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The Investment Strategies of Art Funds

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Abstract

This thesis study examines the conditions that laid the groundwork for art funds in particular, their formation and development processes, and subsequently analyses the properties of art funds as a type of investment fund, and their structure and diversity, ultimately closely examining their investment strategies in detail through examples. Although artworks have been known to be valuable for centuries, the classification and acceptance of artworks as an asset class is a newer phenomenon that occurred in the last century. The operating mechanisms unique to the art markets evolved within the limits of the potential provided by the developing technology as financialization began to dominate all fields. This evolution brought the worlds of art and finance together in new practices. As changing economic conditions impacted different geographic regions simultaneously, creating fluctuations in markets, investors sought safe investments. Emerging at this moment, these new art market practices became an anchor for investors, presenting them attractive opportunities. Building upon the structures of hedge and private equity funds, art funds are portfolios put together to create profit through the acquisition of artworks. Largely and increasingly in developing economies, these funds provide opportunities for High-Net-Worth and Ultra-High-Net-Worth investors who want to invest in art as either as a major investment or a diversification factor in their portfolios. This study aims to examine the emergence and developmental stages of art funds under the influence of capitalism and globalization, as well as the art markets' unique dynamics and their transformation into new forms in light of the financial markets' simultaneous evolution with technology. Thus, this study will underline the details of the operating mechanisms of art funds and their investment strategies to contribute to future studies in the literature.

Keywords: Art economy; art fund; art investment; investment funds; investment strategy

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INTRODUCTION

In the 20th century, the increasingly wide-spread acceptance of art as a financial asset added financial appeal next to its qualities of aesthetical value and social benefit. The art market thus began to quickly grow with participation from developing economies. The products of the art market have become a target for various reasons for the upper classes who have become increasingly wealthier due to uneven wealth distribution even further exacerbated by global capitalism. Evolving under the influence of globalization and financialization, the practices of the market gave birth to art funds as a point of intersection for art and finance. Since it is necessary to know the dynamics of the art market to comprehend art funds, this study first analyses the market dynamics, historical process, and the factors that influence its development. It will then examine the factors that laid the groundwork for the emergence of art funds within the market, as well as their inception and evolution processes in the 20th century. After a detailed examination of examples from history, this study will investigate art funds as they exist in the current day and examine its legal and structural specifications. Investment strategies and the administrative strategies will then be examined from a broad perspective alongside two striking case studies following some essential information about the structure of art funds to create a better understanding of the technical aspects. This study will investigate art funds' point of origin, the factors that influenced the art funds which had emerged in Europe then spread to the U.S. and later the world over in the axis of developing economies. The developments and transformations of the art market under the influence of globalization and international financialization will be examined as well as the strategies that drive art funds as a type of investment for the wealthy classes – who prefer art funds as a sophisticated investment for their unbridled growth of wealth as a result of capitalism which accelerated at the same time when art became accepted as an asset class.

The study aims to enlighten the underlying dynamics of the legal, structural, and administrative foundations of art funds to draw attention as a prominent and contemporary method for financial funding which is vital for the sustainability of the arts. This study may

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contribute vis-à-vis the adaptation of new global trends in art financing into Turkey and the formation of a new perspective on art funding in Turkey.

RESULTS

Art investment funds provide limited access to information about their performance because they are unregulated and do not have public disclosure requirements. Due to limited data and the absence of information about performance, sometimes it may not even be possible to determine whether a fund is already in progress. The strongest expression of this is the fact that the website of The Art Fund Association (ARTFA), which was established in 2011 as the commercial association of art funds, was last updated in 2013 and no information or termination was made afterwards. (Frye, 2018)

The lessons to take from British Retail Pension Fund case was that, only the funds who manage to keep a small number of artworks of very high quality in their portfolio – so as to maintain a high general investment performance level while maintaining a low overhead – would be the ones to succeed. Certainly, an administrative structure that maintains a fine balance between finance and art is extremely important.

