



Art: Worthless Canvas Or New Asset Class?

Autumn iQ – IFIT Quarterly

Zunfthaus zur Waag, Münsterhof 8, 8001 Zürich

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Philip Hoffman, CEO

THE FINE ART FUND GROUP

Why Art As An Investment?

- A unique instrument for portfolio diversification
- Attractive alternative asset
- Less volatile than commodities
- Hedge against inflation
- Store of value
- Demonstrable diminishing supply set against increasing demand



Edvard Munch (1863-1944)

The Scream

Sotheby's New York, 2 May 2012

Estimated \$80,000,000

Sold: \$119,922,500

World Record for a sale of art at auction

Why Invest in Art Now?

- Attain real returns
- Art is a good “real asset” in an inflationary climate
- Increasingly rare, luxury commodity
- Demand is considerably exceeding supply
- Old Masters and Blue-Chip works traditionally hold their value well



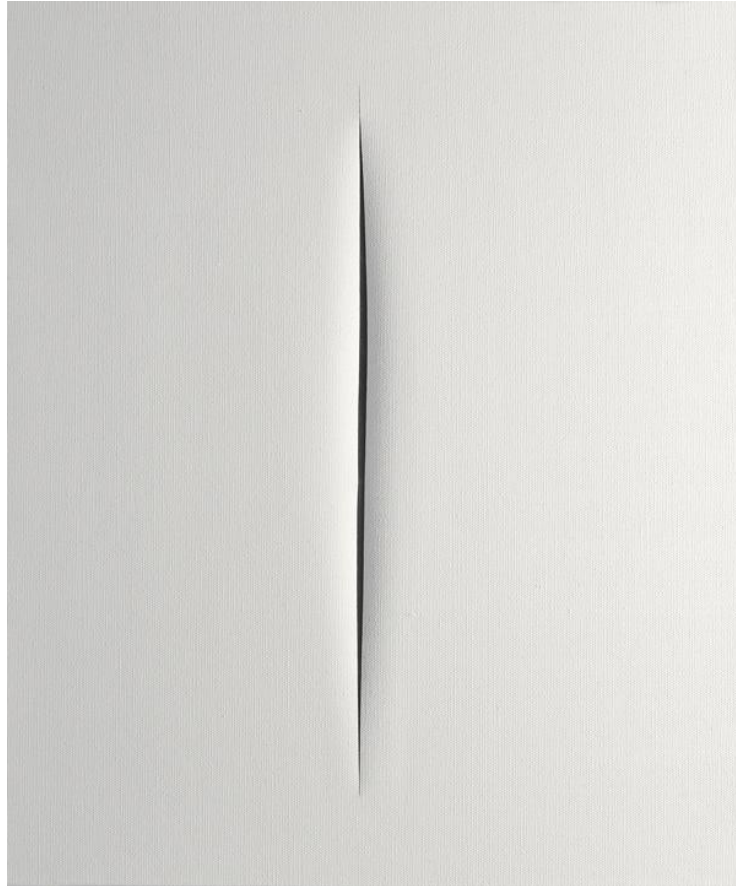
Yves Klein (1928- 1962)

Le Rose du bleu

Christie's London, 27 June 2012

Sold for: £23,561,250

Is It Art?



Lucio Fontana
Concetto spaziale

The Valuation of Art

Art prices are driven by....

- Genre
- Provenance
- Artist's Reputation
- Desire for Western-style national collection
- Academic review

"And it seems logical that works by old masters act like stable blue-chip stocks, while contemporary art functions like growth stocks: volatile but with a sudden capacity to crown genius and create fortune."

