



December 12, 2018

Who ya gonna call? An opportunity!

By Alan Snyder

The *Ghostbusters* song says it all: “If there’s something strange in your neighborhood, who ya gonna call?” Well, the strange or, at a minimum, challenging current market environment is the worldwide turmoil in bonds and equities. Please take a hard look at our attachment highlighting market challenges and potential solutions. We have been investing in alternative lending niches for eight years, which has been a great trade. Three years ago, we launched an alternative lending portfolio; one of its 24 allocations has been fine-art-secured lending. Our positive experience encouraged us to do a deep dive on the space. The deeper we dove, the more we liked it and we collected our thoughts in a research brief on our website:

http://www.shinnecock.com/articles/alt_lending/art_finance.pdf. To our pleasant surprise, others agreed with our assessment and asked how to participate in just this. Oops, there was no institutional-quality vehicle. Over the last year, we set out to remedy this deficiency – after much hard work, we have created Art Lending Fund LLC.

In a nutshell, the appeal is:

1. Compelling net yield: 8.5% - 9.5%
2. Short duration: 6 – 9 months for a seasoned portfolio
3. Exceptional principal protection: 50% loan-to-value (LTV) and a financial guarantee
4. Uniquely appealing collateral: historically appreciating unlike most other hard asset lending, a global asset, and low correlation
5. Strong collateral protection: first priority; we have possession; insured
6. Real liquidity
7. Attractive structure for tax-exempt investors
8. Blue-chip service providers

Alas, nothing is perfect with niche investments; this cannot be a huge fund. Having been the largest individual investors in what we do, those limitations are okay because we are most interested in earning an attractive return with what we believe is modest risk. The scale limitations will not be a severe burden unless an investor wants to invest large sums instantly.

If you decide our effort appeals to you as an individual, a company investment, or on behalf of investors you advise, please reach out to us as space is ultimately limited.

In the meanwhile, we wish you all a warm holiday season with family and friends.

Upcoming Events

See attached schedule of industry related events at which Shinnecock will be sharing more in-depth information and let us know if you'll be attending so we can look for you!



If there's somethin' strange
In your neighborhood
Who ya gonna call
GHOSTBUSTERS!

If there's somethin' weird
And it don't look good
Who ya gonna call
GHOSTBUSTERS!

“Who Ya Gonna Call”

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Blackrock's Depressing Investment Outlook

	Asset	Five-Year Expected Return	Long-Term Expected Return	Long-Term Expected Volatility
Fixed Income	US cash	2.5%	2.0%	0.0%
	US Treasuries (all maturities)	2.4%	2.6%	4.9%
	US Treasuries (10+ years)	0.8%	3.4%	14.1%
	US inflation-linked Treasuries	2.5%	2.7%	5.9%
	US credit (all maturities)	2.8%	3.7%	5.9%
	US credit (long bonds)	2.1%	5.2%	12.0%
	US high yield	3.4%	4.8%	8.7%
	US aggregate bond index	2.7%	3.1%	4.6%
	Global ex-US Treasuries	2.4%	2.3%	3.3%
	USD EM debt	3.8%	4.9%	9.5%
	Local-currency EM debt (unhedged)	5.0%	4.1%	12.5%
	US bank loans	3.9%	3.5%	8.4%
Equities	US large cap	5.1%	6.0%	16.1%
	Global ex-US large cap	7.4%	6.4%	17.3%
	US small cap	4.9%	6.0%	18.3%
	EM equity	9.0%	5.9%	24.1%
Alternatives	US core real estate	5.1%	4.0%	14.8%
	Global private equity	7.0%	6.8%	23.9%
	Global infrastructure equity	6.0%	6.7%	17.9%
	Hedge funds (global)	4.0%	3.6%	7.6%
	Commodities	4.1%	3.2%	15.1%
	Global infrastructure debt IG	2.5%	4.1%	8.6%

BlackRock Investment Institute, August 2018. Data as of 30 June 2018

Ugly Results: Fixed Income – October Y-T-D 2018

Asset	ETF	YTD (10/31/2018)	Duration (years)	Benchmark Index	YTD (10/31/2018)
US Investment-Grade Bonds	iShares Core US Aggregate Bond ETF (AGG)	(2.4%)	5.9	Bloomberg Barclays US Aggregate Bond Index	(2.4%)
	Vanguard Total Bond Market ETF (BND)	(2.5%)	5.9		
US Investment-Grade MBS	iShares MBS ETF (MBB)	(1.9%)	5.0	Bloomberg Barclays US MBS	(1.7%)
	SPDR Bloomberg Barclays Mortgage Backed Bond ETF (MBG)	(1.8%)	5.3		
US Investment-Grade Municipal Bonds	iShares National Muni Bond ETF (MUB)	(1.4%)	6.2	S&P National AMT-Free Municipal Bond Index	(1.2%)
	Vanguard Tax-Exempt Bond ETF (VTEB)	(1.3%)	5.9		
US Treasury - 10 or more years to maturity	Vanguard Long Term Treasury ETF (VGLT)	(8.5%)	16.8	Bloomberg Barclays US Long Treasury Index	(8.7%)
	SPDR Portfolio Long Term Treasury ETF (SPTL)	(8.7%)	17.1		
US Investment-Grade, Fixed Rate, Taxable Bonds	Vanguard Total Corporate Bond ETF (VTC)	(3.7%)	7.0	Bloomberg Barclays US Corporate Bond Index	(3.8%)
Short-Term High-Yield Corporate Bonds	PIMCO 0-5 Year High Yield Corporate Bond Index	1.4%	2.2	BofA Merrill Lynch 0-5 Year US High Yield Constrained Index	2.9%

Is the Search for Yield an Impossible Quest?



