Issue 9, July 2011 | FINEART WEALTH MANAGEMENT

www.fineartwealthmgt.com

Art Fund Tracker

Analysis from the global investment market for art and other investments of passion

In this issue

EDITOR'S LETTER

Art Investment Funds Embrace Managed Accounts

Recently we have seen the emergence of managed accounts from art fund managers seeking to provide investors with higher levels of transparency and control, greater liquidity, and more flexible fee schedules. As art fund managers wrestle with ways to attract new capital infusion, one increasingly popular solution is to offer private single owner accounts particular for investors with larger pools of capital. While managed accounts are introducing new support challenges for the art fund industry, they do present a valuable opportunity for art funds to attract clients and assets.

A managed art account is a specifically tailored dedicated investment vehicle, often set up as a limited liability corporation. All assets within the managed account are held in the name of the managed account holder. The managed account trading strategy generally mirrors a manager's reference fund, but the investment mandates can be bespoke and tailored to meet the investor's individual requirements.

While the fund manager is responsible for managing the funds in a managed account, many aspects of the operational infrastructure (for example custody, administration and valuation), are delegated to independent third party providers. A managed account is separate from any other pool the fund manager may advise or provide service to, and is segregated. There is a good case for segregation of assets, especially for larger clients that are long-term investors and don't want to be subject to the pressure of co-investors in a commingled fund that might want to redeem.

Managed accounts can be used to control investment in a number of ways, including taking care of style drift. Within a managed account infrastructure, if the investor reaches the point where they no longer trust the manager, they can take back control immediately, rather than being stuck behind six months' redemption notice. Even if the liquidity's not there they can take control of the assets, either for another manager to run or to close out the positions.

When investors allocate money into a commingled vehicle, they become limited partners or shareholders, ceding control over the account to the fund manager and, at times, having limited access to their capital and to information regarding the vehicle's market exposure. In comparison, with a managed account the art fund manager acts as an advisor, with the authority to transact the account, while the capital allocator retains ownership and control over the assets.

Historically, alternative fund managers have resisted offering managed accounts for a number of reasons. First, the heightened transparency of a managed account means investors have more insight into a manager's portfolio and trading strategies. Second, managers lose some scale in their trading strategies and counterparty relationships. Third, managed accounts are more operationally complex, and therefore more expensive to support. But while the economics for managers may be less favourable than with their pooled vehicles, managed accounts may provide an attractive vehicle for raising capital and offering art funds the chance to grow their asset bases.

An important question currently being asked among fund managers and investors is whether the current shift toward use of managed accounts will make them a permanent feature of the industry landscape, perhaps one day replacing pooled funds as the default option for investment, or whether some of the impetus will slip away as memories of the financial crisis of the past two years start to fade. It is FAWM's belief that managed accounts are here to stay, certainly for investors concerned about the potential transparency and fraud risks when investing through a manager's pooled fund. In the wake of the turbulence of the past two years, the extra cost is considered a price worth paying.

Art Investment vehicles will continue their evolution and the long-term picture for managed accounts will be shaped by a combination of forces. For example, the impact that future regulation may have in stipulating greater transparency for the alternative fund industry as a whole. As the industry evolves, it's clear that the winners will be the art fund managers who have the operational flexibility to adapt and provide products that meet investor' needs.

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

INTERVIEW

Classic Car Fund: The Perfect Investment Vehicle for a Family Office

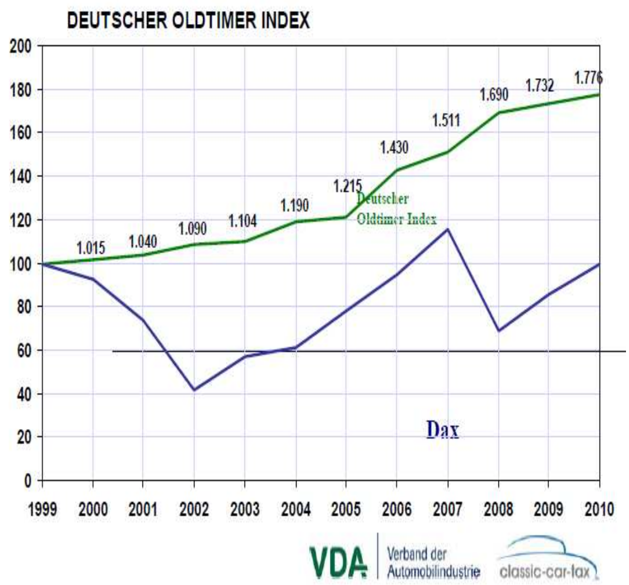
Randall Willette interviews Filippo Pignatti Morano, Fund Manager of the Classic Car Fund and CEO of the Count Custoza Family Office on the merits of a family office investing in class cars as an alternative investment.

RW: Filippo, I understand that you are not only the Fund Manager for the Classic Car Fund but also CEO of the Count of Custoza Family Office based in Zurich. Can you first tell us about your background with the family office?

FPM: After having worked in different asset management organisations for almost 14 years, I decided to create a family office. The Custoza family office is an independent multi-client family office. It takes care of all clients' interests and needs in a holistic and comprehensive manner. This includes the evaluation, management and ongoing monitoring of clients' assets. The idea for founding a family office came from one of my friends who wanted a professional to control his assets deposited in different locations. With this in mind I brought together members of the board, each member representing excellence and international expertise in their chosen field to benefit our clients.

