The Classic Car Fund was launched in September 2012, driven both by a passion for cars and for uncorrelated alternative assets. The philosophy of The Classic Car Fund is simple; buy well-selected cars at attractive prices that have had a thorough evaluation by an independent expert, and sell them later at a profit. The fund is not focused on any specific make or production year, but emphasis is clearly on sports cars from various periods. Holding times vary vastly but the fund does not fall in love with its investments. Some cars have enabled the fund to realise a healthy double-digit profit in as little as three months, while others will remain in the fund for up to a few years. Also, and perhaps of more interest for most, against a small fee fund investors may borrow and drive some cars in the fund over a day or a weekend. If anyone asks you can truthfully say it is your car, as it is part of the fund you are an owner of.

1. **Please share with our readers a bit of history about your fund and its key personnel, and your inspiration behind launching The Classic Car Fund.**

   The Classic Car Fund was created in response to clients' requests for tangible assets in this unsteady economy. Launched in 2012 in Zurich, the aim was to give investors the possibility of investing in this growing sector (best asset performance over the last 10 years) with a minimum investment of only EUR 10,000. At this price, it is not possible to purchase a Mini or a Beatle in decent condition. The most important factor to take into consideration when investing is diversification. Most of the ultra-high net worth individuals' (UHNWI) unique car collections, however are unaffordable for standard investors to own. Therefore with this thought and our background in finance and family provenance from Modena, the birthplace of the super car, we were in an exceptional position to start the fund.

   Diversification is the basis for all asset managers as this is the only way to reduce the risk associated with an unsuccessful investment. By putting the financial resources to multiply them into collector cars, it is hard for us alone to reach an adequate level of diversity of our collection to make a profit. We approach each car emotionally, often by focusing on models of a particular brand during our free time. Filippo Pignatti Morano is a financier with blood and bones. After 20 years working in private banking, he decided to combine his passion for classics with finance and created The Classic Car Fund Ltd, based in Zurich. Filippo invests in professional classics with a team of consultants that accepts every purchase and keeps track of car value charts. Currently in his garage there are 13 cars, including a Lamborghini Espada (this car has the same motors as the Lamborghini Miura that are traded over US$1 million), a Ferrari Daytona, a Ferrari 308 GTB fiberglass (only 712 produced), a Ferrari Testarossa (bought for CHF 80.000 and now traded for more than CHF 120.000) among other interesting cars.

2. **What are the different sources of returns that your fund capitalises on given its pioneering profile? Besides classic cars we understand the fund carries exposure to precious metals. Could you share the rough allocations with our readers?**

   If you compare classic car funds to a real estate fund, how would you value real estate? What if the location of the real estate is not anymore trendy? We know classic cars have more inherent value and should one period of car become unfashionable the fund is quick, not only to adjust the portfolio but is invested across a range of different cars to spread risk. Last but not least a classic car is mobile.

   The portfolio of the fund is broadly diversified for this purpose, i.e. classic cars of different years and makes are bought from classic car fairs and other events worldwide. In addition to this the fund can participate in companies and suppliers of the automotive industry and in the area of non-renewable energies by purchasing value rights; the fund can also invest in precious metals. At the moment the fund is invested in classic cars and has 10% cash. All vehicles are safely stored and insured for more than 10% to 15% of the purchase price. In addition to this, these vehicles are shown at classic car exhibitions or rented to museums and the film industry in order to increase their reputation. This year Ferrari is celebrating its 70 years and a Ferrari of the fund is exhibited in the Ferrari Museum in Maranello.

3. **Our analysis indicates that The Classic Car Fund offers uncorrelated returns to both traditional markets as well as hedge funds. In particular the fund was up double-digits in 2015 when other hedge funds struggled with sub-par returns. Could you shed some light on these impressive returns?**

   During the first four years, the fund had a net return for the investor of 5% in average. In 2015 the fund generated a net return of 9.5%, a 10.23 alpha over the S&P 500 (minus 0.73%). The fund is not correlated to the finance markets and at the same time provides liquidity to the investors. The volatility is lower than gold. The fund also sold cars some cars at a very good price. For example a 1957 Lancia Aurelia B24S convertible after 11 months with a net gain of 20% and a 1939 Fiat Touring Aerodinamica after 7 months with a net gain of 8.3%.