- **Investors demand:**
 - Consistent yield now
 - Principal protection from the unexpected, whether rising interest rates or recession
 - Liquidity
 - Low correlation between investments (portfolio complement)
 - Cash income
 - Quality controls
 - Experienced and engaged manager
 - Simple
 - Cost efficient
- **Are we Don Quixote?**

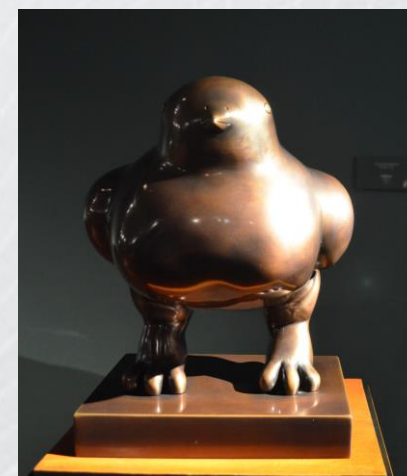
Alternative Lending – What, Why and How



- **Alternative lenders:**
 - Generally, do not accept deposits
 - Act as intermediaries, pooling loans
 - Provide a conduit between investors and borrowers
 - May enjoy a substantial acquisition cost advantage
 - Usually specialize in a particular niche
- **Traditional lenders hamstrung by bloated bureaucracies, dated technology, restrictive regulation and need to repair balance sheets**
- **\$51 trillion rapidly growing global market serviced by “non-bank” financial institutions – Goldman estimate**

Alternative Lending Possibilities + Our History

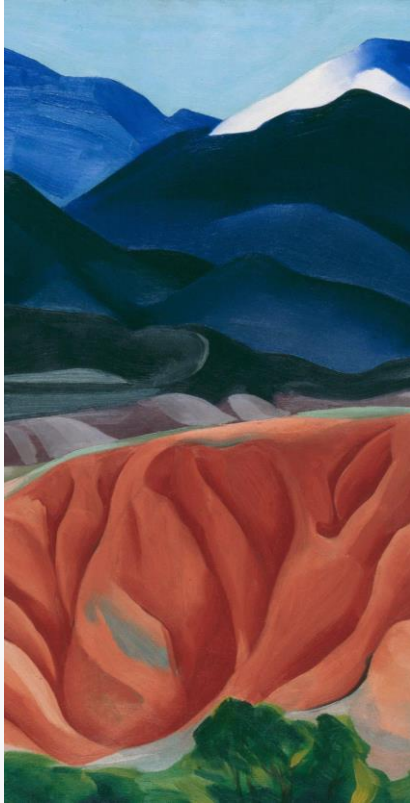
- Trade Finance
- Bridge Real Estate
- Life Settlements
- Specialty Finance – Lending to Loan Originators
 - Payday Lending
 - Merchant Cash Advance*
 - Point of Sale Finance*
 - Litigation Finance
 - Impact Lending in LDC's
- Film and other Royalty Streams*
- Corporate Debt
- Government Receivables
- Student Debt
- **Fine Art-Secured Lending*** - one allocation sleeve in our diversified alternative lending fund



Fernando Botero
Pájaro

*See www.shinnecock.com for our research papers on these subjects

What is Fine Art-Secured Lending?



Art-secured lending is hard asset lending against auction-quality fine art. (e.g. Sotheby's, Christie's, Phillips, Bonhams)

Art dealers and collectors borrow against their art to:

- Fund art acquisitions/finance dealer inventory
- Pursue other opportunities

Taking out a loan instead of selling individual artworks allows borrowers to:

- Avoid taxes and transaction fees associated with sales
- Retain ownership and any appreciation in value

