

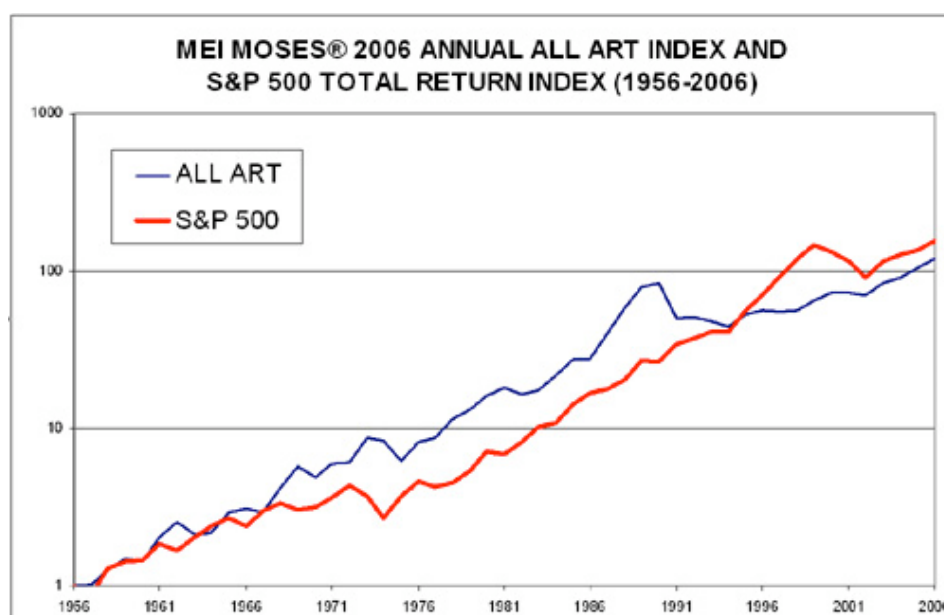
THE ART MARKET AS INVESTMENT CLASS EXPLAINED - THE INTERNATIONAL CONTEXT

by Vivienne Sharpe

As an art market professional over many years, I am stunned that the Government is not allowing art as an appropriate investment. This goes against all international research and trends.

Indeed, art investment has proven as successful as any other asset class in terms of capital accumulation. Three separate sources have shown that art investment generates more than 10% per annum over the long run which is as good as, if not better, than share market performance.

Two professors at New York University have built a statistically accurate Art Index. They sourced Art prices from auction records from the period 1956 through 2006, with a focus on paintings and sculpture. Now known as the Mei Moses Index, it was created in an attempt to provide a basis for financial derivative trading.



Note: logarithmic scale employed[1]

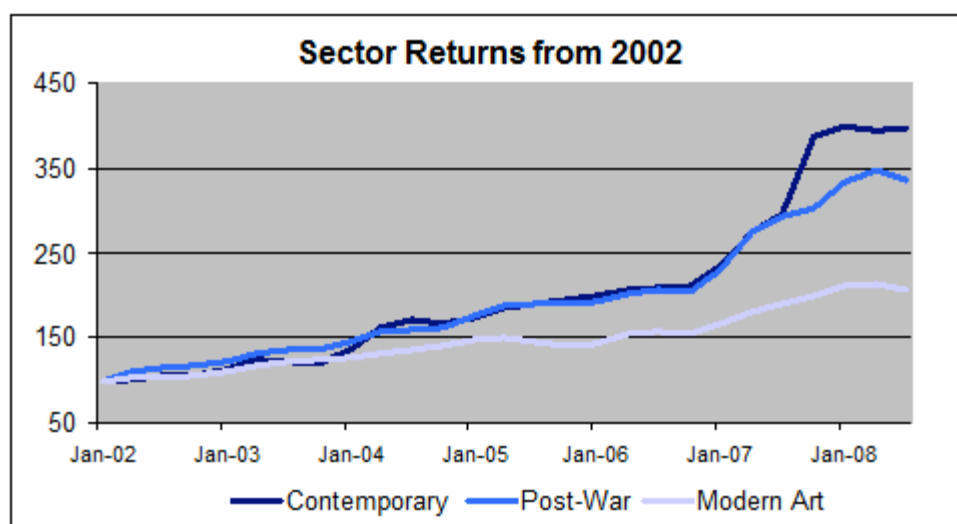
Over the period analyzed, Art as an investment average 10.5% per annum. This is just below returns from equities over the same period. Furthermore, the study showed that after every down turn in the art market, it was able to reach and exceed the prior high water mark.

A successful long-term art fund was the British Rail Pension Fund (BRPF) reinforced the ability of art to perform as an investment. In 1974 driven by forecasts of inflation and belief that art was undervalued compared to other asset classes, the BRPF trustees decided to invest in works of art on a long term capital basis, rather than trading. While art was small relative the rest of the pension fund, they ultimately committed £40 million and acquired more than 2,500 objects.

In 1980 the Fund announced that it was not making further art purchases and realized the holdings during the 1980s. In 1989 the BRPF sold 25 Impressionist and Modern works through Sotheby's, for £34.8 million. That handful of items accounted for 20% of the Fund's overall sales of £170 million and provided a 20% per annum return. The remaining holdings were sold during the next decade, **providing an aggregate return of 11.3% per annum** from 1974 to 1999 or 25 years.

Importantly, the BRPF fund displayed that asset selection (regardless of how conflicted the advisor may have been) allows for extraction of greater returns: 0.8% per annum more than the long run Mei Moses index.

Publicly available data from Artprice.com continues with this theme of long-term performance of art as an investment. An investment in 2002, the last significant drop in the art market, shows significant returns.



Note: a common base of 100 in Jan-02, source Artprice.com

Indeed, even extending the analysis to the early 1990s, after the collapse of the Japanese driven art bubble, Contemporary and Modern art returned in excess of 8% over that extended period with systemic and wider economic issues.

There is no doubt that art is an appropriate asset class for long-term investment. There is no good reason why it should be excluded for superannuation investment.

Sincerely

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[1] Source: <http://artasanasset.com/main>