

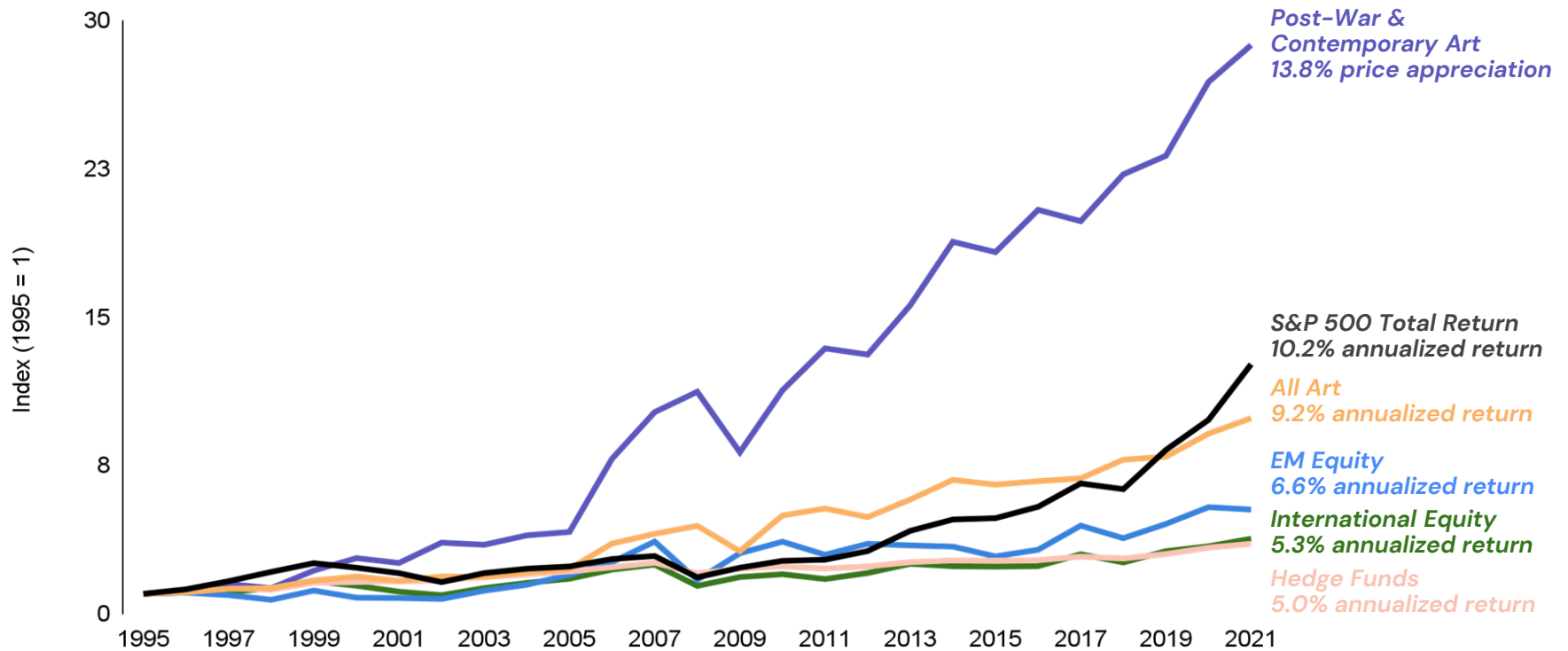
# **Art as an Investment: From the Physical to the NFT Phenomenon**

**Jonathan J. Illari**  
**Associate General Counsel**  
*April 2023*

# Contemporary Art Market Outperformance

Post-War and Contemporary Art prices have outpaced both all-art and broad equity indices

Value-Weighted Art Indices<sup>1</sup> vs. Select Major Asset Classes Since 1995



# Business Overview



# Our Business

Masterworks is the only platform delivering art market access to the investor community