Georgia O'Keeffe

Black Mesa Landscape, New Mexico / Out Back of Marie's II, 1930

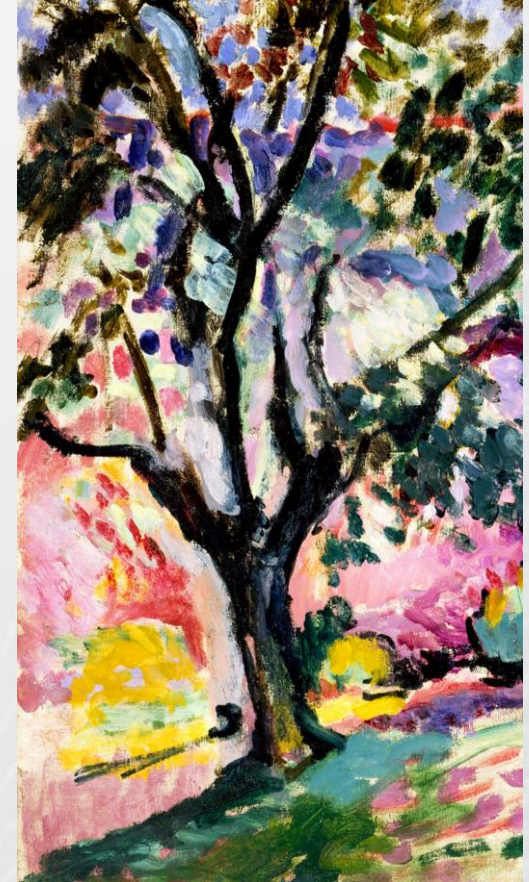
A Vibrant and Growing Market

High Growth

- Global art sales were \$63.7 billion in 2017, 12% increase over the previous year.¹
- Outstanding art-secured loans: \$20 billion in 2017, a 13.3% increase over the previous year.²
- Loans from boutique lenders grew 15% annually from 2011 – 2015.³

Capital Short

- Room for further growth: 87% of art dealers are searching for acquisition finance, and 28% claim lack of credit has hampered growth.⁴
- 57% of collectors in 2016 were interested in using their art as collateral for loans, up from 48% in 2014.³



¹ McAndrew, Clare. *The Art Market 2018*. Art Basel and UBS.

² Deloitte Touche Tohmatsu Limited, and ArtTactic. *Art & Finance Report 2017*.

³ Deloitte Touche Tohmatsu Limited, and ArtTactic. *Art & Finance Report 2016*.

⁴ The European Fine Art Foundation. *Art Dealer Finance 2018*.

Henri Matisse
Olive Trees at Collioure, 1906

Boutique Lender Advantages

Competitive edge over private banks and auction houses

Speed	Complete the loan process and provide funds in a short timeframe
Flexibility	Tailor each loan to the borrower's specific needs
Insights	Leverage experience and relationships in the fine art market for market insights, valuation expertise, and advisory services
Independence	Allow the borrower to remain independent from auction houses and banking relationships

Approach and Experience within our Diversified Alternative Lending Fund

Attractive & Consistent Yield

- **9.0%+** net return
- Prepaid interest

Short Duration

- Asset-weighted average duration of **six to nine months** for seasoned portfolio
- Interest rate flexibility from frequent reinvestment rollovers
- Most loans have a **floating interest rate**

Principal Protection

- **Low loan-to-value ratio (“LTV”) – 50%**
 - Protection against collateral price declines
 - Significant margin between art value and loan amount, enabling the lender to seek recovery of principal, interest, default interest, and sales transaction costs in case of default
- Additional backstop in the form of a **personal or corporate guarantee**

Our Experience

Uniquely Appealing Collateral

- **Appreciating collateral:** 8% annual growth in the Sotheby's Mei Moses Art Index from 1965 – 2017
- **Global asset:** transportable, reflecting currency depreciation/appreciation
- **Low correlation** to equities and global interest rates

Strong Collateral Protection

- **First-priority** security interest
- **Possession of the collateral:** art is stored in a climate-controlled warehouse controlled by lender
- **Insured** for the loan amount, at a minimum