4. **Leading from the above, what factors explain any detractions from the fund's otherwise stellar performance? In particular, what explains the lull in performance for 2016?**

   The reason why we did not manage to achieve such a good performance in 2016 in my view, is that many buyers were waiting to buy a bargain at the biggest auction held in Milan at the end of November 2016 where 500 cars were offered without reserve. The estimate price for these cars was very low and at the end of the auction the cars were sold at double to triple the price. The performance of 2016 was not as good as 2015 but it was still a good plus 2%.

5. **What are the different sources of risk that your investors are exposed to and how do you mitigate these as part of your risk management philosophy?**

   The main risk I see is that classic cars are banned worldwide due to poor emissions. Firstly I would not foresee a worldwide issue but should this come to pass, the value of classic cars as a beautiful piece of art would grow and I would see a secondary more valuable market in bodywork and engines for display purposes; ignoring the improvements in battery/engine replacements.

   A standard exposure is currency risk, mitigated by buying classic cars in different values. With diversification, the fund holds different types and years of cars, storing them at moment in three different locations worldwide. Each car that we buy under market price is fully insured against damage or theft. In the worst case scenario if

   the cars gets stolen, the fund will still make a profit of 10% to 15% net on each car.

6. **Hedge funds in the exotics space often struggle to get investor interest on account of the performance smoothening that may happen. Given the lack of liquidity inherent to this kind of investing, how does the fund price its asset? What are some common worries that your investor may raise on this**

accounting specific aspect?

The cars of the fund are valued from an independent expert such as Classic Data or Hagerty. The liquidity of a classic car is not a problem, as you can always sell a classic car through auctions, the internet, on the street or for spare parts - the only problem being that selling quick may not achieve the price you were aiming for.

7. **Could you share with our readers your current assets under management and the fund's optimal AUM capacity? What category of investors (HNWI/family office/etc.) is the fund currently marketed towards?**

   Since the beginning of 2017 the fund received many new subscriptions, most of them in kind with classic cars. This last kind of subscription gives a big advantage for the subscriber to have a diversification of cars in his portfolio, as tax advantages. At the moment we are analysing which the fund will or will not accept. After the due diligence on these cars is completed, the fund will be worth over EUR 30 million. The fund has a capacity of over EUR 500 million without problems.

   The 10 most expensive cars sold in 2016 were in the range from US$21 million to US$3.2 million. The fund is marketed to all investors that are searching for diversification with no correlation to the finance markets, as collectors are willing to subscribe to the fund in kind. This kind of subscription offers many advantages to the collector to know what they are investing in.

8. **How does the fund plan to scale up its operation and what kind of natural limits exist to this?**

   The global classic car market is based around restorers, vendors and private collectors, dealers, auction houses and associated events. Grassroots support of the market comes from magazines and clubs where steady demand is produced. This moves through specialised dealers and collectors and onto auction houses and more recently to classic car investment funds. The market is relatively well established and has attained a certain maturity.

9. **With five years of annual positive gains to your credit, how well has the fund been received by investors so far?**

   The kind of investors are family office, banks, asset managers and individuals. The biggest investor at the moment is an asset manager, followed by a bank. Investors look at The Classic Car Fund as a diversification not correlated to the finance market for their portfolio.

10. **What is the future for the classic car space and what challenges and opportunities do you foresee over the next five years?**

    The classic cars have been the most profitable asset in the last 10 years and this will be the case in the next 10 years. Just think about the BRIC nations, the baby boomers, every year there are more and more billionaires and China will soon open its doors to the import of classic cars - don't forget that classic cars are limited.

    The first five years annual positive gains of over 5% every year have been achieved, but the aim is at 8% to 12% and this will be achieved in the next few years once the fund has more assets under management (AUM). The fund administration costs remain the same, but car maintenance costs will be lower as the garage and oil change costs for a US$10 million car and a US$100,000 car are exactly the same.

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