

40% Guaranteed in this “Liquid Alternative”

Stockholm (HedgeNordic) – Private, investable markets stretch a wide range spanning from private equity, private debt and many other things that are rare, of value and collectible. Fine art, exotic cars or rare coins and currency are just some examples where investors and collectors alike can participate through fund structures. Another market that barrels up for such an investment strategy is whisky, and it took a group of specialists from Sweden to get it on track.

“The Single Malt Fund is the world’s first regulated whisky fund, under supervision of the Swedish FSA, and listed on a regulated market, NGM in Stockholm”, Mats Ohlson, the portfolio manager for the Single Malt Fund claims.

The Single Malt Fund invests in rare and limited edition whisky, both casks and bottles – a product with a remarkable historical yield.

The whisky-investment industry even has its own index to which it can refer, and could benchmark too. Rarewhisky101 APEX1000 tracks the best performing 1000 bottles of rare whisky. Since 2010, and as of December 2019, a total of 49,572 bottles have been included in the APEX 1000, out of a total of 509,873 data entries. Since its inception 9 years ago, the APEX 1000 has grown by over 551%. 2019 saw a “pause for breath” in the first half (due mainly to profit taking of The Macallan), while the second half marked a return to healthy growth at a level of 15% on a per annum basis. And the whisky investment market has shown resilience even through the Covid-crisis.

According to Rarewhisky101, the prices of rare whisky have increased by 7% YTD by the end of September. In April and May, key lockdown months, the RW101 Apex 1000 index increased by 0.32% and 0.59% respectively. Astonishingly, the average price per bottle has increased month on month, every month, since Jan 2019. In fact, the whisky investment market is thriving. In late August 2020, a 55-year-old bottle of Yamazaki whisky sold for a world record price, for a bottle of Japanese whisky, of \$795,000 at Bonhams Hong Kong.

Structural, Exponential Contango

“Strong growth of demand, slow production, limited supply and diminishing supply creates structural contango for the rare and limited whisky market”, explains Ohlson. This is arguably, where much of the value and appreciation stems from. After all, the liquor must remain in the cask for no less than three years by law, and normally twelve years by choice, before it is ready for bottling. This lag from the start of production to when the whisky comes to market makes it hard to react to trends, fashions and shifts in demands – the only way this is captured is through the price mechanism.

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The purchasing strategy for new stock at The Single Malt Fund focuses largely on Scotland (70%) and Ireland (20%) with the US and Japan making up the bulk of the remainder. Just over two thirds of the stock is purchased in bottles of single malt and other collectible whiskies and a third in casks.

Purchasing and pricing strategy indeed is an important factor to the funds’ overall success. The aggregated mark up for assets purchased thus far by The Single Malt Fund is 32% – this after less than 1 year from investment date. “On average, TSMF has received substantially higher trade

discounts on their purchases than anticipated and budgeted. With a larger AuM (capital), we believe we can further strengthen margins.” Ohlson is convinced. Part of being able to maintain or extend the impact of favorable margins, especially also when selling stock will be the funds’ own e-commerce platform, that will allow trading inventory while cutting out expensive channels, such as auction houses or wholesalers. Ohlson expects that around 45% of inventory will be the annual turn-over ratio, while 55% will follow a buy-and-hold strategy, to fall into hedge fund lingo.

Limited supply though, one of the key drivers of price, is of little concern to Ohlson: “In Oct 2020, we will take delivery of our first exclusive bottling; Irish Distillers, owned by Pernod Ricard, have sold us a cask of Redbreast 22YO, the only cask they have sold to private clients this year. They will bottle this cask for us, in full Redbreast livery. In 2019, Redbreast 12YO won the coveted IWSC award for the best whisky in the world. We have accounts open with about 70% of the Scotch whisky producers / distributors and 95% of Irish producers.”

The fund has a six year lock up (the first of which is already ticking down), aims to return above 10% per annum. It has a 2.5% management fee and the fund manager will retain 20% of the net profits at the end of the fund’s lifecycle.

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