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An Open Invitation to the Art and Passion Alternative Asset Investment Fund Market

September 20, 2012

To our colleagues in the global fine arts and collectibles investment fund market:

As the leading title insurer in the world for fine art and other important collectibles, we know that nearly all of the currently estimated \$960 million to \$2.25 billion invested in art and other alternative asset investment funds worldwide comes from multi- and single family offices. We also know that, with the maturation of this market, fund-to-fund and other institutional participation is on the horizon.

We encourage you to begin to mandate the use of title insurance for all fund sales and purchase transactions in your best practices as a necessary risk management and investor-protection tool.

The risk of defective legal title continues to pervade the global art and collectibles markets, despite the best due diligence efforts of the transacting parties, because these markets are and can be expected to remain for some time opaque and unregulated. See the continuous examples of the market legal title risks at www.aristitle.com/news/index.php.

The \$600 million collapse and eventual delisting of the Canadian-based Sino-Forest fund in May 2012 – amid questions over whether this fund had clear legal title to claimed fund assets, \$35 million in investigatory and curative legal expenses later and the cascading liabilities to the fund's auditors, who wrongly assumed that the fund had clear legal title to the assets – is a loud warning signal to the alternative asset investment fund sector.

If just one of the fund's art assets goes to \$0 value due to a title challenge, this will catastrophically impact IRR, cause legal expense, damage the fund's (and its manager's) reputation and impact future fundraising efforts.

ARIS is actively working with several leading international art investment funds, alternative asset fund associations, financial auditors serving this market, fund-to-fund institutional investors and institutional investment standards organizations. As a result, in the coming months you will begin to see a sea-change in best practices around the art and collectibles market legal title risk:

- Leading funds will begin to mandate the standard use of title insurance.
- Institutional investors will refuse to invest in funds that do not mandate the standard use of title insurance.
- Auditors will begin to qualify audit reports for funds that do not mandate the standard use of title insurance.

ARIS looks forward to working with founders, managers, fiduciaries, professional advisors and investors to implement cost-effective, specifically-tailored, appropriate and necessary protocols around the market legal title risk for alternative asset investment funds.

Critical to your understanding as this sea-change occurs:

I. Fundamental Management of Investor Risk

The failure of an investment fund to mitigate the art and collectibles market legal title risk creates Directors and Officers and Errors and Omissions liability for:

- (i) Inadequate disclosure of investment risk factors (the best due diligence standards in the art and collectibles market cannot eliminate the legal title risk; if a fund loses one work of significant value in the portfolio due to a legal title issue, this will severely erode the fund's ROI from which the fund will not be able to recover in a three- to five-year exit period).
- (ii) Inability to secure Unqualified Audit reports and the failure to disclose this fact in investor solicitation materials. The inability to secure an Unqualified Audit report is heightened by the now-mandatory in the U.S. Uniform Standards of Professional Appraisals Practice ("USPAP") valuation standards, which also have been adopted as the *de facto* standard for valuing art and collectibles in the E.U.
- (iii) Inability of funds to close at their designated exit without creating claw-back liabilities for investors and in turn professional liability for fund management and advisors if the fund does not properly reserve for contingent liabilities flowing from the rescission of sales of fund assets or from the enforcement of warranties the fund gave of clear legal title in order to effect the sale.

Title insurance for investment funds is a one-time fee – not annual – for as low as 1.5% of the FMV of the portfolio, providing full indemnity and full defense cost outside the indemnity limits for the fund's period of ownership of each asset, with a new policy for the buyer for the additional cost of only the marginal increase in FMV at exit.

II. Integrity of Financial Results

Equally, title insurance is the only means by which an alternative asset investment fund can assure to the fund's auditors and in turn to the fund's investors that fund ROI's are conflict-free based entirely on arms-length transactions with no manipulation by any party including fund principals.

- (i) Only a title insurer, by virtue of its underwriting, will have the necessary confidential information to be able to provide an independent third-party certification to the auditors that all fund purchases and sales are arms-length transactions.
- (ii) Only with a title-insurance-based underlying certification can a fund's auditors provide an overall certification of the financial integrity of audited results in the form of an Unqualified Audit report.

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We encourage you carefully to consider the consequences if an art or other alternative asset investment fund does not acquire title insurance and reap the corollary benefit of a formal auditing integrity practice. How will the fund have an acceptable means to assure to investors that the stated ROI is unbiased? How will the fund draw investments from the institutional sector, which requires compliance with institutional investment standards (for example, ILPA, www.ilpa.org)? How will the fund be able to achieve its business plan forecasts for growth of assets under management?

ARIS stands ready to help you to manage this sea-change – one that is inevitable as the art and alternative asset investment fund sector matures.

Title insurance for alternative asset funds eliminates reserves for contingent liabilities and will likely lower the fund's costs for D&O and E&O insurance as well as independent financial auditing.