It may not always be possible for art funds to realize their targeted investment strategies. Since art investment is a relatively new phenomenon and investors want to see some positive data and sense trust before investing, funds tend to want to create investments that will make a splash by quickly using their assets to create positive figures in the early period. This is normal so long as it remains in line with the specified portfolio allocation parameters of the fund. However, in Fine Art Fund's case, when the segment the investment had shifted into grew quickly and became profitable, FAF and many other funds of the time chose not to stick to their predetermined strategies and make changes. Sector diversification is appealing but prone to errors – with funds entering a vicious circle while trying to provide new resources through rapid returns and being subject to a higher-than-expected risk. Essentially, if they are able to provide the necessary resources, art funds can boast a high profit potential by utilizing their large capital reserves and deep market knowledge to take advantage of informational and regional asymmetries in the market. Yet the high risk they are willing to take on might underline the gap between art investment in theory and in practice (Horowitz, 2011).

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Fernwood case underlines that the question of whether art funds are a big risk or a great opportunity will undoubtedly be shaped under the current regulations by fund managers' commitment to ethical values even if they have solid credentials and a good track record. For art to become a more appealing investment, it needs to be transparent and have reliable indicators, public records and the promise of a solid portfolio in accordance with the art investment strategy like other investment assets. (Eckstein & Willette, 2010)

DISCUSSION

The Art Market

The main attribute of art market products is that they are heterogenous in nature and irreplaceably unique (Velthuis, 2011). The value an artwork provides the consumer consists of the union of many factors – social, cultural, historical, national, academic, or tabloid. In addition to these influencing factors, contextual factors such as the artwork's provenance, its relative position among the artist's other works, the museums or galleries it was exhibited in, or the collections it was part of also influence its value, as well as the material, size, color, subject, and condition of the artwork (Groysberg, et al. 2006).

The suppliers who actively influence the values in the art market are the art dealers, gallery owners and the auction houses. According to the early-20th-century economist Thorstein Veblen, artworks are a matter of conspicuous consumption and thus can improve the status of their owners within their society or their social circles. The market competition is based not on the price but being able to create a perception of long-term artistic and economic value for the artwork in the collector's head, influencing and reshaping their tastes (Velthuis, 2011).

It's obvious that the art market is far from efficient, with markedly different mechanisms compared to traditional markets. The market conditions of those known as an "imperfect market" in economics are valid here. The absence of price standardization and transparency, low liquidity, insufficient market information, inelastic demand and the lack of a long-term trade volume are its most significant reasons (Groysberg, et al. 2006). Its

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fractured and opaque structure, and the subjective approaches in product valuation result in information asymmetry, which causes high transaction costs. These conditions increase the need for art experts who can act as market makers and gatekeeper (McAndrew, 2010). Absence of sustainable, systematic and transparent sources of data for market investors and decision-makers, cause them to resort to acting on rumors and unconfirmed information. This structure, shaped around verbal communication and close relationships, tends to be very effective for those at its center, but very ineffective for those on the outside (Groysberg, et al. 2006). This gives the insiders an advantage over the outsiders, giving them opportunities for arbitrage by acting on important information (Velthuis & Coslor, 2012).

An important observation regarding supply in the art market is the limited amount of supply. An artist's production is bound to be subject to limitations regarding time and effort, and thus, their production within a specific period of time is limited. In the case of the artist's death, the number of their works becomes fixed. Therefore, the art market economy is supply driven (McAndrew, 2010). The daily volume of transactions present in other markets simply does not exist in the art market. The density of annual volumes occur on the dates when auctions are held or during annual art fairs, which take place at regular intervals. A stock that is traded at The New York Stock Exchange will change hands at least once a year on average. In contrast, studies state that the average duration that a great artwork sold at an auction will be retained by one owner is 28 years (Mei & Moses, 2002). Sales in the art market essentially tend to be distress sales, also known as the three Ds: happening only upon cases of death, divorce, and debt (McAndrew, 2010).

