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**HOW TO INVEST IN BOURBON**



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# WHAT IS BOURBON WHISKEY?

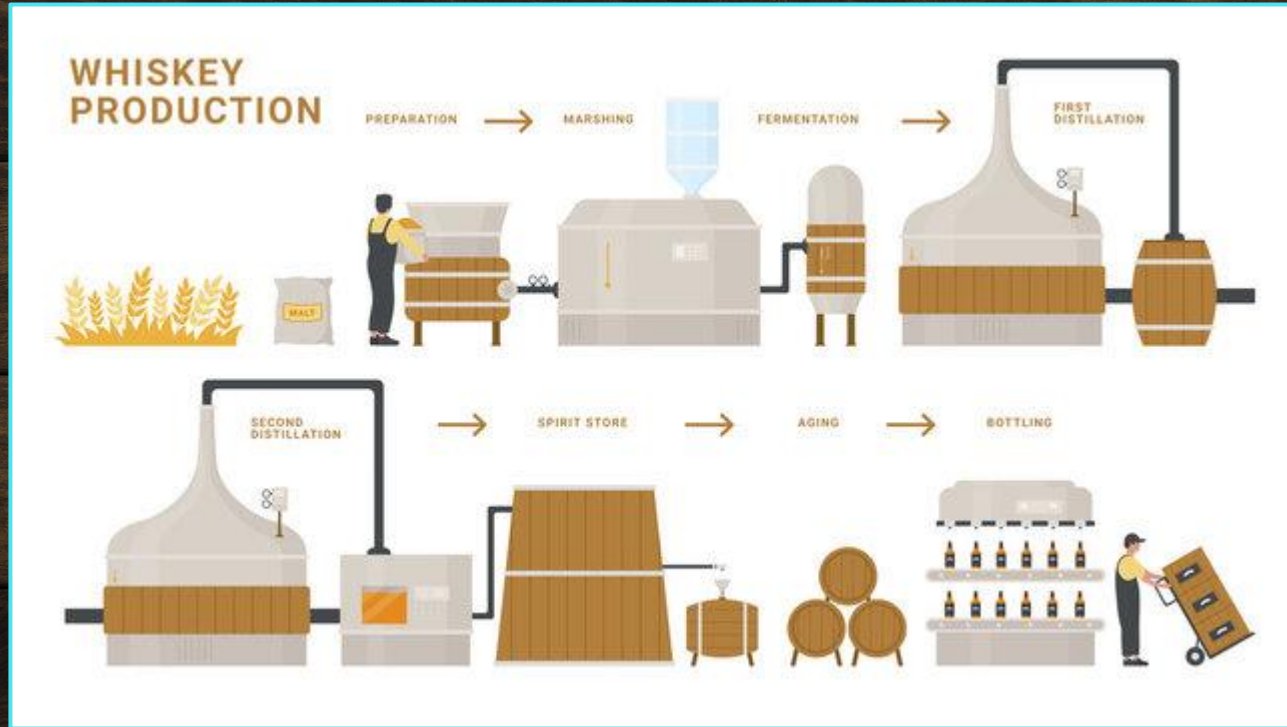
- Bourbon is an American whiskey
- Must be made from at least 51% corn
- Must be aged in new, charred American white oak barrels
- Must be produced in the USA (not just KY)
- Must be distilled no higher than 160 proof and barreled no higher than 125 proof
- May not contain other additives or flavors





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# HOW BOURBON IS MADE







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## BOURBON IS STORED AND AGED IN RICKHOUSES





# INVESTOR ROLE IN THE BOURBON MARKET



- ~3M barrels of KY bourbon are distilled annually
- Bourbon is usually bottled 2-4 years after distilling
- The majority is produced & bottled by big brands
- Some distilleries have excess production capacity; others have a shortfall
- Investors buy ~10% of production each year, absorbing excess new make capacity & selling aged bourbon as needed
- Buyers include large distilleries with a shortfall, craft distilleries with little or no production, and international markets



