

# RARE WHISKY | 101

SCOTCH WHISKY LEADS THE WAY IN  
A TURBULENT YEAR FOR INVESTMENT

Rare Whisky Collectors / Investors 2015 Single Malt Scotch Review



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## 2015 IN SUMMARY EXECUTIVE SUMMARY

- ✦ Peated whisky percolates to the top. Ardbeg, Bowmore and Lagavulin lead the way for Islay. The silent distillery of Port Ellen excels.
- ✦ Macallan retains top spot for volume and value traded despite steep loss of market share. Investors continue to shun contemporary releases as Royal Trilogy falls a further 6.48%.
- ✦ The £ value of collectables traded on the open market in the UK grew 25.13% from £7.64m in 2014 to £9.56m in 2015. Volumes increased by 27.83% from 33,998 in 2014 to 43,458 in 2015.
- ✦ Huge uncertainty around Japanese whisky values as Karuizawa values increase by a staggering 74.92% in the first nine months of 2015 then dip 6.29% in the final three.





## 2015 IN SUMMARY

### VOLUME AND VALUE GROWTH

The supply of collectable bottles of single malt Scotch (SMS) at auction in the UK reached an all-time high of 43,458 in 2015, up 27.83% on 2014. The total value of bottles sold also hit record levels at £9.56m exceeding 2014 (£7.64m) by 25.13%.

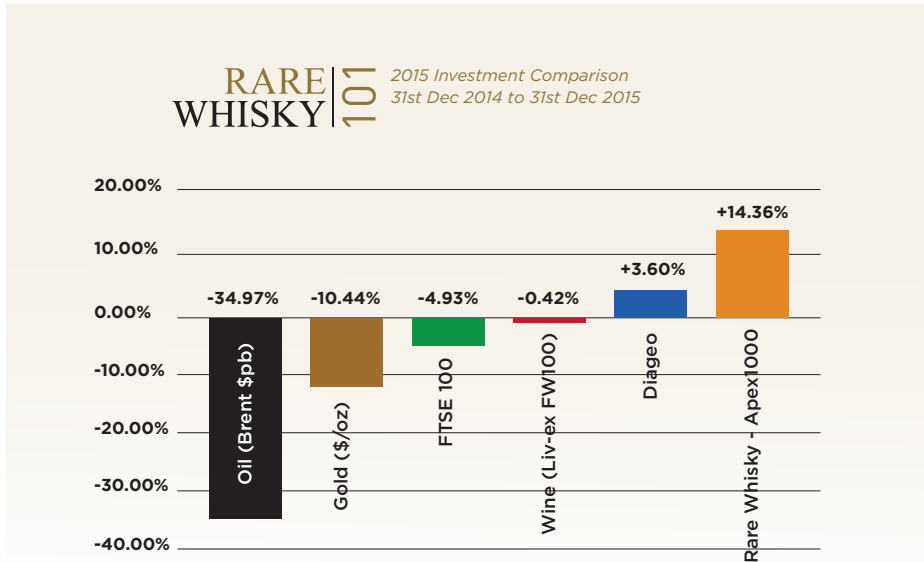
4,888 bottles of SMS sold on the open market in December alone, which is 19.13% ahead of the previous highest 4,103 in December 2014. As an indication of how significant the current increase in pure supply is, 2009 saw just 4,072 bottles sold through the entire year.

The rate of acceleration of growth in both total volume and total value slowed (in relation to 2014) as would be expected. The secondary market is reliant upon a finite supply of pre-existing bottles; however, the primary (retail) market continually 'tops-up' the secondary market as new releases are traded or 'flipped'.

Encouragingly, all key Rare Whisky indices significantly outpaced many well established asset classes.

The broadest, most comprehensive index for Scotch whisky, the Rare Whisky Apex 1000 Index, closed the year 14.36% up. While this is slightly lower than 2014's 15.82% increase, in relation to other investments and in light of ever increasing supply, this should be viewed as another exceptional vintage year for Scotch.