## Pioneer in Securitized Art Investment

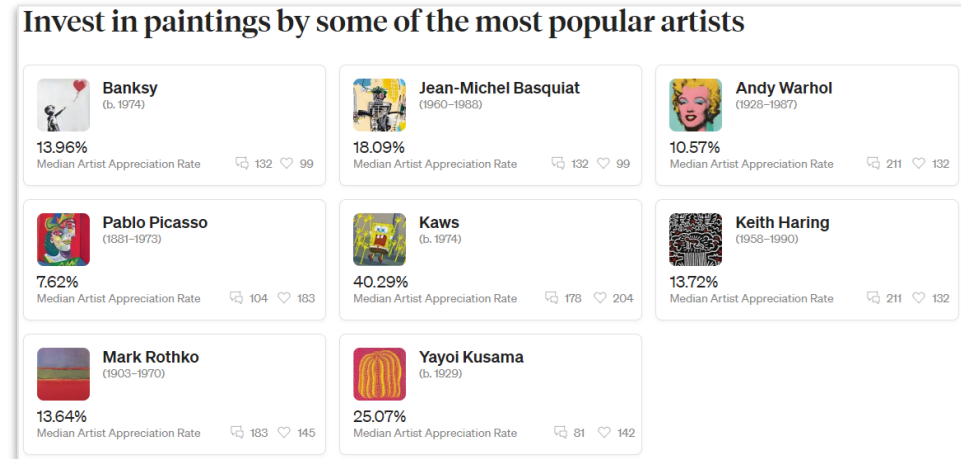
We are the first and only platform of scale that gives investors exposure to the art market

## Leading Buyer in the Art Market

Masterworks is one of the largest buyers in the art market, acquiring over \$500mm in blue-chip art through 2022

## Data-Driven Investment Process

Through detailed research buys the top 2% of works by the best 1% of artists in the art market



# The Masterworks Mission: Make Art Investable

- Masterworks buys **blue-chip** artwork to offer as **fractionalized ownership** to our investors.
- Our investor's can begin to **build their portfolio**.
- We **democratize the art market** by making art available as an asset class to the general public.
- Many investors have limited art history and art market knowledge; they **trust Masterworks** to educate them and select the most desirable artists and examples.
- Investors are able to **own a piece** of an immeasurably important part of art history, and **learn about new artists** while **participating in the art market**.

Identify Target Artist Market

Acquire Valuable, Commercial Examples with high Similar Sales Appreciation Rates

Register the painting with the S.E.C.