RW: What was your motivation for setting up the Classic Car Fund?

FPM: With the marked change in the investment environment from 2008, clients have been looking for alternatives, with many looking a lot more closely at tangible assets. The motivation for setting up the classic car fund was to link a passion for classic cars with my financial acumen. The fund is designed around highly desirable, beautiful and distinguished works of art- classic cars. It offers investors over Euro 100, the chance to participate in a market that has been steadily gaining value in the last years, with some record prices being set. The trend can be seen in the below graph of the DAX (German Stock exchange) versus the DOX (German Classic Car Index).



Source: Verband der Automobilie Industrie (VDA)

RW: How do you define classic cars for the purposes of investment and which cars qualify for your fund?

FPM: There are seven categories of period cars, for the funds purposes we concentrate on Post Vintage to Post Classic sectors covering a timescale of roughly 1930 to 1974. Subsequently to qualify for the fund they are divided into five grades: From A grade cars that will always have a following and will always bring strong money when offered for sale. These embody the attributes of style, performance, historical significance, rarity and competition history that often typifies first-rank collectibles. Exemplified over the last couple of years by Ferraris, Bugattis and Aston Martins all the way down to E grade cars.

RW: What is the investment case for classic cars relative to other alternative investments and is there sufficient reliable data available to support this?

***FPM**:* It is true that the mass of quality data on the price results achieved by classic cars is from auction reporting. However, this only represents a small portion of actual cars sold. It is also arguable that these prices may be slightly inflated. However, the trend is steadily upwards. As far as a comparison to some other tangible investments, I always turn to the story of the 1925 Bugatti type 22 that was pulled out of the Lago Maggiore after 70 years. It went on to sell, in found condition, for a record price through Bonhams in 2010. The inherent value of a car, a story and its design is something undeniable.

***RW**:* Can you briefly describe your investment strategy and what is your investment management process?

***FPM**:* As investment manager, I permanently screen realised sales prices for classic cars which periodically get reported by independent providers in order to assess overall market conditions of classic cars and recognise the formation of certain market trends. I take into account the key factors of rarity, desirability and original value/provenance.

The process of investing is supported by the advisors, who propose different cars to the fund manager, the fund manager decides which car will be bought into the fund based on evidence from the consultants and advisors, grading process and thorough due diligence of that car including analysing inter alia factors such as its ownership history, engine details, original equipment, etc. The management office will then consult at least two experts to confirm originality of the car, then a specialist vehicle lawyer is bought in to confirm the cars history and only then will a car be entered into the fund.

At this point those cars destined for longer term storage are assigned posts in monitored secure storage facilities, where cars will be maintained and exercised periodically by classic car experts.

***RW**:* Who will be on your management team and what is their depth of experience with classic cars?

***FPM**:* The investment management and consultant team is based around recognised experts in the field of Classic Cars, along with external experts who are not named. The main team background is from Sotheby's and Christie's both of whom used to have classic car departments (we emphasise that we do not have any experts from dealers or auction houses who currently operate with cars this would present a conflict of interest). The expertise we have on board covers the key manufacturing periods of cars we are looking for in the fund.

RW: I understand that your fund is domiciled in Liechtenstein, is this correct? Why have you chosen Liechtenstein as the jurisdiction for your fund versus say, Luxembourg which has become a popular destination for passion investment funds?

FPM: Minerva Investments, our fund administrator, created a tailor-made product for us, which is open to small investors through tradability. In addition, Liechtenstein is a member of the EEA (European Economic Area) and therefore their funds are relevant to the EU. Liechtenstein is equal to Luxembourg as a place to establish a fund and with Minerva's EU-compliant products, as well as proximity to Zurich this choice made the best sense for our product.

RW: While the impact of the proposed European Directive on Alternative Investment Fund Managers has yet to be fully determined, it will impose strict new regulatory reform on Alternative Investment Fund Managers (AIFMs). How do you think your Fund will stand up to the new intensified scrutiny by the regulators as well as heightened investor concerns over transparency?

FPM: Minerva is an approved fund management company in Liechtenstein and thus fulfills the requirements of today's AIFM which also applies to The Classic Car Fund. The fund has been structured to provide maximum transparency for the investor.

RW*:* How is your fund structured? (e.g. size, duration, target return, fees, minimum subscription amount)?

FPM: The fund aims to be in a position to purchase cars come September. The fund is open ended, with a target return on investment of between 15 and 17%. There is a management fee of 2% and performance fee of 20%. The soft lock up period is marked by a 1st year 5% redemption penalty going down to 1% in the 3rd year of investment. NAV is reported daily with a bi-annual valuation of the cars in the fund. Minimum subscription is Euro 100.

RW: I believe that your fund will be one of the few of its kind to be listed on an exchange. Why have you chosen to list your fund on the German Stock Exchange and what are the benefits to investors by doing so?

FPM: The fund is indeed already listed with an ISIN number of LI0117063490 and is on the Bloomberg ticker as CLASCAR LE. The Classic Car Fund, a sub fund of Minerva Investments Ltd, established in accordance with Liechtensteins law. Minerva normally lists the majority of their funds on the German stock exchange in Hamburg. This offers investors a greater degree of transparency and is as you say not a common trait for funds of this nature. Our fund has also been approved by BAFIN (the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - known as BaFin for short) before being listed on the German exchange, this gives an added security for investors.

