

# Join an exclusive community of blue-chip art investors

LUCIO FONTANA



Concetto spaziale, Attese

PURCHASED FOR

**\$234.5K**

SOLD FOR

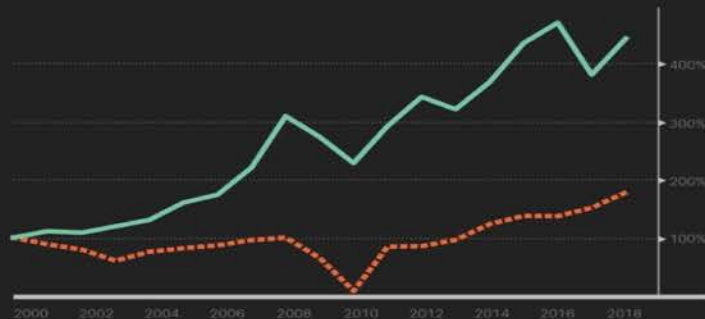
**\$5.2M**



REQUEST INVITATION

BLUE-CHIP ARTWORK VS S&P 500

WHAT IS BLUE CHIP ART



There are important differences between the art appreciation index and indices for other asset classes. [Learn More](#)

— Blue-chip Artwork (Artpace100©) — S&P 500

Source: [Artpace](#). Past performance is no guarantee of future results, see [Important Disclosures](#)

# You're invited to join an exclusive community investing in blue-chip art.

GERHARD RICHTER



A B, Still

PURCHASED FOR

**\$264.0K**

SOLD FOR

**\$33.9M**



BLUE-CHIP ART VS S&P 500 THROUGH 2018

BLUE-CHIP ART ①



There are important differences between the art appreciation index and indices for other asset classes. [Learn More](#)

