



AGAINST ALL ODDS: ART FUNDS AS PROVEN AND VIABLE INVESTMENT VEHICLES

Accurate information is a key part of motivation

by Mary Ann Allison



In today's market, collectors and investors often ask themselves if they should buy fine art with the expectation that, in years to come, that price will perhaps double or even triple? As in any other industry, information is the key player to make a decision. Nevertheless, from time to time, uninformed media may miscarriage or manipulate the communication details in favor of certain beneficiary or just because of the lack of information. Since actions speak louder than words, this article intends to enlighten some of the issues recently conferred to art funds¹ through Artemundi's facts and proven strategies.

LOW PERFORMANCE

One of the most important inaccurate facts about art funds is their low return performance. Earliest art funds barely made a return of 5% almost 15 years ago. Nevertheless, Artemundi Global Fund (AGF-1) was originally designed in 2008 by Javier Lumbreras, an accomplished five-generation collector and experienced investor. After having mastered and refined its business plan, AGF began

¹To read this article, please refer to: Editorial, Artsy, and Anny Shaw. "The Problem with Art Funds." *Artsy*. N.p., 09 Jan. 2017. Web. 10 Jan. 2017. <<https://www.artsy.net/article/artsy-editorial-the-problem-art-funds>>.



operations in 2010. Promptly, in 2011, AGF’s fund reached the \$50 million USD mark and closed its subscriptions in 2012. In 2015, after 5 successful years, the fund carried out \$161,365,136 USD in transactions. With the initial price of \$500 USD per common share, the closing book value was

HARD FACTS	
Gross Return	96.71%
Net Return	85.36%
Average Net Annual Return	17.07%
Accumulated Assets Under Management	211 million USCy
Book Value (Initial)	\$ 500 per share USCy
Book Value (final)	\$983.55 per share

calculated at \$983.55 USD, a gross return of 96.7%. As for AGF’s performance, the return on Assets (ROA) was calculated at an average of 19.2% per year, surpassing the projections made at the beginning of the fund.²

LACK OF LIQUIDITY

It is a natural concern for any investor allocating capital in art to consider its relative illiquidity when compared to most other traditional financial vehicles. However, art’s qualities as an investable asset overcome any liquidity matters because of overall long-term benefits in an investment portfolio. Art is an illiquid asset because selling an artwork is not an immediate process and usually incur in a complex process to complete a transaction between a buyer and a seller. It is precisely its illiquidity that makes it a safe and lowly volatile investment vehicle when compared to traditional investment instruments. This specific characteristic is what makes art such an attractive asset to portfolio managers because of the low correlation with financial instruments. Moreover, in the art market there is a practical impossibility of a collective panic situation, as opposed to stocks that can suffer from a double-digit decline in a single session. For example, we can recall art’s stability was demonstrated during the 2008 recession, when art indexes dropped 4.5%, while the S&P abruptly dropped 37.5%, not to mention that the art market also recovered faster than the stock market. In 2010 the All Art Index increased by 22.6%. In 2011, it grew 10.2% compared to 9.1% for equities.

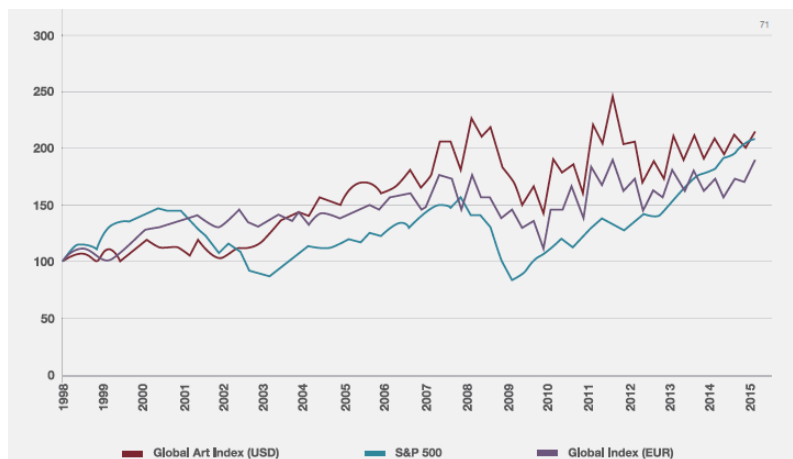


Chart comparing S&P performance against ArtPrice Global Art index.

² For further financial information about the performance of AGF-1, please refer to: <http://artemundiglobalfund.com/financials/>



LACK OF OFFER

According to *Deloitte's and Art Tactic Art and Finance Report 2016*, the European and US art fund market has seen considerable growth in capital raising, predominantly from existing art funds with an estimated \$557 million of assets under management.³ The art fund market is showing growth in the United States and Europe as existing art funds raise new capital. In 2014, the overall art fund market was conservatively estimated at US \$1.27 billion with an estimated of 70 art funds and art investment trusts were in operation, and 53 of these were in China. The US and European art fund market remained relatively stable in 2016, with an estimated US \$1.20 billion of assets under management by 20 active funds in Occident.⁴ Since 2008, investors interested in this asset class are able not only to invest in a diversified art portfolio through the purchase of common or preferred shares, but also to co-invest in particular artworks by way of debt or capital contributions, auction guarantees and art loans at Artemundi. Our services are tailored to meet compliance with collectors and investors in case of due diligence for sales and acquisitions of fine art objects.

