individuals buying new releases on the primary (retail market) and flipping bottles at auction quickly thereafter.

We would urge caution. Buying for short term speculation is a risky business. We mentioned earlier some of the iconic whiskies from The Macallan and have extracted an example of old versus new - a powerful lesson in the need to do your research across all brands, particularly if you are looking for value appreciation over a 12-month or longer period.

MACALLAN 1980 VINTAGE 18 YEAR OLD LAST 12 SALES RESULTS



MACALLAN ELLIOT ERWHITT RECENT SALES RESULTS





RARE WHISKY 101 NOW AND THEN

Quality Decline

In order to try and understand what may be driving demand for rare, old, limited edition bottlings we have commissioned three reports and organoleptically compared the same brands with similar age statements, examining bottlings from the 1960s to 1980s and their contemporary counter parts available today.

We've seen the secondary market shift.

We've seen a change in quality.

Is there a link?

We've tried to prove it.

Could it be the case that the drinker/connoisseur and collector have an insight that we do not?

We firstly compared a range of blends and found that the older bottlings were significantly better in quality terms to the new blends of today. Would this be the same for single malts?

We looked at Sherry matured malts (Macallan, Highland Park, Balvenie, Aberlour, Glendronach and Glenfarclas) and again found that the older bottlings were much better than their contemporary counter parts.

And lastly, we looked at Highland malts (Dalmore, Balblair, Old Pulteney, Glen Ord, Fettercairn and Glenmorangie). Again, we found a clear preference for the old variants rather than the new, although credit is due to Dr Bill Lumsden who with Glenmorangie 10-year-old distilled circa 1980 and the current 10-year-old delivered an almost exact match. His creations of Old and New were very close in quality, complexity and style. There was little product drift, illustrating the importance of wood management.

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RARE WHISKY COLLECTORS' RANKINGS

The collectors' ranking seeks to develop a table based on an equal weighting for Volume and Value sold at auction in the UK. Analysis of this allows the rare whisky enthusiast to understand which brands are most actively traded (bought and sold) at auction in the UK and for the highest cumulative total values.

In H1 2016 we see little movement, and the top three places continue to be filled by Macallan, Ardbeg and Bowmore, while Highland Park and Glenfiddich each rise one place at the expense of Bruichladdich. There are few other noteworthy movers - either up or down.

RANK	Q4 2015	H1 2016	MOVEMENT (FULL YEAR 2016)
1	Macallan	Macallan	=
2	Ardbeg	Ardbeg	=
3	Bowmore	Bowmore	=
4	Bruichladdich	Highland Park	UP 1
5	Highland Park	Glenfiddich	UP 1
6	Glenfiddich	Bruichladdich	DOWN 2
7	Glenmorangie	Glenmorangie	=
8	Port Ellen	Port Ellen	=
9	Springbank	Springbank	=
10	Lagavulin	Lagavulin	=
11	Laphroaig	Laphroaig	=
12	Balvenie	Balvenie	=
13	Glenlivet	Glenlivet	=
14	Caol Ila	Arran	UP 1
15	Arran	Glenfarclas	UP 1
16	Glenfarclas	Caol Ila	DOWN 2
17	Dalmore	Glendronach	UP 1
18	Glendronach	Dalmore	DOWN 1
19	Rosebank	Rosebank	=
20	Brora	Brora	=
21	Talisker	Talisker	=
22	Bunnahabhain	Bunnahabhain	=
23	Kilchoman	Kilchoman	=
24	Glen Grant	Mortlach	UP 1
25	Mortlach	Glen Grant	DOWN 1
26	Aberlour	Aberlour	=
27	Glengoyne	Glengoyne	=
28	Clynelish	Clynelish	=
29	Linkwood	Linkwood	=
30	Glenrothes	Glenrothes	=