Robin Pogrebin & Kevin Flynn,
[*The New York Times*](#), May 30, 2011



For the Love of God, 2007
Damien Hirst
Platinum Diamond Human
Teeth

**Reportedly sold back to a
consortium of buyers,
including the artist himself
for approximately
\$100 Million in 2007**



**The Card
Players**
1892
Paul Cézanne

**Reportedly Sold for
\$250 Million in 2011**

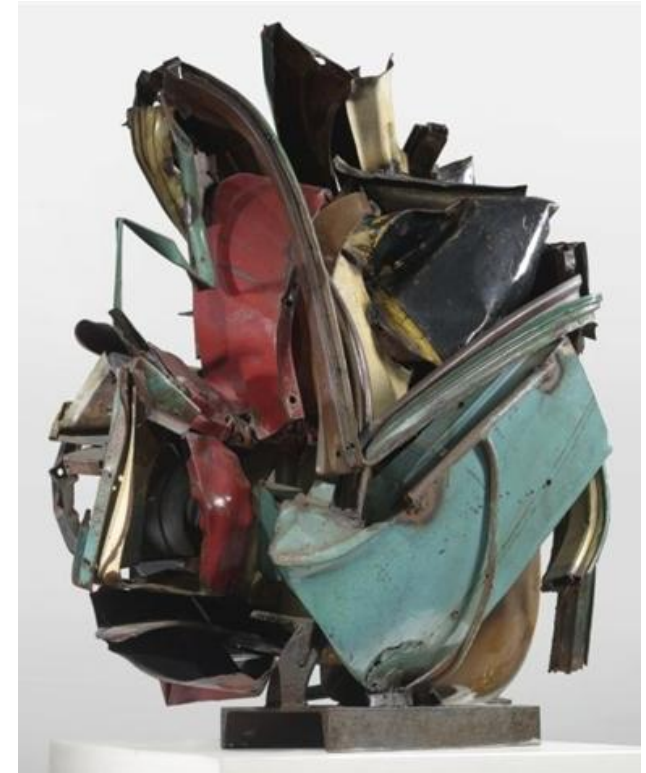
How to lose £3m in 30 seconds



Canaletto (1697 –1768)
The Grand Canal

Challenges Faced by Art Funds

- Combining excellence
 - Art & Finance
- Market Inefficiency
 - Art market is highly unregulated
- Some Funds have been **too specific** in their focus, for instance only buying photography or sculpture



John Chamberlain
Nutcracker

Est. \$1.2mn-\$1.8mn

Sold: \$4.8mn

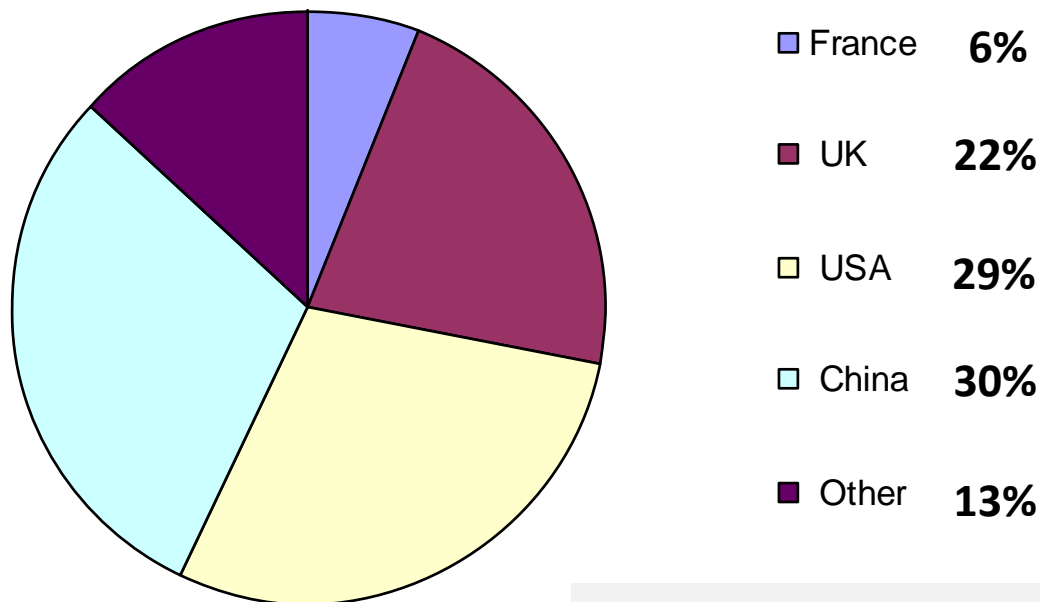
Sotheby's New York, May 2011

How has the Art Market Evolved?

“The art market has **more than doubled in size** in the **25 years** since TEFAF Maastricht was founded and **grew over 575%** from its lowest point in 1991 (just under US\$10 billion) to its highest in 2007 (**US\$66 billion/€48.1 billion**).”

