

SPECIAL REPORT

Art Funds Benefit from Disappointment in Financial Assets

The Artemundi Global Fund

The Artemundi Global Fund is a diversified art investment private equity fund with a strategic portfolio that covers half a millennium of universally recognized artists with proven track records. The Fund was launched in 2009 and is independently managed by Artemundi Management Limited, which itself is led by its CEO Javier Lumberras, who is a fifth generation art collector from Spain. According to its website, the Fund's primary investment objective is to acquire outstanding examples of fine art in very calculated categories while taking care to preserve capital in order to earn an attractive rate of return for its investors. In its 2010 year-end report the Artemundi Global Fund reported net shareholder return of 18.64%.

AUM at July 2011 was \$73.4mm spread over 48 works of art. AGF's asset diversification covers over 500 years, ranging from XV Century art to the art of the XXI Century. Some 16% of the portfolio is dedicated to Old Master; 32% to late XIX Century and XX Century masterpieces inclusive of Impressionism, Post-Impressionism, and Modern; 20% is invested in Modern Latin-American art of the XX century; and 16% focuses on Post-War and Contemporary art from Europe and the US as well as from emerging markets such as China, Russia, and India. The remaining 16% is kept available for short-term opportunistic transactions. The latter allows the Fund Manager to act expeditiously to take advantage of unanticipated market opportunities.

It is anticipated that the final portfolio will boast between 150 and 200 works of art, from Claude Monet and Henri Matisse to leading modern artists of Latin American origin, such as Frida Kahlo, Wifredo Lam, Roberto Matta and Joaquin Torres-Garcia. They target smaller format paintings from which they can expect good financial returns.

In addition to their art investment fund, Artemundi offers a more personalised alternative to wealth managers and investors by providing family offices and HNWI investors with a vehicle tailored specifically to their needs while taking advantage of the fund's methodology, strategy, platform and expertise. For more information contact www.artemundiglobalfund.com

The recent Global Art & Passion Investment Fund Report from Fine Art Wealth Management confirms that art investment funds and other investments of passion have not only survived the recent global economic crisis (and are on the way to recovery) but have gained impetus from various disappointments in financial assets. Although the financial crisis has raised the bar for art funds and other passion investments in areas such as transparency, we believe that awareness of their role in portfolio diversification and risk management has increased among investors.

However, as the report indicates, art fund managers have had to re-evaluate much of what they do and re-think a number of concepts. The lack of definitional rigour around the different types of art funds and investments of passion and the paradigm that "collections" cannot possibly be investments remain barriers to broader acceptance.

At the time of completing our study, Fine Art Wealth Management tracked 41 art and passion investment vehicles globally at various stages of development and capital raising located in 13 different countries. We asked in-depth questions designed to extract useful information and insights by directly surveying and interviewing selected fund managers on their views and methodologies.

This report captures the experience of individuals at the forefront of art and passion investments and serves to document evolving changes in philosophy, policy, and attitudes among a diverse group of global alternative fund managers. If the early signs of a growth industry are singleness of purpose yet diversity of approaches, this corner of the allocation world is clearly poised for credibility.

We can divide the development of art funds and other passion investment vehicles into three distinct stages:

- An initial era of increasing and more widespread acceptance among investors beginning in 2007.
- A phase of retrenchment following the global financial crisis of 2008 and early 2009 which heavily impacted investments generally, including art funds and other investments of passion.
- The recovery and re-evaluation period which is now underway, which is leading to a commitment by sophisticated investors to the role of art and passion investments in alternative investment strategy.

Fine Art Wealth Management's Art & Passion Investment Fund Report offers the first comprehensive evaluation of trends and themes that are emerging in this third phase and beyond. The events of 2008–2009 shook the alternative investment fund industry in many ways as most alternative investments were severely affected and a number of art funds were suspended or discontinued as the market came to terms with a new economic reality. Before the collapse of Lehman Brothers in 2008, Fine Art Wealth Management estimated there were more than 50 art and passion investment vehicles globally at various stages of development. However, delayed art fund launches became a common occurrence during 2008–2009 as fund raising became more difficult and many of these funds failed to materialise.

The financial crisis caused investors to reconsider several fundamental investment tenets, even so far as questioning the legitimacy of modern portfolio theory and its diversification underpinning. Nonetheless, respected investment strategists have concluded that diversification remains a valid approach although it has become more challenging to achieve and warrants the incorporation of a broader set of risk exposures and asset classes (both long and short term) within investor portfolios.

Another post-crisis phenomenon that appears to be hindering the breadth of growth and the accumulation of assets for these funds is a broad, somewhat overarching demand by investors and investment advisers for liquidity. In traditional portfolio management, liquidity was reserved as a particular characteristic or return of some assets, which could then be balanced by less liquid, more risk or higher expected return characteristics in other assets. It is possible that this constriction (born of fear of a continuing economic crisis), which is particularly onerous for assets that have optimal intermediate-term and long-term holding periods, will only be relieved by some degree of acceptance of market and economic stability.

Against this background, and facing a restless and empowered investor base, art funds and other investments of passion have both the opportunity to position themselves as a source of strategic and tactical portfolio diversification as well as the daunting task of gaining investor confidence. In the first report of its kind, Fine Art Wealth Management evaluates the opportunities and challenges associated with launching and distributing art funds and other investments of passion in the current economic environment. For a copy of the full report contact research@fineartwealthmgt.com

About Fine Art Wealth Management

Fine Art Wealth Management (FAWM) is the first wealth management consultancy dedicated exclusively to art, collectibles and other investments of passion as an alternative asset class and the disciplines required to analyse this complex field of investment. We are wealth structuring specialists in art assets and the leading provider of intelligence on art investment funds.

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