Launch the painting on Masterworks' platform to investors

Investors purchase all available shares

Masterworks sells the artwork in 3-10 years, redistributing profits to investors

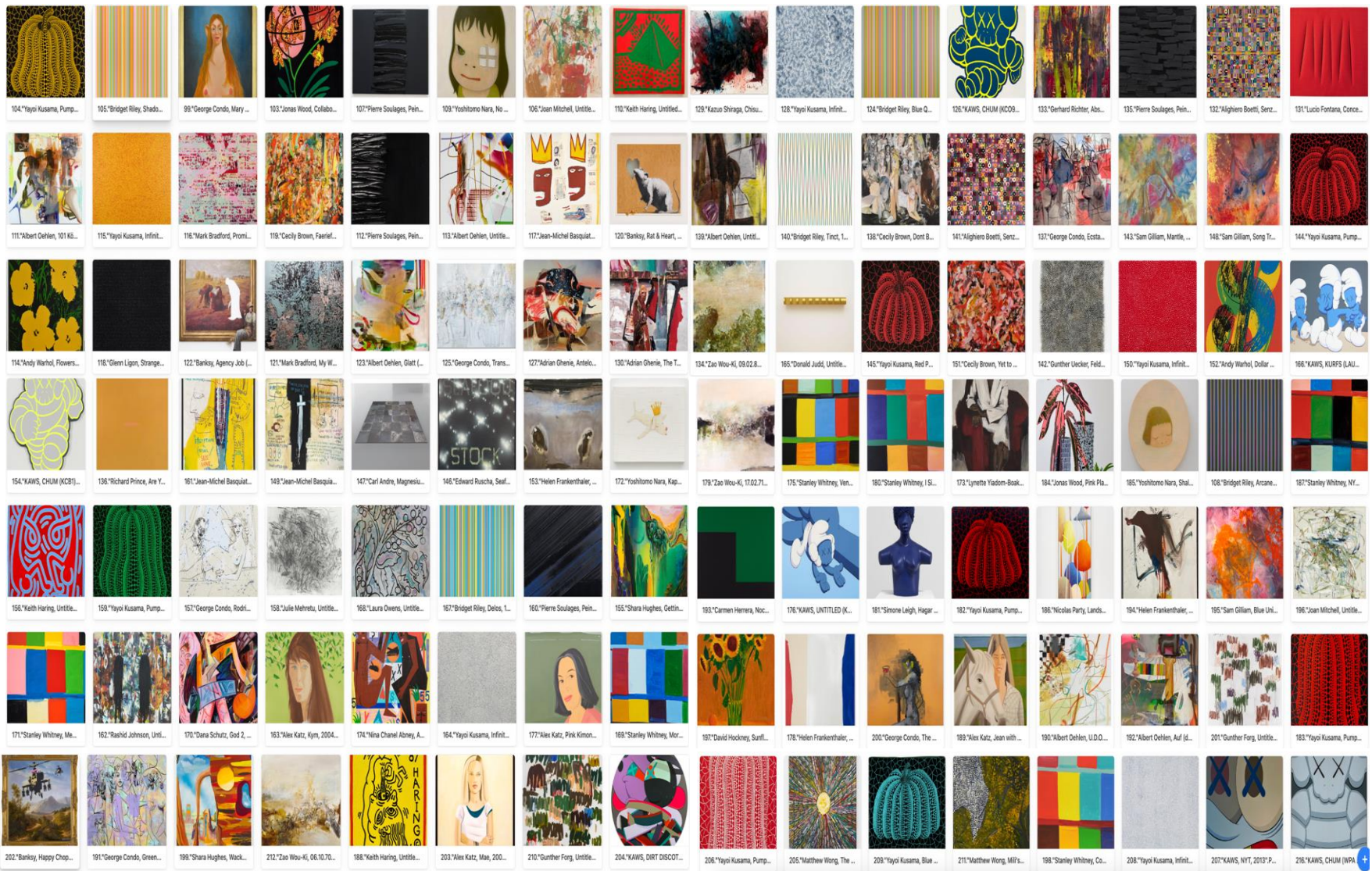


# The Collection

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# 2022: 112 Artworks Acquired, ~\$220m in capital



# The Masterworks Collection as of Year End 2022

- 216 all-time acquisitions; **11 deaccessions**
- **204 artworks** by **50 artists**; Purchased for **\$588m**
- FMV as of 12/31/22: **\$690m (6.1% average premium** over offering amount)
- Artist breakdown:
  - 72% male, 28% female
  - 34% artists of color
  - 2% Modern, 4% Asian Modernist, 14% Post-War, 80% Contemporary

## Top Artists

**Jean-Michel Basquiat**

(\$101m, 10 paintings)



**Yayoi Kusama**

(\$48m, 24 paintings)



**Banksy**

(\$39m, 6 paintings)



**KAWS**

(\$14m, 11 paintings)




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# Acquisitions and Sales Processes



# Acquisition Example: *Seafood Stock*, Ed Ruscha

**1.**

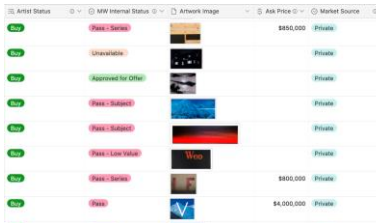


**Ed Ruscha**  
American  
1937 - Living

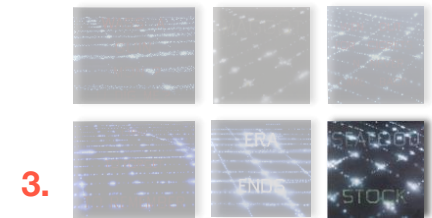
**16.6%**  
Historical Appreciation

Ed Ruscha identified as an artist market to invest in, based on **repeat sale data**, **price momentum**, **bidder depth** and other factors.

**2.**



Masterworks began sourcing Ed Ruscha works. The *City Lights* series is interesting because of its importance and limited supply; only **55 paintings** from the 1980s appear in the Catalogue Raisonne.



Prior to acquiring Ruscha's *Seafood Stock*, Masterworks had been offered **121 works** by the artist, only **6** of which were **1980s City Lights** paintings.



Upon reviewing condition, it was found that the work needed some **minor conservation**. Masterworks negotiated the conservation to occur prior to payment at the seller's expense, and **inspected the work** when it arrived in New York.



The Acquisitions team was able to **identify the collector** who owned the work, and to agree to acquire the painting and offer the work for **\$1.6mm** after prolonged negotiations.

**4.**

The work was **not on the market** and demonstrates Masterworks' unparalleled access to artworks globally. Prior to acquiring the Artwork, Masterworks had had **acquired 2**.

