

# Understanding Art as an Asset Class

*2022*

# Democratization of Art

Masterworks is the first firm democratizing access to the art market

## Dedicated Art Securitization Platform

We are the first platform of scale that provides access to the blue-chip contemporary art market

## Democratization of the Asset Class

Our goal is to democratize an asset class that has only been accessible to the ultra-wealthy

## Investment Access

Masterworks has offered over 100 paintings across artists like Picasso, Warhol and Basquiat; access to these works are available to the broader investor community via our investment platform

Our mission is to democratize art investing, a \$1.7T asset class.

Masterworks is the first platform making it possible to invest in multimillion-dollar works from artists like Banksy, Kaws, Basquiat, and many more. Investors of all types who seek to improve their portfolio performance use our proprietary data.

[SKIP WAITLIST](#)

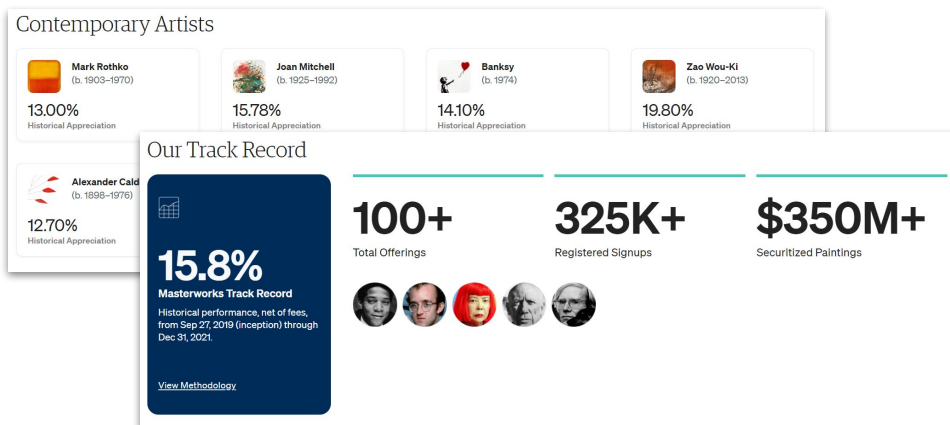
[INVEST NOW](#)

# Masterworks Overview

With over 360,000 members, Masterworks has brought art market interest to a new community

## Key Stats

- Masterworks is located in New York with **over 160** employees who have backgrounds in the art market, finance and technology
- We've rapidly become one of the **largest buyers** in the art market, having acquired over **\$300 million** in art in **2021**
- Year to date, less than **2.4%** of artworks we reviewed passed our diligence process
- Our goal is to buy more than **\$1 billion** in art in **2022**



## Buy and sell shares

Our first of its kind secondary market enables you to buy and sell shares directly to and from other investors. Currently, the secondary market is only available to US citizens with US bank accounts.

ENTER SECONDARY MARKET



### Easy access

Shares will be available for transaction 90 days after the primary offering closing



### No transaction fees

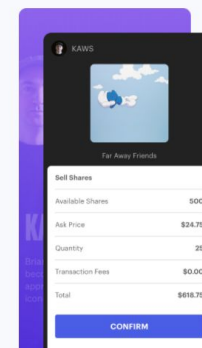
There are no transaction fees of any kind for buying and selling your shares



