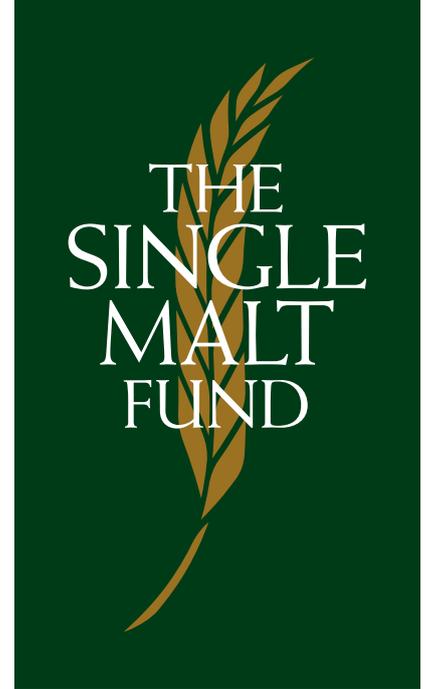


The Single Malt Fund Trading Company

2019 – year end report



Single Malts Still Driving Growth in the Industry

According to IWSR, exports of Single Malts grew by 18.8% in the first half of 2019, continuing a trend that has now been ongoing for a number of years, where the popularity of single malt Scotch is growing faster than other types of whisky. The value of exports of single malts was £652m in the first six months of the year, which means that single malt whisky now represents 30% of total Scotch whisky exports.

This compares to 26% in 2016. Part of the reason for such strong growths in the first half of 2019 was due to stock building in Europe, Morocco and South Korea, as a mitigation against the risk of a no-deal of Brexit, but there is no sign of a slowdown in the appetite for single malt whisky.

Irish and American Whisk(e)y on the Rise. Japanese whisky rare getting harder and harder to find.

Irish Whiskey continues its revival; in its Q1 20 report (Jul to Sep 19), Pernod Ricard gives special mention to its star performer, Jameson, which is going from strength to strength. Both Teeling 24YO and Redbreast 12 YO won coveted awards for World's Best Single Malt (World Whiskies Awards) and World Whisky Trophy (IWS competition) respectively in 2019.

Another interesting trend to watch is the performance of American whiskey, which is growing more and more popular. From Sazerac to Brown Forman, from Beam Suntory to Pernod Ricard, all these companies are reporting very healthy growths for their Bourbons and Rye whiskeys.

The announcement of trade tariffs on the importation of Scotch whisky to the US may be helping the growth of American whiskey but we think it goes beyond this to increased consumer appetite.

Meanwhile, over in Japan, Suntory and Nikka between them ceased production of 7 brands on account of the fact that they are unable to meet demand. This will add to the collectability of aged Japanese whisky, which is becoming rarer and rarer. In January 2020, Suntory announced a deeper strategic alliance with Edrington, under which Suntory will purchase 10% of Edrington; this is a strengthening of an existing partnership between the two companies, but perhaps it is a sign that Suntory need to find alternative sources of income.

The Industry continues to play catch up with demand

In recognition of the continuing challenge of meeting a growing demand, the industry continued to invest heavily in production capacity in 2019. Diageo announced a £185 million Scotland-wide investment. As well as the new Johnnie Walker experience in Edinburgh due to open in time for the brand's 200th anniversary celebrations, the investment will go towards upgrading the visitor experience at 12 of their distilleries.

A large proportion of this investment will also go into the rebuilding of the distilleries at Port Ellen and Brora, two of their most iconic and collectable Scottish whiskeys.

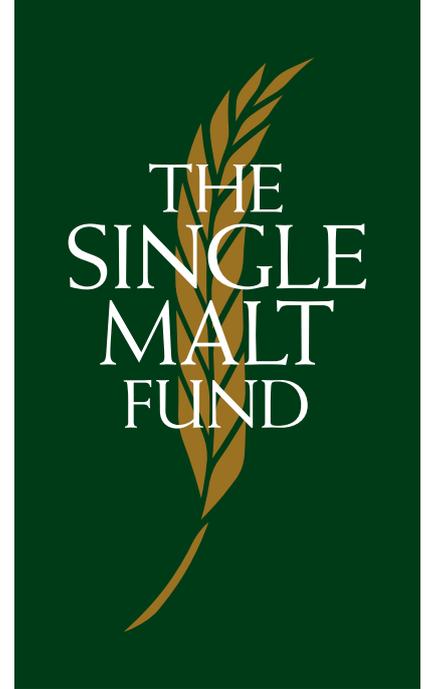
In 2019, there were 7 new distilleries opened across Scotland, notably Holyrood Distillery, the first in the Scottish capital since 1925. Investment in Irish whiskey has continued and has led to a 120 year high for the number of distilleries on the island in 2019. There are currently 31 distilleries in production, compared to just 3 ten years ago.

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New Frontiers

In 2019, Pernod Ricard broke ground at their new \$150 million malt distillery in Sichuan province, China which is due to open in 2021. Scottish firm Valentine International also signed a deal with a Chinese firm in 2019 to build a distillery in China's Inner Mongolia province. It will be interesting to see if others follow suit and what the consumer reaction to these brands will be when they hit the market.

New Consumers

IWSR also reported in their 2019 half year report that in the US, the biggest single market for Scotch whisky exports, "consumers aged 25-34 now account for the largest age demographic, having come to appreciate the ageing process of whiskies". This is a significant achievement for the whisky industry, which has been trying to attract younger consumers for many years.