## 2015 IN SUMMARY INVESTMENT COMPARISON



THE PORT ELLEN INDEX  
WAS SCOTCH'S MOST  
SIGNIFICANT GAINER  
THROUGH 2015,  
INCREASING 23.15%





While Diageo's share price showed growth through 2015, the 3.60% increase couldn't keep pace with bottles from certain of their brands. The Port Ellen Index was Scotch's most significant gainer through 2015, with a 23.15% increase taking the index from 347.95 to 428.51. This is, however, some way off the February 2015 high of 467.59.

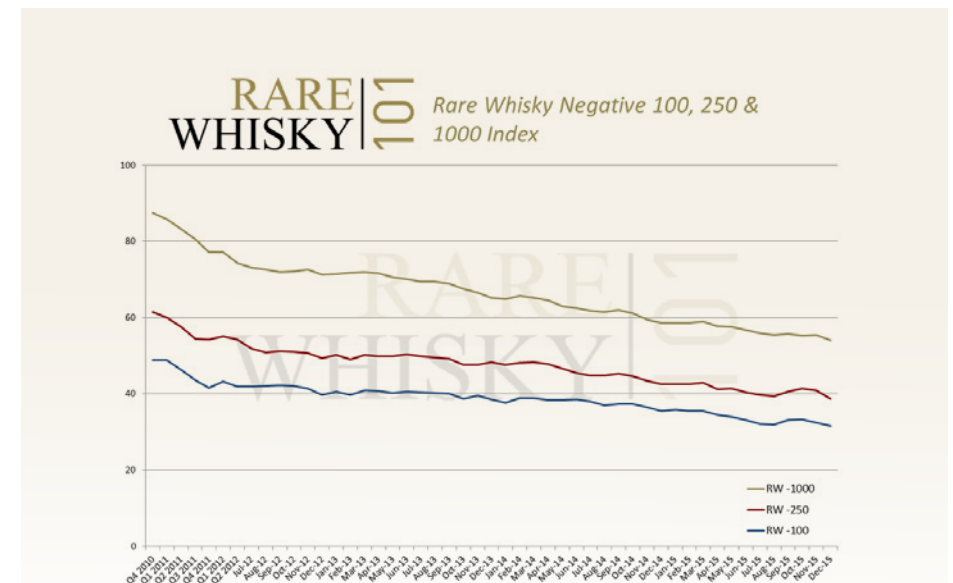


At the other end of the spectrum, the continued descent of the Rare Whisky Negative Indices showed the trend of polarisation is continuing and accelerating. As was common with 2014, December's vast supply brought with it a decline in many indices, among the most aggressive were the negative indices.





The Neg250 index plummeted 5.26% in December alone to yield full year losses of 9.15%. The Neg100 index yielded an eye-watering full year loss of 10.96% with the Neg1000 falling 7.68%. Without exception all the negative indices reached new lows at the end of December.