RW: What is the profile of the investors you are targeting?

FPM: Any investor looking for a transparent, liquid, tangible and sound investment opportunity. Generally anyone interested in alternative investment's looking for a good return with a low minimum investment. Any larger scale investors are welcomed into the classic car fund club.

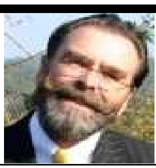
RW: Do you believe passion investments will ever become a mainstream alternative investment?

FPM: Alternative investments are by definition not mainstream – as everyone is passionate about different things. The part to be played by passion investments may always be niche. This, however, should be strength in that depth and diversity of investors in the fund offers greater liquidity benefits. I think wanting a fund such as this to be mainstream goes against its premise – the classic car fund follows the art/wine/watch funds but breaks new ground. It's a niche investment but saying that it's designed to appeal to a wide range of people looking to diversify their portfolios.

For further information contact
www.theclassiccarfund.com

FUND PROFILE

The Fine Art Invest Fund: Contemporary Art Photography as an Alternative Investment

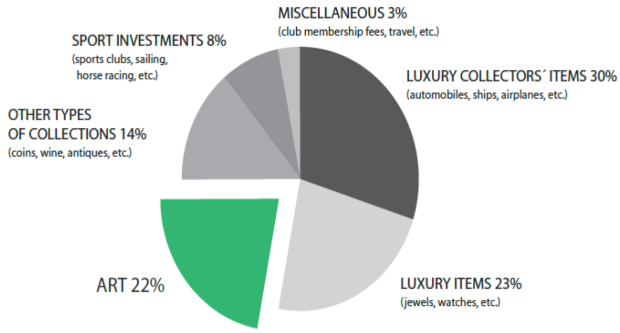


Peter Zaugg, President & CEO of the LOUBNA FINE ART SOCIETY. The LOUBNA Fine Art Society is the initiator and art advisor to the independent Fonds Management Company (PMG-Fonds Management).

Off the beaten fund tracks, specialists have established themselves who have been concentrating on a niche that is still lucrative: the art photography segment. In the search for new assets and low-risk investments, investors have focused more and more on art funds. The Fine Art Invest Fund is actively operating in this international art market and focuses on contemporary fine art photography. The centerpiece of the fund is the active and transparent management.

The financial crisis has recently played a key role in preparing the field for photography funds. Art funds exhibit no correlation with the classic investment markets, and for this reason have come more into the attention of investors when considering how to allocate their assets. In October 2010 the Fine Art Invest Fund was launched as the first worldwide open-ended art investment fund. Already in the first 9 months a return of 8.27% was achieved. The forecast for the first year is between 12 to 15%.

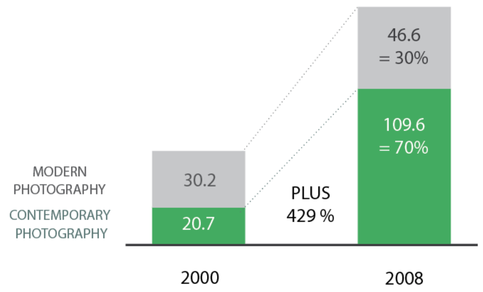
New target groups Art museums and exhibitions of the works of famous artists are very popular, as the ART 42 this year in Basel, Switzerland, demonstrated with a new record attendance of 65,000 visitors. This and the circumstance that worldwide ever more museums and galleries are being opened show that art is generally no longer a matter for the upper crust. The art market has developed dynamically in the last few years. Worldwide approximately $45 billion is invested annually in art, with 15% of that being transacted through auctions. The auction house Christie's publicized revenues of £3.3 billion for the 2010 financial year, which is its best performance in the 245-year history of the firm. The majority of analysts once again view the art market to be on a strong growth course. With the explosive development worldwide of the number of very wealthy people, the so-called 'high net worth individuals' (HNWI) and the ultra high net work individuals (UHNWI), the primary class of buyers for expensive art has grown. The steep development of executive salaries, particularly in the financial sector, and the interest of prominent people in music, cinema and sports has also led to the substantially increased demand for art in general. At the same time there has been an overall shift in the direction of contemporary art forms. In the last 10 years alone, auction turnover for contemporary art and contemporary photography has increased tenfold. Regarding contemporary photography specifically, there is still tremendous potential.



„During the financial crisis investments in art increased by 5%"
Source: Merrill Lynch/World Wealth Report 2010

Art is resistant during a crisis.
While the familiar indices S&P 500, SMI and the FTSE EPRA/NAREIT real estate index, clearly recorded negative performance over a 10 year period, only the Global Fine Art Index shined with an impressive rise of 60%. The development during the height of the financial crisis from March 2008 to March 2009 was especially grave. During this period the U.S. S&P 500 fell by 51%, the DAX by 41% and the Nikkei by over 44%. The losses incurred in traditional investments, such as stocks and debenture bonds, which were brought about by the turbulences in the global financial markets, have led to greater efforts in seeking alternative investment opportunities. Though the characteristics of alternative investments are not all identical, the goal of investing in alternatives is to provide traditional portfolios with diversification through uncorrelated returns, or to provide more consistent returns, or a combination of the two. Francis Hodgson, Manager of Photography at Sotheby's, made the comment: „when you look at the prices in the last few years, the value of photographic works has held spectacularly well."