# Acquisitions Diligence Process

Condition	Seller	Authenticity	Title
<p>Commissioning a 3rd party, <b>preferred conservator</b> with expertise in Post War and Contemporary Art.</p> <p><b>Known experts in their field</b>, utilized by reputable local and international clientele</p> <p>When geographically possible, <b>Masterworks staff will conduct an inspection</b> of the work</p> <p>Negotiating <b>any needed conservation</b> to occur prior to Masterworks' acquisition with right to terminate the agreement</p>	<p>Assessing market presence, credibility, scale and <b>history of operations</b></p> <p>Confirming that counterparty has <b>physical control</b> over the work exclusive right to contract</p> <p>Obtaining <b>organizational documents of contracting entity</b> and confirm status with governmental registry</p> <p>Running <b>UCC, Adverse Media</b>, and <b>AML KYC</b> checks on anyone with over 25% ownership in the contracting entity</p>	<p>Comprehensive list of industry standard <b>protocols</b> for each artist we collect</p> <p>Thorough <b>diligence</b> in contacting the recognized authority for each artist, including galleries that sold the work primary</p> <p>Research confirmation of <b>provenance, exhibition, literature, and auction history</b>, and examination of labels on the reverse</p> <p>In-depth understanding of <b>artist's standard materials</b>, including inspection by reputable conservators and Masterworks to confirm no atypical signatures, mediums, techniques</p>	<p><b>UCC and Secured Interest Searches</b> when applicable to the jurisdiction to identify any liens on the work</p> <p>If a lien is identified, contracts and agreements through the lender and or bank are obtained to <b>ensure an appropriate transfer of title</b></p> <p>Conduct <b>Interpol and FBI</b> searches for stolen artworks to confirm no relevant results are found</p>

# Authenticity Protocols

## Three Pillars of Authenticity

- **Materiality:** verification, by examination and/or scientific testing, to confirm that the work's material characteristics align with the artist's practice. Scientific testing can be physically invasive and is primarily used in the case of disputed or unattributed, old master works.
- **Provenance:** verification of the Painting's history and chain of ownership. The prevailing method for contemporary, living artists.
- **Scholarship:** verification by the recognized expert for the artist, catalogue raisonne or artist archives. The prevailing method for Artist's estates.

## Masterworks Authentication Process

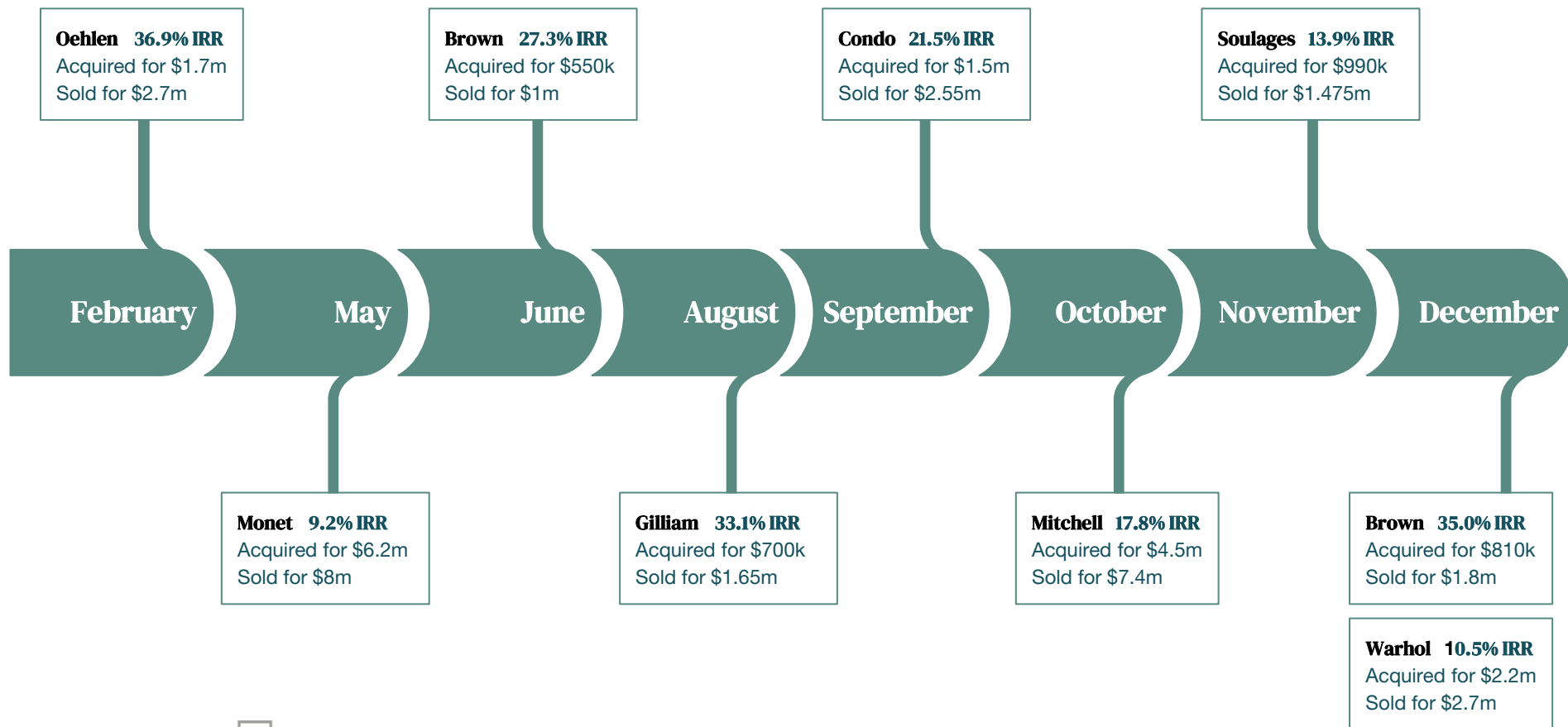
- **Protocols:** Masterworks maintains a database of recognized experts and authentication protocols for each artist in the collection which align with industry best practices, such as Christie's, Sotheby's, and Phillips.
- **Research:** If there is a recognized authority for the artist, they will always be consulted. Provenance, exhibition history and literature are reasonably verified and recorded in our records.
- **Inspection:** Thorough physical examination of the artwork is conducted by a conservator familiar with the artist's work, practice and materials.

