

Securitizing non-bankable assets

Art and other
Exotic Investments

MTCM
— ASSETS & INVESTMENTS —

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About MTCM

MTCM Investment AG is a leading provider of advisory services for Alternative Investments. Our background in structuring and issuing of investment vehicles/products within the top Investment Banks and our solid know-how in the Alternative Assets and Derivatives Market build the core strengths in order to provide you with the most innovative Investment ideas and implementations. A solid basis of trust, short communication channels and transparency will ensure to be your advisor of choice. We aim to be the best and most respected independent investment advising firm by providing outstanding client service. Our fundamental values consist in transparency, excellence, innovation and dedicated service for our partners and their needs.

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What is Securitization?

Securitization is the financing of a pool of assets through the issuance of securities. These transactions gained particular traction in the 1970s, starting with the financing of mortgage pools. Over time, securitization has evolved to include different kinds of assets. These can be as varied as receivables, private debt or shares, commodities, or real assets like art, infrastructure projects or real estate. Today, securitization transactions have become an integral part of the global financial system, particularly in the European and American capital markets.



Art, much like other alternative investments, has become increasingly popular as an asset class in the post-Financial Crisis investment landscape. These types of exotic assets offer attractive risk-adjusted returns but are typically illiquid and can require substantial initial disbursements.

Art has become increasingly popular as an asset class

Hence, many investors still do not participate in such investments, foregoing attractive returns and diversification benefits to their portfolio.

Securitization is an ideal tool to tackle these investor concerns. Firstly, securities representing exotic assets are freely transferrable amongst willing parties. Furthermore, ticket sizes can be set at a much lower amount than the unitary price of an art piece, allowing more players to participate in the investment.



Lastly, securitization also has a number of important benefits in comparison with traditional investment vehicles. On the one hand, it allows for a more efficient setup, as it implies a fraction of costs and a much quicker time-to-market. On the other hand, securitization simplifies the manager's dealings with investors by pooling them into one vehicle, which reduces the KYC requirements to that single entity.

Art and other Exotic Assets as an investment

Securitization can be used to pool different participants' funds into a single vehicle, which allows the manager to use the raised amount to invest in exotic assets according to his expertise. This potentially enables investors to diversify their exposure across a number of different assets in an efficient manner.

How it all works

Art and other exotic assets can be purchased by the manager of the securitization vehicle, who raises the necessary cash from investors in exchange for securities representing a proportional exposure to the assets. This modality is known as a ‘true sale’ transaction.

Conversely, individuals in possession of e.g. artworks can also transfer these to a securitization vehicle in exchange for such securities. This type of transaction is known as a ‘synthetic sale’ and is typically attractive when a collector wishes to monetize his/her assets without selling them.

Raising funds to invest in art:

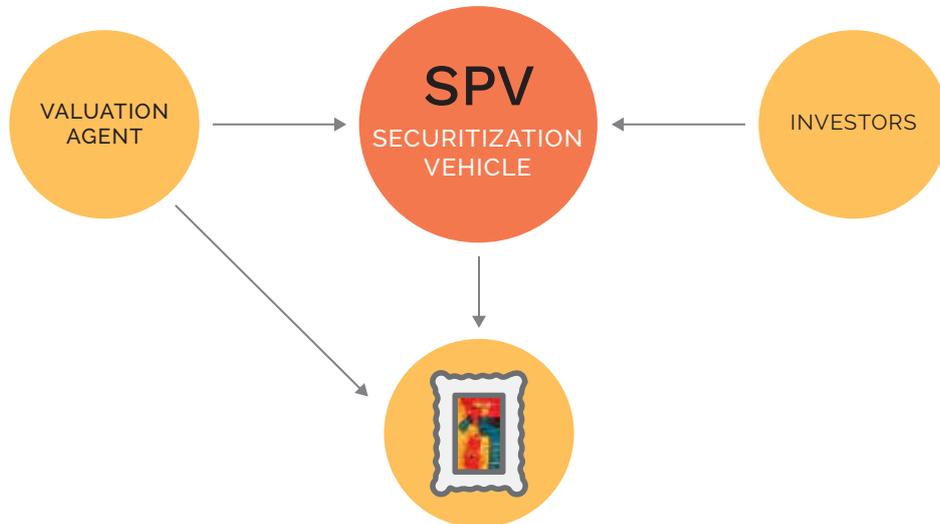
If a manager wishes to raise capital in order to invest into such assets, he or she will set up a Special Purpose Vehicle (SPV) that will ultimately be holding the targeted investments. The securitization vehicle will then issue a segregated series of notes, which will be purchased by prospective investors. These notes are very flexible instruments that allow for a high degree of customization, ensuring both the manager and the investors operate under the desired conditions. Finally, the securitization vehicle will fund the manager’s underlying SPV with the proceeds of the note issuance, be it via debt, equity or a combination thereof.

Monetizing an art collection:

This option is particularly attractive for individuals or families with a wealth of assets but a lack of liquidity. By transferring his or her assets to a securitization vehicle in exchange for notes, the transferor receives a security with an ISIN he or she can use to receive credit against. While the notes would typically be collateralized by the underlying assets, provided no credit event occurs the collector can become liquid without giving up control or disposing of his collection.



Securitization Vehicle Workflow



About the author

Nicolas is a junior partner at MTCM and primarily covers Spain and the Latam region. He holds a Bachelor with Honors in International Politics from City University of London and a Master in Finance from Madrid's IE University. He has extensive experience in structuring investment vehicles, with a particular focus on structured Notes. He is fluent in Spanish, German, English and French.