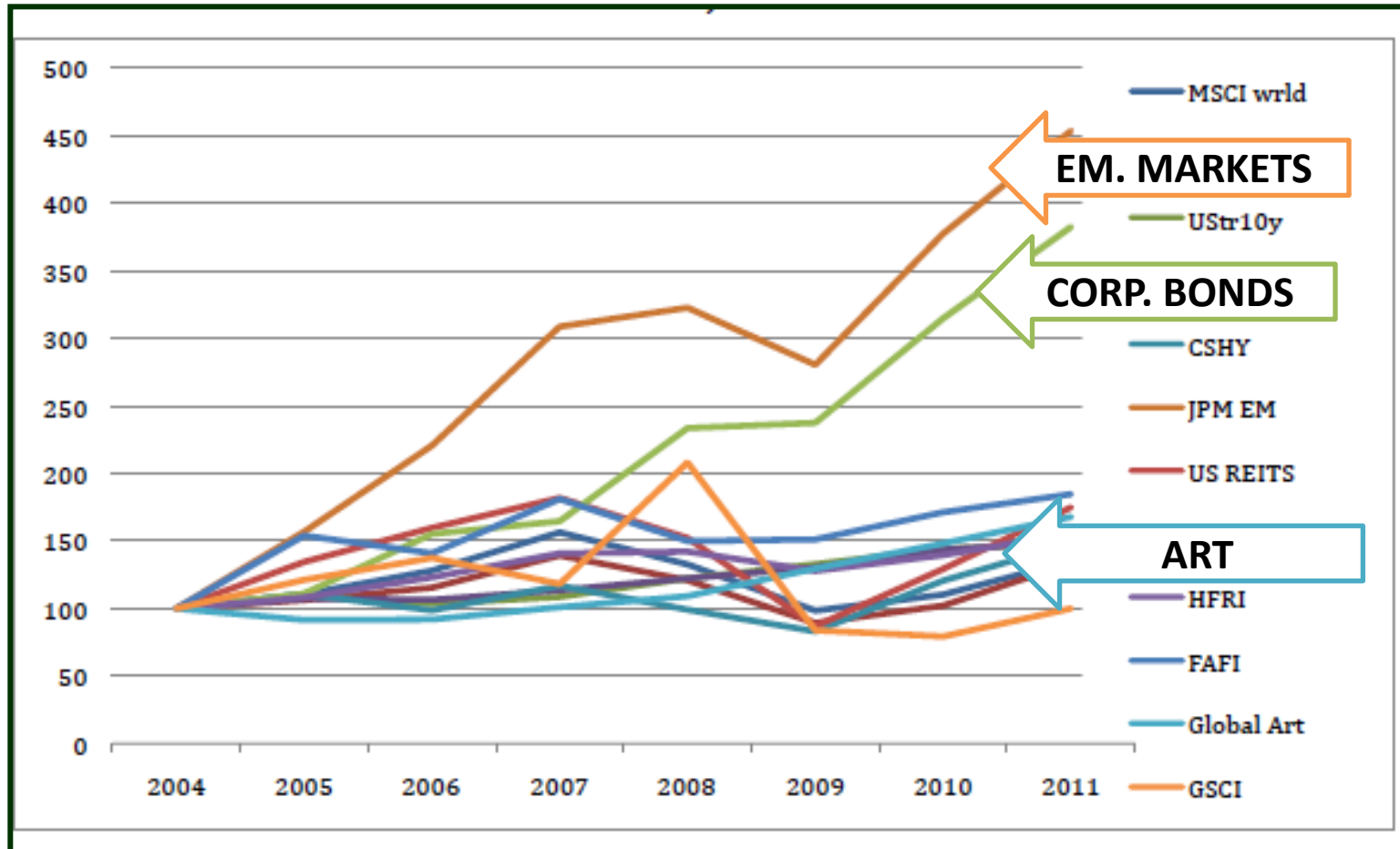
Source: <http://www.tefaf.com>, March 2012

Distribution Of The Global Art Market



Based on both auction and art dealer sales, 2011
Source: www.tefaf.com, March 2012