# You're invited to join an exclusive community investing in blue-chip art.

JOAN MITCHELL



The 14th of July

PURCHASED FOR

**\$51.7K**

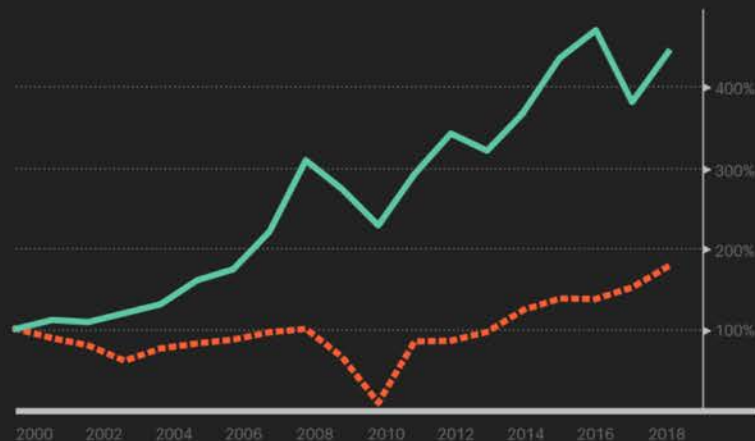
SOLD FOR

**\$7.1M**



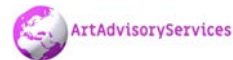
BLUE-CHIP ART VS S&P 500 THROUGH 2018

BLUE-CHIP ART



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# MASTERWORKS



## Andy Warhol

American, 1928–1987

12.17%

HISTORICAL APPRECIATION



## Jean-Michel Basquiat

American, 1960–1988

16.72%

HISTORICAL APPRECIATION



## George Condo

American, 1957

22.65%

HISTORICAL APPRECIATION



## Zao Wou-Ki

Chinese/French, 1920–2013

19.80%

HISTORICAL APPRECIATION



## Alexander Calder

American, 1898–1976

12.70%

HISTORICAL APPRECIATION



## Keith Haring

American, 1958–1990

12.60%

HISTORICAL APPRECIATION



## Agnes Martin

American, 1912–2004

13.00%

HISTORICAL APPRECIATION



## Mark Rothko

American, 1903–1970

13.00%

HISTORICAL APPRECIATION



## Adolph Gottlieb

American, 1903–1974

8.00%

HISTORICAL APPRECIATION



## Joan Mitchell

American, 1925–1992

15.78%

HISTORICAL APPRECIATION

Historical appreciations reflect an implied annualized return for a given artwork based on its purchase and sale at auction, including purchase and sale commissions paid to the auction house. Historical returns are not comparable to, or intended to represent or be a proxy, for returns on Masterworks shares. Artist information is presented for illustrative purposes only and Masterworks does not own, securitize, purchase or sell works by all of such artists. Past performance is no guarantee of future results, and an investor can lose money.

# The Art Market

**The biggest markets for Art are:**

1. United States of America → 44%
2. United Kingdom → 20%
3. China → 18%

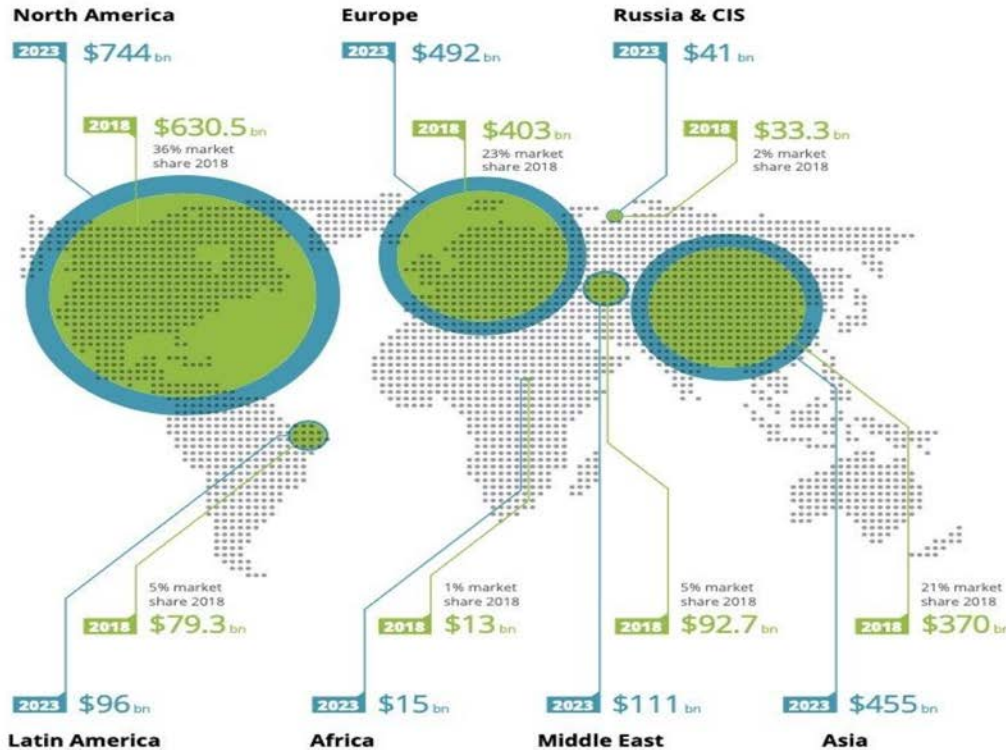
These countries make up for the 82% of the global Art market share in 2019.





**Figure 2. Global UHNWI art & collectible wealth 2018 estimates**

In this year's report, we estimate that UHNWIs wealth associated with art and collectible wealth to be an estimated \$1.742 trillion in 2018.



Source: Deloitte Luxembourg and ArtTactic Art & Finance Report 2019

# DELOITTE REPORT ON ART AND FINANCE, 2019

The map shows the growth projection for the Art Market between 2018-2023.



UHNWI means Ultra High Net-Worth Individuals →

- People with VERY high levels of wealth.
- They correspond to the 1% within High Net-Worth Individuals.