N^o1



MACALLAN

N^o2



ARDBEG

N^o3



BOWMORE

U^p₀₁

HIGHLAND PARK



N^o4

U^p₀₁

ARRAN



N^o14

U^p₀₁

GLENFIDDICH



N^o5

DOWN 01



N^o18

DALMORE

DOWN 01



N^o25

GLEN GRANT

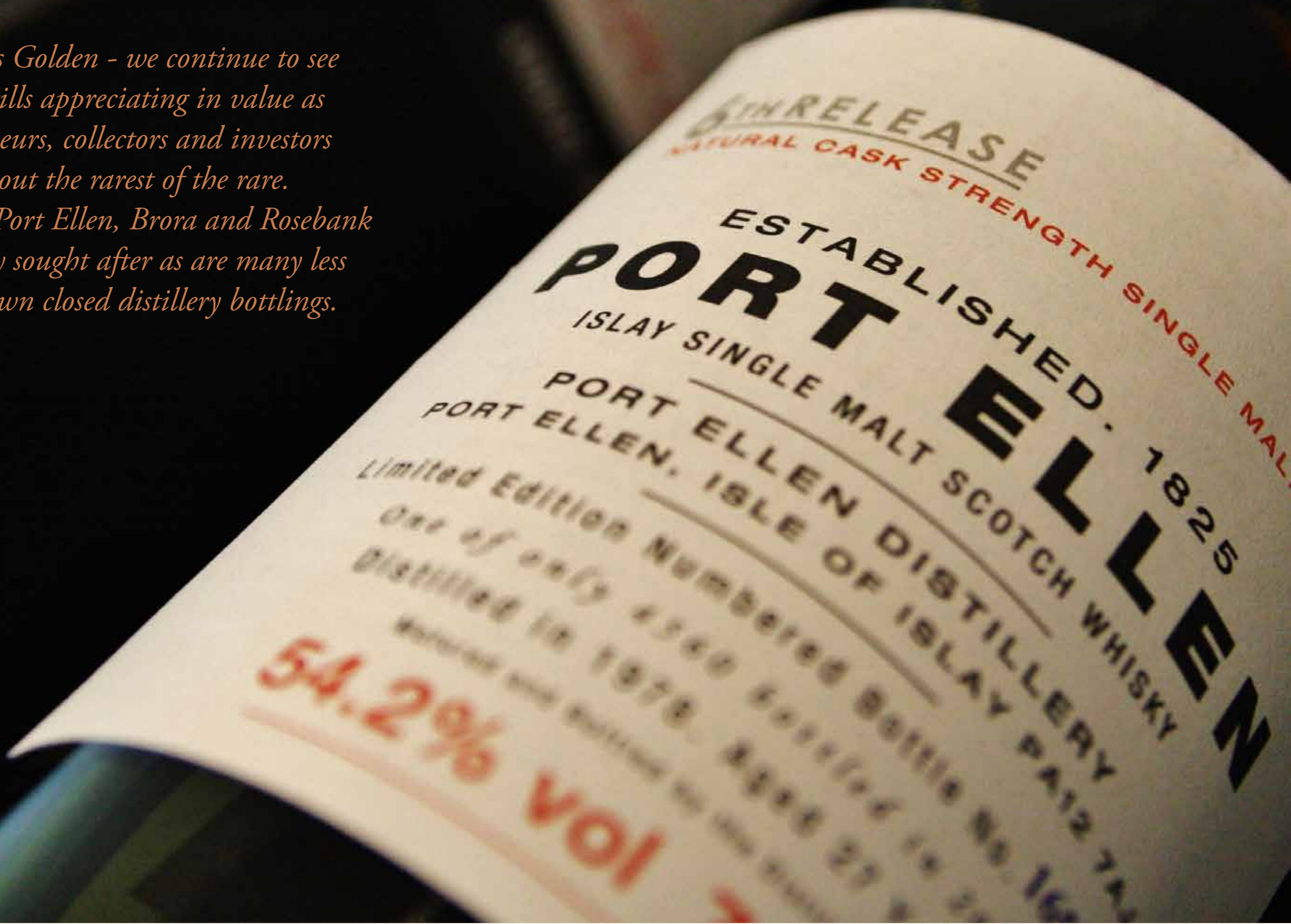
DOWN 02



N^o16

CAOL ILA

Silence is Golden - we continue to see silent stills appreciating in value as connoisseurs, collectors and investors seek out the rarest of the rare. The iconic Port Ellen, Brora and Rosebank are highly sought after as are many less well known closed distillery bottlings.



RARE WHISKY 101

RARE WHISKY INVESTOR RANKINGS

The Investors' distillery ranking is based 80% on the pure % increase in value for all bottles, with a small 10% weighting on the highest average price (all bottles) and the overall highest price (10%) of a single bottle.

This table can highlight the brands that suddenly become hot - or icy cold - and acts as an early warning indicator to the astute buyer of where to focus.