The art market is difficult to evaluate as private sales are unrecorded. There essentially isn't such a thing as an art market – the art market isn't a single, homogenous structure. It consists of different structures, made up of clusters of different markets, all developing at their own pace (McAndrew, 2010). The art market is a name given to the sum of many unique and independent sub-markets that usually on different courses of action, generally categorized by genres, mediums, artists, etc. Each section of the market has its own dynamics.

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The market wherein the artists or the galleries that represent them make direct sales to the buyers is known as the primary market. The market where an artwork previously sold is sold again to another buyer through a gallery, dealer, or auction house is known as the secondary market. The possibility of reaching data regarding the primary market is very slim, therefore this type of market data is usually considered to not exist in cultural economics. The data in most studies is based on auction figures from the secondary market (Velthuis, 2011). Intermediaries – dealers & galleries, and auction houses are the most important actors of the secondary market, and they carry out the task of matching the supply to the demand. Christie's and Sotheby's are the two colossal auction monopolies which have existed in the international art market since 18th century and continue to operate at east and west through their growing number of branches corresponding with their increasing volume of work.

The increase of financial elites' capital and their interest in alternative investments and lifestyle opportunities have been a propulsive force in the formation of the base of buyers necessary for the development of the art market. Economists call this the "income elasticity of demand" – as the income level increases, the demand for luxury goods and non-essential products like artworks arises at an amount higher than the income level. The High Net Worth (HNW) and Ultra High Net Worth (UHNW) accredited investors who have begun to emerge at a large volume in the recent years and how they spend their money has been a determining factor for the art market (Horowitz, 2011). HNW represents those with a net worth of over $1 million, while UHNW represents investors with a net worth of over $30 million (Eckstein&Willette, 2010). According to the Capgemini World Wealth Report (Capgemini, 2022), the number of HNW individuals at a global basis increased by 7.8% in 2021, reaching 22.37 million with 1.7 million new individuals. The global population of HNWIs are dominated by four markets which are the USA, China, Germany and Japan.

The global sales figures of the art and antiques market reached $65.1 billion in 2021 (Art Basel & UBS, 2022). The internet usage and the developing FinTech applications in the recent years has lowered the opaqueness of the market. The new millennium has been a

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period where digital technologies have played a huge role in many fields including the art market. The combination of e-commerce, which has risen with digitalization, with the conditions created by the COVID-19 pandemic, has led to a significant increase in online art sales in 2020 and beyond. The root causes for this recent increase in art consumption are the influence of emerging economies, the nature and polarization of wealth, the increasing interest in art as an investment, the parallels by association between art and fashion with luxury and fame, the effects of globalization, and the internet (Adam, 2014).

The emergence of this new regime which has shaped the art markets is rooted in these phenomena: commercialization, globalization, and financialization (Velthuis, 2012). Artists, collectors and intermediary organizations began to display more profit-oriented approaches as a result of the conditions caused by neoliberal policies, privatization, and cultural erosion (Horowitz, 2011). “Art Fair Art” type of homogenous artworks that find form depending on the market tastes have become a symbol of commercialization (Velthuis, 2012). The new buyers who have seen a sharp increase in wealth with their quick profits from the financial markets or the luxury goods industries strongly need art consultancy services. In what the French sociologist Lucien Karpik calls the *economics of singularity,* through information acquired from reliable sources, choices become preferences.

Under the effects of globalization, as emerging economies began to participate, the art market, which for centuries had been under western hegemony, has set sail towards new horizons. After the 1990s, strong and developing economies such as Brazil, Russia, India, China and South Africa (BRICS), or the United Arab Emirates have reshaped the geographical distribution of the market completely (Codignola, 2015). These large markets have been effective in the art market’s trade volume growth, allowing for great auction companies to enter these markets and operating their international commerce in various regions around the world such as India, China, Russia, and Latin America. The widespread and closely related changes witnessed since the 1960s in the global economy have made the financialization of arts possible. Better corporate returns, the increasing value of the

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stock market and other such resources have made it possible for large scale infrastructure investments to be made in the art market (Horowitz, 2011).