## WHY DOES WHOLESALE BOURBON INCREASE IN VALUE?

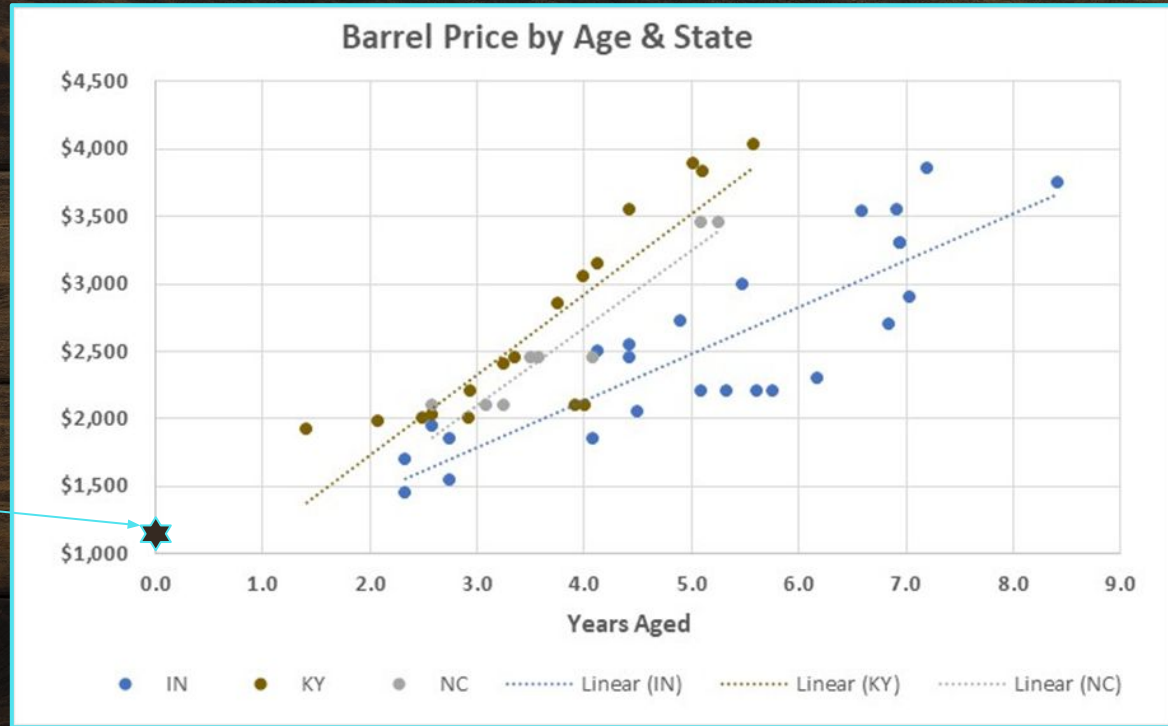
- ‘New Make’ can’t be bottled or sold, low value, no demand
- 100% of color and 70% of flavor are derived from the oak barrel over time
- Bourbon gains value as it ages, similar to livestock
- Must age at least 4 years to be considered good/premium quality
- Demand picks up at year 2 and continues to grow





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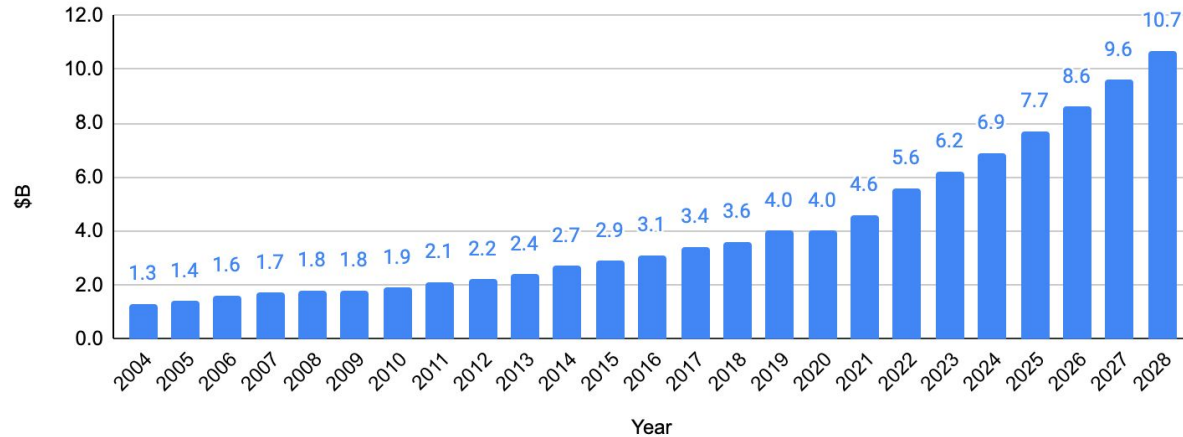
## KENTUCKY BOURBON IS THE MOST DESIREABLE





