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Art Fund Tracker

SPECIAL REPORT: Profile of an Art Fund Manager

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EDITOR'S LETTER

2012 Art Investment Funds: A Year in Review

While interest in art as an alternative asset class has continued to grow among sophisticated investors in 2012 we have not seen an equivalent rise in the number of art investment funds. Given the current economic climate, the capital raised by such funds has remained low relative to mainstream alternative investments including hedge funds and private equity lacking the size and scale required to attract most institutional investors. While we are aware that a number of new art funds have been under development in the U.S. and Europe this year, in our estimation the overall number of active funds has not changed substantially in 2012. That being said, interest in all forms of passion assets has been accelerating at a rapid pace in Asia with a new and discernible demand coming from China. The desire by Chinese investors in particular to preserve the value of their assets against high inflation and market volatility is spurring financial innovation in passion investments throughout the region.

Many of the gains realized by sophisticated private investors in the past few years have been the result of strategic diversification of their holdings by moving into a broad range of asset classes. This trend has extended to art in the past several years, as investors have shifted their concerns from weathering the financial crisis to anticipating the inflationary effects of rising government spending and debt. The low correlation with other financial assets has made art (or at least art in the form of a well -diversified investment portfolio) an attractive strategy. There is growing investor interest in irreplaceable tangible assets such as art which exhibit defensive characteristics during weak economic periods.

In our 2011 survey on the art and passion fund market we identified in excess of 40 art and passion investment vehicles at various stages of their development operating in over 13 different countries. Since then, Deloitte has estimated the global art fund market reached approximately US $960 million in 2011 up from US $760 million in 2010. However, most of the new art funds have originated in China with over 21 art investment vehicles established there since 2010 according to Deloitte's 2011 Art and Finance Report. It has been estimated that Chinese art funds have raised over US$300 million since the second half of 2011 driven predominantly by a strong economy and wealth creation.

Art funds in India, which were in many respects pioneers of art investment vehicles, came into the spotlight in 2009 for their poor investment performance, lack of transparency and weak investment discipline. However, with the emergence of greater regulatory reform Indian art funds have entered a new phase in their evolution and are likely to re-emerge stronger as they rebuild their operating models and invest in robust systems, processes and controls. One can only hope that China will learn from India's mistakes and that its rapid growth does not out-pace the development of strict investment policies and financial regulation required for sound risk management.

In 2009 a combination of factors in the West including the on-going financial crisis, the Bernard Madoff scandal and loss of investor confidence created a difficult capital raising environment for most alternative investment vehicles; and art funds were no exception. Investors started conducting wider-ranging and more in-depth evaluation of alternative funds than ever before bringing risk management and governance concerns into sharper focus. Although high net worth investors are clearly gaining appetite for passion investments they are likely to be extremely selective as they decide which investment vehicles deserve their money and will remain slow to commit themselves to new funds which lack an established track record of performance. But while so far we are not seeing dramatic amounts of money going into new funds in the West, we do expect to see existing art funds adding capital.

Following events in the global economy in the past several month we have seen new momentum around art and other passion investments amid the turmoil in the financial markets. Since our last report there have been a number of new developments which could significantly influence investor demand. As signs point to continued turmoil in Europe and with the recent announcement of QE3 in the U.S., sophisticated investors are increasingly turning to “real assets” like art to diversify their portfolios and help anchor their investment strategy.

Historically, sophisticated investors have relied on “real assets” such as gold and commodities to diversify their portfolios and to protect themselves against the damaging by-products of inflation and volatility. For many wealthy individuals high quality works of art with strong provenance and in good condition are becoming the real asset of choice and an important component of strategic portfolio diversification. While many investment professionals agree that real assets provide diversification benefits, up until recently there has been surprisingly little research into the appropriate allocation in an investment portfolio. Art used in the right way, can enable investors to better tailor their investment strategies to address specific financial and investment concerns (e.g. controlling volatility, boosting returns, or hedging against inflation). However, making a long term commitment to art is important, as the key benefits are strategic in nature. Further, as most analysts will tell you a long-term horizon helps reduce concerns about illiquidity and volatility.

Recently we have seen the emergence of privately managed art accounts in the form of art fund managers seeking to provide investors with higher levels of transparency and control. By definition, a managed art account is segregated from any other pool of funds the art fund manager may provide service to and is tailored to the needs of a specific investor. So what does this all mean for the future of art investment vehicles? Looking forward we can expect a number of key themes emerging:

• Investment in art and other passion assets will continue to grow and evolve primarily appealing to sophisticated investors as part of a portfolio diversification strategy.

