



**STEADMAN-CHASE**

**WHISKY  
INVESTMENT GUIDE**

THE COMPLETE GUIDE TO INVESTING IN WHISKY

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# Introduction

## Lifting The Curtain On Whisky Cask Investments

Whisky has shown to be a high-performing asset class in recent years, with prices reaching new highs. Due to the relationship-based aspect of acquiring sought-after whisky, it can be a difficult proposition for novice investors trying to enter the whisky business. Steadman-Chase is in a unique position to help both new and seasoned whisky investors through the various options for investing in whisky, whether it's through individual & collectable bottles or entire casks. A detailed guide will be featured on the following pages, covering the world of whisky cask investments and educating and informing potential investors on the process, history, and market performance of liquid gold.

## An Introduction To Whisky As An Investment

Rare whisky was the best-performing collectable of the past decade, according to Knight Frank's Wealth Report, rising at a rate of 58.6% per year over the last ten years. The market for scotch whisky is vast. It is worth roughly £5 billion to the UK economy and amounts to around 25% of UK food and drinks exports, with more than 90% of scotch output sold abroad. In general, the luxury whisky investment industry is booming-the market wants truly unique and unrepeatably whiskies, and as a result, the potential for long-term development is immense, as demand grows and supply grows finite.

Steadman-Chase keeps in touch with Scottish distillers, bottling agencies, and experienced single malt whisky brokers on a regular basis, and loves the possibility to find that once-in-a-lifetime cask or bottle. We'll track it down if it exists! The possibilities in whisky are not limited to scotch. Astute investors should consider Japanese whisky, with Karuizawa whisky at the top of the global whisky market, with the brand increasing in value more than any other whisky in the world since 2013.

### WHISKY FROM SCOTLAND AND THE UK IS AN ESSENTIAL PART OF THEIR GLOBAL EXPORT STRATEGY.

#### Scotch Whisky accounted for the following in 2019:

- Food and drink exports from Scotland accounted for 75% of total exports.
- Food and drink exports from the United Kingdom accounted for 21% of total exports.
- 1.4% of all exports from the UK.

# Market Performance



## Whisky Market Performance

Broadsheets and investing gurus alike are becoming increasingly interested in whisky assets. Prices have soared in recent years, and there are no signs of this trend slowing down. In fact, the number of whisky users globally recently surpassed 500,000,000, and with continuing expansion seeming likely, another stellar decade of performance appears to be on the horizon. Due to the broad networks required when acquiring the best casks, accessing this sector, which is generally new to investors, can be difficult. Portfolio selection, asset management, and client service are all areas where Steadman-Chase excels.

## Whisky Supply vs. Demand: A Perfect Imbalance

Scotch single malt whisky manufacturing predates income taxation as an industry. For decades, scotch whisky was primarily a domestic product, with a smaller population and even fewer people able to purchase it. As a result, there was ample supply. That isn't the case now.

Scotch single malt whisky has become a worldwide spirit woven into the fabric of society. Whisky now outsells Tequila and Cognac in both Mexico and France, according to statistics. Even though the business has expanded by as much as 60% in the previous decade, Scotland still only produces 800 million (about.) litres of whisky per year, with just 40 million litres (approx.) of single malt surviving. This number may appear modest when compared to the 500 million global users of generic whisky. As a result, the scotch single malt whisky market is significantly under supplied, with a supply/demand imbalance that is fully inverted.

The value of scotch whisky exports in 2019 showed that demand is still growing, as exports grew by 4.4% (£208 million) over 2018 levels, marking a new high. Indeed, the theme persisted, with bottle exports reaching \$1.31 billion, up 2.4% from the previous year. Scotch whisky now accounts for over 20% of all UK food and drink exports and is sold in over 180 countries across the world.