Disregarding the period or the medium, the entire art photography market has demonstrated its strongest growth in the last ten years. During the period from 2000 through 2008 alone, the photography market tripled. Art investments can trump with above-average returns. Dr. Rachel Campbell, of the University of Maastricht, has investigated the correlation of art prices with other investment types. She proved that art investments, by offering portfolio diversification, are an attractive type of investment. The Global Art Index has an exceedingly weak correlation of 0.047 with the MSCI Global Equity Indices. Art even correlates negatively with other asset classes in some cases.

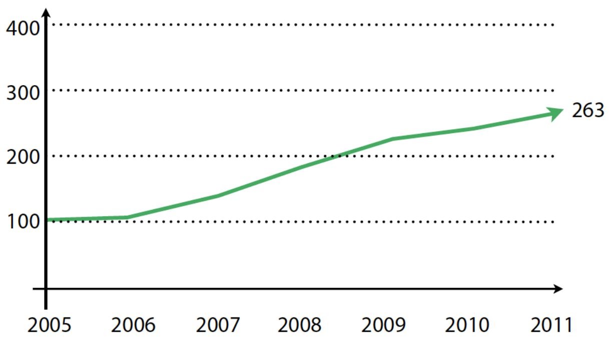


„MODERN PHOTOGRAPHY AS OF 1900 / CONTEMPORARY PHOTOGRAPHY AS OF 1970"

Source: www.artprice.com

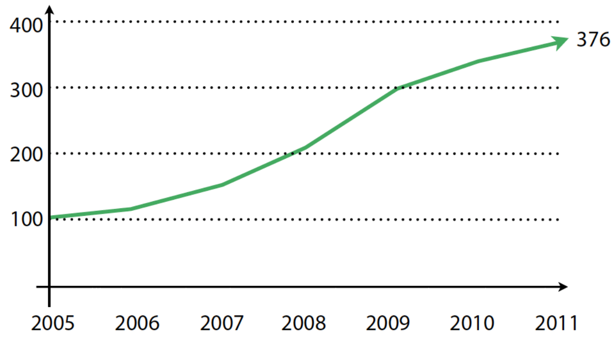
Another advantage of the developments in art photography is that it is mostly spared from problems such as unsettled provenance or ownership relationships, and even more important, from counterfeit or plagiarism. In addition, all modern photographs have traceable digital specifications. The niches of contemporary photography also offer the option of making attractive purchases with manageable capital. Above all, investing in young artists with short track records offers an attractive potential. Good examples for how value has increased over the last six years can be very impressively evidenced by the German photography artist, Claudia Rogge, whose works have appreciated by + 163% and the Chinese photographer, Chi Peng with + 276%.

Claudia Rogge



Source: Art Seasons Galleries

Chi Peng



Source: Art Seasons Galleries

Fine Art Invest Fund - global, safe and transparent

The LOUBNA Fine Art Society has carefully analysed these findings about the art market in general and contemporary art photography in particular. In cooperation with a Swiss fund management firm, it launched the Fine Art Invest Fund in November 2010. This fund was established on-shore in Malta, is subject to stringent EU law and is quoted in Swiss Francs.

Value retention of the works of art is the core of managing the Fine Art Invest Fund. The investment strategy specifies that investments are to be made one-third each in the established classic photographers (i.e. Avedon, Penn), in photography artists who have had a discernible track record over many years (i.e. Rogge, Peng) and in promising new talent (i.e. Kanjo Také).

Investments are made with a regional concentration of at least 30-40% in rapidly growing Chinese and Indian art photography markets. The Fine Art Invest Fund is proactively managed to maximize return, combining a buy & hold strategy as well as a trading strategy. To realize these strategies, the Fund's management firm cooperates with premium galleries.

With regard to its transparency, the Fine Art Invest Fund most decisively distinguishes itself from established art funds. All relevant data (e.g. offering memorandum. etc.) as well as all of the assets in the Fund can be viewed on the website at any time (www.faif.ch). To avoid conflicts of interest, the art advisor, the LOUBNA Fine Art Society, is a distinct legal entity apart from the Fund's management firm.

The FAIF has not dedicated itself to any defined growth target, allowing for a prudent management of the portfolio itself. Furthermore, each quarter, investors can withdraw their invested capital from the Fund. By investing in the

Fine Art Invest Fund, investors can optimize their portfolio and profit from an attractive investment return.

Alan Greenspan once said: "Whoever seeks something stable should preferably purchase art." Conclusion: The careful choice of art photographers and their key works by a reputable committee of experts in combination with optimal acquisition policies can garner uncorrelated and above-average returns. For further information contact *www.fineartinvestfund.com*

FUND PROFILE

The Florian Leonhard Violin Fund: A Case for Investing in High-end Musical Instruments

London-based Florian Leonhard, an authority on fine stringed instruments and related investments discusses the investment case for high-end musical instruments.

Steeped in history, fine stringed instruments represent an integral part of classical music making of the highest calibre. They are unique in being the only musical instruments to have consistently increased in value for over 300 years; close to being immune from fashions and other macroeconomic fluctuations, a fine instrument is an artefact with a number of attractive and unique attributes that make it ideal for a diverse portfolio.