• Investors will intensify their scrutiny of alternative investment vehicles and are expected to conduct even more rigorous due-diligence on art investment funds.

• In 2013 we will see a growth of managed art accounts offered by art fund managers targeting high net worth individuals and family offices which are personalised and tailored to their specific needs.

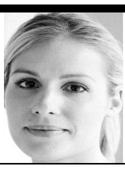
• The number of art funds from developing economies will increase and will be directly linked to the economic expansion in these countries and the emergence of a new generation of wealth.

• Art as an alternative investment will gain momentum in 2013 primarily from investor disappointment in financial assets and growing demand for "real assets" which offer a long term store of value.

Randall Willette – Founder & Managing Director
Fine Art Wealth Management Ltd.

PROFILE OF AN ART FUND MANAGER

An Art Fund Manager's Path of Succession



Randall Willette interviews Constanze Kubern, Founder of Constanze Kubern Art Advisory and formerly in charge of Castlestone Management's 'Collection of Modern Art' fund.

RW: Constanze, I understand you started out at Sotheby's planning and executing strategic marketing campaigns for the Impressionist and Modern Art auctions. Can you tell us why you decided to make such a dramatic change and join Castlestone Management to run their art investment fund?

CK: The time was right! I had spent almost five years marketing the sale of works of art and gained invaluable experience about the inner workings of the art market. During the downturn of the market in 2009, however, power shifted from sellers to buyers and when Castlestone approached me with an offer to look after their art fund and build its collection, I simply couldn't resist. It was a new challenge for me and the perfect timing to buy museum quality works of art for a steal.

RW: How is the fund structured and how did it perform during the time you were there?

CK: Castlestone Management's 'Collection of Modern Art', was launched in 2009 as a BVI registered mutual fund which specialises in investing in blue-chip Post-War art over an 8-year holding period. With annualised returns reaching 28% in 2010 and 14% in the first half of 2011* the fund broke all expectations and steadily grew to a size of almost $20m spread across 32 museum quality works of art.

RW: What happened in 2011 before you departed Castlestone and decided to set up your own art advisory?

CK: Unfortunately, its story of success was tainted by an FSA investigation launched against Castlestone Management in June 2011. Although the investigation was only launched against one part of the Castlestone Management group and the art fund was not affected, reputation and investors' trust was diminished within minutes the story hit the news. False accusations spread by the press, such as the art works being stolen from the offices, were revoked later but investors' redemptions came dripping in and ultimately forced the firm to liquidate part of its assets. Unfortunately, this also meant breaking up parts of the art collection which was built with an 8-year investment horizon (2016) in mind. Having to market works with a tainted provenance and bought within the last two years most profitably, was certainly the biggest challenge I faced since managing the fund. I reached out to various channels of vendors and leveraged my network of art dealers to set the parameters for their liquidation. As it had been my wish to set up my own art advisory for quite some time, I decided to leave Castlestone in October 2011 and went ahead setting up my new venture. Art as an investment has come a long way and I am optimistic it will become even more relevant as a wealth preservation tool in the years to come.

RW: Tell me about Constanze Kubern Art Advisory.

CK: Our mission is to bridge the gap between art investments and passionate art collecting. There doesn't need to be two separate worlds. One can build a connoisseur's collections which represents the clients taste with an investment purpose in mind. Our bespoke services are tailored to each client's individual needs and range from advice on setting up and managing art investment vehicles for asset managers, lending towards art for banks to art collection optimisation and succession planning for private individuals or family offices. I am very proud of having been awarded as Art Adviser of the Year at the Spear's Wealth Management Young Turk Awards 2012 earlier in the year and my company being up for nomination as Art Advisory Firm of the Year at the Spear's Wealth Management Awards 2012.

RW: What do you believe are the benefits of investing in real assets versus financial assets?

CK: With the S&P500 returning 0% in 2011 and fears of currency devaluation being fuelled by the announcement of Quantitative Easing III, investors are looking for alternatives to diversify their investment portfolios away from financial into tangible assets. Art's quick recovery after its downturn in 2009 finally brought art as an asset class on the radars of even the most conservative bank or wealth manager. However their biggest concern remains: How can I enter this opaque and illiquid asset class?

RW: So how can art investors overcome these obstacles?

CK: Is there a more efficient way than investing in an art fund given that they do not wish to build their own art collection from scratch? 'Private art funds' are the answer to overcome these obstacles. Set up as a legal structure, most often as an off-shore trust fund for tax purposes, they have a small group of shareholders only, who pool their investment into one portfolio and engage an advisor to allocate their assets towards art. Clients benefit from the advantages a pooled investment vehicle (lower risk through asset diversification, economies of scale among other) entails but without the flaws public art investments funds bring about.