The Formation of Art Funds in Historical Process

The financialization of art is a phenomenon that took place in the second half of the 20th century. Under this influence, the art market has also gone through a three-stage process and become financialized (Velthuis &Coslor, 2012). The first stage, consisting of the 1960-80 period, the art market was characterized by relatively limited information and limited access to that information and largely shaped by a limited number of pioneers who acted on passion. A turning point is the emergence of the art index. Publishing a graphic organized like a stock market index, The Times of London rendered arts comparable to the stock market for the first time in 1967, pioneering a staggering increase in the value of art. The emphasis of the economists on the high sales prices of the artworks that lead to widespread media attention and art, rising as an alternative investment against high inflation due to the economical conjuncture of those years, were the two obvious reasons why this process started in the 1960s.

Although art has been perceived as a store of value since 17th century, the identity of art investors becoming what it is in the current day took until the 20th century. At the end of the 19th century, the bourgeois-capitalist investor profile had still been buying artworks for the purpose of social prestige rather than financial gain (Horowitz, 2011). In the first half of the 20th century, few people were aware of the connection between finance and art and could see the appeal of art as a financial anchor.

At the start of the 20th century the French financier and art connoisseur Andre Level, who could be considered a pioneer in art funds, started an enterprise. His investment club, founded in Paris in 1904, used its pool of capital consisting of 250 francs of investment from each of its 13 investors to purchase modern artworks. According to the agreements they had made among themselves the fund would dissolve after 10 years, and the investors would receive 3.5% percent annual interest and their own share of the 60% of the sales premiums. One half of the remaining 40% would go to Level, and the rest would go to the

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artist, who was provided “droit de suite”, the resale royalty rights, at least for the first sale (Frye, 2018) Level named the fund ***“Peau de L’Ours”*** and managed the necessary funding for the purchase of 100 artworks in a period of 10 years. Among the artworks in the portfolio of the fund were certain works of young artists of the period such as Picasso and Matisse. The collection as a whole was liquidated in 1914 in Paris, with a sale figure of 100,000 francs. The average sales figures for the artworks were approximately four times as much as their original purchase prices (Velthuis & Coslor, 2012).

Attempts similar to this successful example could not gain traction due to the First World War, the Great Depression, and the Second World War which followed. It took until the 1970s for the world to recover from these back-to-back global disasters and for art investment activities to gain speed (Horowitz, 2011). The year 1973 saw two major achievements for the auction sector. The first was the Sotheby's becoming the first ever international art auction house through the sales it has conducted in Hong Kong that signaled the markets which had largely been centered in the West was about to be subject to change. The second achievement was Sotheby's liquidation of Robert and Ethel Scull’s collection in New York, marking the first independent auction of contemporary artworks from a private collection. According to Velthuis, this auction marks the point where a line was drawn between the old and the new art worlds showing the profitability of contemporary art and the changing dynamics of the market.

In 1968, a group of English and American investors founded one of the first art investment funds, titled the ***Sovereign-American Arts Corporation***. Before becoming public in 1969 at the New York Stock Exchange, the portfolio of the funds consisted of 70 artworks including some works from Kandinsky and Giacometti. On the first day the fund was listed in the Stock Exchange the price of its stocks went from $6 to $25, achieving a successful initial public offering. In the following years, similar attempts took place in the USA, Belgium, Switzerland, Luxembourg, and Germany, usually with the support of each nation’s respective banks. However, by the end of the 1970s none of these enterprises had been able to continue operating in their original forms (Horowitz, 2011).