Asset Performance on Major Asset Classes



Dr. Rachel A.J Pownall, Fine Art Fund Performance Report, 2004 - 2011

Investible Art Compared With Other Assets 2004-2011

3. ANNUAL RISK-RETURN PERFORMANCE

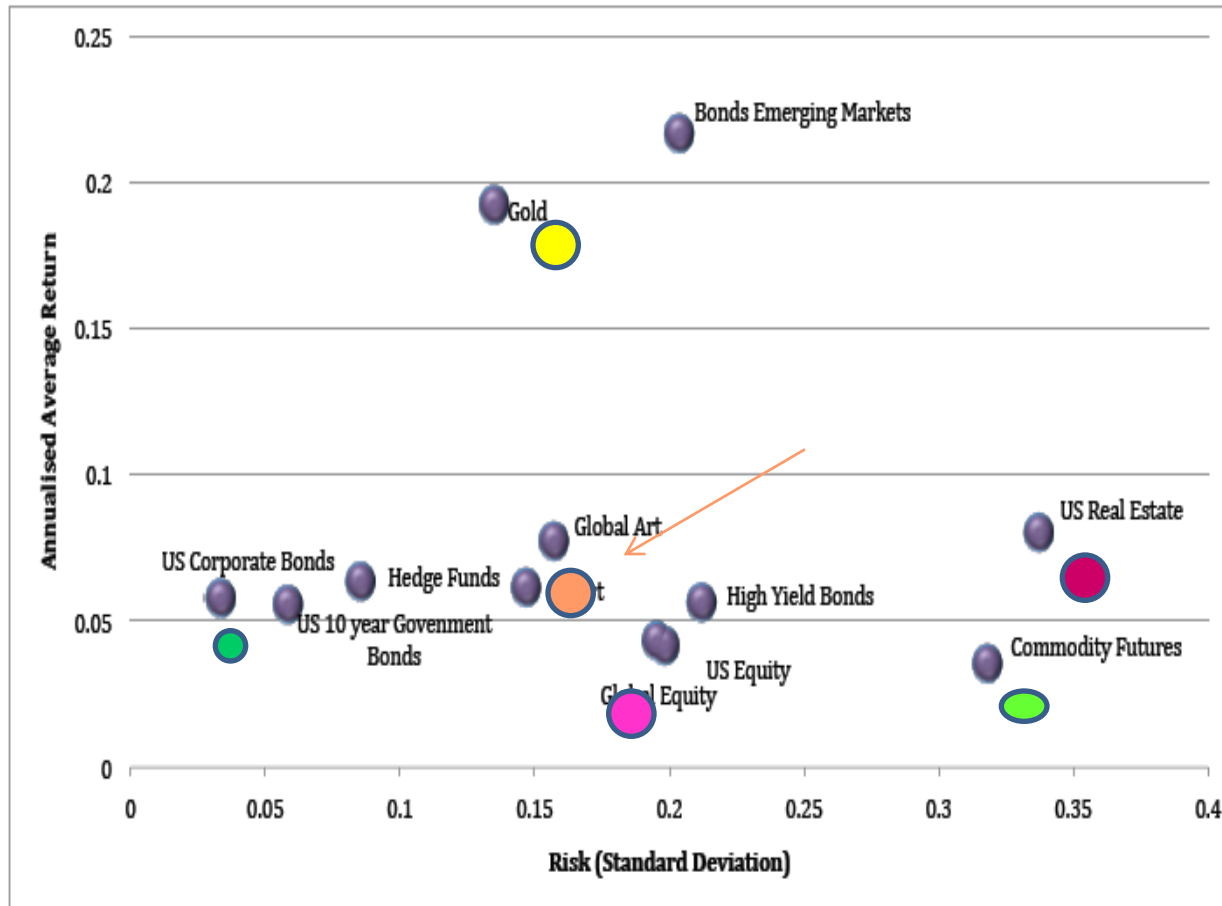


FIGURE 4

Source: Dr. Rachel A. J. Pownall at Maastricht University, The Netherlands. Director International Institute of Art Finance, Study Data June 2004-June 2011. Datastream. Total return indexes are used which include reinvested dividends for the period. The Global Art Index has been compiled using the repeated sales used in the US Art Market Mei Moses database and the additional European repeat sales by Pownall

↑ Global Art (Mei Moses Index) **outperformed** Equity, Fixed Income, Hedge Fund, and Commodities Future Indexes

↓ Global Art (Mei Moses Index) **underperformed** Gold, Real Estate, and Emerging Markets High Yield Fixed Income Indexes

Art Market: Demand Factors

- Wealth, especially in emerging markets i.e. like China, India or the UAE.