Immediate Diversification

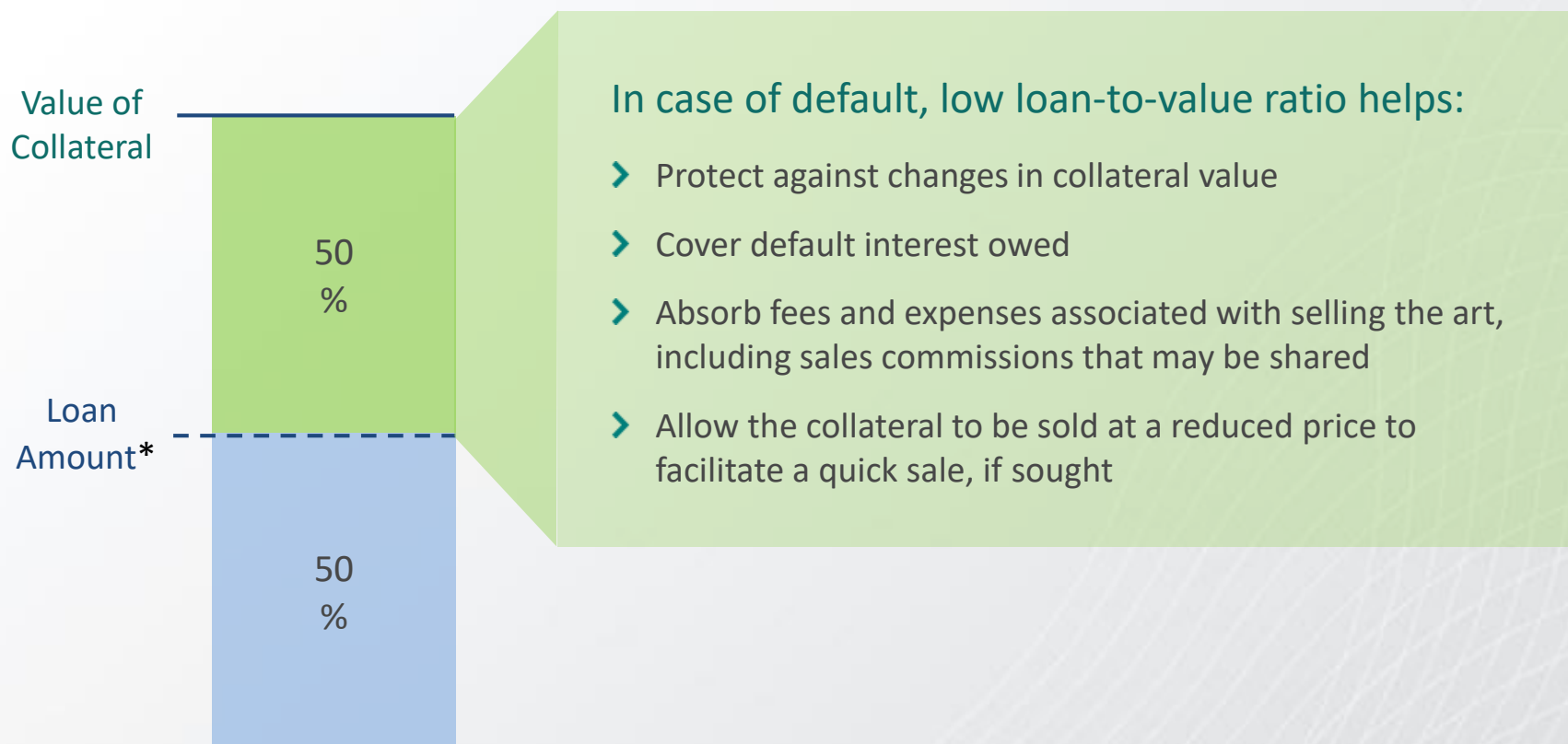
- Multiple artists, genres, and media
- Multiple borrowers