# Why Investing in Art is Attractive?

**RE-VALORIZATION**

**High Demand**

**&**

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Whenever there is an economic downturn, investors prefer art to stocks because they are tangible assets.

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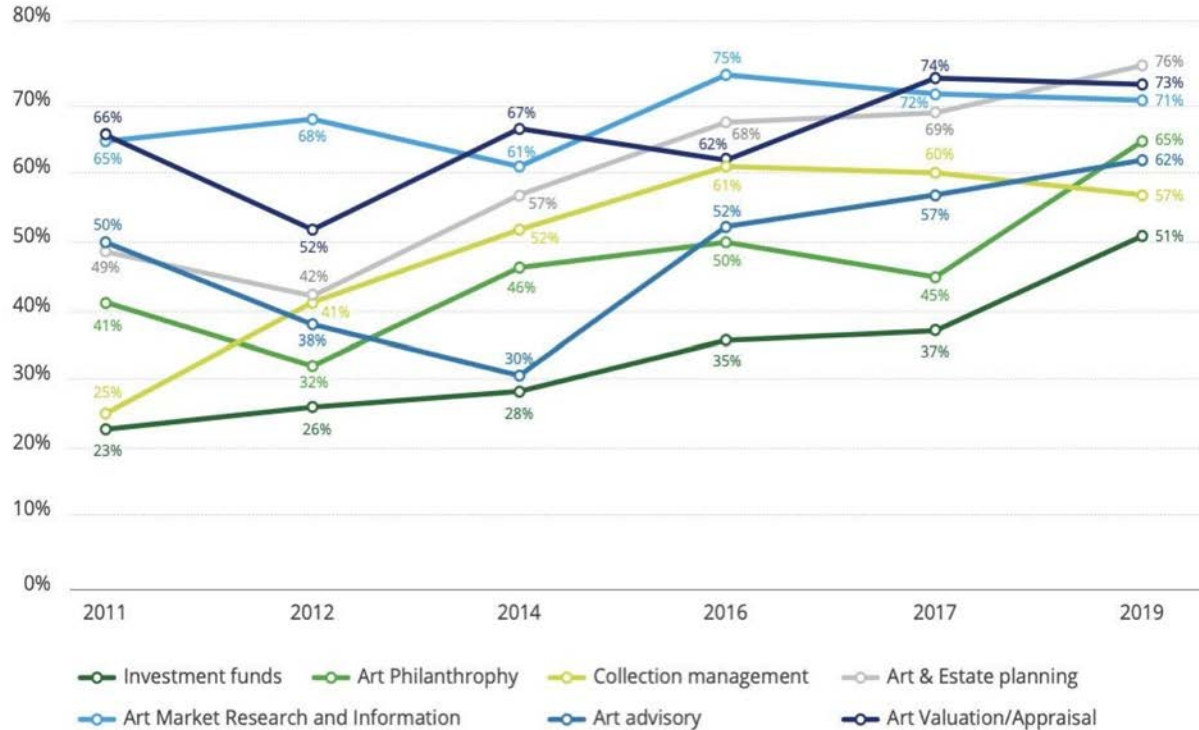
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**LACK OF REGULATION**

**Benefit from arbitrage**

**Figure 16. Collectors: which of the art wealth management services are most relevant to you?**

Source: Deloitte Luxembourg and ArtTactic Art & Finance Report 2019



## GROWING OFFER OF SERVICES IN THE ART MARKET

The graph shows the services which Art collectors value and use the most.