LACK OF TRACK RECORD

Artemundi is a pioneer in the art investment industry, an institutionalized investment vehicle that has generated a solid track record which demonstrates how to manage art investments in an efficient way. Our examination and investment protocols, due diligence processes, appreciation strategies, active management procedures, financial analysis and portfolio-balancing policies based on risk tolerance have set new parameters that will later serve as examples to other players in the art investment industry. Furthermore, in a recent research made by *Deloitte's and Art Tactic Art and Finance*, wealth managers consider that art fund's audited track record and regulatory compliance make the more suited to service an increasingly unregulated financial industry.⁵

EXPENSIVE OVERHEAD

While some press have suggested that art funds fail where other forms of art investment succeed partly due to the overhead required to run one, Artemundi has been keeping operational costs at a minimum in order to maximize returns. The Expense Ratio is calculated dividing the total operating expenses by the total assets under management. During 2014 and 2015 this ratio increased

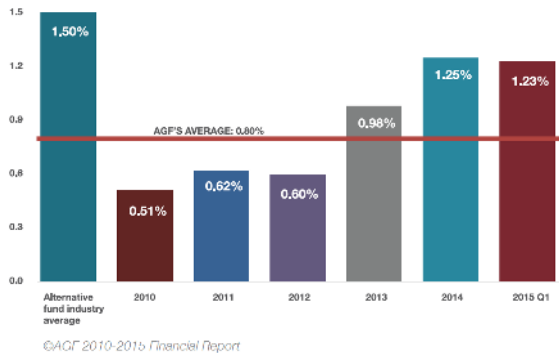
³ Picinati Di Torcello, Adriano. *Deloitte Art & Finance Report 2016*. Deloitte Luxembourg and ArtTactic. p. 17

⁴ *Ibidem*. p. 111

⁵ *Ibidem*. p. 43



because the total assets decreased and the expenses increased due to the Fund's closure. The average



expense ratio during AGF-1's life was 0.80%, considerably lower than most alternative asset investment funds. On average, total operating expenses represented only 2.1% of the net sales during the life of the Fund. AGF management was devoted to a cost-efficient budget; on average, total expense was under \$300,000 USD per operating year.

MISSES THE POINT OF COLLECTING

Finally, it has been said that reducing art to a transaction misses the point of collecting. "The important part of collecting art is the education modality, and it is this that drives the transactional modality."⁶ Why deny it? Art collecting is an insatiable passion. Each piece is unique, a sought-after, hard-to-find prize. Being dedicated to collecting can be so satisfying that it can become an individual's very reason for being.⁷ Nevertheless, one must differentiate the passion perspective that predominates in the art collecting against the rational investment focus dominating in the art funds. In art collecting, each discipline has just its own investment strategies and each strategy is a collection of different interests and budgets along with varying ways to look at given investments over time.⁸ On the contrary, from a rational objective perspective, art funds are investment channels conceived as a hedge against inflation, unstable economies, stock market breakdowns and currency fluctuations, while simultaneously, continue producing effective investment returns. They converge each transaction specifically, not only to add portfolio balance (risk diversification), but also to maximize the Sharpe Ratio (return/risk) and to achieve the right combination between short term and long-term liquidity. That is why *Deloitte's and Art Tactic Art and Finance Report 2016* presented that 27% of the wealth managers considered that they have noticed an increase in demand for art investment products from their clients (up from 20% in 2014).⁹

⁶ Editorial, Artsy, and Anny Shaw. "The Problem with Art Funds." *Artsy*. N.p., 09 Jan. 2017. Web. 10 Jan. 2017. <<https://www.artsy.net/article/artsy-editorial-the-problem-art-funds>>.

⁷ Lumbreras, Javier. *The Art of Collecting Art*. Fomento Cultural Banamex, Barcelona, 2011. p.111

⁸ *Ibidem*. p. 175

⁹ *Ibidem*. p. 17



In addition, art collectors interviewed by this international report see the benefit of art investment funds as a diversification tool: a large majority of collectors see the potential of art funds as a way of gaining broader exposure to the art market.¹⁰ The immediate fundability offered by Artemundi engages potential sellers, who consider us as one of their first choices when promoting an artwork privately. This liquidity is attractive to potential sellers, who elect to dispose of their art through private and swift transactions with alternative art investment funds. This broad submission of high quality artworks gives us the faculty to select the best opportunities in the market, identifying small jewels which have not been on the market for a long time and have impeccable provenance affidavit.



Javier Lumbreras: *Dora Maar* by Pablo Picasso

The increasingly financed, globalized, hedge fund-ized art market has cultivated a new breed of art collector who examines art as much for its behavior as a capital asset as for its aesthetic utility. This is quite a shift from the Renaissance ideal of art collector as patron, passion-seeker, and status-signaler. But at the end, it all comes to the accurate selection of a trustworthy art fund with impeccable track record and connoisseurship which will make the difference in the industry and eventually become an educational statement against uninformed headlines.

To continue learning about art funds and Artemundi's performance, please see the following video about some of the investor's top concerns like due-diligence, fiduciary duty, liquidity of the asset, and other industry issues related to art as an investment asset available on our webpage or at the following link <https://vimeo.com/194102509>.

By Artemundi Team

SOURCES CONSULTED:

- Editorial, Artsy, and Anny Shaw. "The Problem with Art Funds." *Artsy*. N.p., 09 Jan. 2017. Web. 10 Jan. 2017. <<https://www.artsy.net/article/artsy-editorial-the-problem-art-funds>>.
- Lumbreras, Javier. *The Art of Collecting Art*. Fomento Cultural Banamex, Barcelona, 2011.

¹⁰ *Ibidem*. p. 21