Liquidity

- Short duration loans offer **true liquidity**

Uncommon Principal Protection

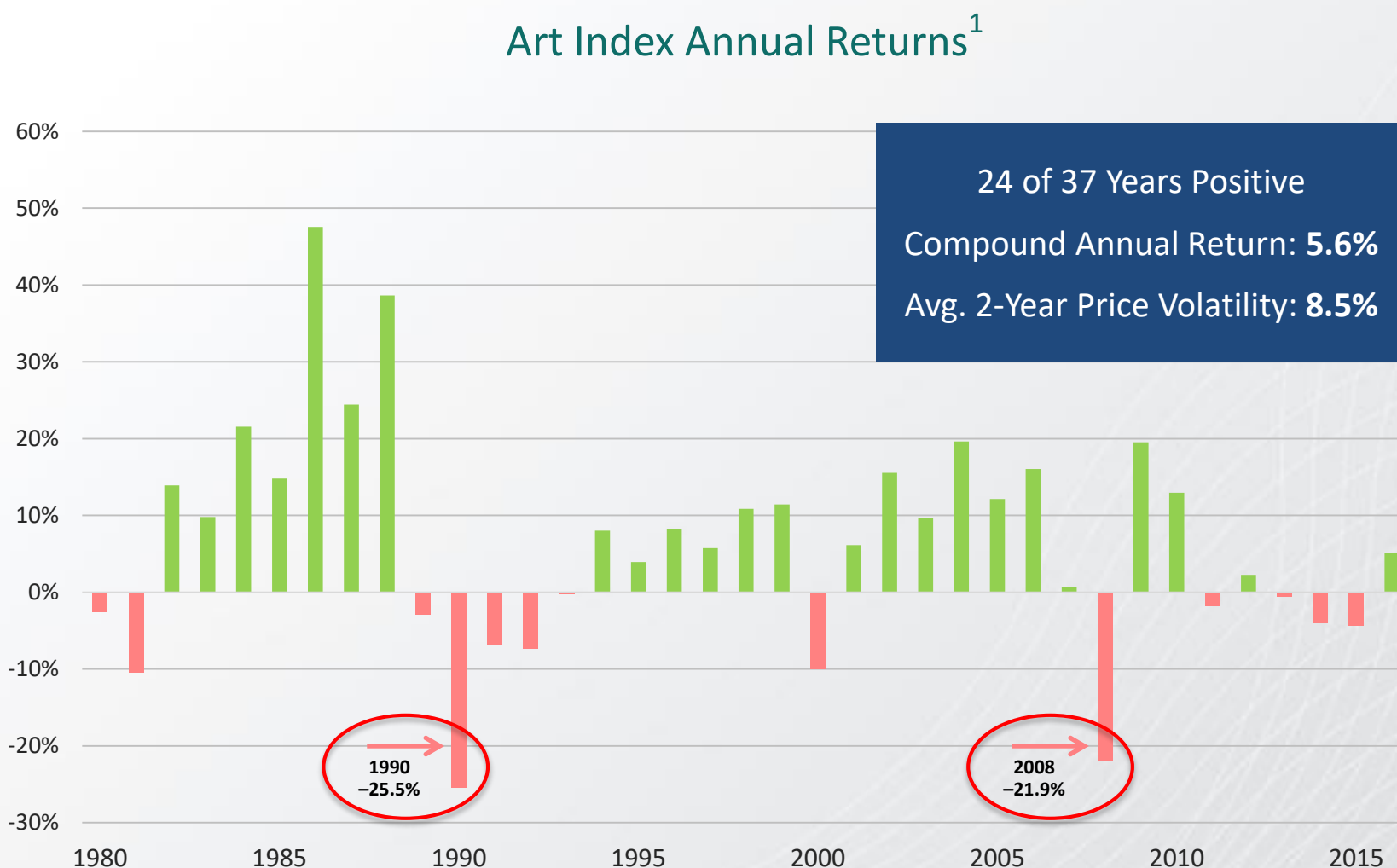
Portfolio LTV Example



* Actual exposure is lower given any prepaid interest.

If portfolio collateral value decline matched the worst annual loss of the Sotheby's Mei Moses Index since 1980 (previous slide), a portfolio loan buffer of 50% would decline to 24.5% yet remain substantial