RW: What are the benefits of a private art investment vehicle versus a more public art fund structure?

CK: There are no high set up fees for regulator, custodian, administrator, auditor etc. the fund needs to absorb. The TER is fully transparent and you avoid the hefty management and performance fees asset manager charge on top. Clients can have as much or as little involvement in the management of the collection/ exposure to the art world as desired. Often investors appreciated the added benefit of learning more about the asset class they buy into and most importantly they have the option of sharing the display of the works. Liquidity is not an issue as investments are pooled upfront and usually locked in for the holding period. Therefore there's no need to hold cash in the fund for redemptions or fear of having to sell assets earlier than planned.

RW: Are there any other opportunities you have identified in the market?

CK: Art financing and lending towards art. Already a common tool used to capitalise on rising market trends in fund management, 'gearing' or adding 'leverage' to an art collection is becoming popular within private wealth management at leading banks. I gathered extensive experience working on art financing deals with the leading banks, brokers as well as auction houses while managing the art fund. I therefore often get requests from institutions as well as private individuals to value works of art used as collateral for loans. In many jurisdictions art lending can result in very attractive savings in inheritance tax, if planned accordingly. With interest rates remaining low and no significant rise on the horizon, I believe this is another service which will gain momentum over the next months to come and hence we are keen on building our expertise here even further.

RW: Finally, what do you see as the future of art investment funds in Europe given that most of the growth of these investment vehicles in the past couple of years have come predominantly form China.

CK: Wealthy Chinese buyers have been dominating the art market, 20th Century art in particular, over the last two years. As Capgemini reported last year, the number of UHNWI in Asia has already out passed Europe and the US. It is therefore no surprise that Asian asset managers are tapping into the art investment vehicle space to serve their clients appetite for this alternative asset class. In some of Asia's jurisdictions, such as Singapore, art also offers attractive tax benefits.

However, first announcement of the government tightening regulations on import and tax regulations as well as regulating the alternative investment space could have an adverse effect on their expansion. The same is happening in Europe and the US. As mentioned earlier, Quantitative Easing III caused a run for tangible assets once again and therefore for many investors art has become an attractive alternative to gold, property among other. With public alternative investment schemes globally facing tougher regulations, it once more comes to show that 'Private art funds' are a sophisticated investor's 'safer bet' to avoid these restrictions and benefit from art as an asset class at its fullest.

*As of 'Collection of Modern Art' Fact Sheet July 2011 C17.

www.kubern.com

PROFILE OF AN ART FUND MANAGER

First Private Collection to Convert to an Art Fund

Serge Tiroche's hands-on involvement in the art world began more than 25 years ago at Loudmer auction house in Paris. In 1992, he was involved in the set-up of Tiroche Auction House in Israel and a partner in the family's international Art trading activity.

Serge Tiroche has substantial banking and investments expertise while also holding a BA in Business Administration and Modern Arts from the American University of Paris and an MBA from INSEAD. In 1997, he joined Citigroup's Private Bank where he had a multi-faceted 10 year career in wealth management as a Managing Director in Switzerland, UK, Israel and Turkey.

Prior to the financial crisis in 2008, he left Citi in order to found ST-ART, Israel's innovative artist incubator project, and Serge Tiroche Consultants, a financial advisory services firm with focus on art investments. In 2009-2010 he was Chairman of board of Artist Pension Trust. In 2011, he co-founded the Tiroche DeLeon Collection and Art Vantage.

Serge is passionate about educating and creating investment vehicles to enable the public to access Art as an investment. He advised and invested in numerous companies including Artist Pension Trust, Mutual Art Services and Split-Art. He is on the Board of Governors of the Tel-Aviv Museum and the Batsheva Dance Company and is a Council member of the Serpentine gallery. He is a frequent speaker at Art Investment conferences around the world, the next being the International Art Industry Forum during the Vienna Fair on September 19-20, 2012.
The first private collection to convert to an Art Fund: The Tiroche DeLeon Collection of Contemporary Masterpieces from Developing Markets is looking to raise $50 million from co-investors.

Art Vantage PCC Limited is an experienced investor fund registered with Gibraltar's Financial Services Commission. It was formed in March 2012 in order to turn the privately owned Tiroche DeLeon Collection into the first socially responsible Art fund. Seeking participation from private investors and institutions the fund is set to raise up to US$ 50 million in a closed-ended 10 year structure. The fund projects annual returns over 10%, net of fees and expenses, and has produced a 14.65% annualized return for 2011.