A Top-down Market

The top-down nature of the violin market features a pattern of 'big ticket' items which strongly influence the price of less expensive instruments. A rare opportunity was recently presented, in the form of the sale at public auction of a very fine and rare example by Antonio Stradivarius; the violin, known as the 'Lady Blunt', reached a world-record £9.8million. The same violin last sold publicly in 1971 for £84,000, therefore representing an appreciation of over 12.5% compounded over four decades. Against a stark backdrop of one of the worst economic climates in recent memory, such a result is indicative of the qualities that make the violin an excellent hedge against wider currency-based and economic fluctuation.

Supply vs. Demand and a New Market

No other musical instrument plays a more integral a role in the lives of those who use them, than the violin. Those made by the great Italian masters before 1800 remain the best available. Due to their limited number, they have continued to rise in value, driven for centuries by European and North American demand. More recently, though, a new market has formed in the Far East, a product of an increasingly well-educated and wealthy population with a growing appreciation for Western culture and art. The vast sums that are now being spent in China on classical music education, point to a massive opportunity to develop the growing market. Almost identical scenarios can be observed where markets were created in Japan and Korea; in the 80s and 90s, driven by a boom of exports, these countries invested heavily in education and culture, creating a new and discerning generation of intellectuals who understood the value of rare and antique goods. These countries are today home to mature, healthy markets which continue to expand. When China inevitably follows suit, one can expect a demand far outstripping supply for many years to come.

Patronage
Patronage has been an integral part of the arts for centuries, and it exists beyond buying a concert ticket. The violin is one instrument where there is no equivalent to the village hall piano – a promising player needs a good instrument to progress and achieve. In real terms such an instrument can cost from tens or hundreds of thousands, to millions, and for this, support is essential. Patronage can be a crucial aspect of a soloist's career, and the only way that most can progress beyond a certain point. The loan of a fine violin allows a young player to reach their potential, and if they are successful they can be given the option to invest in the instrument throughout their career.

Returns
Thankfully, the financial benefits of owning a violin happen to be surprisingly reassuring: for investors in instruments of over £100,000 in value, returns of double digits are still possible. However, this is principally a very different kind of investment. The investor has played a role in the success of a gifted musician, and in so doing has contributed to a rich heritage of classical music.
Like any other venture, the correct selection within a sector is key to a successful outcome. In the case of violins, the ability to choose an instrument which offers the best financial outcome is unfortunately limited to a handful of individuals. These few have an encyclopaedic knowledge of the violin making masters, an eye for telling real from fake, and an intimate understanding of the process to use every resource available to maximise the value of an instrument; from the correct restoration, to a complete marketing, branding and sales strategy.

For many involved, the philanthropic element is both the primary motivation and the most valuable dividend; however the calculations may also come as music to the ears. As an ever appreciating currency, investment in violins is both wise for the investor, and essential for the up-and-coming musician. Whilst previously having been the domain of collectors and enthusiasts, violins are becoming a more attractive option to investors than more conventional financial instruments. Here, the worlds of investment and art meet in a mutually beneficial way. For further information contact *www.florianleonhard.com*

FUND PROFILE

Rare Stamp Funds Lure Alternative Investors in Asia

Keith Heddle, Director of Group Sales and Marketing for Stanley Gibbons discusses the merits of investing in a real and rare collectible that can be traded in the open market.

At a recent presentation to a select group of HNWIs and UHNWIs in Singapore (which, at 16%, has the highest number of millionaires per capita) at the aptly named Millionaire Asia convention, I spoke about the strength of the market - not a bear market, nor a bull market, but the 'tortoise market'.

Most investors are driven by the elusive dream of 'get rich quick,' the timely investment that galvanises fortunes overnight Most financial analysts and experts know, however, that the markets are cyclical and often unpredictable and that it's often about treading a long, steady road. That's where the tortoise comes in. We all know the fable about the tortoise and the hare, where the tortoise wins the race with slow and steady progress.

That sums up the rare stamp market; uncorrelated with other mainstream, more volatile asset classes, but showing relentless, steady growth over decades. Even in the turmoil of the recent crash the stamp market remained healthy and in fact the GB30 Rarities Index, the Bloomberg-listed index of rare GB stamps, grew almost 39% in 2008 and has shown a compound growth of just short of 11% for the last 40 years. That's the sort of impressive investment performance unheard of in many other asset classes.

One more thing that attracts investors - the 'pieces of paper' they own if they invest with us are not share certificates, giving them a virtual slice of a business whose fortunes they have no influence on. With Stanley Gibbons each piece of paper they own is a little piece of history, a tangible, heritage asset with a true value, whether it's a rare Victorian or Edwardian stamp or a signed manuscript.

It's for these reasons that Stanley Gibbons has seen a steady influx of new customers as well as existing customers reinvesting; in the worst recession in the Western world in decades, it's no surprise that investors are looking for security and stability – plus a trusted, heritage brand to manage those investments.

It's also why Stanley Gibbons are not just looking to take their investment and heritage proposition to new markets (principally China, SE Asia and the US), but also to diversify into other premium collectible assets. Already a purveyor of rare, signed documents, from Henry VIII to Mozart to Marilyn Monroe, we have recently successfully marketed rare coins and military medals.