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The most prominent fund to survive the 1970s was the ***British Rail Pension Fund*** (BRPF), which was founded in 1973. With its corporate credentials, it is one of the few successful investments that are accepted as one of the first art funds. Using a strategy that was widespread in England during the period, the British Rail Pension Fund created an art portfolio consisting of arts and antiques in order to protect themselves against inflation (Eckstein & Willette, 2010). Between the years of 1974 and 1980, the fund invested in various asset types such as paintings, sculptures, antique furniture, bronze objects, and jewelry; adding 2400 artworks into its portfolio with an investment of approximately 40 million British pounds which equaled a 3% of its total worth. A third of this portfolio was dedicated to the Old Masters, and an amount no higher than 10% of the portfolio was dedicated to the impressionists. Initially shaping its investment decisions through the professional consultancy services provided to them by Sotheby's, the BRPF later began to act on the advice from other prominent organizations in the sector. The purchases made by the fund had a quality high enough to be considered standardized, providing it to compete with museums (Cannon-Brookes, 1993).

By 1987, the fund had begun to start selling the artworks as their art investments had achieved the optimum yield and alternative investment fields had become more appealing. As part of their decision to sell, the costs regarding the maintenance and conservation of such a collection and its constant repricing also played a large role. In 1989 the fund made a sensational sale of their impressionist artworks, which had caused £3.4 million, for an amount of £34.9 million, netting them a 21.3% portion of their annual income. Ironically, despite their long-term sales strategy, the fund made their most profitable sales within a very short period. By the year 2000, when the whole collection had been liquidated, the total some of the fund's returns from 1974 to 1999 was calculated to be 11.3%, which equal to an annual return of 4% after adjusting for inflation (Horowitz, 2011).

Although the BRPF as an important early example of art funds, founded in order to beat the inflation and had seemingly reached its goal, the total profits yielded compared to mainstream stocks have been lower which caused public criticism. Another issue was the fact that the impressionist paintings had been put on sale during an unprecedentedly

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fortunate boom period for the sector, and a similar situation reoccurring for similar investors was very low. Also, the formalities and delays, as well as liquidity issues, which occasionally led to them missing good opportunities, conflicts of interest, high insurance costs were other sources of critics. In order to eliminate these expenditures, the fund lent various artworks from its collection. Through these loans the fund hoped to not only decrease the storage and insurance costs but also to increase the potential value of the artworks that would be displayed in international museums and exhibitions. (Eckstein & Willette, 2010)

The second wave of arts investment efforts happened at the end of the 1980s and the early 1990s. During this stage a big reason for increase in public attention was the increase of transparency due to the emergence of suppliers who provided the markets with systemic data. Institutions like Reuters or Bloomberg began to provide systemic data regarding auction prices for potential investors in addition to the analyses they provided for traditional investment assets. (Velthuis & Coslor, 2012) The Information Society greatly contributed to the financial markets by bringing transparency regarding numerous asset fields. (Knorr &Brugger, 2002) The role of instinct diminished, making way for a larger role for information in decision-making for investments. These services brought relative democratization and rationalization to the art market. International banks, such as Citigroup, became involved with the process, the sector became more professional– with wealthy customers of these banks recognizing their art collections as a part of their financial investment portfolios, and the banks themselves beginning to offer art backed loans or art consultancy services as a private banking customer management tool.

The third transformative wave happened through structured finance. A group of newly founded art fund investments found a new guise as a private equity rather than publicly traded investment funds. And art, in its new packaging, was presented as an essential element of a diversified portfolio by the world of finance. This stage of the financialization of art continued with the scientification of art investment and use of marketing tools that acted as borders that bridge the two worlds. Academic studies legitimatized the merits of art as an alternative investment. As an example, Moses published a study with Mei in 2002

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which showed that the average annual yield of artworks bought and sold between the years of 1875 and 2000 and created a benchmark for alternative investments (Mei&Moses, 2002).

Art Funds

Investment funds are a type of collective investment undertaking, which is a capital market institution. According to the Capital Markets Board of Turkey (SPK, 2022), they are portfolios that are formed by investors through various financial instruments with the purpose of generating value from money and capital markets and are managed by professional managers who closely monitor those markets. Art funds are usually private investment funds dedicated to making profit through the acquisition and sale of artworks. They are managed by a professional investment management company or a consulting firm who receive a management fee as well as a portion of the returns provided by the fund (ARTFA, 2013). Art funds, known as "passion investment" provide advantages such as access to high-quality works, diversification at a level usually inaccessible via individual means, and active asset management (Eckstein & Willette, 2010).