## GROWTH OF BOURBON: US

US Bourbon Sales (USD Billion)



Source: Global Bourbon Market Research Report 2023

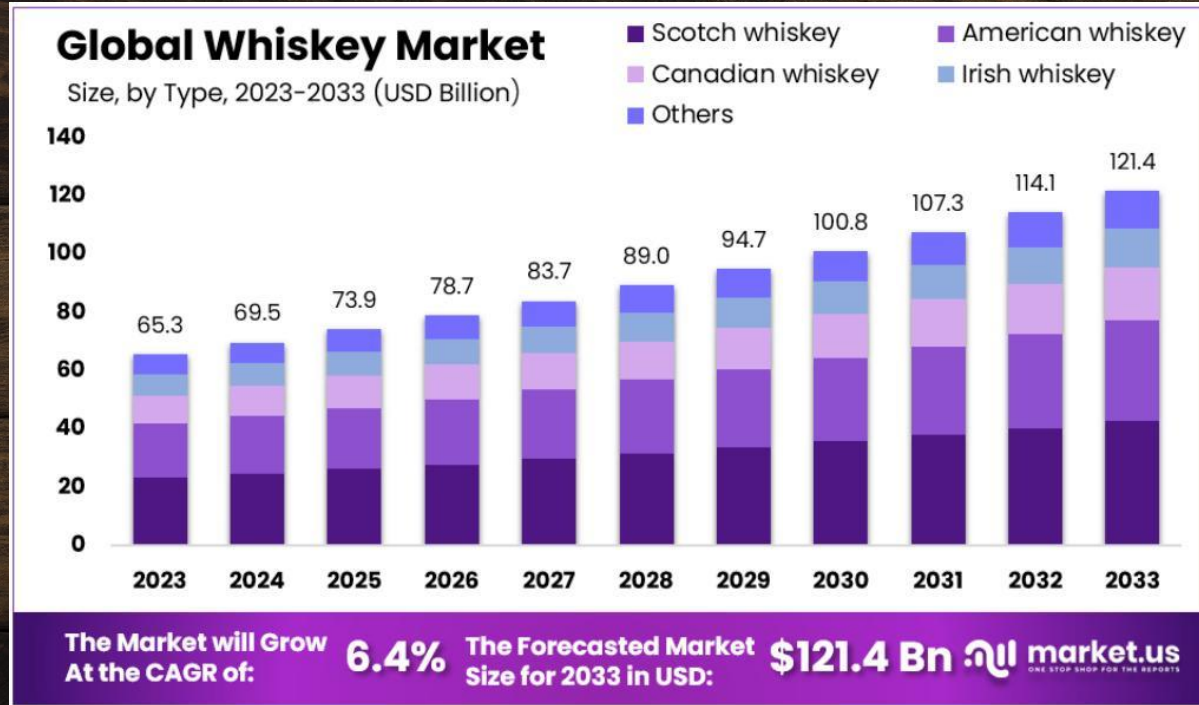
- The US market for bourbon grew at an 8.7% CAGR from 2012-2022