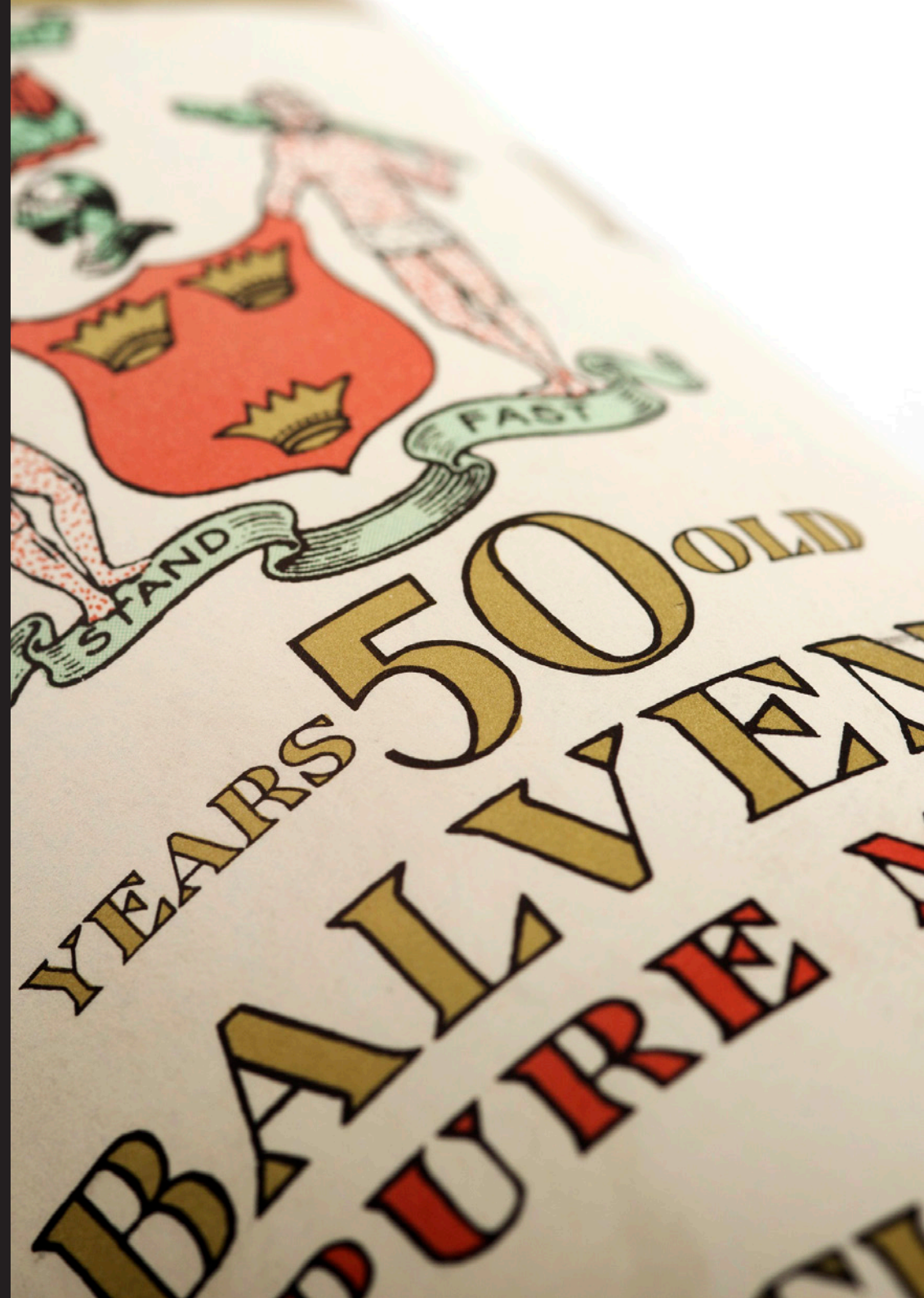
The Neg1000 index finished at 54.10, down 45.90% since its inception in 2010. The Neg250 and Neg100 closed the year at record lows of 38.74 and 31.59, down 61.26% and 68.41% respectively since inception.

The inexperienced investor risks pocket-punishing losses should the wrong bottles be bought. The, albeit brief, upturn on the negative indices in October should be viewed as a blip rather than a sign that less desirable bottles are seeing genuine increases.



## THE VALUE OF RARITY AGE MATTERS

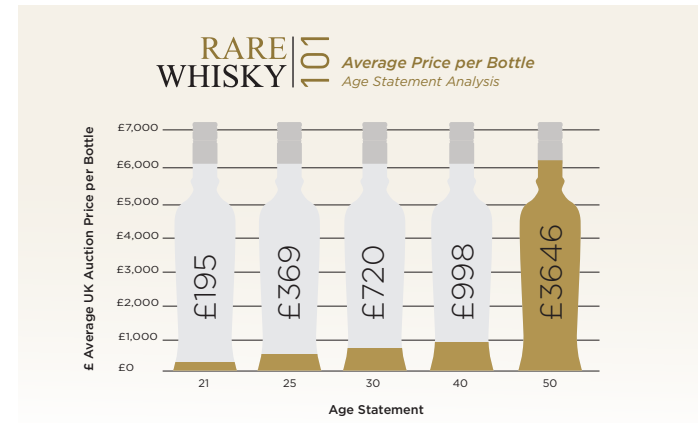
Two of the most crucial factors when determining what is the right bottle for acquisition are age and vintage. Both these factors naturally feed into the rarity of a bottle and throughout 2015 have become even more important when considering values. The older the age and the earlier the vintage, the better. Even poor quality old aged and/or vintage Scotch is becoming increasingly valuable.