Although art investment, which involves processes that requires private communication networks and enough wealth to finance dealers, has begun to adopt the lower cost and barrier opportunities brought on by technology, the basic logic still relies on the capital invested in a work by the investor. And because each artwork carries its own idiosyncratic risks, a well-diversified portfolio requires a large number of works, which in turn requires great purchasing power. Art investment vehicles offer a potential exit as a solution for these constraints within their framework. They exist to combine their investors' resources and profit from the financial benefits of art without having to own the works individually. Art funds, which are a type of art investment vehicle, involve the process of purchasing a group of artworks and storing them until their maturity date, only distributing the profit to the investors at the end of this period. Other than cases where they are leased, the artworks are usually kept out of sight for 5-7 years. However, issues such as illiquidity, in-accessibility, and low returns, in addition to high participation rates of up to $1 million made necessary by the way these funds are structured, still limit participation in this market to the very

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wealthy class. Also important is the fact the art funds market's estimated fairly small share in the art market as a whole. Art funds are a small portion in the $64 billion art market, and has only shrunk from its peak value of $2.1 billion in 2012 to $836 million in 2018 (Xiang, 2018).

Most art funds are planned as closed-ended investment vehicles with a duration of five to ten years. Unlike stocks or investment funds which have more liquid markets, art funds allow investors to buy up to a certain point whereupon the fund closes. Shareholder investments are, in a way, locked into fund and can only change hands at certain intervals determined beforehand. Art funds' capital and investment return targets may vary depending on their purpose, financing, and management styles. Investors usually contribute up to $250,000, with a minimum of Ş100,000. The fund management company will deduct 2% of the invested capital for annual operating expenses based on overhead and operational expenses. In addition, a 20% performance fee is charged on top of the earnings. Most art funds operate from outside the United States, the United Kingdom or continental Europe. There are many examples recorded in offshore locations such as the Cayman Islands, Channel Islands, British Virgin Islands, Bermuda, and Luxembourg. These countries help funds optimize their returns with their investor-friendly regulations and attractive tax incentives (Horowitz, 2011).

Many art funds exhibit a hybrid structure similar to hedge funds, mutual funds, private equity funds or real estate investment funds. Art investment funds provide limited access to information about their performance because, similar to hedge funds and private equities, many art investment funds are unregulated and do not have public disclosure requirements. Usually successful ones are documented, less successful or unsuccessful ones go unrecorded. In the literature, this is called the "survivorship bias", and it causes hedge funds' index of returns to be perceived 2-3% higher. Another common factor that can distort our perception is the "backfill bias". Funds that are new to the index can have an inflating effect on it. When we make similar numerical evaluations about art funds, such factors will prove crucial (Horowitz, 2011).

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The Investment Strategies of Art Funds

Art investment is a goal-oriented and intuitive process that involves buying artworks cheap and selling them the highest premium point while keeping the processing, transportation, storage and insurance costs to a minimum. This purpose is based on two suppositions. Firstly, art as an asset class is not affiliated with international stock markets, which means that its prices act independently of traditional investment products such as stocks and bonds. Secondly, art market is strongly inefficient, has opaque prices, low liquidity, and a high amount of informational asymmetry. In accordance with these suppositions, the distinguishing feature of the art fund from other speculators must be the strategic reveal of the ostensible uncorrelated benefit to profit from the lack of efficiency. Gathering a high volume of financial and artistic assets under the same umbrella can ensure this. During periods of economic turbulence and in high inflation environments, art prices may also rise and create value for the investor. Even only maintaining its existing value can be advantageous over investments like stocks or bonds. Because the global art market is fragmented and hybridized, the collapse in one country may not affect others (Horowitz, 2011).

