artnet

Print Article

The Fine Art Fund Group website

Fine Art Fund Group chief Philip Hoffman

Peter Doig
Iron Hill
1991
£1,128,000
Sotheby's London
June 21, 2006

Art Market Watch

SECRETS OF THE FINE ART FUNDS

by Daniel Grant

Philip Hoffman, chief executive of the London-based Fine Art Fund Group, probably the best known "art hedge fund," is not one to let a good crisis go to waste. The near-collapse of the banking system at the end of 2008, for instance, offered the opportunity to purchase artworks "at some very attractive prices." Hoffman tells of a collector who had hesitated to sell at $5.2 million in 2003, but who in 2008 "needed cash urgently" and "within 48 hours" parted with the work for $750,000.

Hoffman likes "stressed sales." He haunts the auction houses, watching for lots that fail to find buyers, and which thus might be had after the auction for a bargain price. With his team of 35 asset managers, marketing analysts, art experts, art dealers, auction house managers and academics, Hoffman scours the world for underpriced art like this. The idea, needless to say, is to quickly flip the works for a profit or hold onto them for longer-term value appreciation. The Fine Art Fund Group website lists a team of "art buyers" that includes Johnny Van Haeften, James Roundell and Ivor Braka.

Buy low, sell high. A familiar strategy, and one that seems to be producing a nice profit for the investors in Hoffman's fine art funds, who have paid between $250,000 and $7 million to buy in.

The art trade "is an imperfect market," Hoffman warns, noting the high transaction fees for dealers and auctioneers and the general lack of information "about where the market is for any given object at any given time." Finding appropriately priced artworks and the people willing to buy or sell them is not easy.

Hoffman actually runs two separate art funds (the Fine Art Fund I and the Fine Art Fund II), with between 30 and 40 individuals and institutions investing in each, and is in the process of setting up a third. The Fine Art Fund Group invests across the art market, and has purchased close to $150 million in artworks since 2004. That "makes us a pretty significant buyer in the art world, although I think

Charles Burchfield
Trees in Meadow
1951-56
$139,000
Sotheby's New York
Nov. 28, 2007

Neil Welliver
Two Canoes
1965

The Art Fund Association website

The Artemundi Global Fund website

there are some dealers and collectors and a few museums that outstrip us," Hoffman said.

Back in May 2011, he triumphantly reported returns on "realized art assets" of 25.5 percent and 26.7 percent in his two funds. "The Fine Art Fund Group, he wrote, is "the only art investment group of its kind with a successful seven-year track record."

These results involved the sale of approximately 70 artworks for a total of $50 million over the past four years. Almost two-thirds of the sold assets were contemporary works, with the rest being evenly split between Old Masters and Impressionist and modern.

He proudly points to some success stories, such as the Frank Auerbach painting that the fund purchased in 2006 for $1.1 million and sold 15 months later for $2.6 million, or the Peter Doig painting that was bought in 2005 from a law firm for $880,000 and sold one year later for over $2 million at Sotheby's London. (Don't feel too sorry for the law firm, which six years earlier had purchased the work from Victoria Miro Gallery for only $15,000.)

Hoffman's first art fund was established in 2004, and began making distributions of profits from sold artworks in 2009; by the end of 2011, the Fine Art Fund I plans to have distributed 34 percent of its capital commitments. The company says that the average annualized return on assets sold is 33.5 percent. That's a good return, even when you subtract the fees, which includes a 20 percent performance fee.

Of course, reports of these kinds of high returns have to be taken with a grain of salt. Art funds, like hedge funds generally, only liquidate their appreciated assets, while holding onto works whose value remains flat or declining. Reported returns thus give a peculiarly optimistic picture of the state of the fund. Hoffman stores the funds' inventory in a Swiss warehouse, or occasionally lends works to museums or to his investors.

The number of art funds is most certainly on the increase, although Enrique Liberman, president of the New York-based Art Fund Association, noted that their number is uncertain, as "most funds do not publicly market themselves" but are offered in a more private fashion to investors with a high net worth. However, Liberman claimed to be "aware of 25 funds now in existence and another 15 in development. These funds manage between $800 million and $1 billion." Liberman's organization itself only started up in early 2011.

One example is the minimally named Collectors Fund based in Kansas City, which raised $20 million -$30 million between May 2007 and December 2010 from approximately 100 investors, most of them local. The fund’s purchases have been focused on 20th-century and contemporary American artists, including Milton Avery, Romare Bearden, Alexander Calder, Helen Frankenthaler, Robert Indiana, Franz Kline, Cindy Sherman and Wayne Thiebaud.

The entry price for investors in this fund was $100,000, although some contributed $500,000 and higher. Investors receive 40 percent of the net proceeds for the first four years of the fund (the remaining 60 percent is reinvested) and only in the last three years receive 100 percent of the net.

Collectors Fund founder Alexander Kemper said that 13 percent of the fund’s artworks had now been sold, for an annualized rate of return of 28.5 percent -- after the payment of a two percent management fee and a 20 percent performance fee. One of those artworks, Charles Burchfield’s *Trees in Meadow* (1951-56), was bought by the fund in December 2007 for $170,000 and sold two years later for $325,000, a net annualized return of 31.8 percent. Other works bought and sold by the fund include Neil Welliver’s 1965 painting *Two Canoes*, which brought a net return of 30.4 percent, and an untitled 1957 oil by Franz Kline, which resulted in a net return of 16.4 percent.

When artworks in the fund are sold, 40 percent of the net profits are distributed to investors with the remaining 60 percent reinvested into additional art purchases. By the seventh year, 100 percent of the net profits will be split between the investors as the fund begins a three-year phase-out period. The Collectors Fund was considering opening a second art fund by the end of this year.

The Collectors Fund lends out artworks from its collection, and Kemper noted that several of the works had been bought by investors, though their insider status doesn’t get them a discount price. “We get two appraisals for every work we sell,” and investors pay the appraisal price, he said. They do get a small bit of the profit back as investors.

Artemundi Global Fund, an art hedge fund founded in 2009 that is based in the Cayman Islands, lent a work by Gabriel Orozco for the artist’s survey exhibition at the Museum of Modern Art, as well as a painting by Leonora Carrington (and three other works) for an upcoming exhibition of Surrealist art by women at the Los Angeles Country Museum of Art. “We’ve lent 10 to 15 pieces to museums around the world,” Artemundi’s CEO Javier Lumbreras said.

Though these results are impressive, Liberman cautioned that many art funds have been poorly managed or otherwise unlucky. "Many of these funds made headlines that set back the industry,” notably the Fernwood Art Fund, which collapsed in the mid-2000s.

Another fund, the Modern Art Fund, was established by Castlestone Management in London in 2009. It specializes in post-war and contemporary art, and reports that it has 25 investors and holds 32 artworks valued at $19.9 million. In July, Castlestone announced that its annualized net rate of return is 6.82 percent, not a particularly stellar performance. But the figure comes from an outside appraisal; none of the artworks have been sold, nor are they scheduled to be until the fund's final year, 2016-17.

Castlestone art advisor Constanze Kubern notes that shareholders in the Modern Art Fund may liquidate their shares at any time, as long as they pay administrative and performance fees -- that would eat up any of their profits. These investors remain captive to a market that elicits lots of optimism and predictions but no guarantees.

DANIEL GRANT is a contributing editor of *American Artist* magazine and the author of *The Business of Being an Artist* and several other books.