While the United States remains the top export destination for scotch whisky in terms of value (\$1,069 million), India is gaining traction. Despite the fact that whisky imported into India is subject to a 150% customs duty, India is now the second-largest exporter for scotch whisky by volume, with 131 million bottles exported in 2018, up 16.1% from 2017. The ISWAI (International Spirits and Wine Association of India) anticipates the government lowering the customs tariff to a fair level, allowing more scotch whisky to enter India. With demand for scotch single malt higher than ever and supply levels approaching their zenith, it's clear to us that prices are heading in the right direction.

## Global Whisky Exports Continue To Rise

The Covid-19 pandemic has arguably had the most significant impact on the scotch single malt market. Whisky manufacturing for new fill came to a halt in 2020 because to the supply chain based nature of the industry. Stock levels have been further depleted, and the supply and demand dynamic is now even more heavily orientated towards profits within cask investment, with 20% of customers drinking more and skyrocketing retail sales. The entry of new investors into the market has fueled this desire, as they move away from riskier stocks and low-interest bank-based products and toward the security of tangible cherished assets.

As a result, billions of pounds are being invested in distillery development to allow for increased production and tourism (2 million people visited distilleries in 2018), with Diageo's £150 million investment programme, which includes the Johnnie Walker worldwide visitor experience, in the forefront. These conglomerate parent companies anticipate continued growth in consumption and are prepared to invest extensively to meet these rising demands. Mike Kempton-Smith, an associate director in asset-based loans at Barclays Corporate Banking in Scotland, echoed this sentiment, saying, "With exports continuing to grow by 4.4 percent in 2019, bringing us closer to the £5 billion milestones, global demand continues to develop, with growth in 106 markets last year."

The whisky sector is widely believed to be headed for tremendous expansion over the next decade, and we predict that cask investment will become a more regular aspect within commodity-based portfolios.

## Whisky Tops The Knight Frank Luxury Investment Index


According to The Wealth Report 2019, rare whisky was the highest performing luxury investment asset in 2018, with a 40% increase in value following its inclusion in the Knight Frank Luxury Investment Index for the first time. Perhaps even more amazing, this expansion was not a one-time occurrence. It has outperformed everything from coins (190%) to antique automobiles (193%) over the last decade, with a staggering 586% return.

Its dominance was reaffirmed in late 2018 when a bottle of 1926 Macallan sold for \$1.45 million at auction, setting a new record for the most expensive bottle of whisky ever sold.

It has outperformed gold, property, and British stocks over the last five years, making it the standout investment instrument.

High Net-Worth Individuals (HNWIs) are clearly willing to pay top dollar for rare and ultra-exclusive whiskies, with many collectors progressing from single bottle investments to entire cask purchases that can reach seven figures. There has been a noteworthy increase in persons educating themselves on the market as a result of the large earnings accessible. Most whisky collectors want to expand their collections of barrels and bottles in order to diversify their holdings away from hazardous financial markets and low-yielding bank accounts.

# Costs



## What Are The Costs Of Investing In Whisky?

Cask whisky is a low-cost, trouble-free, and extremely safe investment option. Casks of single malt whisky must remain within Scotland's borders and at an HMRC bonded facility, according to HMRC regulations. Scotland has hundreds of bonded warehouses, which provide crucial revenue to many rural areas. Many of our casks will be housed in the bonded facilities of the distillery that made them, although this is not always the case. Distilleries will frequently distribute their barrels over multiple distilleries and warehouses to reduce the risk of fire, for example.

## Warehousing Costs

The cost of storing a cask varies depending on the facilities prestige and location. However, the average annual cost per cask will be roughly £40. This is the only expense associated with the cask, and it is due starting in Year 2 of your investment period (we cover all expenditures in Year 1).

## Insurance Costs

Steadman-Chase has indefinitely kept comprehensive insurance coverage for all casks. All casks, including those belonging to our clients, are covered against fire, theft, natural disaster, and unintentional damage under our policy, which covers up to £10 million per incident. Steadman-Chase will cover the entire cost of this insurance indefinitely.