Art funds generally implement three main investment strategies. The first can be called a "diversified" strategy, where the investments are spread across different geographical regions and market segments. There is a selection of portfolios from the Old Masters to the Impressionists and contemporary art. The second is a vertical integration and can be called the "region-specific" strategy, where all sorts of artworks are acquired from the selected region. For example, with this strategy, the portfolio of a fund of Chinese art might feature artworks from old porcelain to antiques to the works of living contemporary artists. The third strategy applies what is known as an "opportunistic" tactic, wherein the fund tries to achieve profitability by taking advantage of incorrect pricing using informational asymmetry in the market. Most funds are built upon one of these three strategies or a hybrid model (Horowitz, 2011).

According to The Art Fund Association (ARTFA) (2013), the investment strategies that art funds can implement are; Buy & Hold Strategy, Geographic Arbitrage Strategy,

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Artwork Driven Strategy, Regional Art Strategy, Period Strategy, Emerging Artists Strategy, Intrinsic Value Strategy, Leveraging Strategy, Distressed Art Strategy, Co-ownership Strategy, Showcasing Strategy, Bulk Buy Strategy, Medium Strategy. The risks and returns for each strategy may be different, so when evaluating a fund's success, it is better to analyze it according to these two variables: Most fund managers use more than one of these strategies at the same time to create a profitable process. The main factors to be considered when determining the strategy are the limitedness of the number of artworks that meet the investment criteria in the field in which the fund will operate and the amount of capital resources that can be procured while the fund still has advantages in the field area before the competitors take action and balance the market.

Fernwood Investment Fund was founded by Bruce Taub, who is a collector and former senior director of international private customer services at Merrill Lynch, in 2003. The fund launched its activities across three different offices - Boston, New York and Miami, with eight employees. It formed many strategic partnerships and benefited from the knowledge and consultancy of these contracted professionals. The executives at Fernwood reveals that each had remarkable educational and professional backgrounds (Groysberg et al., 2006). Believing in the power of art as an investment, Taub funneled his Ş150 million investment target into two primary art funds: the Sector Allocation Fund, wherein the portfolio was divided into eight genres such as Old Masters and Emerging Masters as a diversification strategy, and the Opportunity Fund, which, as the name implies, offered higher-risk but immediately valuable opportunities (Horowitz, 2011).

The fund, with approximately 20 white-collar employees, and served people from auctioneers to sales representatives, economists to art critics is closed in 2006. In 2007, a consortium of investors who had purchased preferred shares from Fernwood filed a lawsuit against Taub and won. Using his and his wife's social network and other people's money, Taub had integrated himself into a rare social circle, and funded his own lifestyle and social desires by controlling the funds and the information regarding that use. The capital raised

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was used on the parent company instead of the funds. This end to one of the prominent and profitable examples of its kind, caused considerable damage to the sector (Horowitz, 2011).

The Fine Art Fund (FAF) was founded in 2001 by Philip Hoffman, a former executive for Christie's. It was the first fund with a minimum investment prerequisite of $250,000. The fund's initial portfolio included 80 artworks. The fund began forming different portfolios and strategies and started concentrating on certain regions and genres as well as opportunities such as distress sales as it progressed. Each fund typically had between 30 and 40 clients who invested between $250,000 and $7 million. The fund began distributing profits from its first fund to its investors in 2009 with a net annual return of about 5% in 2015 when the sales had been completed. The fund was rechristened The Fine Art Group in 2016, reintroducing itself as a new brand. All Fine Art Fund ventures aimed for annual returns at 10-15% and were closed-ended investments. In 2018, the fund's investment volume exceeded $500 million, and it had maintained its structure consisting of eight funds. It is, ostensibly, one of the few very successful examples that have been active for such a long period, but the profitability of the funds it manages is a complete mystery (Frye, 2018). According to Hoffman, long-term capital and resilience are the main strengths behind its success, stating in his 2017 assessment that most of funds in the sector were recent ventures, underlining that investors began to assign importance to a good and long track record, especially after the disappearance of Lehman Brothers in 2008 (Shaw, 2017).