### Lower minimums

Invest on the secondary market with lower minimums than primary offerings

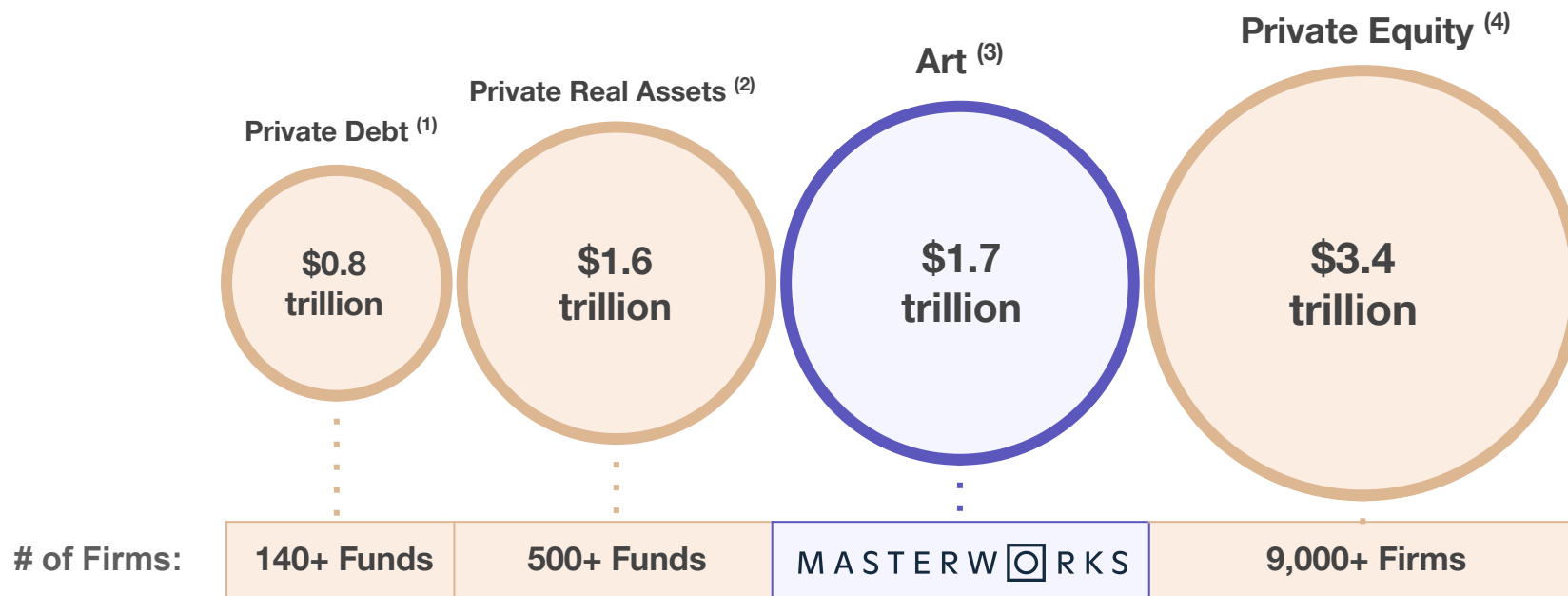
The Secondary Market is a bulletin board that facilitates privately negotiated transactions between users without our involvement. We cannot assure you that the Secondary Market will provide a reliable or effective means of monetizing your investment or valuing your shares.



# A New, Unsecuritized, Asset Class

Art is one of the largest unsecuritized private asset classes

## Private Asset Classes



Sources: Prejin, McKinsey & Company: *Private markets come of age: McKinsey Global Private Markets Review 2019*. Deloitte, ArtTactic: *Deloitte Art and Finance Report 2019*.

1. Global private market assets under management investing in debt
2. Global private market assets under management investing in real estate, natural resources, and infrastructure
3. Global estimated value of art held by individuals. Estimated based on surveys of wealth allocation to art/collectibles and estimates of total wealth held by individuals
4. Global private market assets under management investing in private equity

# Macro Drivers of the Art Market

Demand-supply imbalances with a growing wave of capital chasing an ever scarcer pool of assets drives art price appreciation

1

## Demand Growth

Secular growth in purchasing power among the global ultra-high-net-worth community

**27%**

Growth in the Number of UHNWI  
(Elliman Insider)

2

## Supply Scarcity

Decreasing supply as artwork is acquired by museums and permanent collections, may be partially offset by new artwork from living artists

**15%**

Share of Art Purchases by  
Museums and Arts Institutions  
(UBS, Art Basel)

3

## Global Asset

Tangible, mobile, internationally marketable store of value that can be sold across locales / currencies

**58%**

Share of transaction volume outside  
the United States  
(UBS, Art Basel)

# How We Understand Art Market Appreciation

Our in-house research team focuses on understanding appreciation in the art market

1

## Data Collection

Proprietary market databases tracking over 350,000 public transaction records and more than \$12 billion in offered works<sup>(1)</sup>