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This presentation is a summary overview of the Authenticity Protocol Masterworks performs. It does not describe, in any way, the entire process undertaken during the acquisition of any artwork. THIS PRESENTATION IS CONFIDENTIAL AND IS BEING CONDUCTED BY MASTERWORKS UNDER SEC RULE 3A4-1. THIS PRESENTATION IS NOT PROVIDED BY OR USED IN SOLICITATIONS BY A BROKERAGE FIRM OR BROKER. PLEASE SEE "IMPORTANT DISCLOSURE INFORMATION" SECTION OF THIS PRESENTATION

# Private Sales: 2022 (Realized Returns) Timeline



# Collections Management



# Collections Management Framework

**Condition - Approval, Intake, Ongoing**

**Logistics - Shipping and Storage**

**Inventory Tracking and Inspections**

**Maintenance - Conservation, Framing, Damage**

# Condition Diligence

## Condition Review upon Acquisition

- Prior to Acquisition, the work is **inspected** by either (or both) **Masterworks and a reputable conservator**, depending on the physical location of the object
- We have **preferred conservators** in nearly every major city, and if a new one is engaged, we will ask for referrals and have an introductory conversation to understand their expertise and qualifications
- We always request sample images, videos, and details of the work to ensure accurate representation of the condition

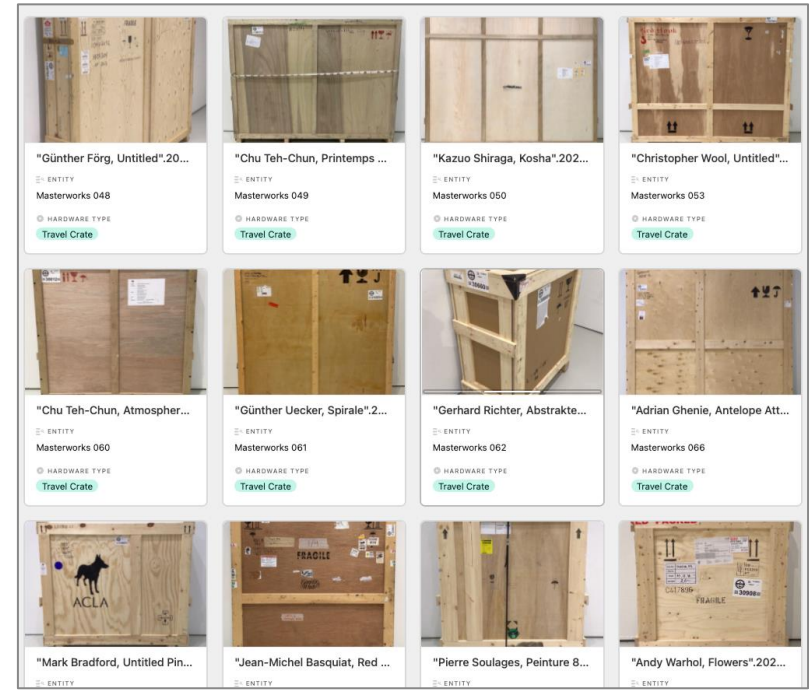
## Storage Acceptance

- When the work **initially arrives to our storage** after payment, a thorough intake report is created by the storage facility, and no change in condition from the pre-acquisition Condition Approval is confirmed.
  - Additionally, packing methods and are documented, and the next needed inspection timeline is decided
- Everytime a work moves from thereon, a **new condition report is conducted** by the storage facility, and Masterworks reviews against prior reports to **confirm no visible change in condition** occurred.