Historical Principal Protection

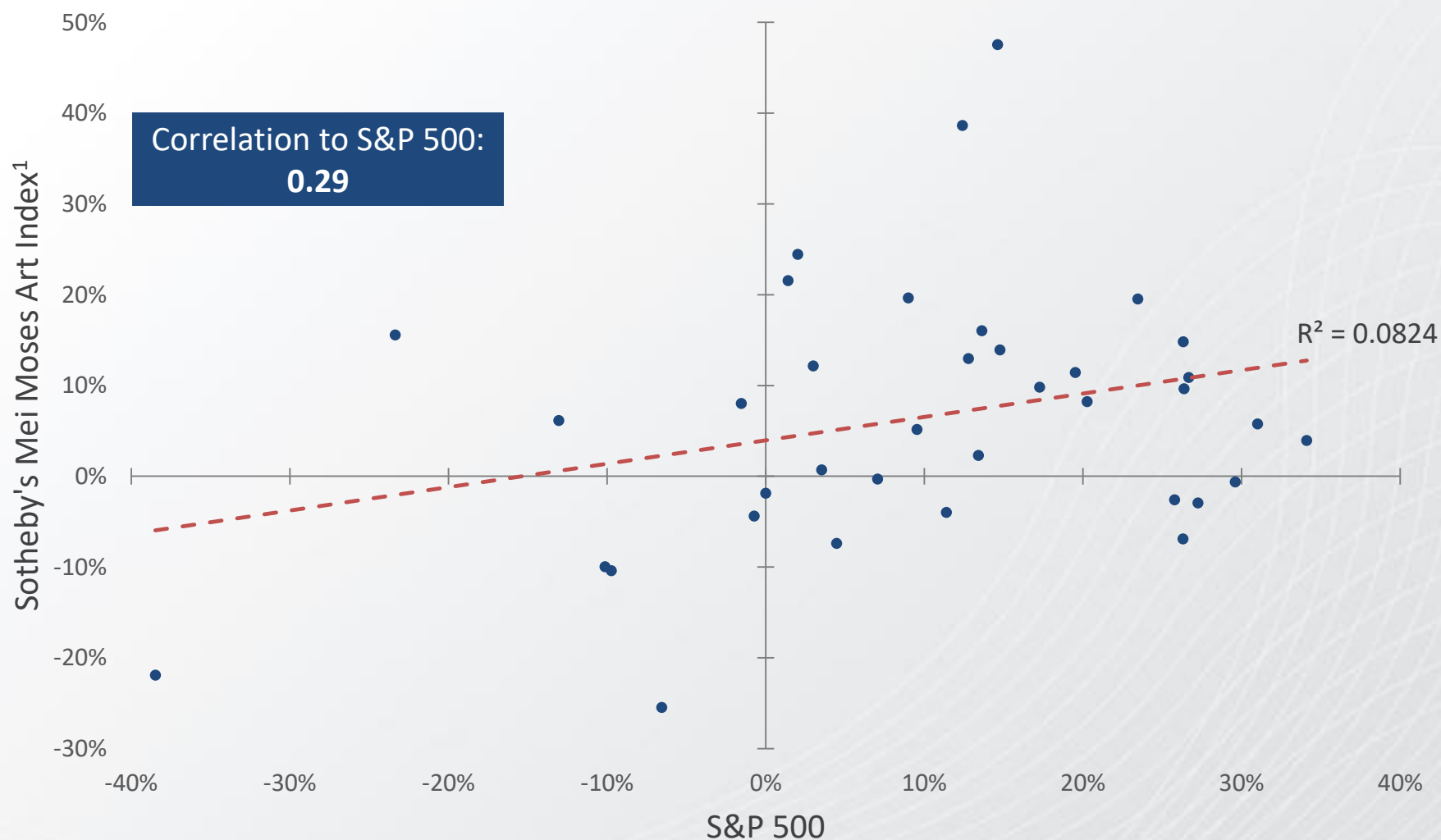


¹ Sotheby's Mei Moses Art Index, calendar years

Low Correlation to U.S. Equities

Sotheby's Mei Moses Art Index and S&P 500 Historical Correlation

1980-2017



¹ Sotheby's Mei Moses Art Index, calendar years

Shinnecock's Edge

A family office investment boutique

Over 30 years successfully managing money with a focus on niche strategies

Advisory board providing sophisticated counsel on art-related matters

- Members offer insights on collateral pricing, sourcing, deal structure, and overall investment management assistance
- Biographies of the advisory board members can be found in the appendix



Skin-in-the-game: largest individual investors in what we do

Intense, transparent due diligence process (www.shinnecock.com)

Team of dedicated professionals

Institutional-quality outside service providers

Museo Picasso Málaga
Málaga, Andalucía, Spain

Investment Criteria for our Art-Secured Lending Fund

Competitive Return	➤ Deliver 8.5% - 9.5% net-to-investor return target
Short Term Loans	➤ 12-24 month terms at origination, with a six to nine-month weighted-average duration target for seasoned portfolio
Low LTV Ratios	➤ 60% or lower, except in situations with unusual security, to target a portfolio weighted-average LTV of approximately 50%
Sound Collateral	➤ Low price volatility, well-documented auction history, and good provenance
Target Portfolio Limits	<ul style="list-style-type: none">➤ No more than 15% of the aggregate value of the fund to a single borrower➤ No more than 15% secured by artwork from a single artist

Thorough Investment Process

Collateral Evaluation

- Compare the art against our investment criteria
- Complete the valuation using past and recent sales prices of comparable works, and insights from outside appraisers, valuation experts, and advisory board

Provenance Research

- Review available records and historical documents
- Engage advisory board and independent experts for counsel on provenance concerns
- Search the Art Loss Register and the FBI's National Stolen Art File (NSAF)

Borrower Assessment

- Search public records for liens, judgements, and bankruptcies
- Perform credit and background checks

Documents and Funding

- Negotiate loan terms
- Verify existence and extent of insurance coverage
- File a UCC Financing Statement and secure storage for the art
- Execute loan documents and remit funds to the borrower

Investment Terms and Service Providers

Launch Date	2/1/2019
Structure	Delaware limited partnership
Target Net Return	8.5% - 9.5% (using 50% leverage)
Management Fee	1%
Incentive Fee	10%, subject to a high water mark
Minimum Capital Commitment	\$100,000*
Redemptions	Quarterly after one-year lock, with 90 days' notice
Investor Qualifications	Accredited Investor/Qualified Client
Auditor	Deloitte & Touche LLP
Administrator	SS&C GlobeOp
Cash Custodian	First Republic Bank
General Counsel	Faegre Baker Daniels LLP / Buchalter PC / Paul Hastings LLP

*ALF uses a capital call structure in order to balance cash inflows against investible loans and other cash needs. ALF may call any portion of an investor's capital commitment at any time with reasonable prior notice within six months of the initial commitment date. If after six months the total amount committed has not been called, the remaining commitment amount is released.

Available to taxable, tax deferred and tax-exempt investors

Conclusion

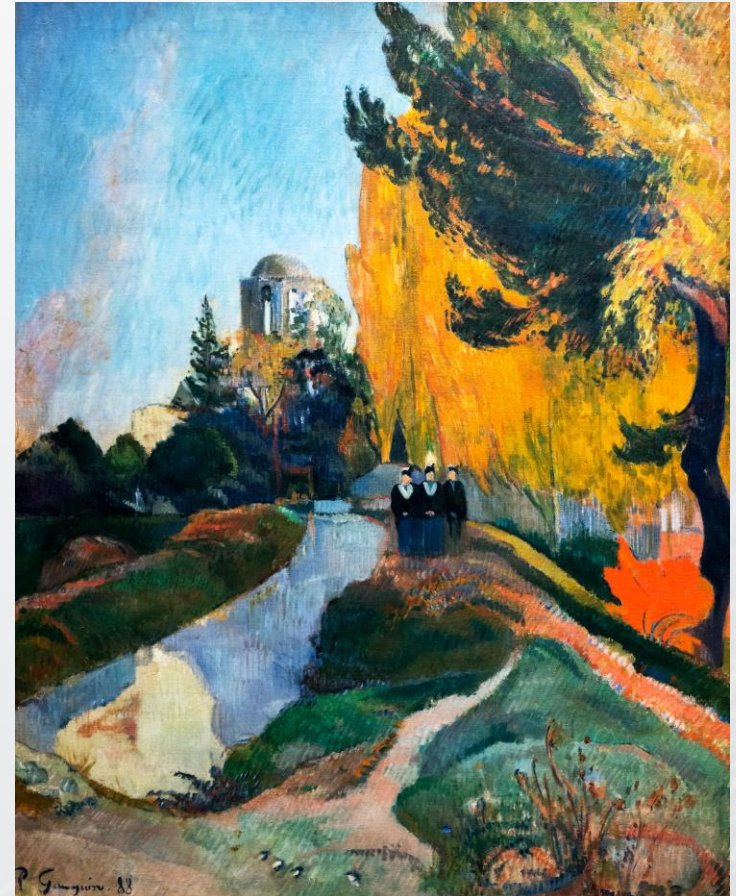
Art-secured lending is a compelling yield investment, pairing attractive returns with exceptional principal protection. It offers an uncorrelated complement to a diversified investment portfolio.