The services with a highest growth have been the following →

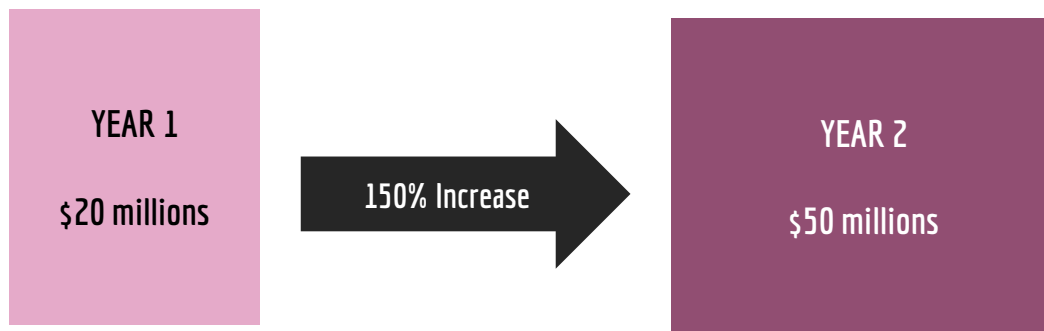
- Investment Funds → 14%
- Art Philanthropy → 20%

# The position of Art Funds within the global Financial System

Every art fund must have a PPM (private placement memorandum). It is a legal document provided to prospective investors. Some of the information included is:

- An executive summary
- The management of the partnership
- The investment programs
- The investment processes
- The investment highlights
- A summary on the art market
- Details on the management team & key advisors
- Information on the administrator
- A Summary of principal terms
- Information about risk factors
- Information on potential conflicts of interest
- The terms of offering
- The pertinent regulatory matters
- The tax aspects

# Example: How to calculate the commission of your fund manager



Your fund manager should get a 20% over the increase (benefit generated), not over the net value of the assets.

$$\text{Increase} = \text{Year 2} - \text{Year 1} = \$50 - \$20 = \$30 \text{ millions}$$

$$20\% \text{ Commission over the increase} = 20\% \times \$30 \text{ millions} = \$6 \text{ millions}$$

$$\text{If it were over the net value} = 20\% \times \$50 \text{ millions} = \$10 \text{ millions}$$

# Strategies



We can highlight the following strategies:

- **Geographical Arbitrage** →

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The key objective is to invest in artists who have the potential to increase their value in a short period.

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- **Intrinsic Value** →  
The objective is to invest in those works the Art Fund manager perceives are being undervalued: either under their *actual value* or their *potential value*.

# Strategies



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The goal is to borrow money from the Fund and use it in the acquisition of Artworks with a higher return and a lower cost than the loan taken to purchase them.

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- **Artistic Technique**→  
The goal is to focus all investments onto a specific artistic technique (i.e: photography). This usually happens because the Art Fund manager has a great knowledge on the field.

# Portfolio Restrictions

The great majority of Art Funds inform their investors about what type of Art is found in the portfolio. However, they are not required to inform about the specifics→

- This can make it difficult for an investor to choose his/her ideal portfolio.
- Not knowing what Artworks make up the portfolio, may lead to results different from those expected.



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If portfolios are not diversified it can lead to higher risks →

- If an Art Fund has followed a geographic strategy and it is only composed of Chinese artworks, a devaluation in the market can lead to great losses because the Fund did not diversify in other regions (US, UK, EU)
- Low diversification = limitations.



# Economic Regulations on Art Funds



## UNITED STATES

**Do not** have the obligation to be **publicly declared** as they can subscribe to certain exemptions under the US Laws on Funds and Investments.

# Economic Regulations on Art Funds



## LUXEMBOURG

Some advantages are **no limitations** in the type of artwork or **strategies**, **no minimum capital required** & funds can have an **unlimited number of investors**.



# Economic Regulations on Art Funds



## CHINA

The **China Minsheng Banking Corporation** created its 1<sup>st</sup> art fund in China in 2009. Chinese art funds mainly focus on Chinese artworks.

# Art Funds in the World



Some of the top art funds in the world are:

- **The Fine Art Group**
  - Claims to produce an average return of 9% before fees are deducted.
  - They currently offer a fund in lending, private accounts for their clients to buy art, and co investments.