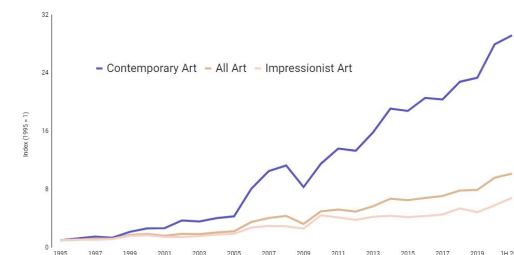
**5 million**

Data points for auction sales starting as early as 1960

2

## Index Construction

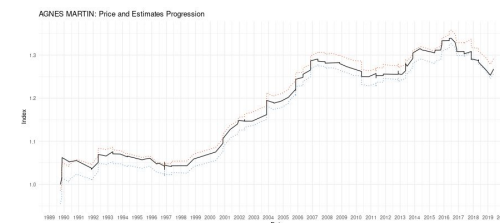
Used 30,000 repeat sale pairs to build the leading indices in the art market



3

## Proprietary Metrics

Developed in-house analytics to assess artist market appreciation, momentum, bidder depth and collector demand



**Note:**

1. Reflects cumulative total amount of all artworks offered to Masterworks as of 3/7/2022

# 2021 Demonstrated Art Market's Resiliency

2021 helped highlight some the increasingly attractive investment characteristics of art as a global real asset

1

## Inflation Beta

Globally traded real asset that can reprice for currency devaluations

**7.5%**

Increase in CPI  
Y-o-Y  
(BLS)

2

## Persistent Online Sales

Auction houses, galleries and dealers continue to maintain their improved online sales capabilities

**511%**

Increase in Total Sales via  
Online Marketplaces  
(ArtTactic)

3

## Contemporary Market Expands


Post-War and Contemporary Art continued to gain market share, reaching all-time highs

**55%**

Post-War and Contemporary Art's  
Share of Transaction Volume  
(UBS, Art Basel)

# Low Expectations for Equity Returns

With equities near all-time highs, the top equity research teams are expecting long-term equity returns well below the 9.5% returned by the S&P since 1995

Firm	U.S. Equities	Developed-Markets Equities	Emerging Markets Equities
<b>BLACKROCK</b>	<b>6.70%</b> <sup>(1)</sup>	<b>9.20%</b> <sup>(2)</sup>	<b>8.70%</b>
<b>J.P.Morgan</b> <sup>(3)</sup>	<b>4.10%</b>	<b>5.00%</b> <sup>(4)</sup>	<b>6.60%</b>
<b>MORNINGSTAR</b> <sup>®</sup>	<b>1.60%</b>	<b>2.60%</b>	<b>6.40%</b>
	<b>1.60%</b> <sup>(1)</sup>	<b>6.80%</b>	<b>9.40%</b>
<b>Vanguard</b> <sup>®</sup>	<b>3.30%</b>	<b>6.20%</b> <sup>(5)</sup>	<b>6.20%</b> <sup>(5)</sup>

Source: Morningstar, Inc.

1. U.S. Large Caps
2. European equities
3. 10 - 15 year horizon
4. Reflects mid-point of estimates
5. Estimate is for all non-U.S. equities