Yours truly,

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[Market Headlines Next Page]

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ARIS Global – Market Dynamics

May 1, 2012 *ARIS Announces International Advisory Board, Will Address Shifting Paradigm of Global Art Industry*

<http://www.businesswire.com/news/home/20120501005545/en/ARIS-Announces-International-Advisory-Board-Address-Shifting>

Art Market Title Risk – Partial Listing of Public Information

September 3, 2012 *A Picasso Online For Just \$450. Yes, it is a Steal*
August 28, 2012 *More Brokers Let Clients Borrow Against Their Bruegels*
August 16, 2012 *Britain Stops Export of Key Picasso Painting*
August 8, 2012 *Grand Jury Hits Art Dealer with Fraud Indictment*
August 1, 2012 *Lichtenstein Painting, Missing for 42 Years, Surfaces in Warehouse*
July 31, 2012 *There's a Huge Black Market for Art and Collectibles Stolen from the Rich*
July 25, 2012 *The 10-Million-Dollar Mercedes*
July 22, 2012 *Art's Sale Value? Zero. The Tax Bill? \$29 Million*
July 21, 2012 *An Artifact, or a Payday*
July 18, 2012 *Chinese Art Funds on a Risky Road to Maturity*
July 17, 2012 *Sotheby's Sues Chinese Man Over \$3.5M Non-Payment*
July 12, 2012 *The Curse of the Outcast Artifact*
July 9, 2012 *Special [ICOM] Report Museum Insurance. Sticking Point. The Varied Nature of Insurance For Museums*
June 28, 2012 *The Government is Auctioning Off the Art Collections of Millionaire Fraudsters*
June 23, 2012 *As the Trust About China's Economy Comes Out, So Does the Truth About China's Art Market*
June 18, 2012 *Court Orders Return of Late Copper Heiress's Art, Other Gifts to Staff*
June 15, 2012 *Ming Vase Dispute Won't Crack Under Pressure*
June 14, 2012 *Art Market Boom Leads to Calls for Regulation*
June 13, 2012 *Money-Laundering Rules Mean More Work for Dealers*
June 11, 2012 *Husband, Wife face \$18 Million Bond Each for Allegedly Stealing Money from His Employer [Spent on Paintings, Sculptures, etc.]*
May 17, 2012 *Credit Card Investigation Shows Art Market Open to International Fraud*
May 3, 2012 *Protecting Your Art From Title Claims*
May 2, 2012 *The Costs of Litigating in England and Wales*
April 29, 2012 *Sotheby's Australia Chairman Geoffrey Smith Battles Ex-Partner over Joint [Art] Assets*
April 12, 2012 *Break the Silence over Fakes*
April 5, 2012 *Navigating the Art Loan Biz, a Surging Industry Attracting Both Big Banks and "Loan-to-Own" Sharks*
March 29, 2012 *Chairman of Tom Ford Fashion Firm Sues Knoedler Gallery Over Rothko Painting*
March 27, 2012 *Storage Firm Sold her 4 Warhols, Woman Says*
March 15, 2012 *The \$10 Million Degas Ballerina, Heiress Huguette Clark and the Tax Man*
March 14, 2012 *What happened to \$1.8 Billion in Rubies?*
February 29, 2012 *We Don't Own That Modigliani*
February 27, 2012 *Who Owns an Artist's Legacy? The Tangled Tale of Theodoros Stamos*
February 22, 2012 *Suitable for Suing [Knoedler Gallery]*
February 26, 2012 *Collector Says Gallery Took \$950K for Forgeries*
January 19, 2012 *\$14M Suit Hits Gagosian [Claim of Unauthorized Sale]*
January 17, 2012 *Basquiat's Authentication Committee to Disband in September 2012*
January 12, 2012 *Remember Who Owns the Alamo Jacket*
January 6, 2012 *NASA Questions Apollo 13 Commander's Sale of List*
December 15, 2011 *Humana Sends Smuggled Italian Statues Home*
November 13, 2011 *A Gallery That Helped Create the American Art World Closes Shop After 165 Years*
November 8, 2011 *200 Years Later, France Claims a Missing Artwork*
November 1, 2011 *Artists File Lawsuits, Seeking Royalties*
October 26, 2011 *Second Lawsuit Filed Against Gallery*
October 12, 2011 *D.C. Law Firm Sued Over Settlement For Picassos Sold Under Nazi Regime*