The Tiroche DeLeon Collection was launched in early 2011 as a private collection. The $10 million joint venture between long time private banker and art patron Serge Tiroche and entrepreneur and social investor Russ DeLeon was converted on March 1, 2012 to a regulated art fund with an increase of founder capital to $12 million. The collection of 230 works formed the seed investment in the new fund, which continues to be managed akin to a private collection. The focused investment strategy and the extensive lending program make it unique in the art fund industry.

Entirely visible online, the collection now comprises over 240 works by preeminent contemporary artists from new markets. It is globally diversified into six regions: China & Far East; South America; India & South East Asia; Middle East; Africa & Australia and Russia & Eastern Europe, and is almost equally split between wall-based and space occupying works.

With a focused strategy on a specific sub-sector of the Contemporary Art market, it's wealth creation strategy builds on both the Beta of the market (growth of emerging market economies and thus anticipated growth in local demand by new collectors and institutions) and the manager Alpha (long collecting/investing history, economies of scale and market specific knowledge).
The manager intends to hold the majority of works long term such that the fund combines investment value with social responsibility. Unlike most other art funds, it is fully transparent and acquires works principally in the primary market - collaborating with galleries, artists, curators and museums. In this way the fund avoids authenticity risk and benefits from preferential access, economies of scale and broad support from the art community.

By having a global footprint of storage facilities, it enables an extensive lending program. Coupled with a relative overweight to large scale, museum befitting installation works and a professional and experienced operation, it is an attractive lender. More than 15 works are currently on loan to a variety of museum exhibitions around the world. In this way, the fund serves as cultural emissary and invests with its interests aligned to those of galleries, artists and the public at large.

Art Vantage will also seek collaboration of leading curators to draw on works from the collection to create touring exhibitions that explore and expose the intricacies arising by artists from diverse cultural backgrounds dealing with the same key issues of our time. The Collection has been invited to present a booth at SH Contemporary Art Fair in September 2012.

The collection is valued annually by an established independent third party. Art Vantage PCC Limited is fully audited by KPMG, administered by Grant Thornton and is regulated by the Gibraltar Financial Services Commission. Sotheby's performed the first valuation at year end 2011. Minimum investment is $500,000.

Artists represented in the Collection include:
Far East: Ai Weiwei, Fang Lijun, Yan Pei Ming, Zhang Huan, Do Ho Suh, Wang Du, Hyung Koo-Kang, Wang Zingwei, Aya Takano & Haegue Yang
South-East Asia: Suboth Gupta, Bharti Kher, Rashid Rana, Jittish Kallat, Ravinder Reddy, Atul Dodiya, Sudarshan Shetty, Nalini Malani, LN Tallur, Shilpa Gupta, Thukral & Tagra, Jagannath Panda, Ranbir Kaleka, Agus Suwage, Eko Nugroho, , J.A. Pramuhendra, Etang Wiharso, Geraldine Javier & Rodel Tapaya
Latin America: Vik Muniz, Adriana Varrejao, Ernesto Neto, Leda Catunda, Os Gemeos, Jorge Macchi, Guillermo Kuitca, Adrian Villar Rojas & Los Carpinteros
Middle East: YZ Kami, Shirazeh Houshiary, Nabil Youseff, Halim Al Karim, Michal Rovner, Sigalit Landau & Stelios Faitakis
Russia & Eastern Europe: Semyon Faibisovich, Ivan Chuikov, Sergey Bratkov, Pavel Pepperstein, Olga Chernysheva, Pravdoliub Ivanov & Almagul Menlibayeva
Africa & Australia: El Anatsui, William Kentridge, Yinka Shonibare, Mounir Fatmi, Pieter Hugo, Kudzanai Chiurai, Mikhael Subotzky and Patrick Waterhouse

The collection is visible on www.art-vantage.com http://artvantage.collectorsystems.com/ or on Facebook: Art Vantage.

Note: This is not an offer or invitation to invest in the Fund. For further information relating to the Fund please

Contact Serge Tiroche at *Serge@art-vantage.com*

PROFILE OF AN ART FUND MANAGER

Choosing the Best Art Fund Platform

Randall Willette interviews Massimiliano Subba, Managing Partner of Anthea Art Investments AG and a Member of the Board of Managers of Anthea – Contemporary Art Investment Fund SICAV FIS on selecting Luxembourg as an investment fund platform.

RW: Massimiliano, can you tell us briefly about your background before becoming a Managing Partner of Anthea.

MS: I started my career in the Equity Derivatives desk of Merrill Lynch in New York in 1997. I subsequently moved to the Asset Finance Group of Credit Suisse First Boston in London. In 2002 I was appointed as a Vice President of the Global Structured Product Group at Bank of America, in charge of the Italian, Spanish and Portuguese markets and finally held a Director position in the Securitisation department of Commerzbank in London, where I headed the team responsible for originating and structuring transactions involving financial institutions and corporate clients in Southern Europe.