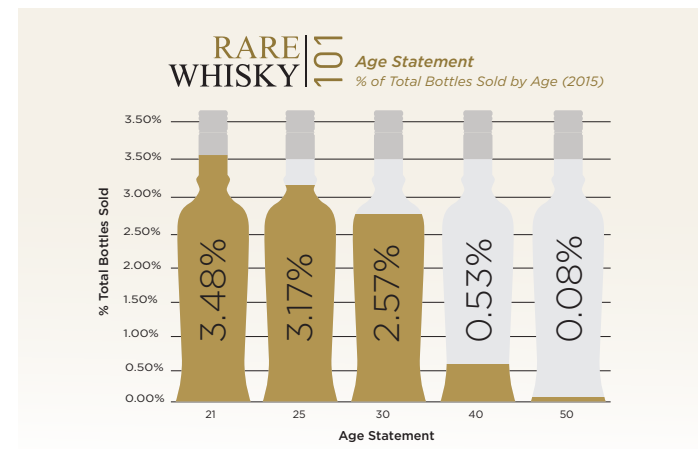




As new/retail releases of aged whisky become increasingly rare and costs continue to rise; the secondary market highlights the continued importance of an age statement. Drinkers, collectors and investors would appear somewhat challenged in accepting the opacity of the current no age statement (NAS) trend, no matter how heavily or lavishly it is marketed.

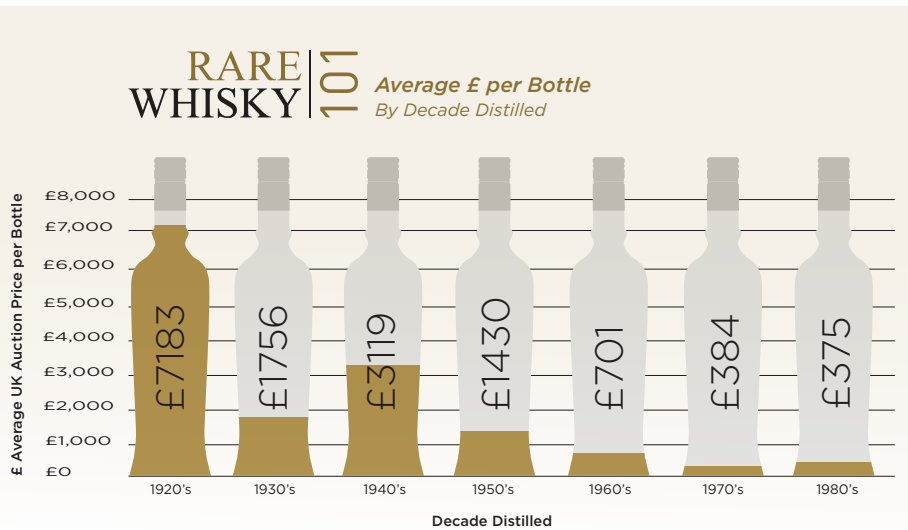


From a rarity perspective, the next chart shows the percentage of the total bottles sold in 2015 as a fraction of the whole 43,458. While this doesn't necessarily mean every 50 year old will double in value over the next twelve months, it's a great indication as to what is rare and hugely desirable in the current market.