RANK	Q4 2015	H1 2016	MOVEMENT (FULL YEAR 2016)
1	Brora	Brora	=
2	Killyloch	Dalmore	UP 1
3	Dalmore	Killyloch	DOWN 1
4	Mortlach	Mortlach	=
5	Port Ellen	Port Ellen	=
6	Macallan	Macallan	=
7	St Magdelene	Convalmore	UP 1
8	Convalmore	St Magdelene	DOWN 1
9	Glenugie	Balvenie	UP 8
10	Ben Wyvis	Dallas Dhu	UP 1
11	Dallas Dhu	Glenugie	DOWN 2
12	Glenlochy	Ardbeg	UP 3
13	Millburn	Glenlochy	DOWN 1
14	Talisker	Bowmore	UP 2
15	Ardbeg	Glenury Royal	UP 3
16	Bowmore	Ben Wyvis	DOWN 6
17	Balvenie	Millburn	DOWN 4
18	Glenury Royal	Glen Grant	UP 4
19	Lochside	Lagavulin	UP 10
20	Rosebank	Banff	UP 4
21	Hillside	Talisker	DOWN 7
22	Glen Grant	Hillside	DOWN 1
23	Coleburn	Rosebank	DOWN 3
24	Banff	Springbank	UP 1
25	Springbank	Clynelish	UP 1
26	Clynelish	Pittyvaich	UP 16
27	Glen Albyn	North Port	UP 1
28	North Port	Lochside	DOWN 9
29	Lagavulin	Highland Park	UP 9
30	Glenfiddich	Coleburn	DOWN 7

- ❖ The top places remain dominated by Brora, Dalmore, Killyloch, Mortlach, Port Ellen and The Macallan.
- ❖ The biggest risers in the market are Balvenie (up eight), Lagavulin (up 10), Pittyvaich (up 16) and Highland Park (up nine).
- ❖ The biggest fallers are Ben Wyvis, Millburn, Talisker, Lochside and Coleburn.
- ❖ Worthy of further investigation in the full year report is that four of the five largest fallers are silent stills. Are active distilleries enjoying a renaissance?




