

# What is the value of luxury?

**OVER THE PAST SEVERAL** decades, investments in luxury goods such as artworks, premium timepieces, classic cars, and fine wines have come to be viewed not only as sources of pleasure for high-net-worth individuals but also as an effective hedge against inflation, like gold and Treasury notes. It is a trend that began in 1974, when the British Rail Pension Fund (BRPF) became the first institution of its kind to invest in art, spending some £40 million (\$70 million)—or 3 percent of its working capital—to acquire some 2,500 artworks. Between 1974 and 1999, by which time BRPF had largely divested its art holdings, its portfolio had delivered a yearly compounded return of 11.3 percent. During that same period, United States Treasury bills returned a relatively conservative 7.9 percent per year, while the more volatile global Morgan Stanley Capital International Index (MSCI) yielded an annual return of 17.1 percent.

Inspired by BRPF’s turning of a tidy profit on its art portfolio, 50 or so similar investment vehicles were launched in the ‘70s and ‘80s, several by prominent Wall Street firms. Few gained traction, however, due in large part to the high cost of acquiring the artworks themselves. Since the market correction of 2008, and its attendant lower returns on investments such as Treasury bills and bonds, art and luxury items have gained renewed appreciation as diversified asset classes with the launch of a number of funds with dedicated investment portfolios. Foremost among them is the Fine Art Fund Group, which was founded by Philip Hoffman, formerly of Christie’s, and which has some \$500 million in blue-chip art assets under management. But are they as profitable as they seem? We surveyed seven funds specializing in more affordable collectibles to see how they stack up against the MSCI. By all accounts, classic cars are the clear winner. BY ROMAN KRAEUSSEL

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## A SURVEY OF COLLECTIBLE FUNDS

An analysis of seven active collectible funds—four with portfolios of art, one with wine, one dedicated to premium timepieces, and one invested in classic cars—shows that these offshore enterprises have delivered a mixed performance. In the chart on the facing page, poor results are compounded by the lack of “aesthetic return” and “consumption value,” as investors do not get to live in the presence of or drink up their holdings. Moreover, some funds are structured as standard private equity funds and thus require a specific lock-up period during which one may not cash out.

NAME	ART PHOTOGRAPHY FUND	FINE ART INVEST FUND	ART VANTAGE PCC LIMITED
PORTFOLIO FOCUS	Blue-chip images by American and European photographers	Limited-edition fine-art photography	Contemporary art from emerging markets
MANAGER	Merit Alternative Investments GmbH	PMG Funds Management AG	TD Ventures Limited, BVI
DOMICILE	Cayman Islands	Malta	Gibraltar
INCEPTION DATE	March 15, 2008	November 4, 2010	February 29, 2012
STRUCTURE	Open-ended	Open-ended	Closed-ended
CURRENCY	EUR	CHF	USD
ASSETS UNDER MANAGEMENT (AUM)	Unpublished	CHF 16,371,717	\$20,000,000
MINIMUM INVESTMENT	€ 75,000	CHF 100,000	\$500,000
LOCK-UP	None	None	5 years
SUBSCRIPTIONS	Quarterly	Quarterly	Semiannual
REDEMPTIONS	Quarterly	Quarterly	Semiannual
SUBSCRIPTION CHARGE	None	1%–5%	Up to 3%
REDEMPTION FEE	3%	1%	None
MANAGEMENT FEE	2% per annum	2% per annum	2% per annum
INCENTIVE FEE	20%, subject to high-water mark	20%, above 10% hurdle	20%, subject to high-water mark

## A WEAK TRACK RECORD

From a financial perspective, the funds, with the exception of classic cars, have delivered a tepid performance in comparison with the Morgan Stanley Capital International (MSCI) index. And this does not include transaction costs and management fees. One interesting correlation is that when the MSCI goes down, collectible funds tend to turn positive, presenting a possible hedging opportunity.

NAME	SINCE INCEPTION	LAST 5 YEARS (2010-14)	LAST 3 YEARS (2012-14)	2014
ART PHOTOGRAPHY FUND	37.31%	14.85%	1.25%	-0.68%
FINE ART INVEST FUND	32.84%	N/A	17.37%	1.98%
ART VANTAGE PCC LTD.	32.27%	N/A	N/A	3.75%
ARTEMUNDI GLOBAL FUND	81.80%	N/A	12.75%	N/A
THE FINE WINE FUND	4.90%	-16.23%	-23.54%	-9.90%
VINTAGE WATCHES	-7.59%	-0.12%	-2.48	1.00%
THE CLASSIC CAR FUND	11.34%	N/A	Unpublished	5.90%
MSCI	N/A	42.86%	40.74%	1.09%



*Chez Mondrian, Paris, 1926*, a gelatin-silver print by **André Kertész**, is among the works in the Art Photography Fund portfolio.



From left: Classic cars such as a 1933 MG K3 Magnette; vintage Rolex; fine wines, especially Bordeaux; and canvases by Old Master artists such as **Canaletto** are among the prized assets under fund management.

ARTEMUNDI GLOBAL FUND	THE FINE WINE FUND	VINTAGE WATCHES	THE CLASSIC CAR FUND
Traditional artworks, with a preference for "small gems" worth \$250,000 and up	French wines, with particular emphasis on classified Bordeaux	Premium brand vintage timepieces	Classic automobiles lent to film studios and museums
Artemundi Management Ltd.	Wine Asset Managers LLP	Novium AG	The Classic Car Fund Management Ltd.
Cayman Islands	St. Kitts and Nevis	Malta	St. Vincent and Grenadines
April 1, 2010	August 21, 2006	April 23, 2008	September 13, 2012
Closed-ended	Open-ended	Open-ended	Open-ended
USD	GBP	EUR	EUR
\$150,000,000	Unpublished	€2,300,000	Unpublished
\$250,000	£50,000	€75,000	€10,000
5 years	None	1 year	3 years
Unpublished	Monthly	Quarterly	Quarterly
Unpublished	Quarterly	Quarterly	Quarterly
Unpublished	Unpublished	Up to 3%	Up to 5%
None	Unpublished	None	None
Unpublished	2% per annum	3.5% per annum	2% per annum
20%, above 10% hurdle	15%, subject to high-water mark	10% to 15%	20%, subject to high-water mark