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Luxembourg embroiled in fine wine row

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Luxembourg has been accused of “lax and selective” investment fund regulation after its regulator allowed a suspended wine fund to make an unusual transaction involving €37m in fine wines.

Last year, Luxembourg’s financial watchdog ordered Nobles Crus, once the world’s largest wine fund, worth more than €100m, to “suspend all redemptions and subscriptions” after wine experts claimed many of the fund’s bottles were substantially overvalued – allegations vehemently denied by Nobles Crus.

Even though the fund remains suspended, Nobles Crus permitted certain shareholders to exit their positions in March, according to a letter to investors seen by FTfm.

Albert Biebuyck, managing partner at Investor Protection Europe, a group that defends investor interests, said the deal was “a clear violation of the rights of minority shareholders in the fund”. He said it was the latest example of “lax and selective” regulation in Luxembourg, the biggest centre for funds in Europe and the second biggest in the world.

The deal involved two stages. First, some Nobles Crus investors, which included funds controlled by Italian group Banca Generali, sold their shares to an unnamed third party. According to a person close to the deal, the sale was at a 28 per cent discount to the net asset value of the fund. Nobles Crus declined to comment on that figure.

Second, the third party redeemed the shares by taking payment in kind, receiving fine wine from regions such as Bordeaux and Burgundy with a notional value of €37.7m.

Nobles Crus said the deal was in the best interests of all its investors and took place after the fund obtained written approval from the CSSF, Luxembourg’s financial regulator. The fund now has €50.8m in assets, Noble Crus said in a letter to investors in April.

The CSSF said it could not comment on individual cases, but confirmed Nobles Crus remains suspended.

The regulator said: “We take every question or complaint by an individual investor very seriously and manage to give satisfactory explanations or solutions to the investors concerned in the vast majority of cases through exclusive and direct communication with those investors.”

Mr Biebuyck described it as “mind-boggling” that the CSSF could temporarily lift the suspension of Nobles Crus to allow certain investors to exit, especially as the fund has not filed audited accounts since 2011.

Last week Mr Biebuyck sent a letter to a number of European regulatory authorities, including Luxembourg’s Ministry of Finance and the CSSF, calling on them to reverse the transaction.

Mr Biebuyck said that the buyer may have been able to “cherry pick” the best bottles from the fund.

Noble Crus said that while the buyer negotiated for months about the selection of bottles he was given, the fund's portfolio had "a similar level of diversification" before and after the deal. It said the deal was good for the fund because it allowed it to reimburse a large part of the pending redemption requests without a discount on the value of the bottles.

"This is a major step in restoring the liquidity of Nobles Crus," it said.

Noble Crus said it was "open for negotiation" with the remaining investors if they wanted to take a reimbursement in kind.