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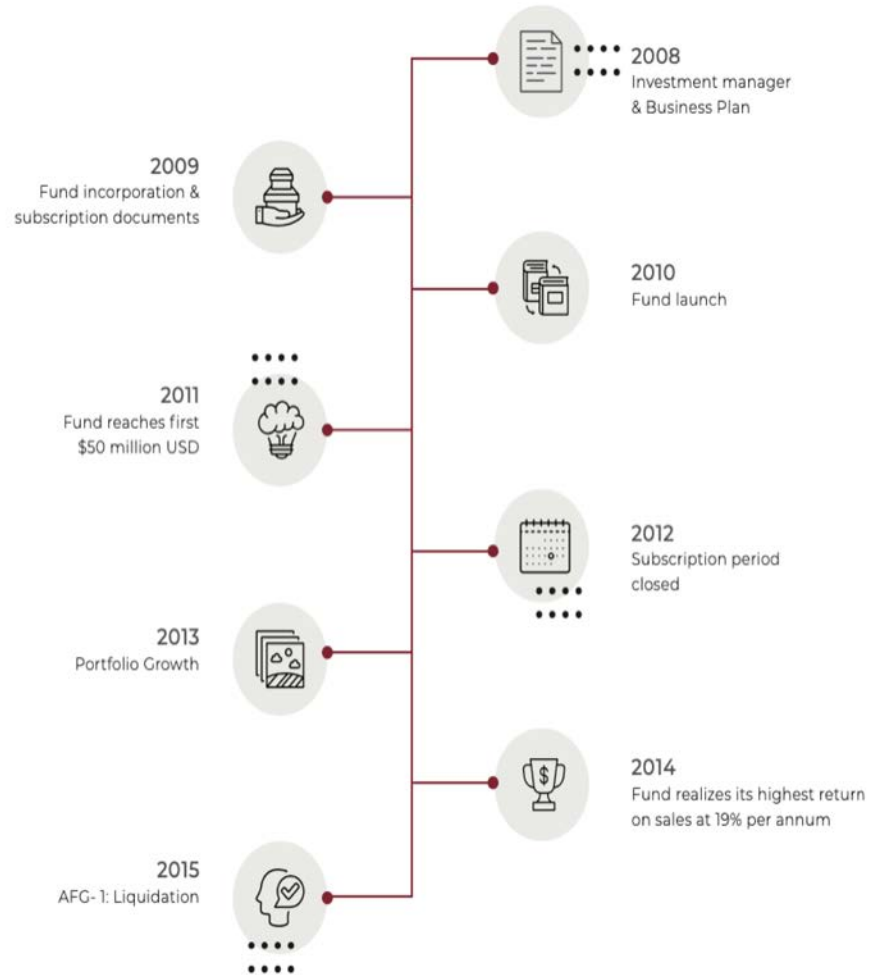
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- **Artemundi Global Fund**
  - Founded in 2010 managing 221 M USD in Miami and has a very diversified portfolio with works from numerous well-known artists at an international level

Timeline



## FUNDAMENTALS.

 5 YEAR CLOSED-END FUND

 GROSS RETURN (5 years): 96.71%

 NET RETURN (5 years): 85.36%

 AVERAGE NET ANNUAL RETURN: 17.07%

 ACCUMULATED ASSETS UNDER MANAGEMENT: \$211 million USD.