# Shipping and Logistics

- Upon the initial shipment of the work and on an ongoing basis, **packing methods are reviewed** and repacking occurs if necessary to ensure the **safe transport** of the work.
- Almost the entire collection is stored **fully crated**. Soft packing is only allowed case by case with explicit permission and oversight
- Always transport the work using **climate controlled, dual driver, air ride suspension, fine art shippers**
- Everytime a work moves, a **condition report is conducted** by the storage facility, and Masterworks reviews against prior reports to **confirm no visible change in condition** occurred.



# Conservation and Framing

## Conservation

- Almost all conservation happens at a **top conservator's studio in New York City** in order for Masterworks to have oversight and visibility
  - Masterworks staff **inspects and documents the work before and after treatment** and has extensive conversations with conservators to **determine a treatment plan** and best understand the outcome

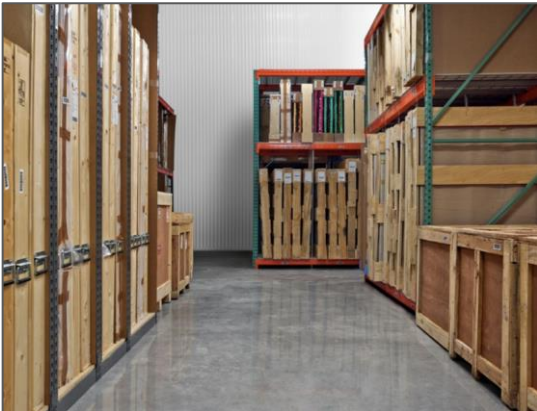
## Framing

- Works in the collection could be reframed for a variety of reasons, including: presentation for sales, current frame is unstable, or protection for museum/gallery loans and exhibitions
- Luxury and high end framers only, with ample experience in high value art objects



# Storage Partners

## Delaware Freeport



## UOVO Delaware



## UOVO Brooklyn



# NFT Statistics

The NFT market is worth over \$22 billion

The industry has grown 220x since 2021

NFT sales hit \$25 billion in 2021

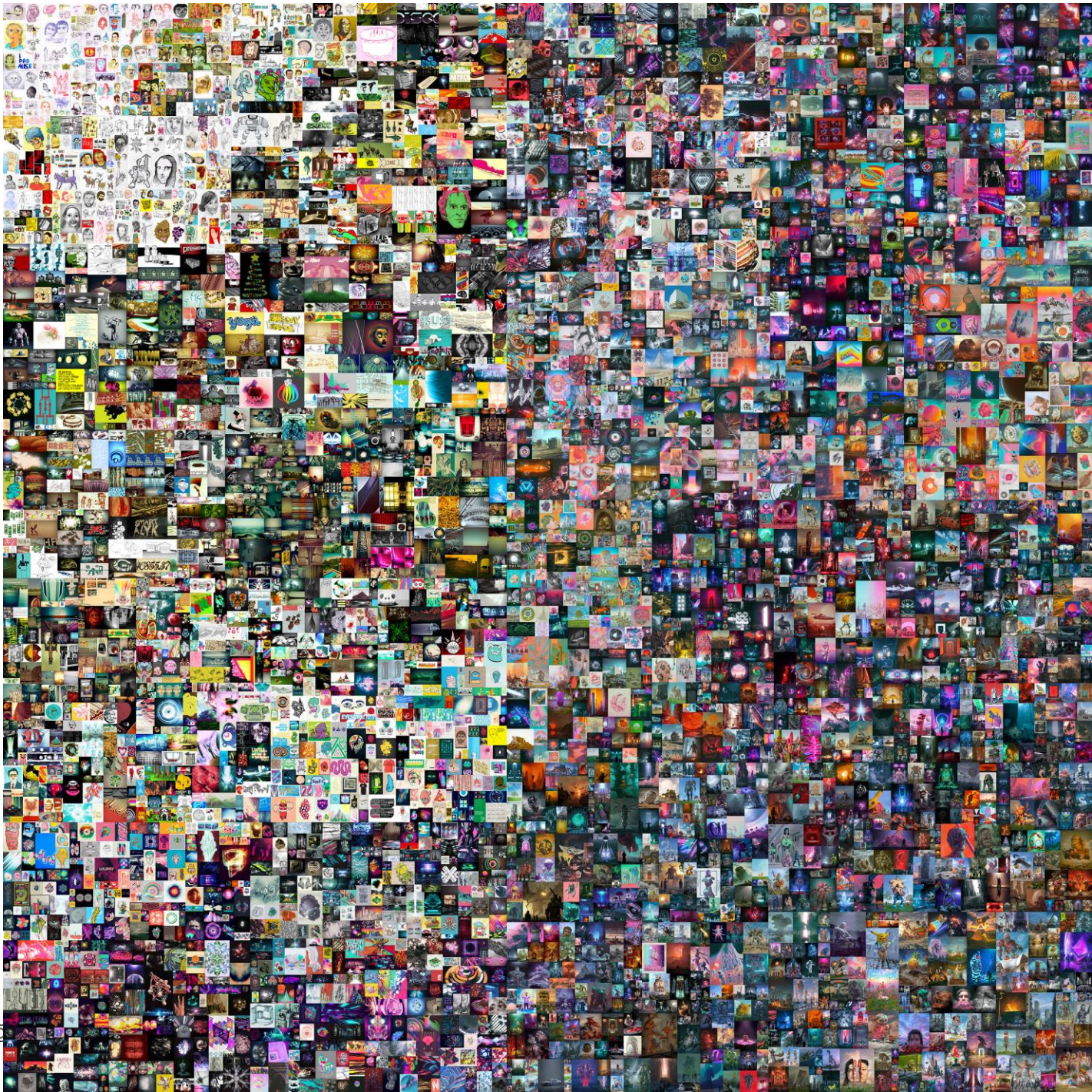
The NFT Market will be worth \$80 billion by 2025