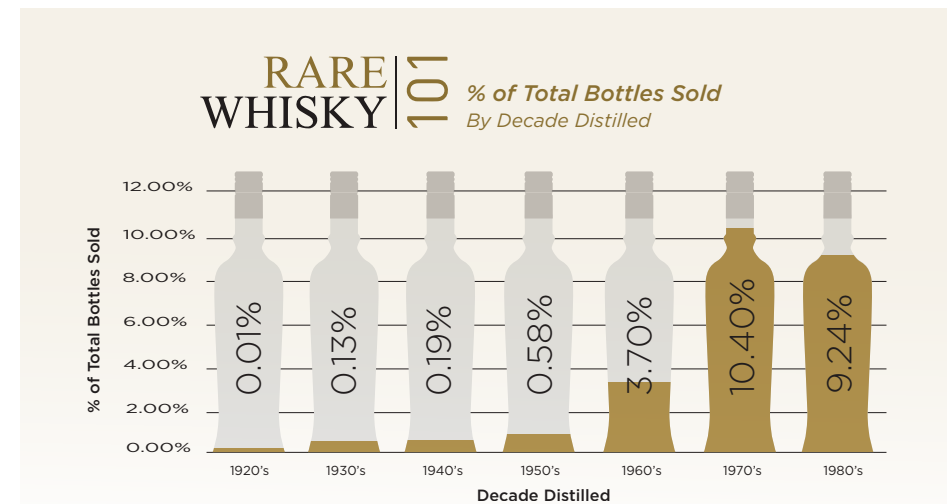
## THE VALUE OF RARITY A VIEW ON VINTAGE

Whisky distilled in years gone by carries mystique and allure to drinkers, collectors and investors. Many connoisseurs have the opinion that whisky distilled long ago is of a higher quality with more differentiation than the far more consistent modern day make. This has a natural effect on demand as drinkers underpin the collectors/investors market (what is one person's investment today might be another's drink tomorrow). These older vintages are becoming more fiercely fought for and are in such scant supply, it's only natural that values are high.



The average price of a bottle distilled in the 1930's takes a noticeable dip. In our opinion this is due to the proliferation of suspect fakes (mainly Macallan) and also the sheer number of poor quality bottles, from both a poor fill level (the level of liquid remaining in the bottle) and a general condition perspective.

The chart below shows the number of bottles sold across each decade as a % of 2015 total sales.



Of particular note is the drop in volume from the 1970's to the 1980's. This is a telling reflection of the turbulent times experienced throughout the whisky industry in the 1980's when many distilleries were closed or 'mothballed' and others were put on to shortened working weeks. There simply isn't as much liquid as there is from other decades.





Macallan maintains its dominance as the number one traded distillery on a volume and value perspective. In 2015 Macallan accounted for a massive 9.59% of the market for all bottles sold and 22.71% of the total £ value. It is highly unlikely any other distillery could challenge Macallan for supremacy in the short to medium term. The next closest distillery from a volume and £ value perspective is Ardbeg, with an 8.27% share of volume and a 7.68% share of £ value.

At number three, Bowmore has a 4.24% market share of volume and a 6.44% market share of value.

Worthy of note is Macallan's rapid loss of market share, particularly from a £ value perspective. 2013 saw Macallan capture 31.05% of the £ value traded at auction. In 2014 this fell to 26.01% and 2015 has seen declines extend to 22.71%. Macallan's market share of volume is also gradually eroding from 10.98% in 2013 to 9.59% at the end of 2015.

Edrington stable-mate, Highland Park's move up one place to number five is brought about by a significant increase in value market share from 3.32% in 2014 to 4.67% in 2015. Highland Park's share of volume has also increased from 3.40% in 2014 to 4.16% in 2015.

Balvenie's appeal at auction appears to be further dampened as the distillery moves down two places to number 12, the largest negative shift of any currently producing distillery.

Arran shows the largest upwards movement as its ubiquity on the secondary market increases.