N^o1

BRORA

N^o2

DALMORE


UP₀₁



DOWN 01

N^o3

KILLYLOCH



BALVENIE

UP₀₈



N^o09

ARDBEG

UP₀₃



N^o12

LAGAVULIN

UP₁₀



N^o19


DOWN 09



N^o28

LOCHSIDE

DOWN 07



N^o21

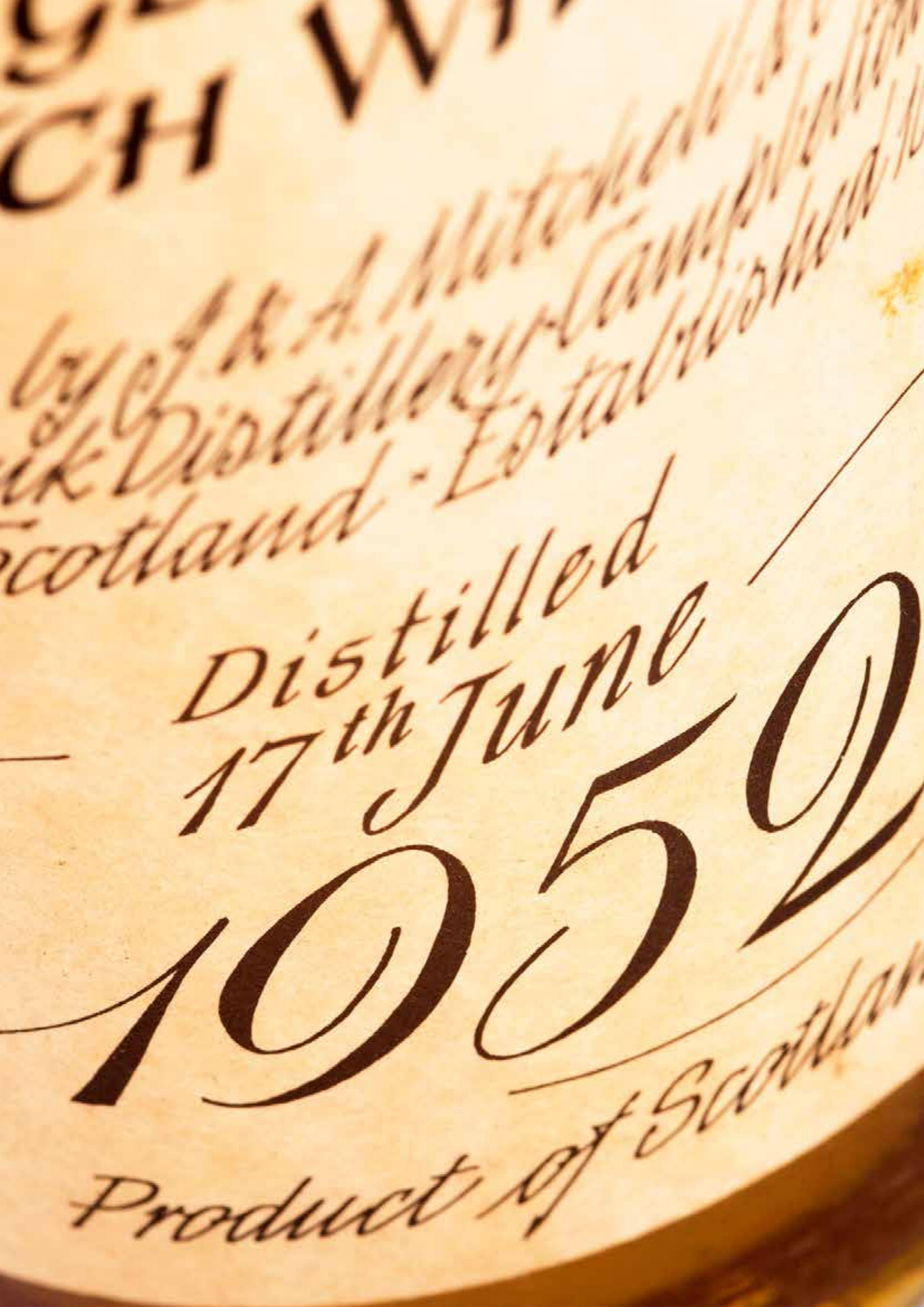
TALISKER

DOWN 07



N^o30

COLEBURN



RARE WHISKY 101
CRYSTAL BALL GAZING

Demand for desirable Single Malt Scotch brands and previously discontinued bottles remains exceptionally strong.

The market continues to be heavily polarised with values for collectables and limited editions from less sought-after brands softening as buyers stick to the best known, iconic brands.

Despite the continued de-aging of new/retail products in the Single Malt Scotch category; age (both older age statements and older bottles 'in-the-glass') and vintage prove more crucial to the collectors/investors market than ever. We see demand for older bottles only increasing.

Growth has been sustained over recent months but this does not seem to have deterred buyers at auction and the shift in the dynamics of the whisky-connoisseurs, collectors and investors' landscape cannot be ignored.

There have been far fewer truly collectable new product releases over recent years from the Scotch Single Malt category. This in turn is increasing demand from drinkers, collectors and investors for older and discontinued past releases where quality and rarity are powerful motivations for acquisition. For many in the broader Scotch category, export and sales figures appear challenging. The secondary market for rarities shows none of this stress.



*Every distiller who finds
an old cask hidden at the back of the
warehouse quickly bottles the whisky
and launches it around the world.*

Every distiller who finds an old cask hidden at the back of the warehouse quickly bottles the whisky and launches it around the world in ever more premium packaging and sets a price level that leaves all but the most avid collector or status purchaser cold, frustrated and disinterested. It is no wonder that the explosion in the secondary market comes at a time when brand owners are pricing new releases aggressively and when quality perceptions are declining for many contemporary releases.

We view this as a clear future trend with the value of scarcity increasing demand from connoisseurs, collectors and investors, particularly for old bottlings from the right brands and distilleries.

Finally, we would also note that many brand owners are now recognising that the halcyon days of using the traditional route to market of brand owner to importer to distributor to retailer/bar to consumer are changing. It will not be long, in our opinion, before many of the more sophisticated brand owners will seek to take control of how their brands are sold and to whom and why. The power of acquiring rare whisky now lies in the hands of the buyer – the connoisseurs, the collectors and the investors – who have many channels and a huge number of contemporary brands and old bottlings from which to select. The explosion in the UK auction market is clear evidence of this and we expect this to continue.

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