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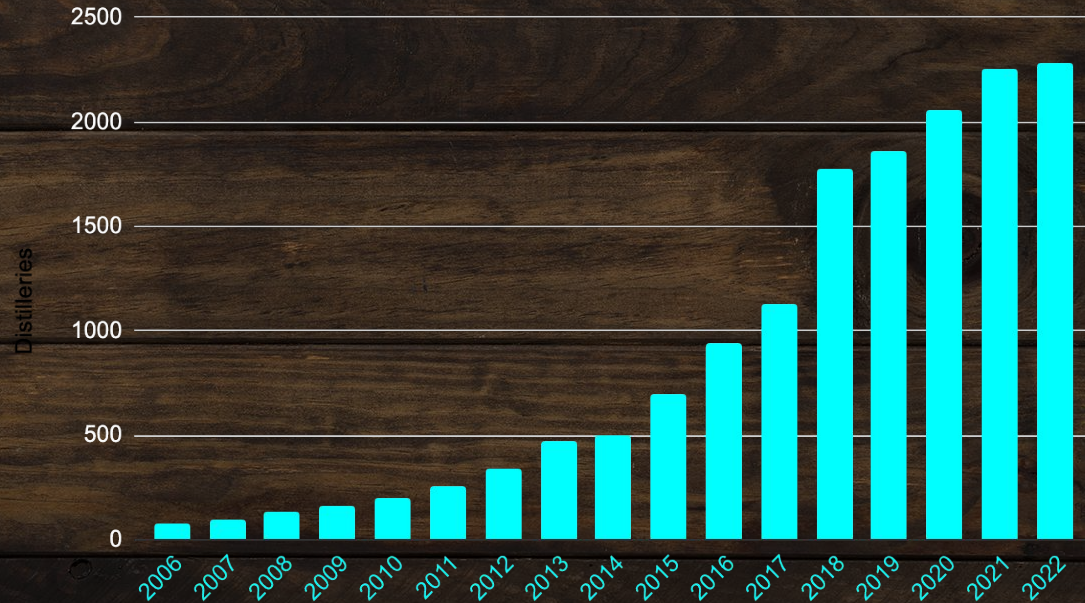
## GROWTH OF WHISKEY: GLOBAL





## US DISTILLED PERMITS ISSUED

### U.S. Distilleries



Source: American Distilling Institute (ADI)



## WHY INVEST IN NEW MAKE BOURBON?

- Attractive Risk/Reward Profile
- Historically Strong IRR
- Low Risk of Principal Loss over First Two Years
- Can Be a Short Duration Investment
- Tangible Asset
- Historically Strong Liquidity
- Historically Uncorrelated with Stock Market
  - Performed Well in Recessions & Inflationary Periods
- Upside Potential from Industry Growth Internationally



## WHAT ABOUT OTHER TYPES OF ALCOHOL?

- **Long Duration:** Scotch, Irish & Japanese whiskey take much longer to age (8-15 years)
- **Volatility:** Wine does not gain value as predictably, varies by brand and vintage
- **Shelf-life:** Wine can go bad, or can peak and decline, losing value if you don't time the sale perfectly
- **Lower IRR:** whiskey and wine have lower IRR due to longer time required to mature



A vertical teal wood grain background on the left side of the slide.

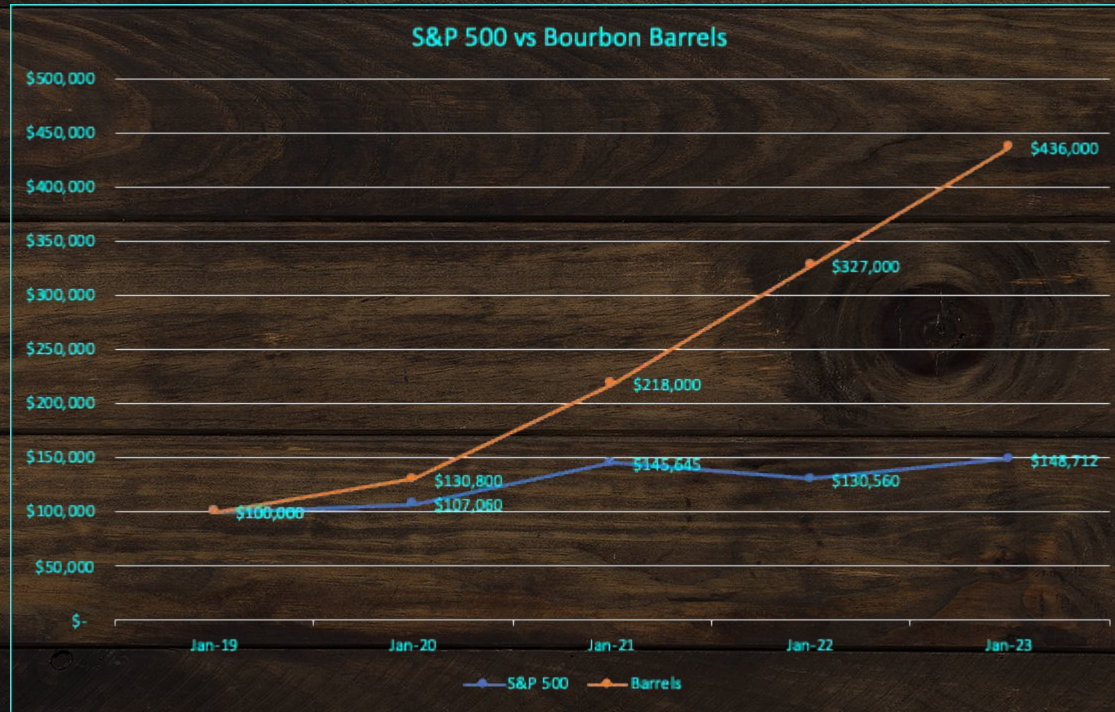
## BOURBON BARRELS HAVE UNIQUE DOWNSIDE PROTECTION

