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Bacchus Partners' wine fund uncorks 28.7 percent gain in first two quarters

by [Scott Carlson](#) Staff Writer

Like a top-grade Bordeaux or a vintage burgundy, one unusual Twin Cities' private equity investment fund is the toast of the town among investment connoisseurs.

Bacchus Partners LLC said its Fine Wine Appreciation Fund-1, which focuses on buying and selling top-tier fine wines as a commodity, has produced a net 28.7 percent gain during its first two quarters. And that's made the fund one of the best investments in the world of fine wines.

The out-of-the-chute success for the Bacchus fund – whose founders Mike Wigley and Brian Jackson believe is the only one of its kind in the United States – is running counter to the economic downturn. (In contrast, the Liv-ex 100, considered the world's leading wine index, posted about an 18 percent decline during the same period.)

"During our first two quarters, we have become very skilled at exploiting the inefficiencies on the buy-side of the fine wine market," said Wigley, Bacchus Partners' CEO and chief investment officer. "On average, we've purchased our wine at 40 percent below fair-market value. We have just begun testing the inefficiencies we believe exist on the sell-side. Our current hypothesis is that these are significant."

Wigley and Jackson closed on their wine fund last fall, raising \$3.3 million from 23 investors, just as Lehman Brothers, AIG and other major financial institutions were on the brink of collapse, prompting the federal government to step in with billions of dollars in bailouts and financial assistance.

"We were fortunate we got our money in the fall when the world market was melting down," said Jackson, president and treasurer of the fund.

Since then, Bacchus Partners has invested about \$2.7 million, or 80 percent of the fund, in buying mostly top-notch Bordeaux and burgundy fine wines. They took advantage early on of a short-term drop in prices when the financial meltdown forced a number of wine businesses to raise funds by selling off part of their holdings.

Bacchus Partners hits a major milestone today. The Fine Wine Appreciation Fund-1 is participating in a big auction in Hong Kong, where it is putting about 1,000 bottles of top-grade and vintage wines – or a little more than 10 percent of its 10,000 bottle inventory – on consignment sale.

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"We are looking to generate between \$700,000 and \$900,000 in sales," Wigley said. "This is a good monetization event. We want to prove to the investors our (value) methodology is conservative."

Wigley and Jackson run the Fine Wine Fund as a second career. Wigley is CEO of the Twin Cities-based Great Plains Companies, a diversified holding company, while Jackson is a CFO for hire to small companies in the medical-device field. Both men are wine aficionados, with Wigley laying claim to 18,000 bottles in his personal wine cellar.

Nevertheless, the Bacchus Wine Funds is a high-stakes business, where buying fine wines for the fund averages \$400 or better a bottle; the most expensive cost some \$30,000. And yet, the business seems suited for many happy returns.

Since the 1950s, fine wines have yielded an average 15.5 percent annual return and outperformed other

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asset classes in down markets, Jackson and Wigley said.

Wigley explained the strong financial performance of grade A+ wines is simple economics: The demand is outpacing a stable or slightly shrinking supply, thereby continuing to push up prices over the long haul.

Against this backdrop, Bacchus Funds' "stellar returns are being driven by its proprietary analytics, which track 25 key factors affecting wine demand," Wigley explained. Some of these factors include ratings by renowned wine critics; where a wine is in its life cycle and the brand of wine, he said.

Jackson and Wigley also believe their Fine Wine fund can meet or beat the Liv-ex 100 in the future.

"We are using financial discipline combined with our love of wine for the fund to buy wines that we believe will achieve superior returns," said Jackson, also president of Bayside Capital, his CFO-for-hire consulting firm.

For example, a fine wine doesn't begin to hit the "strike zone of drinkability" until it is at least 20 years old, Wigley said. And Bacchus Partners endeavors to buy its fine wines when they are on price plateaus and have yet to hit higher levels of appreciation due to age, he said.

A fine wine's value is also enhanced if the seller can track its "chain of custody" from vineyard and bottling to current storage, Wigley added.

Bacchus Partners has built a 1,200-square-foot secure, high-quality cellar in Wayzata to store its growing portfolio of fine wines. The facility, which has space to double in size, is maintained at 55 degrees and 60 to 65 percent humidity.

Wigley said he has gained his expertise from collecting wine for the past 25 years. And in recent years, he has contributed wines to charity dinners.

But Wigley hadn't considered turning his hobby into a business until he was at a fundraising dinner in January 2008. One of the guests, friend Mike Frey, was impressed with Wigley's passion for wines.

Frey "flipped over the dinner menu and sketched out the basics for how to set up the fund," Wigley recalled. About a week later, Wigley talked with Jackson about his plan.

Jackson loved the idea.

"We had a business plan in 60 days and we were out in the street (seeking investors) in May," Jackson said.

Wigley and Jackson admitted they raised some eyebrows when they first approached friends, colleagues and others about investing in their fund.

"When we pitched it, we got reactions like, 'Huh?' " Wigley recalled. "Or, 'That is intriguing. But let us know how it goes.' Still, 23 people agreed to take a flyer at it."

One of them was Bill Spell, president of a Minneapolis-based private equity buyout firm.

"Mike is one of the pre-eminent experts in the United States in his collection and knowledge of wine," said Spell, also a wine collector and owner of a vineyard in California. "Mike is successful at anything he does. I am looking for him to make money for us and he has made money for us. I am really enthused to get involved with him."

Jim Welbourn, a Twin Cities financial services consultant, is also an investor in the Bacchus Partners' fund. He also knows Wigley through church (both men attend St. John's Lutheran Church in Mound) and has attended wine gatherings at Wigley's home.

"About a year ago, I was looking at an alternative fund (for investing) rather than typical equity fund. Stocks haven't done well in a while," Welbourn said. "I found it (the wine fund) appealing."

"The literature said that fine wine holds its value and is more resistant to downturns in the economy," Welbourn also noted. "I think it is a good opportunity and a really good hedge against what is going on in the economy."

Agreed John Pagnucco, a semi-retired investment banker who serves as an adviser to Bacchus Partners' Fine Wine fund: "Over the last 25 years, wine prices have continued to go up and at rates greater than other assets – and I see no reason why that should not continue."

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