## Performance-Related Fee

Most investment companies that manage clients' funds will charge a fixed annual fee, regardless of the investment's success. We adopt a different strategy at Steadman-Chase; we manage your asset on an open-ended basis and don't charge a yearly fee. Instead, at the end of the investment period, whenever that may be, Steadman-Chase is contractually obligated to collect 10% of any profits produced on the barrel. We are incentivised to generate as much profit for our clients as possible since the higher the profit we earn for them, the higher our commission on the back end.

## Duty, VAT And Taxation

We always recommend seeking independent tax advice, but the following resources may be helpful:

- A WOWGR license is held by Steadman-Chase. WOWGR is an acronym for Warehousekeepers and Owners of Warehoused Goods Regulations. A certificate issued under these standards permits a company to move products from one bonded warehouse to another while paying no duty. It is an extremely tough license to obtain, requiring extensive interviews and severe requirements.
- Since all cask whisky is kept in Scotland under bond, it is VAT-free. Excise duty and VAT will be due at the time you decide to bottle and remove the cask from bond. The cask is usually brokered on while still in bond, thus these taxes are not applicable.
- Since cask whisky is a "wasting chattel" as a result of the "angel's share," UK Capital Gains Tax is not considered to be relevant to UK taxpayers (evaporation).

# Investment Process



## Typical Whisky Investment Process

Whisky casks are a relatively new investment class for many people, according to Steadman-Chase. When onboarding buyers, we use a straightforward technique to make the process as simple as possible. This transparency provides our clients with the assurance and clarity they require when entering a new market.

### Step 1: The Journey Begins

Steadman-Chase owns all whisky casks delivered to our clients; we do not operate on a 'Option to Sell' basis. We own all of the stocks that are advertised for sale. Regardless of whether it is sold to a client or remains in our stock portfolio, we have analysed its profitability and purchased it.

### Step 2: Cask Selection

After speaking with your cask broker and determining your investing comfort level, the broker will issue a stock recommendation in the form of a 'Certificate of Acquisition,' which will outline the characteristics of the casks. Along with the Anti-Money Laundering Documentation, a signed copy is required (Photo ID and Utility Bill).

### Step 3: Transfer Of Funds

Your cash must be transferred as soon as possible, either by bank transfer or by cheque.

### Step 4: Transfer Of Ownership

You will be sent a receipt, your Unique Cask Number, and the details of the HMRC regulated bonded facility in Scotland that is currently warehousing your cask once we have received signed documentation and monies have been deposited in full.

### Step 5: Cooling Off Period

As part of our compliance process, a member of our management team will call you shortly after that to confirm that you are satisfied and that you have received professional service. Since this conversation usually occurs within seven days of your purchase, the Distance Selling Act guarantees you the right to a refund if you are dissatisfied with your purchase.

### Step 6: Ongoing Support

Following that, the broker will communicate with you on a regular basis, keeping you informed of any changes to your barrel or the whisky market in general.

# Exit Strategies



## How Easy Is It To Exit The Investment?

The scotch whisky investment industry, as a global market with 200 nations engaging in its commerce, offers significant liquidity through a variety of domestic and international exit routes. With year-on-year growth in the whisky sector, demand for premium casks has risen dramatically, leading in swift and efficient exits when necessary. Clients cashing in their holdings currently have an average execution time of 4.2 days, though this can vary depending on portfolio size. Steadman-Chase can usually make a cash bid on the spot, and clients can have the entire process completed in less than 48 hours.

For portfolios being brokered on the international market, Steadman-Chase has access to a diverse global network of collectors, auction platforms, and distilleries, and goes to great lengths to ensure that all stock positions offered to customers are easily sellable. Due to the considerable demand for high-quality whisky cask portfolios, clients should expect to receive acceptable offers for their portfolios before the end of their intended investment period.

Steadman-Chase' primary exit strategy for our clients are as follows:

### Third Party Auction Sales

Steadman-Chase' ultra-exclusive stocks have huge global appeal in the cherished asset market, and would easily be included in auction sales like Bonhams and Christies.