- Price is not tied to economic trends
- Sales of Bourbon **increases** during pandemic (29%) and recessions
- Barrels are **fully insured for current market value**
- Volatility is **low**
- Asset **continues to gain value** the longer its held
- Product **will not spoil**



## BOURBON IS DECOUPLED FROM STOCK MARKET

\$100k  
invested in  
S&P 500 vs  
Bourbon  
Barrels



Source: MGPI, Strategic Sourcing Hub 2020-2023 price quotes



# HEDGE AGAINST INFLATION



- The price that distilleries pay for distilled whisky has kept pace with the Consumer Price Index over the last 12 years

Source: US Bureau of Labor Statistics FRED Economic Data (PPI data on distilled whiskey is not available from FRED prior to Dec 2011)



## HOW TO INVEST IN BOURBON

- **Open a distillery.** High barrier to entry, no guarantee of success, 5-7 years avg time to profitability
- **Purchase retail bottles.** Opportunistic, not practical for large investment allocation, risky, difficult to liquidate, potential legal issues around selling bottles
- **Purchase stock in bourbon producers.** Must pick the right 'horse', inconsistent returns, no "pure play" bourbon entities
- **Invest in ETF in bourbon sector.** Returns are watered down, limited to overall average performance of category
- **Invest in wholesale bourbon through Platform investment.** Only option for retail and non-accredited investors, very high premiums, little to no direct communication with investment manager
- **Invest in a bourbon-focused PE fund or Custom Investment Vehicle.** Best option for HNW and accredited investors, lower entry price, direct communication with fund manager - but there are risks...








## VARIABLES OF BOURBON FUNDS

- **Entry Price.** Did you pay the fair market price for your bourbon? How can you know?
- **Exit price.** How much cushion do you have to withstand downward pressure on the exit price due to changing consumer trends or potential oversupply at exit? Will the exit price keep up with/outpace inflation?
- **Asymmetric information.** Do you have knowledge of and access to most the most reputable producers? Which mashbills are most sought after?
- **Counterparty Risk.**
  - Did the seller/broker deal with you honestly in terms of the product you received?
  - Do you have appropriate insurance in case of loss/damage of product during storage?
- **Liquidity Risk.** How quickly can you exit the investment?
- **Duration Risk.** How long do you need to hold to capture targeted returns?



## WHAT MATTERS & RED FLAGS

- **Blood in the game.** Is Fund manager investing alongside other investors so goals are aligned?
  - **Low Entry price.** \$1200-1400 is current 'fair market' range – should include all storage and insurance fees for your targeted holding period.
  - **Short Duration.** Bourbon gains value and matures quickly relative to other whiskey and wine; 2-4 years has historically been the maximum time needed to recognize attractive returns; longer duration is possible but shouldn't be necessary
  - **Relationships & Quality.** Fund should have established relationships with reputable KY distilleries, and should be buying direct.
-  Fund manager NOT investing alongside you
  -  **Entry price above \$1400/barrel**
  -  Minimum hold period greater than 4 years
  -  Fund buying non-Kentucky bourbon
  -  Fund won't disclose their source of barrels



## CONCLUSION

- Wholesale bulk bourbon can be a low risk, low volatility, high yield investment
- Lack of publicly available information allows unscrupulous actors to take advantage of investors
- Investing alongside someone with industry knowledge & expertise mitigates risk of asymmetric information







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