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October 6, 2011	<i>Widow and Ex-Wife Battle Over Collector's Icons</i>
September 22, 2011	<i>Art Title Insurance Provided by ARIS Adopted by Global Art Fund Manager Artemundi Management Limited as Standard Protocol</i>
September 19, 2011	<i>Warhol Painting Among \$2.8 Million Irish Bad Bank Auction</i>
August 26, 2011	<i>Collector Sues Dealer for \$5m in Missing Picassos, Matisse, Klee . . .</i>
August 23, 2011	<i>Family's Claim Against MoMA Hinges on Dates</i>
August 12, 2011	<i>Man Sues His Uncle for a Warhol</i>
August 3, 2011	<i>New York Socialite Jailed for Allegedly Stealing Millions of Dollars Worth of Historical Documents</i>
August 3, 2011	<i>Prosecutors Seek 10-Plus Years for Ex-Assistant who Ripped off Pulitzer Heir Kenward Elmslie</i>
July 26, 2011	<i>Rosa Parks Trust, Estate Tied Up in Lengthy Court Fight</i>
July 22, 2011	<i>Convicted Art Dealer Gets 16 Years in Prison, Loses Renoir</i>
July 17, 2011	<i>Fighting [Earl of Cardigan] For His Family Portraits</i>
July 13, 2011	<i>Art Patron Accused of Hiding Assets</i>
July 11, 2011	<i>De Vries Withdrawn at Christie's</i>
July 7, 2011	<i>Pennsylvania Family Fights United States Treasure Over Rare 1933 Gold Coins</i>
July 1, 2011	<i>No "Finders Keepers," Artist Tells Gallery</i>
June 30, 2011	<i>Barquet Group to Seek Joint Administration With Equity Owner</i>
June 22, 2011	<i>Renaissance Art Investors, LLC v. Moretti Fine Art Ltd.</i>
June 21, 2011	<i>A Resurgence in Art Buying Over the Web</i>
June 18, 2011	<i>Fight Over \$300M Art Estate</i>
June 15, 2011	<i>Bad Blood: Czech Government Scrambles to Recall International Art Loans, Fearing They Will Be Seized in \$500 Million Dispute</i>
June 9, 2011	<i>Zell Says L.A. Art Dealer Took Him for Millions</i>
June 8, 2011	<i>Michael Werner Gallery Sues Trustee Accused of Hoarding Painting</i>
June 6, 2011	<i>"Innocent Buyer" of Stolen Art Loses Out to French Museum</i>
May 25, 2011	<i>Goya Painting Pitches Spanish Baroness Against Son in €6m Court Battle</i>
May 24, 2011	<i>An Italian Painting in Kentucky, Headed Home</i>
May 23, 2011	<i>The Hottest Current Fine Arts-Insurance Legal Action to Watch – In Praise of Appraisals</i>
May 11, 2011	<i>Met Seeks Return of "Innocent Eye Test"</i>
May 9, 2011	<i>Painting "Gift to Dealer" Case Settled</i>
May 9, 2011	<i>Art Still Serves Up Rich Pickings for Legal Eagles</i>
May 6, 2011	<i>Arizona Car Auction Owner Indicted for Fraud</i>
May 5, 2011	<i>Archive of Artworks Stolen by Nazis Goes Online</i>
May 4, 2011	<i>SJM Ex-Director Under Scanner Over Artefacts "Theft"</i>
April 20, 2011	<i>Venerable Art Dealer Enmeshed in Lawsuits [Wildenstein & Company]</i>
April 18, 2011	<i>Lenny Dykstra Accused of Bankruptcy Fraud</i>
April 8, 2011	<i>Warhol v. Insurer</i>
April 6, 2011	<i>Armenian Restitution Claims Grow</i>
April 4, 2011	<i>Rich are Targeted in IRS Audit Offensive</i>
April 1, 2011	<i>Million-Dollar-Plus Painting Forfeited [Customs Violation]</i>
March 30, 2011	<i>Paris Must Justify Its Right to Zadkine's Estate</i>
March 30, 2011	<i>Clyfford Still Museum Circumvents Donor Intent</i>
March 15, 2011	<i>Dallas Museum is Sued</i>
March 11, 2011	<i>Collector Sues Gagosian Gallery For Selling Him a Painting Partially Owned by Met</i>
March 4, 2011	<i>Accountants Blamed in Old Masters Art Fraud [Salander-O'Reilly Galleries]</i>
February 7, 2011	<i>Australian Trade Launch Fight Against Resale Right</i>
February 3, 2011	<i>Artworks Worth Millions Seized From Wildenstein Institute</i>
February 1, 2011	<i>Provenance Error Results in Lawsuits</i>
January 20, 2011	<i>Singer Boy George Returns Lost Icon to Cyprus Church</i>
January 12, 2011	<i>Hopper's Estranged Wife Pulls Star's Art From Sale</i>
January 12, 2011	<i>Fraud Alleged in George Inness Art Sale</i>
January 7, 2011	<i>Woman Wants Her Renoir Back</i>
January 7, 2011	<i>You Bought It – But Do You Own It? Questions of Ownership for Art and Collectibles</i>
January 6, 2011	<i>Sellers and Buyers Need to Know Who's Who</i>
January 4, 2011	<i>Benin Ivory Mask at Sotheby's Withdrawn from February Sale</i>

**For a Fuller Listing of Public Information,
Visit <http://www.aristitle.com/news/index.php>**