However, sales have dropped over 90% since September 2021

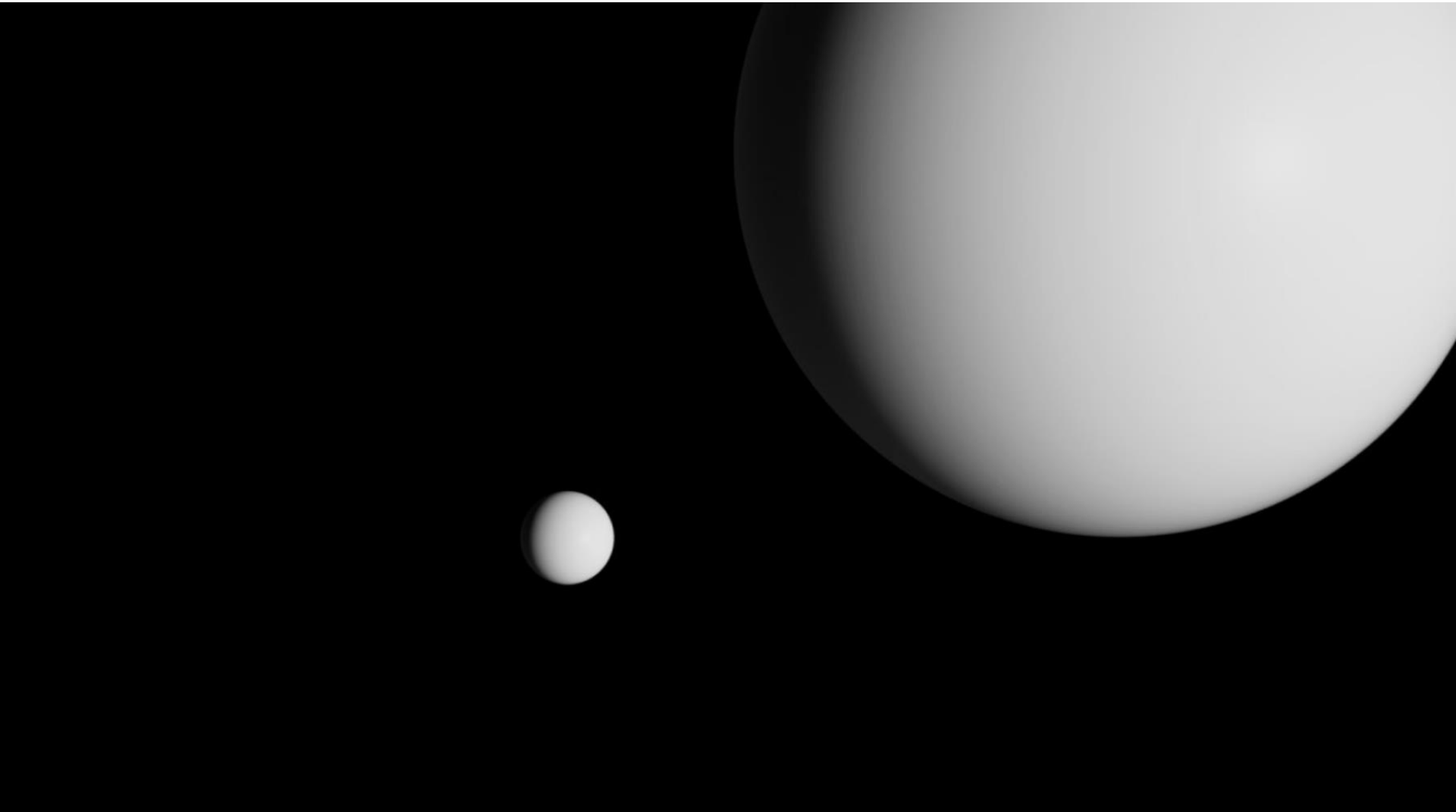
The most expensive collection of NFTs was sold at \$91.8 million