DISTILLERY RANKINGS  
INVESTORS INDEX

RANK	Q4 2014	Q4 2015	MOVEMENT (FULL YEAR 2015)
1	Brora	Brora	=
2	Dalmore	Killyloch	UP 3
3	Balvenie	Dalmore	DOWN 1
4	Port Ellen	Mortlach	UP 5
5	Killyloch	Port Ellen	DOWN 1
6	North Port	Macallan	UP 1
7	Macallan	St Magdalene	UP 4
8	Convalmore	Convalmore	=
9	Mortlach	Glenugie	UP 1
10	Glenugie	Ben Wyvis	UP 6
11	St Magdalene	Dallas Dhu	UP 13
12	Talisker	Glenloch	UP 16
13	Millburn	Millburn	=
14	Glenury Royal	Talisker	DOWN 2
15	Glen Grant	Ardbeg	UP 4
16	Ben Wyvis	Bowmore	UP 2
17	Glenlossie	Balvenie	DOWN 14
18	Bowmore	Glenury Royal	DOWN 4
19	Ardbeg	Lochside	UP 7
20	Craigduff	Rosebank	UP 13
21	Hillside	Hillside	=
22	Brackla	Glen Grant	DOWN 7
23	Springbank	Coleburn	UP 4
24	Dallas Dhu	Banff	UP 1
25	Banff	Springbank	DOWN 2
26	Lochside	Clynelish	UP 14
27	Coleburn	Glen Albyn	UP 8
28	Glenloch	North Port	DOWN 22
29	Glenlivet	Lagavulin	UP 5
30	Glen Mhor	Glenfiddich	UP 9


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



**N<sup>o</sup>1**  
BRORA



**N<sup>o</sup>2**  
KILLYLOCH **UP<sub>03</sub>**



**DOWN 01**  
**N<sup>o</sup>3**  
DALMORE



**ROSEBANK** **UP<sub>13</sub>**  
**N<sup>o</sup>20**



**CLYNELISH** **UP<sub>14</sub>**  
**N<sup>o</sup>26**



**GLENFIDDICH** **UP<sub>09</sub>**  
**N<sup>o</sup>30**



**DOWN 07**  
**N<sup>o</sup>22**  
**GLENGRANT**



**DOWN 14**  
**N<sup>o</sup>17**  
**BALVENIE**



**DOWN 22**  
**N<sup>o</sup>28**  
**NORTHPORT**



From an investor's perspective, silent stills remain the most significant target-pool of stock. In many cases, all but non-existent stocks in the cask are pushing demand for existing bottles to new highs. The top ten most desirable distilleries now includes seven closed distilleries and just three producing distilleries. Collectors' favourite, Dalmore, has been pushed down one place to number three by the ultra-rare Killyloch.

Mortlach pushes up five places to number four. The premiumisation of the brand by owners Diageo looks to have encouraged a rush on secondary market stocks amid fear prices might disappear into the stratosphere. Previous limited editions and independent bottles are performing exceptionally. The 2004 Special Release Mortlach 32 year old was available on the open market for £160 as recently as 2013, while it now sells for £500 at auction. Older vintage/aged bottles from Gordon & MacPhail are also yielding substantial increases. A good example is the 1951 'Private Collection' bottling which sold for £360 in 2012 and now sells for £1,200.

Ardbeg, Bowmore and Lagavulin provide further evidence of the continued demand for peated whiskies, as all three distilleries move up the league table. Ardbeg is the most highly ranked Islay whisky, having pushed up four places to number fifteen, just ahead of sixteenth place Bowmore (also up two places). Lagavulin makes the top thirty at number twenty nine, having moved up five places.

Glenlivet exits the top thirty as prices for its official bottles tumble. Independent bottles distilled particularly in the 1950's and 1960's remain in strong demand and should continue to perform well; however, official bottles have failed to stand alongside stiff competition. Purely in our opinion, the recent release of The Glenlivet Founders Reserve is not the quality of liquid which would encourage newer buyers to test more expensive bottles from the brand. Arguably disappointing quality liquid coupled with the withdrawal of the 12 year old in certain markets could be viewed as contributing to Glenlivet's lacklustre secondary market performance turning rare whisky buyers away from the brand.