The combination of the sustained low interest rate environment and the equally sustained volatility of the financial markets have pushed increasing numbers of investors to look at alternatives to secure their wealth and diversify their assets.

It has been well documented in financial circles that one of the principal reasons so many investors have found their wealth decimated in recent years was not just because the global markets crashed, but because the majority of investors were investing in the same places. The lack of diversity in most portfolios led to the endemic loss of wealth; what people needed at a time like that was (and is) a safe haven to act as an anchor against such falls.

As an article that appeared in the Financial Times in September 2010 stated: "In the past few years, investors have rediscovered rare stamps and poured millions into building up collections they hope will help them lick inflation. The number of serious collectors has also risen as baby boomers retire and China takes up philately. Rare stamps, it turns out, have done much better than gold over the past century, delivering an average 2.9 per cent a year after inflation, against just 0.7 per cent for gold and 5.1 per cent for shares (ignoring trading costs). At the same time, they protect against inflation almost as well as gold. In 1979, when inflation seemed out of control, the price of rare stamps went, well, postal. "

In 2009 an independent, academic study by Professor Elroy Dimson and Christophe Spaenjers highlighted the strength and stability of the GB rare stamp market, comparing it very favourably against other mainstream asset classes. As flagged in the FT article, although equities delivered an average annual growth of 5% against 3% for rare stamps, when the high and frequent transaction costs for equities are taken into consideration, the gap between asset classes narrows even further (there are no annual charges or management fees for rare stamp investments, only commission on exit).

The secret to the success of the rare stamp market

Stamps are a tangible asset and are actually the world's most valuable commodity by weight; by investing in a stamp portfolio you own a real, rare collectible that can be traded on the open market. They are not volatile – yes, you lose the 'thrill' of stock-picking and you can't play the market using your 'skill' to monitor rising and falling trends, so thrill seekers need not apply. It is the reliability of rare stamps that provides an anchor over the medium to long term if you have neither the time nor the stomach to manage the vagaries of other markets. Rare stamps have repeatedly proven themselves strong and stable through times of economic and political turbulence. That's what makes them such an attractive diversification option.

Last year, our CEO was trying to emphasise the security of rare stamps in a discussion with an IFA, who suggested "there are many safe areas out there; just look at BP shares – they're so safe most pension funds are linked to them…" After BP's share price dropped 40% the reliability of even the world's largest companies and biggest brand names can come into question.

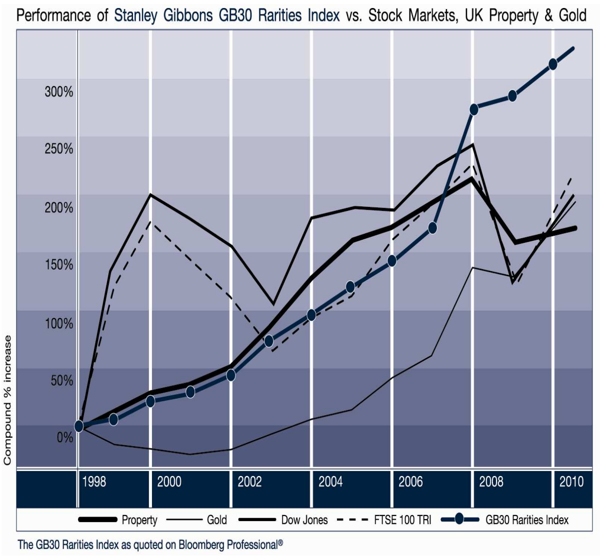
Who would have predicted the collapse of the Irish 'Tiger' economy, oil pushing through$100 a barrel or the Arab Spring? The world is uncertain; rare stamps have proved themselves not to be.

As an interesting comparison, in 1970, an average house in the UK would cost you just £4,452. Today, you'd need to be able to afford £162,887 to get the same house. That's a total increase in value over 40 years of 3559%, working out at a compound average annual increase of 9.4%. Clearly, £4,452 was worth a lot more money back then than it is now, but annual returns over the past 40 years still beat inflation by around 2.9% per annum, hence the well-coined phrase, "safe as houses".

As an indicator of the strength of the rare stamp market, in Summer 2010 Stanley Gibbons sold the rarest British stamp, the 6d IR Official for £375,000. This one stamp alone trebled in value since 2005 whilst the world was gripped by a global economic crisis and stock markets crumbled. It increased in value by 150% in the last 3 years and shows no sign of stopping. Why?

Because this is a market driven by a steadily increasing group of dedicated (sometimes obsessive) collectors and now investors seeking out items of great rarity and premium quality. With investors from Asia now entering the market, demand is heating up further.

Stamp values are also backed by solid historical data, with stamp prices charted annually back to the 1880s, so increases are transparent and can be tracked. This price data is behind investment indices such as the GB30 Rarities Index.



The index provides a telling snapshot of the value of rare stamps. Over the past 40 years (1970-2010), the index grew 6403%, giving a compound average annual increase of 11%. Annual returns beat inflation by an average of 4.5% per annum. Perhaps more importantly, the index has not dropped in value over the past 40 years. With inflation rising and financial uncertainty still investors' primary concern, an asset showing steady but strong increases looks very attractive.

Here is a selection of the type of rare stamps that Stanley Gibbons offers for investment purposes. Look at how their prices (taken from Stanley Gibbons published catalogues) have risen in the last 10 years.

