

# Fine Art Wealth Management publishes first global Art & Passion Investment Funds Report

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**LONDON, May 2011** – 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 according to a global survey released today by Fine Art Wealth Management Ltd.

The Report examines over 40 art and passion investment vehicles at various stages of their development operating in 13 different countries – Australia, Austria, Brazil, China, France, India, Israel, Luxembourg, Russia, Spain, Switzerland, UK, and the US – and covers fund managers investing in a range of fine art sectors as well as other investments of passion.

Although the financial crisis has raised the bar for art funds and other passion investments in areas such as risk management policies and transparency, awareness of their role in portfolio diversification has increased among investors. “Having navigated through the worst of times, the art and passion investment fund industry must now act to lay the ground work for its future success by building investor confidence,” said Randall Willette, Managing Director, Fine Art Wealth Management.

Fine Art Wealth Management first began studying art investment funds in 2003 to fill the void of information surrounding this unique alternative investment; however this is the first comprehensive evaluation of trends and themes that are emerging and the environment in which they operate at a pivotal time in their evolution.

## Report Highlights

### **Raising capital continues to be the primary challenge**

According to most art fund managers surveyed, investors are conducting wider-ranging and more in-depth evaluation of alternative funds than ever before as the past three years have brought risk management and governance concerns into sharper focus. Although high-net-worth investors are gaining appetite for art investment, they are increasingly selective. In particular, investors are slow to commit to start-ups further validating the importance of having an established track record of performance.

### **Like the economy, art and passion investment vehicles have gone global**

Based on our survey there are art fund managers operating in at least 13 different geographic locations representing Europe, Asia-Pacific, North America, Middle East, and Latin America. The majority of art and passion fund managers are located in the UK followed by the US, Switzerland and Luxembourg.

### **Strong momentum in developing economies**

Chinese and Brazilian art funds are raising capital among a new generation of wealthy investors in these markets looking to diversify their assets. The growth of these art markets is directly linked to the economic expansion in each country and the combination of the two has launched a new group of young and avid art collectors. Consequently, art funds in developing economies appear to be succeeding whereas some Western art funds are struggling. Meanwhile, art funds in India, which are in many respects among the pioneers in the art fund space, have recently come into the spotlight due to poor investment performance.

### **Institutional investment remains low**

Assets under management for art funds and other passion investment vehicles continue to remain low and lack the size and scale required of a mainstream alternative investment for institutional investors. At the time of the study, assets under management range from as low as \$3 million to \$50 million per investment vehicle – far below institutional standards.

### **Global assets under management approaching \$800 million**

It is estimated that total assets under management in art and other passion investment funds globally is approaching \$800 million. However, the Report points out

that a number of art fund managers have yet to become fully transparent in their disclosure of total assets under management and this figure could therefore conceivably be considerably higher.

#### **A number of existing fund managers are planning to launch more than one fund**

Of the investment vehicles included in the Report, more than half are planning to launch more than one fund in the coming years. Some 60% of respondents confirmed that they are planning to launch more than one investment fund while 10% were still undecided. Only a third definitely have no current plans to launch more than one fund. A number of art fund managers were also considering moving into other sectors of the art and passion investing market. New art funds are pursuing investment opportunities in both the primary and secondary art markets and across a broader range of regional and other niche categories such as Tribal art.

#### **Pipeline of new funds under development is growing**

The existence of this pipeline and the momentum which appears to be building around newly emerging art and passion investment vehicles can be taken as an indication of renewed confidence in capital raising. The conundrum for these managers is that they must rotate their daily attentions to education, marketing and portfolio management, with education owning the lion's share of their day.

#### **Rise of alternative investment firms engaged in art and passion investments**

Since 2008, there has been a shift of power in the art fund space towards boutique alternative investment management firms, a sign that the market is becoming more sophisticated in applying traditional alternative investment methodology to art. Over the past two years, most of the new entrants to the art and passion investment space have come from alternative investment management firms embracing art as an asset class.

#### **Consolidation taking place among off-shore tax jurisdictions**

Luxembourg appears to be emerging as the jurisdiction of choice for many of the new art and passion investment vehicles. The new Alternative Investment Fund Managers Directive (AIFMD) has created significant uncertainty in relation to the location of alternative funds, including art funds and particularly for non-EU jurisdictions. Equally important, the new directive, which requires alternative investment managers to report to financial regulators and meet minimum capital requirements, is likely to weigh heavily on art funds and other passion investments.

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## **About Fine Art Wealth Management**

Fine Art Wealth Management (FAWM) is the first wealth management consultancy dedicated exclusively to art 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 passion investments and the leading provider of intelligence on art investment funds to wealth managers, private banks, family offices and professional advisors. Our consulting services, investment research, professional courses and conferences are enabling wealth managers to gain a better understanding of art and other passion investments as an alternative asset class by providing a forum for exchanging ideas, techniques and best practices among peers.

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