

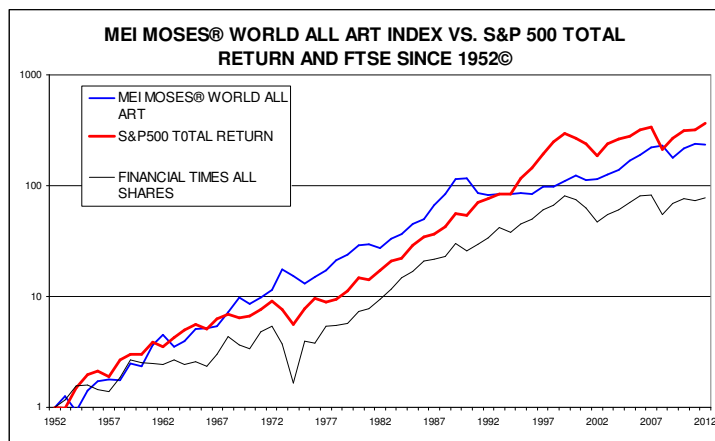


Track Record for Art Funds

It is commonly said that to understand one's present one must understand one's history. Moreover, it is difficult to forecast the future without understanding the past and the present. Financial instruments are not immune to this premise, their development and execution depends a great deal on historic or past outcomes and facts. Therefore a complete understanding of the industry's track record is very important to make informed decisions. It can be considered that the art-investment industry was born when art's track record as an investment asset was precisely quantified by formal academic studies.

Art properties as an investable asset have been acknowledged since ancient times; however, they were never estimated or measured in a formal and universal way. It was until the last couple of decades of the 20th century that academics from different fields of study started to analyze these properties from a scientific perspective. Naturally, in order to compare art with other financial assets the first thing they had to do was to quantify its risk and return through time. This was not an easy task because there were no well-organized and credible databases or files of information concerning art transactions. However, by using the prices from public-auction records, art price indexes were created estimating the average risk and return of artworks. These became one of the key elements of the art-investment industry because they demonstrated numerically how art could be considered an alternative investment asset and how it could be compared with other financial instruments. Moreover, this opened the doors to financial and econometric analyses that provided the foundations for portfolio optimization and risk management both for private and institutional investors.

Despite several imperfections art indexes have managed to estimate art's track record as an investment asset, either for art in general, specifically for art sectors, or for artists in particular. However these indexes only suggest or represent graphically (or numerically) the trends and directions of the market, until now they have not become an investment vehicle by themselves or an underlying asset. But considering the recent development of the art-investment industry this is not far away from reality.





Once the asset's track record was estimated, institutionalized-investment instruments like Art Funds were born. It was a logical consequence. Whether the industry perceives them as more or less successful depends on the amount of data they make publicly available. The few that report financial outcomes suggest they are creating a positive track record. Most of the existing Art Funds are too young to report very meaningful records, however their results will become of historic relevance because they will become the first results from an institutionalized form of art investment. These in fact will become crucial when determining the future of the art-investment industry and its acceptance from the financial community.

Contrary to what many press articles publish, an Art Fund's track record does not only include average rates of return and risk. It includes a lot more information that is very relevant to the art market and art world in general. For example, the art sectors where they invest, their optimal price range of investment, the optimal characteristics of artworks that they look for, the transaction channels that they use the most, the general costs of managing and caring for the artworks, the optimal investment horizon of artworks, average transaction fees (or intermediary commissions), etc. Many of these facts could seem as superfluous information for investors, nonetheless they are facts that most industries keep as public information and the art world still lacks.

Well-managed Art Funds are also creating a solid track record on how to operate and manage art investments in an efficient way. Their investments protocols, due diligence processes, investment strategy, active management, financial examination

ARTEMUNDI GLOBAL FUND'S FACTS 2014	
Average Expense Ratio	0.65%
Average Estimated Annual Return	19.12%
Optimal price range of transactions	\$250,000 - \$1,000,000 USD
Artwork's average time held in inventory	350 days
Artwork's optimal average size	100 x 97 cm.

and portfolio balance strategies according to risk-tolerance will later serve as examples to new players in the art-investment industry. Moreover, their track record is laying the foundations for a whole new gamma of institutionalized, and very specialized, investment instruments using art as an underlying asset.

Investors' reluctance to formally consider art as an investment for their portfolios is sustained by the fear of not having the correct information. However, this fear will be gradually offset with the reliable and fact-proven information that is appearing publically more and more every day.

"Go as far as you can see; when you get there, you'll be able to see farther"
(J.P. Morgan).