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Paul Gauguin
Les Alyscamps, 1888

An aerial photograph of a coastal area. A wide, sandy beach runs along the top right. A pier extends from the beach into the dark blue water. A small boat is moving across the water, leaving a white wake. The word "APPENDIX" is written in large, white, sans-serif capital letters on the left side of the image.

APPENDIX

Case Study

Transaction:

One of the largest dealers of Western American Art purchased *Abstraction*, a sculpture by Georgia O'Keeffe, after recognizing that it was underpriced. Seeking to finance the purchase of additional art (inventory), the dealer sought out a loan backed by this sculpture.

After completing our thorough pre-investment process (Appendix A of the FAQ), we elected to extend a loan with the following terms:

Term:	One Year
Interest Rate:	11.11% cash-on-cash return
Collateral Valuation:	\$1,500,000 (third-party appraisal)
Loan Amount:	\$825,000
Loan-to-Value (LTV):	55%

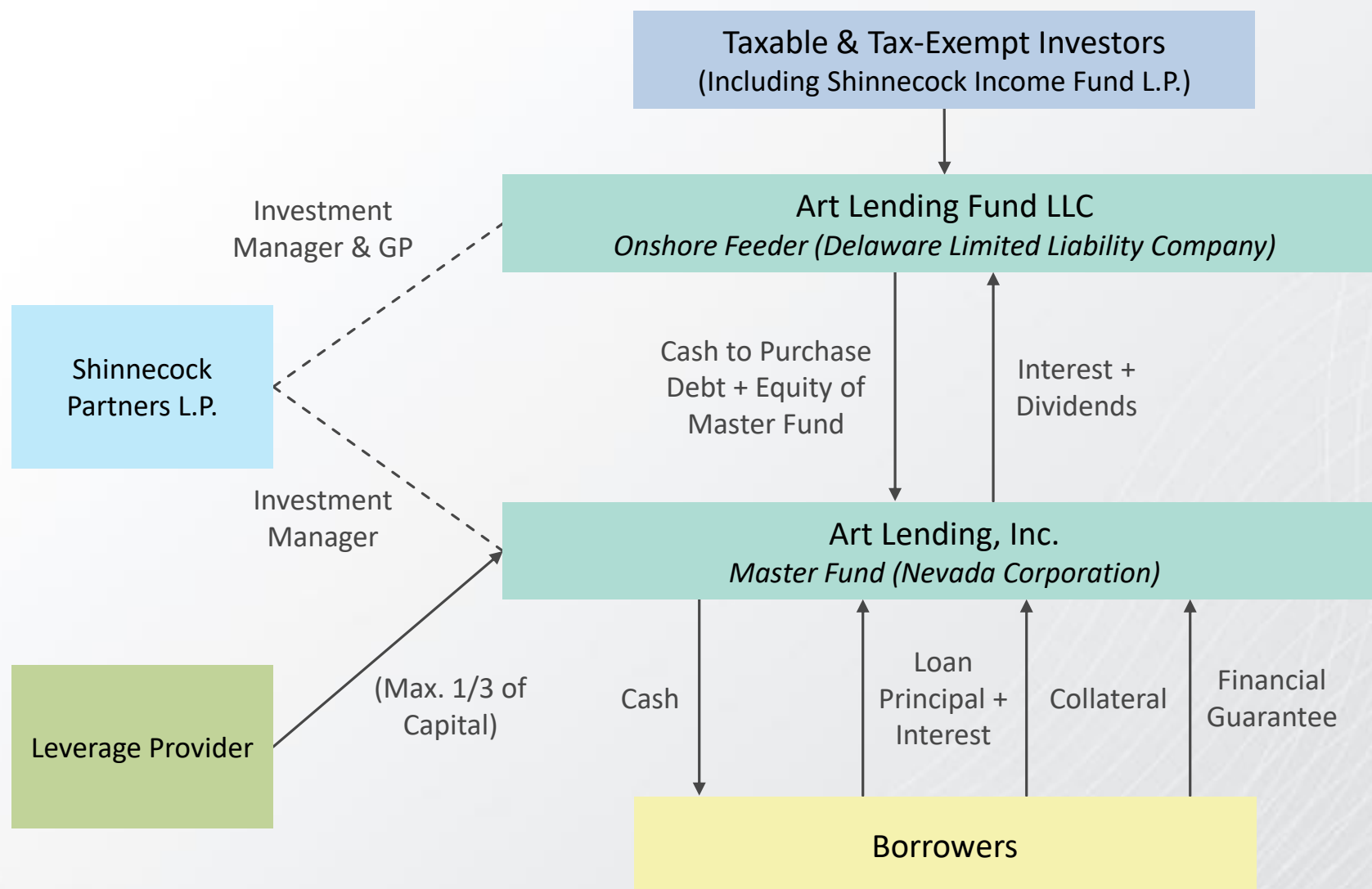
Result:

While the collateral was stored in our warehouse and insured at the borrower's expense, the art dealer continued to market the sculpture along with the rest of the art remaining in their gallery.