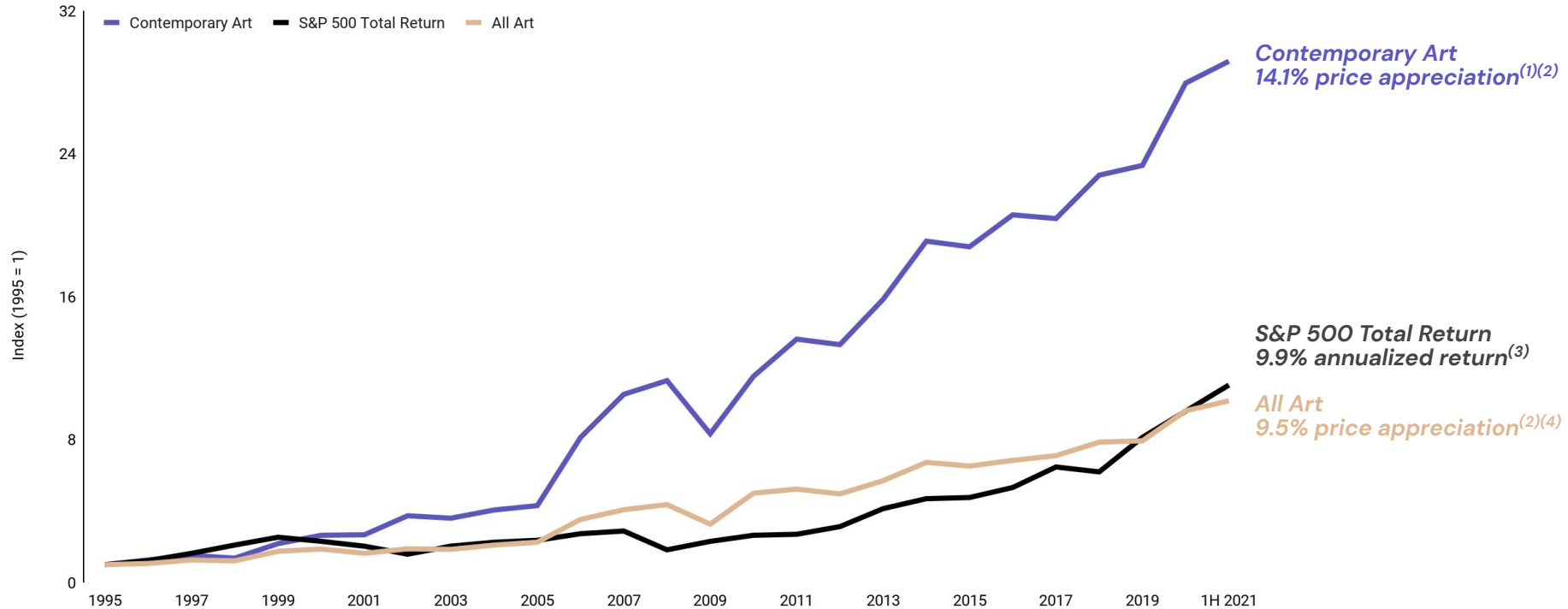


# Historical Appreciation Over Time

Contemporary art has exhibited a high-beta to both all-art and broad equity indices

## Value-Weighted Art Indices vs. S&P 500 (Total Return) Indices Since 1995

Based on repeat-sales from 1995 to 1H 2021 - Chart reflects gross increase in asset value indexed to 1 in 1995



**Source:** Internal Masterworks analysis, NYU Stern Database and Yahoo Finance S&P 500, Index shown through 6/30/2021, Index data updated as of 6/30/2021

**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. The Standard & Poor's CoreLogic Case-Shiller Home Price Indices Methodology results in a value-weighted index; auction results realized in a currency other than U.S. dollars have been converted using exchange rates provided by FRED (St. Louis Federal Reserve) at the time of the most recent sale; this adjustment is made to account for long-term exchange rate trends that would otherwise distort artworks' appreciation
3. S&P 500 Total Return Index as of 6/30/2021
4. Repeat-Sale Pair Index of All Art (as defined by the applicable auction house) using Standard & Poor's CoreLogic Case-Shiller Home Price Indices Methodology

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# Appreciation and Low Correlation

Art's attractive long-term appreciation and low correlation relative to traditional asset classes, has, until recently, been inaccessible to non-HNW individuals

## Annualized Appreciation

Contemporary Art Market <sup>(1)</sup> and Select Asset Classes: 1995 - 2021 1H

	Contemporary Art	S&P 500	Global Equities	US Corporate Bonds	US Housing	Gold
<b>Annual Appreciation</b>	<b>14.1%</b>	<b>9.9%</b>	<b>8.1%</b>	<b>5.9%</b>	<b>4.7%</b>	<b>6.1%</b>

## Correlation Factor

Contemporary Art Market <sup>(1)</sup> and Select Asset Classes: 1995 - 2021 1H

	Contemporary Art	S&P 500	Global Equities	US Corporate Bonds	US Housing	Gold
Contemporary Art	1.00					
S&P 500	(0.10)	1.00				
Global Equities	(0.06)	0.96	1.00			
US Corporate Bonds	(0.25)	0.35	0.33	1.00		
US Housing	(0.08)	0.30	0.33	0.03	1.00	
Gold	0.16	(0.09)	0.10	0.41	(0.28)	1.00

Correlation < .1

**Sources:** Internal Masterworks analysis, NYU Stern Database and Yahoo Finance S&P 500, MSCI Global Equities, FRED (St. Louis Federal Reserve) Case-Shiller Home Price Appreciation, FRED (St. Louis Federal Reserve) ICE US Corporate Bonds, FRED (St. Louis Federal Reserve) Gold Pricing, Index shown through 6/30/2021. Index data updated as of 6/30/2021.