NFT sales amount to approximately \$1.8 billion every month

Half of NFT sales cost less than \$200

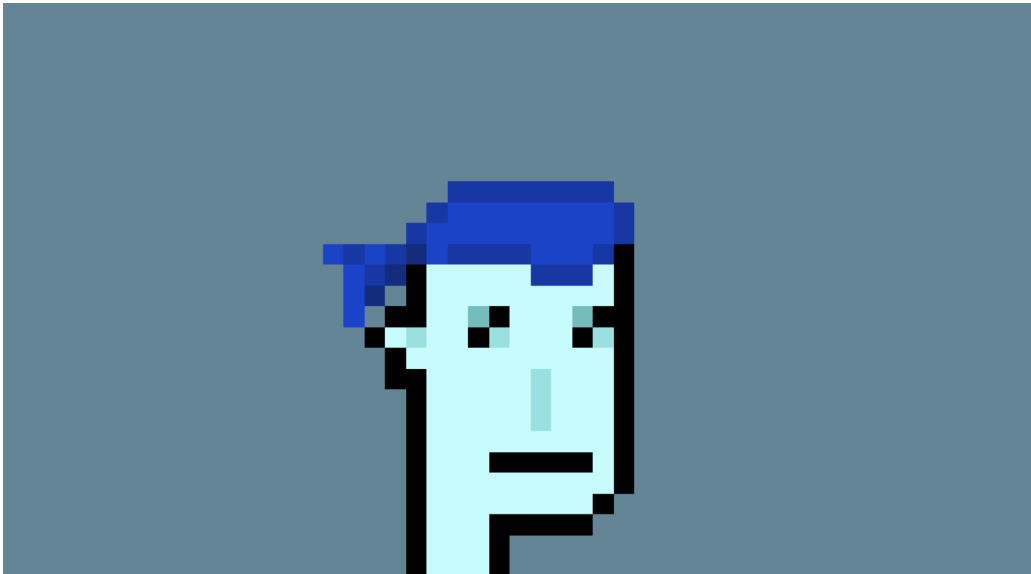






**ONE  
THOUSAND  
ONE  
HUNDRED  
EIGHTEEN**





- c. You acknowledge and agree that there are risks associated with purchasing, holding, and using **NFTs**. By purchasing, holding and using an **NFT**, you expressly acknowledge and assume all risks including, but not limited to: seller or buyer user error such as forgotten passwords, mistyped addresses, incorrectly constructed transactions, incorrectly programmed **NFTs**, mining attacks, cybersecurity attacks; weaknesses in our security, **blockchain** malfunctions or other technical errors, telecommunications failure, malicious software, unfavorable regulatory determinations or actions in one or more jurisdictions (including with respect to **NFTs** or cryptocurrencies), taxation of **NFTs** or cryptocurrencies, personal information disclosure, uninsured losses, unanticipated risks, volatility risks, server failure or data loss, corrupted or otherwise inaccessible **digital wallets**, unauthorized access to applications, inability to access or transfer the **NFT**, inability to access or display the **digital asset**, risks arising from third-party providers, including third-party providers that may **mint** the **NFT** and/or store the **digital asset**, including, without limitation such providers ceasing trade or terminating storage or any other services and any unauthorized third-party activities, including, without limitation, the introduction or use of viruses or other malicious code, the use of phishing, sybil attacks, 51% attacks, brute forcing, changes to the protocol rules of the **blockchain** (i.e., "forks"), or other means of attack that affect, in any way, the **NFT** or **digital asset**. If you have any questions regarding these risks seek your own legal advice.

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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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