



# Guernsey

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Art prices last year rose on average by 18%, according to Artprice.com. Post-war art has outperformed the Standard & Poor's 500 index over the past 25 years, according to the Mei Moses art index.

The auction houses' estimates for the big May sales indicate that they believe buyers will continue to support top prices, in spite of warnings by many dealers and collectors. The increasing diversity of buyers in Russia, China and the Middle East has bolstered confidence that art sales are no longer dependent on a small group of wealthy families.

Guernsey's first fine art hedge fund, Art Investment PCC Limited, and its first cell, the Art Trading Fund, were launched in 2007 by London-based Artistic Investment Advisers ("AIA"). This fund provides a vehicle for investment in fine art by professional and sophisticated investors.

The use of a protected cell company structure (or PCC) was the obvious choice. This type of vehicle has existed in Guernsey since 1997 and is now familiar to investors and counterparties across many jurisdictions. It allows future cells to be launched under its umbrella with access to shared resources and expertise. Although the PCC is a single legal entity, assets and liabilities of cells are segregated by law, ensuring investor and creditor protection.

The fund was set up using the Qualified Investor Fund route, one of the fast track procedures available in Guernsey. Guernsey also offers a registered fund route to establishment in the case of closed-ended funds which are not marketed to Guernsey residents. Both routes offer a three-day approval service by the Guernsey Financial Services Commission. The fund is listed on the Channel Islands Stock Exchange - an added attraction for Sippis, ISAs, PEPs and SSAs.

The fund is advised by AIA. Chris Carlson, AIA director, said: "We were looking for a jurisdiction that would provide us with both the security and yet flexibility to successfully establish and operate such an exotic fund, and Guernsey was the perfect match."

The art held within the fund will be selected if it is likely to generate steady, predictable returns. To this end a number of established artists have been signed up, granting the fund an option to purchase their works. With specialist art experts acting as consultants, AIA sources impressionist and post-impressionist works coming to the market. Hedging is introduced into the management of the fund's portfolio, using a basket of economic indices. This unique feature of the fund makes it the first art hedge fund.

### Where next?

There are plans to launch a second cell of the Art Investment Fund imminently. In keeping with its reputation for innovation and commercial sense, Guernsey also looks set to play host to other investment vehicles with a range of unique asset classes. The recent introduction of the Incorporated Cell Company structure offers promoters greater choice, and coupled with the proactive approach of Guernsey's regulators to streamlining its procedures, should keep Guernsey firmly at the forefront of the funds' industry. ■