Balvenie's secondary market woes continued with a slump to seventeenth place in the investors' table. At the half year, Balvenie had moved from number three to number fourteen and the second half of the year was no better as three further places were lost. Two years ago, it seemed Balvenie could do no wrong in the secondary market, but a lack of collectable releases, price/volume increases for the Tun 1401 replacement and a damp reception for the twin 50 year old casks could point to further poor auction performances. Far more positively, however, early auction results of Balvenie's new vertical vintage 'The DCS Compendium' seem encouraging, with their youngest single cask release to date exceeding its original retail price by some 50%.

Macallan maintained its early 2015 one place ascent to maintain sixth place, one ahead of last year. Significant polarisation is being seen on the secondary market as the vintage 18 and 25 year olds showed a 13.47% (3.57% in 2014) and 16.19% (3.77% in 2014) increase respectively. Conversely, the Royal Trilogy set (Royal Marriage, Diamond Jubilee and Coronation) lost a further 6.48% in value on top of 2014's 17.71% crash. At the end of 2013, this contemporary collection was valued at £3,190. At the end of 2014 its value was £2,625, it now stands at £2,455. Overall values for Macallan increased by 1.72% over 2015, significantly better than the 7.43% loss seen in 2014, but returns for the brand still underperform the general market.

While dropping two places to number 25, we see Springbank as an emerging target. Rare and vintage bottles from the distillery are yet to see some of the gains witnessed by others.

Skirting along the current upshift in values for older vintages/age statements, Glenfarclas is at number 61 in the investors' league. There are few distilleries where old age statements and liquid from the 1950's and 1960's can be picked up for current (low) prices. Coupled with the quality of the product, in our opinion we see Glenfarclas as a significant opportunity for those with a thirst (or indeed a shelf) for older vintage Scotch of outstanding quality.



## CASKS

### AN INVESTMENT FOR THE BRAVE?

A frequently asked question by the media, our clients and the broader whisky community throughout 2015 was “Should I invest in a cask of Scotch?”

As with all investments, there are varying attitudes towards risk and reward. Throughout 2015 RW101 have brokered some exceptional casks. Ardbeg, Laphroaig, Macallan, Highland Park and Springbank are just some of the iconic brands with which we have achieved exceptional prices for old Scotch still in the wood. Each of these casks has been supplied to sophisticated buyers with a wealth of experience in maturing stocks.

We would not advise buying even the most sought after of casks to the inexperienced investor or buyer. We've seen re-gauge's (where the amount of alcohol and bulk liquid in a cask is measured) re performed six months after purchase and a cask has, again, for a variety of reasons, lost a significant amount of liquid... An investment for the brave indeed.

The increased incidence of inexperienced investors looking at buying into new-make spirit is also worrying. Malt and grain production is at an all-time high with distilleries being worked 24/7 to get more out of every last piece of grain with every last cell of yeast. Should the current negative trend for global sales of big brand blends continue, it would not be beyond the realms of possibility that there could be a whisky loch in a few years' time.

Buying new make from iconic distilleries where it's usually unobtainable, such as Ardbeg, Lagavulin or Glenfiddich, may not be disastrous. However, in our opinion buying litres of new-make from either grain distilleries or second tier 'blenders' distilleries might not yield the expected results. Clearly 10 year old Scotch will be worth more than new-make, however if there's a glut of 10 year old Scotch, will there be a market for young liquid at all?

It's easy to forget that this happened:

“Owner of whisky investment business guilty of fraud 23 April 2004  
Stephen Jupe was found guilty today at Southwark Crown Court of defrauding investors and creditors through his £4 million turnover investment scheme in bonded single malt whisky and champagne. He is to be sentenced on 21 May 2004.”

The above is an extract from the Serious Fraud Office's website, which highlights the risks attached to investing in new make spirit from a distillery with no recognised identity or presence in the consumer market.