A Pivotal year for the Secondary Market?

Will 2019 prove to be the year when The Macallan's dominance of the UK auction market started to turn? The RW101 Apex 1000 had a "pause for breath" in the first half of 2019, due in large part to the drop in prices of Macallan. With a plethora of releases, is Macallan becoming too confusing for collectors and investors or is it simply that new investors / collectors, mainly from China, are starting to explore beyond their beloved Macallan? According to RW101, "Springbank, Bowmore and Dalmore are all now more desired than Macallan, from an investor's perspective".

That said, the record £1.5 million sale of a 1926, 60 year old The Macallan in October suggests that the appetite for the iconic giant still remains strong. Let's see how this unfolds in the years to come. Growth in auction sales of rare whisk(e)y has picked up again in the second half of 2019, but it is becoming increasingly clear that rising tides may not necessarily lift all boats, and that the ability to cherry pick is becoming increasingly important when it comes to investing in whisk(e)y.

Cherry Picking at TSMF

While it is impossible to avoid the odd mistake, The Single Malt Fund Trading Company has, so far, invested in inventory that satisfies the requirements of our sourcing strategy. This is driven by the importance of having a balanced portfolio, targeting brands that are in demand and buying rare or limited edition bottles – and, as much as possible, at a trade margin.

We constantly look at the auction market, the RW101 indices and reports as well as get insights from our partners in the trade and on our buying committee, to ensure that we mitigate as much as possible against the risk of buying items that will not deliver a decent return on investment. With this in mind, we are delighted to report that the inventory we own, which we have had in our possession for, on average, six months, is already worth 28% more than we paid for it.

More importantly given we have only done a soft launch of the fund, we are confident that, when further funds become available, we can continue to source effectively, in line with our sourcing strategy. We believe that there are a lot of rising stars out there which we are starting to reflect in our portfolio, but are very keen to hunt for more liquid gold in the weeks and months ahead.

Here are a few examples of the type of bottles we have bought in the second half of the year:

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Clynelish 20-Year-Old

Founded in 1819 and with only 1819 bottles produced, this Clynelish is only available from the distillery. Bottles from this remote distillery are highly collectible and its profile is only going to increase. This is due to Clynelish being one of the 4 brands linked to Edinburgh's new Johnnie Walker experience, thanks to a multi-million-pound Diageo investment. According to RW101, Clynelish was the second fastest growing brand at auction in the UK, in value terms, in the first half of 2019. Definitely a brand to watch.

Teeling 24-Year-Old

Voted World's Best Single Malt at the 2019 World Whiskies Awards. The first time an Irish whiskey has received this prestigious award. Currently sold out in the Irish market.



Rosebank Jealousy 21-Year-Old

The long-closed Rosebank distillery occupied a prominent location in Falkirk and the ever-decreasing number of bottles available have consistently been sought by collectors. The decision to reopen this distillery has led to a significant rise in prices. As one of just 695 bottles left this release is sure to be sought out as we get closer to the reopening of the Rosebank distillery, under the new ownership of Ian Macleod Distillers.

Brora 40-Year-Old

The 200th anniversary bottling from this lost distillery, with only 1819 bottles made to commemorate the year the distillery opened. The decision by Diageo to rebuild this highland whisky icon is testament to its legendary status amongst collectors. It ensures an increased interest in its most cherished bottlings.



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Bowmore 30-Year-Old

A mere 192 bottles exist of this smoky dram. Islay's oldest distillery is the 3rd most collectible brand according to a recent report from Rare Whisky 101.

Part of a collection of Hunter Laing Old & Rare Platinum range we have procured. All of which are single cask bottlings.

Mortlach 30-Year-Old

Another single cask bottling from the exclusive Hunter Laing Old & Rare Platinum range. Only 317 bottles of this sherry matured Mortlach are available. A brand whose bottles continue to prove highly collectible and a good investment. This sherry monster is worthy of any collection.



Talisker Bodega 2 - 41 Year Old

With only 2000 bottles created for each of the new Bodega Series, Diageo has showcased this island whisky's sherry cask heritage. This is the oldest ever whisky from the Isle of Skye.

Glenmorangie Grand Vintage 1989

Part of the exclusive vintage collection. The limited release of the Grand Vintages have ensured they have become hard to find. Its prominence amongst collectors is shown in Glenmorangie's continued appearance in the list of collectible whiskies on Rare Whisky 101 reports.



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Glenfarclas Chancellors Cask -25-Year-Old

Available exclusively at the Glenfarclas distillery, where there are only 275 bottles from this single cask bottling in existence. Filled into a single sherry hogshead by the Chancellor of the Exchequer at the time in 1994.

Cragganmore 15-Year-Old

1869 bottles harks back to the founding of this distillery in the year 1869. This bottling is only sold at the distillery in Speyside. A unique bottling from a famous distillery and a sought-after brand due to its rare appearances in the collectible Special Releases from Diageo.



Bowmore 30-Year-Old

This XOP Black from independent bottler Douglas Laing is one of just 276 bottles made. Islay's oldest distillery is the 3rd most collectible brand according to a recent report from Rare Whisky 101.



Bowmore 26-Year-Old

Limited to just 565 bottles, this is another fine example of a rare independent bottling from a distillery whose bottles are consistently sought out by collectors.