In 2005, after having announced its art consultancy services and that it would establish a fund-of-funds, ***ABN AMRO*** terminated both ventures before a year had passed. The company explained in a statement that their analyses of existing funds showed that the conditions were not suited to establishing a fund-of-funds. Of the 20 then-current funds they evaluated, only two, the FAF and the China Fund, were found to be viable to recommend as third-party investment vehicles for investors. ABN AMRO's experience and its assessment of the circumstances has undoubtedly had a negative impact on the art funds market. (Horowitz, 2011)

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It is thought that approximately 50 active art funds existed the beginning of 2009, and remarkably, the majority of which were located in India. It is not possible to estimate their number, as art funds do not have record-keeping obligations and do not operate publicly. If we were to set aside any funds that are open to outside investors, subject to the legal regulations that govern the incentives created for qualified investors, has provided the necessary funding in accordance with its commercial strategy and has completed a sufficiently diversified portfolio distribution regarding western art, the total number of funds would be expected to drop at least by half. By 2010, the number of art investment funds, which had reached fifty, was down to twenty. (Eckstein & Willette, 2010) There are many funds that have been suspended or dissolved due to difficulties related to capital collection, managerial problems, and marketing. According to the Deloitte Lux. & ArtTactic Art & Finance Report 2014, the art fund market had become revitalized by 2012 and as of that same year there were around 115 art investment funds driving $2 billion of investment. Behind this significant growth in the sector was the funds founded in China, although there are also funds among them whose focuses are not concerned with the performance of the art market. In fact, the number of funds originating in America and Europe remains at around a stable 20. Fresh capital that enters the market is usually directed towards funds about which there is data. Of the $557.9 million of total assets under management in the art fund market in the US and Europe in 2016, more than $350 million was held by Fine Art Group (Xiang, 2018). It is difficult to know the details about most small-scale funds.

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CONCLUSION

According to the "Art and Finance Report 2019" from Deloitte & ArtTactic (2020), " trust" and "transparency" are highlighted as two key points in front of the financial growth of the art market. The threat and risk factors related to art market are; originality, lack of provenance, fraud and attribution, insufficient transparency, price manipulations and anti-competitive behaviors, registration or originality inadequacy of the determining qualities, lack of art market professional's qualifications at international standards, money laundering, undisclosed conflicts of interest, hidden commissions, insider dealing, buyer-seller confidentiality, auction guarantees, etc. A shift towards developing specialization

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and opportunistic investment strategies are necessary revisions to ensure resilience in the face of competitive conditions in the art investment industry. New technologies and data-driven business models are expected to reduce information asymmetry and increase transparency.

UHNW individuals' assets related to art and collection products have been estimated to have reached $1,448 billion as of 2020. The sector which provides services related to the safe-keeping, development and support of these products, as well as its profitability, are expected to gradually expand. It is predicted that the importance of online sales channels for retail sectors will increase in the near future. The growth will be possible through strategic partnerships between asset managers and art professionals, as well as the proliferation of suppliers who provide services at the intersection of technology and art. Over the past decade, the scope of art and asset management services has evolved away from an investment-oriented client strategy to a more holistic perspective. With the COVID-19 pandemic accelerating digitalization like a catalyst, data-supported new generation solutions and digital skills come to the fore. Technology-oriented art and new generation management strategies are important in order to appeal to young collectors who stand out as the rising value of asset management. One of the main determinants of innovation and change in the art and asset markets is technology. There will always be great opportunities in the growing art market on a global scale for art funds that understand well the structure of the sector and can adapt to changes.

In conclusion:

As long as art and finance remain powerful lodestones for current day people who spend their lives in pursuit of prestige, power and reputation; art funds will continue to create opportunities by adapting innovative technologies and by distributing shares to its base at ever-diminishing rates, or in other words, in democratized form.

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