 BOOK VALUE (INITIAL): \$ 500 USD per share

 BOOK VALUE (FINAL): \$983.55 USD per share

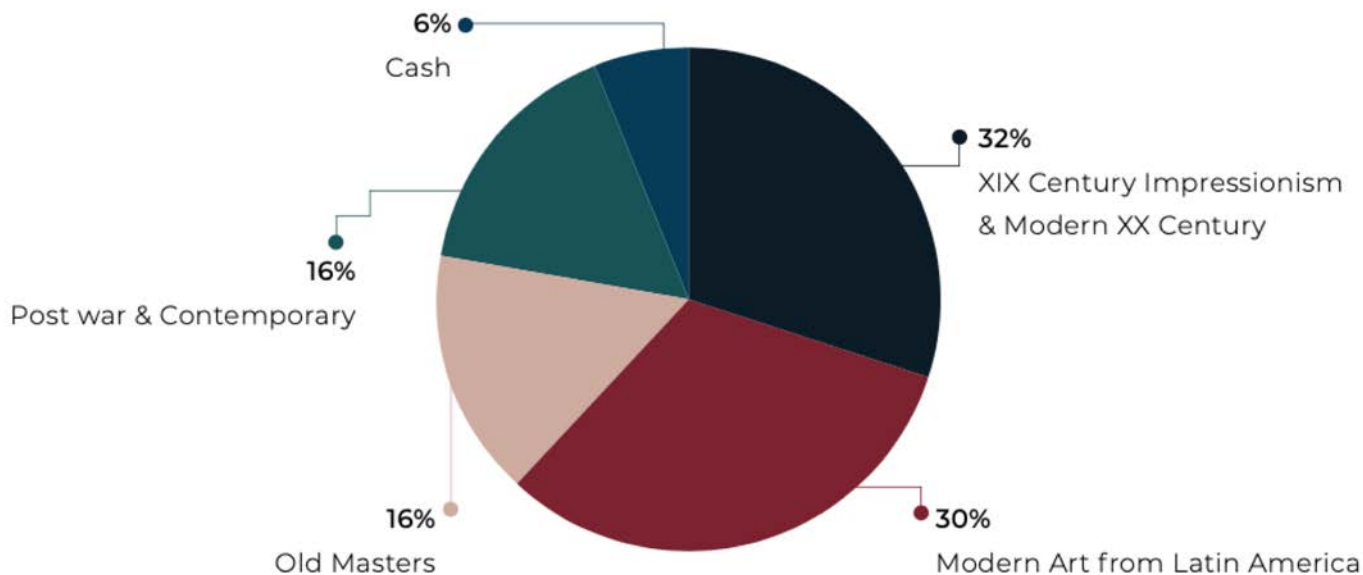
 MINIMUM INVESTMENT: \$250,000 USD for individuals and \$1'000'000 USD for institutions.

## INVENTORY FACTS.

Average date of the artworks in the portfolio: 1937

Average time work held in inventory: 455 days

Number of transactions during the fund: 170





# Take-Aways



1. The correct management and identification of artworks with potential growth. In other words, to know how to identify artworks which are going to increase in value. Hence buying them for a lower price and selling them for a much higher price.
2. The correct and effective sale of their assets. By selling effectively the artwork they guarantee the value is higher than when the investment was made.
3. The well-organized and detailed decision-making process. All the decisions are evaluated by experts in finance and art.
4. A Successful management of investments and the capital required to make them. When investments are well managed, they give benefits, and this leads to success.
5. A successful management of their expenses being the lowest possible.



**DIRECTION**  
SOFÍA URBINA



**IMAGE & SOUND:** JAVIER PÉREZ-PLA  
CARLOS GIVAJA

**STYLIST:** NATALIA CAÑELLAS

**DESIGN:** PAULA GURBINDO

**EDITING:** PABLO DE LA ROCHA

**RESEARCH:** ALIENOR BOSSE  
PAULA GURBINDO



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ART ADVISORY SERVICES



**PRODUCTION ASSISTANT: MARLENE BÁEZ**

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GALERÍA CAYLUS  
ANA S. GISBERT  
GISBERT & ALCARAZ  
OK DIARIO  
ENRIQUE FALCÓN

# Sources

The main sources of information for this lesson were:

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- [http://www.artfundassociation.com/\\_what\\_are\\_art\\_funds/basic\\_af.html](http://www.artfundassociation.com/_what_are_art_funds/basic_af.html)
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