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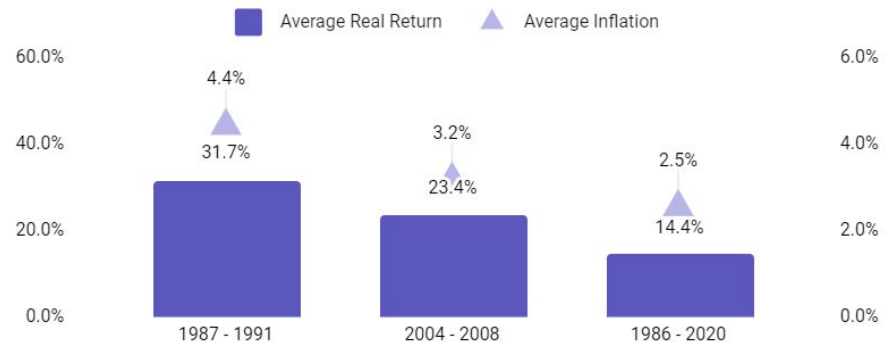
# Art During High Inflation

## Inflation is a Key Risk to Portfolio Returns in 2022

- Inflation hit an a 40 year high in 2022
- Contemporary art has demonstrated strong real appreciation in high inflation periods, and appears well positioned for a “lower for longer” real rate environment

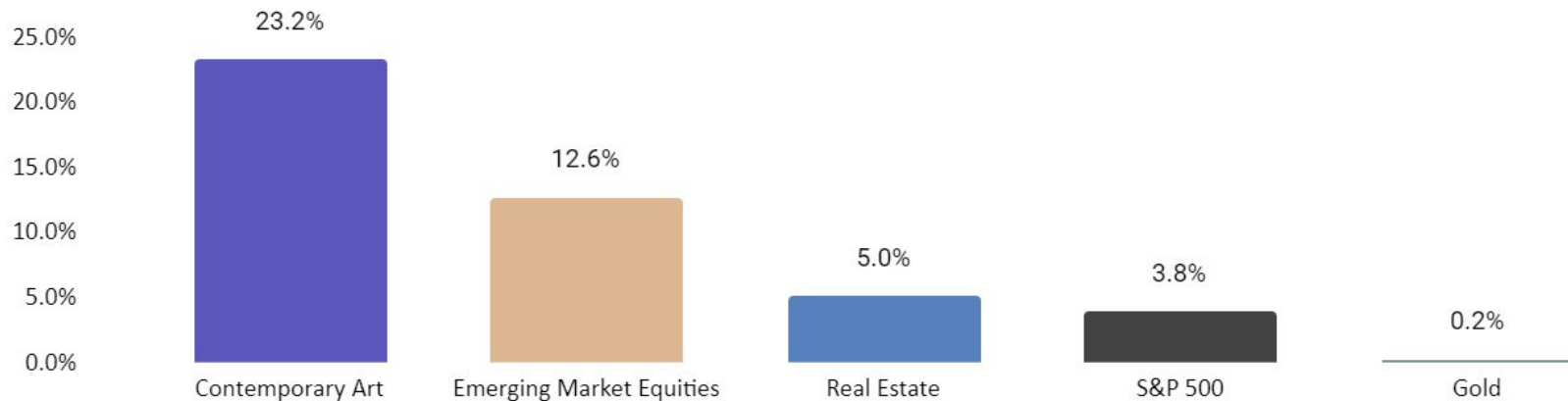
## Contemporary Art Real Appreciation in High Inflation Periods<sup>(1)</sup>

Based on repeat-sales from 1985 to 2020



## Contemporary Art vs. Selected Assets - High Inflation<sup>(2)</sup>

Average real appreciation for periods during which interests rates were equal to or higher than 3.0%



**Sources:** Internal Masterworks analysis, MSCI Emerging Market Index, NYU Stern Database and Yahoo Finance S&P 500, FRED (St. Louis Federal Reserve) Gold Pricing, Wilshire US Real Estate Securities, Inflation Measured using the BLS (Bureau of Labor Statistics) CPI. Index shown through 2020. Index data updated as of 12/31/2020.