Image	Description	2000 SG Catalogue Value £	2005 SG Catalogue Value £	2010 SG Catalogue Value £	10 Year % Growth
	Great Britain SG2 1840 1d Black Superb mint example	£3,500	£5,500	£10,000	186%
	Great Britain SG5 1840 2d Blue Superb mint example	£6,500	£12,000	£30,000	362%
	Great Britain SG132 1882 £1 Brown Superb mint example	£38,000	£70,000	£135,000	255%
	Malaya Straits SG215 Superb mint example	£32,000	£40,000	£70,000	119%
	Great Britain SG456a 1936 2½d Prussian Blue Superb mint example	£6,000	£8,000	£15,000	150%
	Great Britain SG1414a 1988 13p Christmas - error of value Superb unmounted mint example	£6,000	£6,500	£9,500	58%
	Total	£92,000	£142,000	£269,500	193%

We offer you reassurance

Located in the heart of London at 399 Strand, Stanley Gibbons has been the home of stamp collecting since 1856. Stanley Gibbons is a globally recognised name and a brand synonymous with quality and expertise. We were awarded the Royal Warrant by King George V in 1914 – an honour that we still hold proudly today and we maintain by trading with the Royal household.

What that means for you is that you can rely on over 150 years' experience and skill in appraising, buying, describing and selling stamps; in today's uncertain times, trust and security may not be flashy, but they are fundamentally important to preserve wealth.

In a market awash with small (and occasionally unscrupulous) stamp dealers but also rife with clever forgeries, it is vital to go with a name you can trust. Look at the examples below; our experts know the difference between an investment grade stamp and 'just another stamp' or a worthless forgery.

One of these stamps is worth £240.The other is Britain's most expensive stamp worth £375,000. Can you tell which is which?

A 1904 6d IR Official – 'Britain's rarest stamp'- worth £375,000

A *1902 6d Army official worth £240*

It's that quiet confidence in our expertise, combined with our stringent adherence to quality that allows us to offer a Lifetime Guarantee of Authenticity on all the stamps we offer in our investment portfolios. No other business can offer that.

It also gives us the confidence to underpin our investment offering to you by guaranteeing investors capital – we have not seen the value of premium stamps fall in decades; on the contrary, prices have risen steadily (driven by the principles of basic supply-demand economics; a finite supply of the top stamps and an increasing number of collectors and investors entering or re-entering the market) and we see no reason for this trend to stop.

We offer investors a balanced portfolio of rare stamps in our Capital Protected Growth Plan (CPGP). As its name suggests, the plan provides 100% capital security; whatever sum is invested will be fully guaranteed, so clients are assured of never experiencing a reduction in their capital. On the plus side, should the stamp market continue to show healthy growth, the returns are not capped in any way, so the potential upside is unlimited. The investment can even benefit from an immediate capital gain of 11.1% – we offer two discount bands to give CPGPs a head start, depending on the amount invested.

Since rare stamps can remain stable for a time and then jump up in value in steps (as collectors and investors chase particular items or a major stamp show looms), we recommend a minimum holding period of 5 years and ideally 10 or more. However, early exit options are available any time after one year.

Rare stamps are both a precious and a fragile commodity; a change in the condition of a stamp due to it being mishandled or kept in the wrong conditions could reduce its value substantially. So, we take care of this for investors – after all, we may end up buying these stamps back at some future point, so we are simply protecting our longer term investment too. We offer free storage and insurance as part of our service.

It's this whole package of performance, reliability, trust, heritage ownership, emotional connection and relatively low cost that makes investments from Stanley Gibbons so attractive. For further information contact *www.stanleygibbons.com*

MARKET UPDATE

Art Investment Funds with a Track Record

The Fine Art Fund Group

The Fine Art Fund Group is the largest art investment house to date with assets of approximately $100m under management according to latest reports. With 5 Western art funds and two regional funds dedicated to the Chinese and Middle Eastern art markets the Fine Art Fund Group is the only art investment group with a 7 year track record. Fine Art Fund I was established in July 2004 while Fine Art Fund II began investing in July 2007. In its press release dated May 2011, the gross IRR per annum for realised art assets for Fine Art Fund I was 25.4% and 26.7% for Fine Art Fund II.

The Group was founded in 2001 by Philip Hoffman, to develop and manage investment vehicles that invest in fine art, and offers a rare opportunity to invest in art with the added benefits of diverse professional expertise. The Fine Art Group's team consists of 35 art and financial professionals with representatives in London, New York, Lugano, Athens and Dubai.

According to the Fund's website the objectives of the Fine Art Fund Group are: to capitalise on its art market expertise; build long-term capital growth for investors; and provide diversification to a client's investment portfolio. Enjoyment of the art itself is not compromised as investors are given the opportunity to borrow works of art held by The Group.

In 2009 the Group launched a new product called Managed Art Portfolio Services (MAPS) and now manages 10 private single owner art accounts designed specifically for HNWIs and Family Offices. The Group also provides art advisory services for a number of leading financial institutions including: BSI; Eurobank EFG; Banco Santander; and Emirates NBD. For more information contact *www.thefineartfundgroup.com*

The Collectors Fund American Masters Collection (AMC1)

Managed by the Collector's Fund LLC, the American Masters Collection 1 (AMC1) was launched in May 2007 and closed December 2010 with investors from 100 HNWI families across the U.S. According to their latest report dated June 2011, net IRR averaged 28.5% (annualized); with more than 13% of the collection sold to date. Realised price of works averaged 18.3% above appraised value with at least 40% of the gains distributed to members and the remaining 60%, plus principal reinvested in the collection.