RW: I understand that Anthea – Contemporary Art Investment Fund SICAV FIS (Anthea- CAIF) is a Luxembourg approved collective investment scheme. What was behind your decision to choose Luxembourg?

MS: I believe Luxembourg is today one of the most established and efficient investment fund platforms in Europe offering, inter alia, sound regulatory framework for collective investment schemes, tax harmonized with a large number of European and Non-European jurisdictions, and this provides investors with a safe and tax effective investment platform. The Luxembourg legislation for collective investment schemes has been in place for a number of years and strictly requires approved investment funds to provide investors with effective asset segregation, clear investment guidelines to manage risk concentration and assure diversification, regular and transparent reporting, effective risk management system and conflict of interest disclosure. The Commission de Surveillance du Secteur Financier (CSSF) regularly monitors all the approved funds activity to make sure they comply with the required guidelines. Further to this, a very well established network of third party service providers allows a professional and smooth execution of the fund operations.

RW: Can you tell us something about your strategy?

MS: Our investment strategy focuses on Post War & Contemporary Art only and within this market segment we diversify by investment category including blue chip works, works from established artists, emerging artists and also works of established artists from what we consider upcoming economies such as Latin America, Asia, China, etc. The objective of the fund is to provide our investors with a portfolio of investments well diversified both by means of the investment categories and, within each investment category, by means of number of executed investments.

RW: What do you consider the greatest strength of Anthea's management team and who will be advising on the buying and selling of art?

MS: The team is made by professionals with undisputable professional track records coming from different industry background. The fund Board of Managers currently includes lawyers, investment management professionals with the requisite consolidated expertise to provide investors with top notch expertise and assure the efficient operation of the fund activities. Specifically, the fund Art Advisory team requires a special mention as it is composed of three of the most recognized professionals in today's art world each of them contributing to the fund superior market knowledge and expertise. Dr. Mark Rosenthal, whose career in museums has included positions as curator of twentieth-century art at the National Gallery, Washington, D.C., the Philadelphia Museum of Art and as adjunct curator at the Solomon R. Guggenheim Museum, New York, advices the fund for acquisitions related to blue chip works and established artists. Prof. Dr. Jean-Christoph Ammann, one of the most prominent figures in today art world, looks after the emerging artists sector and Paolo Colombo, former curator of the MAXXI, the National Museum of the 21st Century Arts in Rome and before director of the Geneva Centre d'Art Contemporain, looks after the artists of the upcoming art markets such as Latin America, China and Middle East. Further to their outstanding professional achievements, these three professionals have known each other for long time and already worked together successfully on a number of projects. This should reassure the fund investors of a smooth and efficient decision-making process for the fund's acquisitions.

RW: What is the one thing that you believe distinguishes your fund from the others in the market?

MS: Firstly, we are one of the few art funds regulated and approved in a jurisdiction like Luxembourg which, as I mentioned before, provides investors with a sound and reliable legal and regulatory framework, and this, I believe, today is a vital consideration for a number of investors. Secondly, an aspect, which makes the Fund pretty unique, is our investment strategy, with its focus only on a single market segment, Post War and Contemporary Art. This allows a more comprehensive investment strategy by including different investment categories (blue chip, established artists, emerging artists, etc.) and better risk management of the investments portfolio by fragmenting each investment category by number of executed investments. Thirdly, our art advisory team of undisputable prestige!

RW: What is the profile of your investors?

MS: We cover a quite wide range of investor types, from High or Ultra High Net Worth Individuals to professional investors such as asset managers or family offices. Recently, we have initiated discussions with institutional investors which like our product very much, as, being a regulated fund, it provides them with certain key features very important for those investors to meet their investment criteria.

RW: Why do you think so few art funds have been successful up until now? What do you see as the long term future for art investment funds in general?

MS: Probably, a challenge art funds face is that many financial investors perceive fine art mostly for leisure or cultural enrichment neglecting the potential it has from an investment perspective. In the past this was probably due to the lack of available information or organized database highlighting fine art markets performance and achievable investment returns. Today a number of companies specializes in fine art analytics and provides investors with a wide range of historical databases for art prices, indices and art market researches. This should make more evident to financial investors the benefit of including fine art in their asset allocation strategy and when doing so, investment funds come to be the most effective way to invest as the "Do It Yourself" option not always yields the expected outcome as it turns out to be labor and capital intensive.

www.anthea-art.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 vehicles.

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