The market for older casks of quality liquid from top-tier distilleries, in our opinion, will continue to go from strength to strength, however, we're advising our customers against buying new-make from less desirable single malt distilleries or new-make single grain. Rarity and quality, again in our opinion, is crucial when looking at casks.

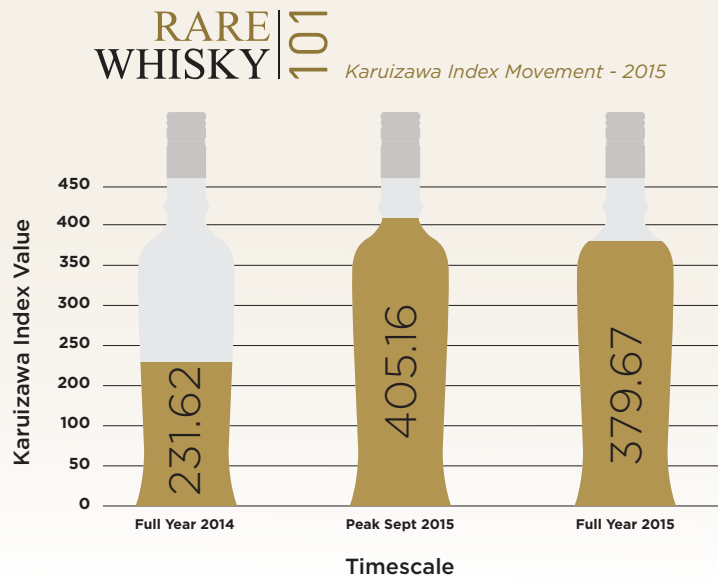




## KARUIZAWA

## SUSTAINABILITY OF CURRENT PRICING

Early 2015 saw a staggering phenomenon. Values for Japanese whisky grew at an unprecedented rate. The Rare Whisky Karuizawa Index increased from a value of 231.62 on the 31st of December 2014 to a peak of 405.16 in September. That's a 74.92% increase in nine months – a rise never before seen with any sort of whisk(e)y the world over.



While Japanese whisky is in short supply (only around 80 bottles per month of Karuizawa appear on the open/auction market in the UK) we viewed these increases as unsustainable. Bottles which originally sold for £350 just twelve months ago were achieving more than £3,000 on the secondary market. Phenomenal results, especially if you bought in at £350!

That level of growth is not natural within a healthy market, and we've since seen prices for Japanese whisky, specifically Karuizawa, pull back 6.29% in the final three months of 2015, reflecting the overheated nature of the market. While not a disaster, this is the single largest fall of any index (including the negative indices) over the same period. This is by no means a cataclysmic cliff-dive, more a significant re-trace, noting general values remain consistently high. We are of the opinion the index will fall further before it levels out and a more sustainable pattern emerges.





## SUMMARY

2015 saw the accelerated abundance of volume-produced NAS whisky and retail price increases for older stocks. This further cemented older vintages and older age statements as increasingly viable assets in the secondary market. Retailers appeared to still feel the impact of proliferation of secondary market supply as the largest online whisky retailer in the UK, The Whisky Exchange, set up its own online auction. The secondary market further embeds itself as the go-to place for buying whisky; we only see this trend continuing.

Along with old age statements and long-lost vintages, silent stills remained very much in the eye of the drinker, collector and investor.

Leaving drinking and collecting aside for a moment, the intelligent investor will continue to focus on three critical factors:

- ✦ Old age statement.
- ✦ Old vintage (or bottled long ago).
- ✦ Silent distilleries.

From a drinker and collector perspective anything goes; the secondary (auction) market continues to offer exceptional value rarities for all buyers.

The recent growth in the rare whisky market has exceeded all our forecasts, 2016 promises to bring even more exceptional bottles to market as new auction houses appear. How sustainable these increases (in volumes) are is challenging to predict. We are certain of one thing – true rarities will only become rarer. Should demand remain constant or increase, as is fully expected, Scotch's (purely single malt) credentials as a viable collectable and alternative asset class continue to look particularly robust.



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