The report further states there was a 45% increase in unit value since inception.
AMC1's holdings have consisted of more than 140 artworks by established artists. Some notable examples include: Louise Nevelson, Andy Warhol, Alexander Calder, and Cindy Sherman. The Fund's objectives are to generate significant capital growth through the acquisition and timely divestiture of its art assets. The Fund invests in museum-quality 20th century American Art including: American Impressionism, American Modernism, Regionalism, Abstract Expressionism, Colour Field, Pop Art, Contemporary, Social Realism and Minimalism.

According to the report the Fund's portfolio is actively managed in order to enhance the provenance and thus the market value of art assets it holds. This is achieved in a number of ways including: lending the Fund's art assets strategically to key museums and gallery exhibitions; working with influential curators to include artists whose work the Fund owns in key exhibitions and publications; and promoting artists whose work the Fund owns in art market and lifestyle press. In addition, the Collectors Fund organises numerous educational events and trips for its investors. Investors may also borrow works of art from the Fund's museum quality collection under a unique rotation programme in the comfort of their own homes over the course of the Fund's term.

Sandy Kemper, Founder and Chairman of the Collectors Fund comes from a long family of collectors of fine art with a particular focus on American Masters of the twentieth century. Prior to founding the Collectors Fund, Mr. Kemper founded Perfect Commerce and served as the company's Chairman and CEO from 2000-2006. Mr. Kemper is also Chairman of the Board and Founder of Pollenware, a pioneer in collaborative auction theory and structure. For more information contact *www.thecollectorsfund.com*

Castlestone Management's Collection of Modern Art Fund (CoMA)

The Collection of Modern Art Fund (CoMA) was established in March 2009 by Castlestone Management. According to their latest press release dated July 2011, the Fund returned 8.44% during the first five months of 2011, even as global equity markets remain troubled by economic uncertainty and political unrest. This figure is in line with the AMR Post-War Art 50 Index (the benchmark index for investments into the Post-War art genre) and a recent external and independent valuation by one of the leading art appraisers.

The Fund has a 'buy and hold' strategy over its 8-year investment period and has generated an annualised return of 3.75% since inception in March 2009. This figure includes both the 2009 market downturn, when the fund and the index shed around 22%, and 2010's market recovery, when the fund and index generated returns of almost 28%.

With Post-War art being the best performing collecting category during both the economic downturn and recovery, delivering an annualised return of 14.10% in the decade to May 2011, outstripping the 0.69%, 4.21% and 3.48% respective returns from equities, bonds and commodities, Castlestone Management is confident of reaching its goal of an 8% annualized return when the fund closes in 2017. Although an art fund's definitive value can only be realised at liquidation, much like a property fund, CoMA's three-tier valuation process, which considers index figures, comparable primary and secondary market prices and external appraisals, helps to set the fund's value as close to market price levels as possible, thereby cutting investors' risk significantly.

CoMA applies a maximum portfolio diversification strategy and has therefore spread its $18.5m AUM over 32 pieces by 25 blue-chip Post-War artists including Andy Warhol, Roy Lichtenstein, Lucio Fontana and Alberto Giacometti. Not only has Post-War art been the best performing collecting category over the past 5, 10 and 25 years, research also indicates that mid-tier works of art, up to $1M range, are better investments than trophy works selling for multiple millions*. Constanze Kubern, the fund's Manager and Senior Art Adviser, notes that "The market is much more liquid at this lower price segment, thereby significantly lowering resale risk." This pattern was evident at the New York Post-War & Contemporary Art Day auction series in May, as auctions not only generated record prices but also the highest sales volume since the downturn began in 2008. Different to the Evening sales at which demand was sluggish for many pieces, demand at the Day sales concentrated in quality pieces by Alexander Calder, Andy Warhol and Gerhard Richter- works comparable to pieces held by the Collection of Modern Art fund. Ms Kubern adds, "In view of these market developments, we are confident that our investment strategy of buying into Post-War art from blue-chip artists within the mid-tier price segment will continue to prove successful moving forward."

Castlestone Management believes that 2011 will be the year of sustainability with prices settling at healthy levels. Ms Kubern comments, "As economic uncertainly persists, investors will remain bullish about real assets as a safe haven, hence demand should remain strong, if not increase further." Noting that sellers are reluctant to part with their pieces as they regard them as good capital preservation tools, Ms Kubern adds, "The combination of increased demand and decreased supply should ultimately result in another elevation of prices for unique quality Post-War works of art." For more information contact *www.collectionofmodernart.co.uk*

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 lead by its CEO Javier Lumbreras, 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 it's 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*

SPECIAL REPORT

Art Funds Benefit from Disappointment in Financial Assets

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.

Disclaimer

Published by Fine Art Wealth Management Ltd
2—4 Great Eastern Street
London EC2A 3NT
For more information contact Randall Willette
E. info@fineartwealthmgt.com
T. 44 (0)20 7565 1878
W. www.fineartwealthmgt.com

FINEART
WEALTH MANAGEMENT