### Internal Auction

Steadman-Chase will soon establish its own online auction, which will serve as an intra-client trading platform, exposing 1,500 potential purchasers to the company at any given moment.

### Brokerages And Investment Companies

Steadman-Chase sells whisky casks to other businesses, which is becoming an increasingly essential part of the company's business model.

### International Buyers

Steadman-Chase is contacted on a daily basis for specific, often very premium, barrels and is regarded as the go-to firm for casks that are not available on the general market, such as those from silent distilleries.

### Cash Bid

Steadman-Chase is a debt-free and cash-rich company that may offer a cash bid for casks on the moment.

### Independent Bottling

Steadman-Chase can manage your asset, bottle your stock autonomously, and trade the bottled stock domestically and globally. This approach, which is usually reserved for ultra-premium assets, can frequently produce extremely significant profits.





# FAQs

## Your Questions Answered

Many people will have questions about investing in whisky casks because it is a new asset type for them. People who are considering investing in single malt casks typically ask us the following questions. Please contact us if you require any additional information and chat with one of our knowledgeable advisers.

### How Does The Storage Work?

Scotch barrels are required by law to be held in Scotland on bond. In these HMRC-regulated warehouses, your cask will be kept in the best possible conditions for whisky maturation. The warehouse staff will also keep a close eye on the barrel, which may be re-gauged at any time for a small fee.

### Can I View My Cask?

Through the distillery's visitor Centre, you will be able to see the distillery that houses the cask. Although a 200-year-old chilly, dark, and damp warehouse in the Highlands is not everyone's idea of fun, most HMRC bonded warehouses will enable you to see your cask.

### How Do I Arrange Insurance?

You are not obligated to do so. We will cover the entire cost of your cask's insurance from the time you purchase it with us until you either sell it or relocate it to another facility or account.

### What Are The Typical Investment Sizes?

The investment sizes range from £8,000 on the low end to £3,000,000 on the high end. The average trade size is between £30,000 and £50,000.

### How Long Am I Expected To Hold The Cask For?

A five-year hold is normally recommended, with a ten-year hold possible.

### Can I Sell Out At Any Time?

When it comes to your cask, we will always follow your directions. We recognise that your circumstances may change, and you may need to sell sooner than five years. If this occurs, please notify us, and we will discuss the best methods at that time.

### How Do I Exit When I Want To Sell Out?

When you tell us you want us to sell you out, we usually take one of six paths:

- Sell to another client via our intra-client brokering service.
- The cask is sold to a cask broker or collector on the open market.
- We buy back the barrel.
- The cask is sold using our own online auction service.
- A third-party auction house is used to sell the barrel (Bonhams etc).
- We bottle the stock for you and release it to the retail market achieving maximum profit (an avenue normally reserved for rare and old casks).

### Can I Sell Out Through Another Company/Broker?

Yes, to put it simply. Cask scotch is in high demand, and the secondary market is well-developed. We sincerely hope, however, that if the cask we recommended to you increases in value significantly, you will order us to realise those earnings on your behalf. This permits us to take advantage of the 10% profit commission as stipulated in our terms and conditions.

### How Can I Be Sure That You Are The Right Company To Work With?

When it comes to investing your hard-earned money, choosing the appropriate company is critical. You need to know that the person you're interacting with is approved and accredited, in addition to loving them. We can be described as follows:

- Our brokers have all received training.
- The Independent Commissioner's Office has certified us.

### What Factors Determine The Value Of A Cask?

Year of manufacture, barrel type, distillery, age, OLA (Original Litres of Alcohol), RLA (Remaining Litres of Alcohol), and ABV (Alcohol By Volume) (Alcohol by Volume).



35 Berkley Square, Mayfair,  
London W1J 5AE



[admin@steadman-chase.co.uk](mailto:admin@steadman-chase.co.uk)



0203 918 8771



[www.steadman-chase.co.uk](http://www.steadman-chase.co.uk)



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