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

1. Reflects the two highest 5-year average inflation rates since 1985.
2. Based on repeat-sales from 1985 to 2020.

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# 2022 Art Market Outlook

With art market confidence near all-time highs following a recovery from COVID-19, which limited transaction volume and market sentiment

1

## Wealth Growth in UHNWI

Art prices are generally correlated to the wealth of UHNWI, who are experiencing record levels of wealth

**25%**

Growth in the wealth of billionaires in 2021  
(Insider)

2

## New Collectors Enter the Market

The art market continues to attract new participants

**44%**

Percent of new bidders at Sotheby's  
(Sotheby's)

3

## Asian Growth

Growth in the asian market continues to accelerate, with transaction volume in China surpassing the US and UK<sup>(1)</sup>

**36%**

China's share of global transaction volume  
(UBS Art Basel)

### Sources:

1. UBS Art Basel Art Market Report 2021.

# Risks of Investing and Important Disclosure Information

# Risks of Investing

**You should review and carefully consider the detailed disclosures in the “Risk Factors” section of the relevant Offering Circular before making an investment decision.**

## **Risks to investing, include, without limitation:**

- Masterworks has a unique and unproven business model
- Masterworks investments are highly illiquid
- Investing in a single artwork presents a high level of concentration risk.
- Your ability to sell your shares is highly uncertain.
- Artwork may be sold at a loss.
- Investment is suitable only for investors with a long time horizon
- Investments do not generate current yield.
- Costs and Masterworks' profit sharing will reduce returns
- Investing in art is subject to numerous risks, such as potential fraud, damage and litigation
- Art is highly illiquid and our ability to sell artwork and the timing of sale is uncertain and unpredictable
- Insurance coverage may be insufficient to cover losses
- Issuers are totally reliant on Masterworks
- Masterworks has potential conflicts of interest
- You could lose all or a portion of your investment

# Important Disclosure Information

The investment opportunities described in this document are speculative, involve a significant degree of risk, and are not suitable for all investors. An investor could lose all or a substantial amount of his, her or its investment. Any investment of a type described in this document may be highly illiquid and may be subject to restrictions on transfer. There may be no secondary market for the investment interest and none is expected to develop. The relevant investment may involve complex or specialized tax structures. Such investments are suitable only for sophisticated investors and require the financial ability and willingness to accept the significant risks inherent in such an investment for an indefinite period of time. Investors should consult their own finance, legal, accounting and tax advisor prior to making any investment.

This document contains certain forward-looking statements that are subject to various risks and uncertainties. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “outlook,” “seek,” “anticipate,” “estimate,” “approximately,” “believe,” “could,” “project,” “predict,” or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, or state other forward-looking information. Our ability to predict future events, actions, plans or strategies is inherently uncertain and actual outcomes could differ materially from those set forth or anticipated in our forward-looking statements. You are cautioned not to place undue reliance on any of these forward-looking statements.

Materials may include composite returns of similar works selected by Masterworks based on public auction sales data. The data is used for comparative modelling purposes only. Each painting is unique and historical performance of the similar works is not a direct proxy for performance of the specific painting or the shares. There is no current market for the shares and performance of the shares will reflect costs and fees described in our SEC filings that are not reflected in the composite returns of similar works. Past performance may not be indicative of future performance. Important Disclosure.

In these materials we may present comparisons of Artwork to other asset classes, however any such comparison is of limited value due to the fact that there are significant differences between these asset classes. Artwork is held exclusively for capital appreciation, similar to Gold and most private equity investments. By contrast, U.S. T-Bills and U.S. Government Bonds are held primarily for current yield, though their value changes with changes in prevailing market interest rates. The S&P 500, which represents a collection of stocks, Hedge Funds and Real Estate are typically held for a combination of current dividend yield and capital appreciation. Oil is a commodity that is traded by speculators and end users. Stocks, U.S. Government Bonds, U.S. T Bills, Oil and Gold are highly liquid and valuation is driven by price discovery through continuous trading among large and diverse pools of capital. Artwork, Real Estate, investments in Hedge Funds and Private Equity, all represent unique opportunities and are typically relatively illiquid. These types of investments are therefore more difficult to value and price than assets that trade regularly. In addition, the costs of art ownership and buying and selling artwork may differ materially from ownership and transactional costs associated with investing in the other asset categories presented in the table.

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