

No Blue Period: Art as an Alternative Real Asset Investment

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Did you know that the global value of all privately held art is estimated at \$1.7 trillion?! In 2018, global annual art market sales were \$67 billion, which included \$31 billion via public auction market sales and \$36 billion from private market sales. These are big numbers, which is why they caught the attention of the Barings Funds & Co-Investment (FCI) team.

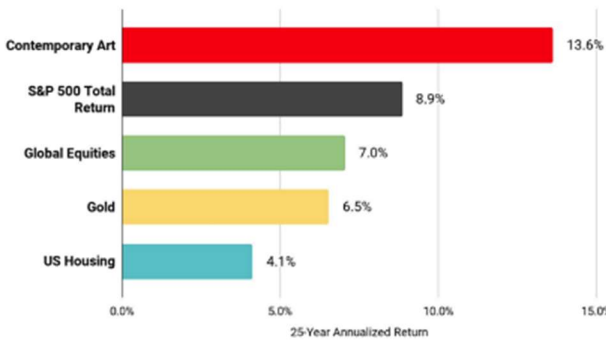
Although the art market consists of paintings, sculptures, pottery, jewelry, musical instruments, and literature, in general, most people only think about art when an auction breaks a world record. For example, do you recall any of these more recent record-breaking prices: (a) “Salvator Mundi,” a portrait of Christ attributed to Leonardo da Vinci, sold for \$450 million in 2017, a world record for an art work; (b) the collection of Peggy and David Rockefeller sold for \$835 million in 2018, a record for a single collection; (c) Jeff Koons’s “Rabbit” sold for \$91 million in 2019, a record for a living artist; and only a few weeks ago (d) digital artist Mike Winkelmann, also known online as Beeple, sold his non-fungible tokens (NFT) crypto-art for \$70 million, a record for crypto-art and the highest for any online bid ever. Note the price for this NFT jumped from \$15 million to over \$69 million in under 30 minutes. Crazy!

Now back to our regularly scheduled topic—art as an alternative real asset investment. To further understand the art market and its investment potential, we need to examine its long-term performance. Over a 30-plus-year period (1984-2018), the art market generated annualized returns of 3.6%—not great, but probably equal to cash returns. Meanwhile, the post-war and contemporary art category generated annualized returns of 6.2%, versus 6.7% for U.S. corporate bonds, and 5.8% for S&P/Case-Shiller U.S. National Home Price Index. Not too shabby. However, within the contemporary art category, the 25-year (1995-2020) annualized return is 13.6% compared to 8.9% for the S&P 500 Total Return. Now we’re talking; see table below for further details.

Attractive Long-Term Performance with Low Correlation Relative to Traditional Asset Classes

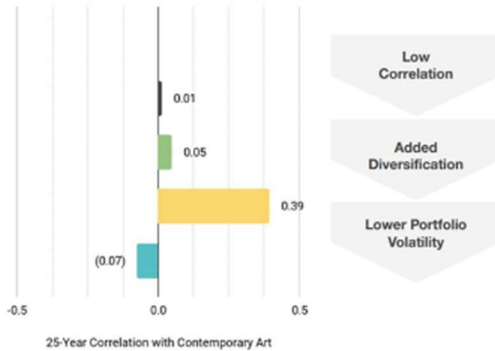
25-Year Annualized Performance

Contemporary Art Market ⁽¹⁾ vs. Selected Asset Classes: 1995-July 2020⁽²⁾



25-Year Correlation Factor

Contemporary Art Market ⁽¹⁾ vs. Selected Asset Classes: 1995-July 2020⁽²⁾



Sources: Internal Masterworks analysis. FRED (St. Louis Federal Reserve). MSCI Database. Yahoo Finance.

Notes: There are significant differences between the asset classes presented. For additional information, see Important Disclosures.

1. Repeat-Sale Pair Index of Post-War and Contemporary Art (as defined by the applicable auction house) using Standard & Poor's CoreLogic Case-Shiller Home Price Indices Methodology.
2. Index performance measured through July 2020 and annualized based on full-year 2020. Art market data updated as of July 30, 2020.

Although the art market is in the early stages of developing access and products for institutional investors, FCI is seeing the market development accelerate with art securitization via S.E.C.-qualified art investment offerings, direct-to-investor platforms, separately managed accounts, and leading investment banking and consulting art market research. Art securitization is offering institutional investors a means to gain exposure to art without the burden of direct artwork ownership. FCI will continue to explore the evolving art market, as it could offer our clients the option of incremental diversification. Furthermore, FCI sees new technologies such as blockchain as a means to automate key processes in the art market, including authentication. If successful, this could enable groups of investors to own works and collections, with institutions holding shares in major paintings and other forms of art.

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*As of December 31, 2020
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