(Credit Suisse Wealth Report, Dec 2010)

- “...considered to be a ‘real asset’ and has a proven record as an effective hedge against inflation.”

(Citi Private Bank, The Capital Wealth Report 2011)

- Combination of aesthetics and emotional appeal yet potential to return value.

(Capgemini and Merrill Lynch, the World Wealth Report 2011)



Lichtenstein

Collecting Strategies

- Long term objectives for a collection
 - Varies from one collector to the next
 - To learn
 - Manage collection
 - Investment purposes



Ruscha

Buy and Buy Again



Themes & Strategies in the Art Market

- Collective purchases, each investor buys/owns a percentage of a piece of art
- The success of Art Funds (as opposed to the difficulties faced in 2004-2008)
- Art from emerging markets i.e. Middle East, China
- Art Lending: Using art as collateral for loans



Shishegaran

Disadvantages of Investing in Museum Quality Art

- Not a liquid Asset
- Art has no inherent value
- Potentially hinders the public viewing of work
- Physically fragile
- Opaque Market
- Transaction costs



John Constable (1777- 1836)

The Lock

Christie's London, 3 July 2012

Sold for: £22,441,250

However, if you do it right....

- Achieve substantial returns
- Enjoy a very appealing, tangible asset
- Balance your investment portfolio
- Outperform standard equities and assets



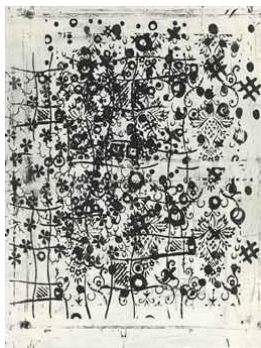
Willem Van De Velde The Younger (1633-1707)

The Surrender

Sotheby's London, 4 July 2012

Sold for: £5,305,250

Recent Deals of The Fine Art Fund: \$6m Profit on \$14m of Sales



Contemporary Painting

Purchased: \$399,545

Fund Share: 100%

Sold: \$1,076,153

Cash on cash return: 169%

IRR: 27.8%

Contemporary Painting II

Purchased: \$443,801

Fund Share: 50%

Sold: \$803,688

Cash on cash return: 81.81%

IRR: 14.58%

Fine Blue Chinese Vase

Purchased: \$588,484

Fund share: 100%

Sold: \$1,924,134

Cash on cash return: 228%

IRR: 37.57%



*Modern British Sculpture**

Purchased: \$1,461,042

Fund share: 50%

Sold: \$2,000,000

Cash on cash return: 37%

IRR: 5.64%

Middle Eastern Sculpture

Purchased: \$169,648

Fund Share: 70%

Sold: \$400,000

Cash on cash return: 136%

IRR: 59.13%

Surrealist Painting

Purchased : \$1,497,111

Fund Share: 100%

Sold: \$2,862,000

Cash on cash return: 91%

IRR: 9.57%

*Contemporary Painting**

Purchased : \$1,933,740

Fund Share: 50%

Sold: \$3,114,294

Cash on cash return: 61%

IRR: 25.5%

*Contemporary Painting**

Purchased : \$1,062,000

Fund Share: 50%

Sold: \$1,556,420

Cash on cash return: 46%

IRR: 23.45%



Recent Sales (Oct 2011 - June 2012) Total	\$13,736,689
Total Cost	\$7,555,371
The Fine Art Fund's Total Profit	\$6,181,318

*Provisional figures pending 30th June 2012 audit

Images depicted represent examples and are not owned by The Fine Art Fund Group

The Fine Art Fund Group

- leading art investment manager with an 8 year track record
- Since 2004 The Group has purchased over **\$90 million** of art, divested **\$47.4 million**, achieved a total sales value of **\$68.4 million** and generated a profit of **\$21 million**
- TFAFG is raising **The Fine Art Fund III**, a maximum \$100 million fund that will invest in museum-quality works of art
- Buys across five main categories: Old Masters, Impressionists, Modern Art, Contemporary Art 1960-1985 and Contemporary Art 1985-2012
- TFAFG can add strategic value and generate attractive cash-on-cash returns
- Proven results for benchmark Fine Art Fund I (*As of 31st December, 2011*)
 - **Gross IRR for realized assets of 20.11% pa**
 - **Combined Gross IRR for realized and unrealized assets of 12.29% pa**
 - **TVPI of 1.50x**

The Fine Art Fund Group

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