The dealer found an art collector who was eager to purchase *Abstraction* less than six weeks after the start date of the loan. The dealer requested that we unwind the loan and return the sculpture. Because the buyer was willing to pay significantly more than the dealer's original purchase price, the dealer was willing to pay four months' interest as a prepayment penalty.

As a result of the prepayment penalty, Shinnecock Income Fund (SIF) earned 3.7% on its original investment in 41 days.

ALF Tax-Efficient Structure



Susan Ginsburg – Advisory Board Member



Ms. Ginsburg has been an advisor to and curator at numerous art galleries, museums and collections. As an art historian, she has been a member of the faculty of multiple institutions and authored or edited a number of publications.

Susan earned her MA in Art History from the University of California, Los Angeles. She went on to earn a Ph.D. in Art History from The Graduate Center of City University of New York, specializing in modern European and American art. For her dissertation, Ms. Ginsburg compiled and produced a comprehensive catalogue raisonné of works by Robert Rauschenberg.

Ms. Ginsburg has been a member of the faculty of the art history departments of Hunter College of City University of New York, Fordham University, the State University of New York at Purchase, and the University of California, Los Angeles. Susan is currently a member of the faculty of the School of Visual Arts in New York, where she has held various roles since 1974.

Concurrently, Ms. Ginsburg has had an extensive professional career. She was curator for the New York Cultural Center and for works by Robert Rauschenberg at the Smithsonian Museum of American Art and the Museum of Modern Art. From 1981 to 2010, Ms. Ginsburg served as an advisor and curator for the Jerrold Perenchio Art Collection, which is now part of the Los Angeles County Museum of Art. Since 1999, Susan has been the curator and advisor for the Paul Fireman Art Collection.

Amanda Langer – Advisory Board Member

Ms. Langer currently works as an exhibitions coordinator for Dietl International Services in New York, where she sources and executes fine art packing and transportation solutions for public and private clients. Previously, Amanda served as a project manager with Atelier 4 Inc., where she organized the successful shipment of high value artworks domestically and internationally. As a Design & Decorative Arts Appraisal Assistant with Doyle New York, Amanda evaluated all Furniture & Decorative Arts Department property consignment submissions and worked to create all department sale catalogues and auction marketing materials.

Amanda earned her MA in History of Art & Art Market Modern & Contemporary from Christie's Education in New York. She earned her BA in History of Art from Union College.

Andrew C. Rose – Advisory Board Member

Mr. Rose has over 30 years' experience in the fine art industry, including time at major auction houses such as Sotheby's and Christie's and as an asset-based lender at Citibank, Chase Manhattan and The Boston Company. Andrew has originated over 500 art-secured loans (\$1 billion+ total) with no losses of principal or interest. Currently, Andrew manages Art Finance Partners ("AFP"), an art-secured loan originator and consultancy operating out of New York which he founded in 2005. AFP is an experienced but capital-constrained non-bank originator that can provide deal flow for ALF.

Andrew brings a wide network of contacts within the art market (galleries, dealers, auction houses, private collectors) which can help confirm valuations and if necessary rapidly find buyers for collateral in default situations.

Before entering the art world, Andrew graduated from Princeton University with a BA in Economics.

Chase W. Rynd – Advisory Board Member



Mr. Rynd has served as executive director of the National Building Museum since 2003. Created by Congress in 1980, the National Building Museum commemorates American achievements in architecture, design, construction, urban planning, and engineering. The Museum has achieved a strong national profile through enhanced educational programs, scholarly and visually engaging exhibitions, and numerous outreach efforts. Prior to his work at the National Building Museum, Chase was appointed executive director of the Tacoma Art Museum in 1993, and to the same position at the Frist Center for the Visual Arts in Nashville, Tennessee in 1998.

Mr. Rynd was appointed by the mayor to the Seattle Arts Commission in 1988, and served two consecutive terms as the Commission's chairman. In 1990, Security Pacific Bank recruited Chase to develop a public gallery space that would serve the community with a series of contemporary art exhibitions and programs designed to enhance the city's arts environment.

A graduate of Georgetown University and active in the museum community, Mr. Rynd is a member of the International Council of Museums and American Alliance of Museums. He sits on the Boards of the Association of Architecture Organizations (AAO), American Friends of Chantilly, France; the Downtown DC BID; Penn Quarter Neighborhood Association; and the Havana Heritage Foundation. He also is a member of ACE Mentor Program's National Advisory Board; the ASCE Industry Leaders Council and serves on committees for St. John's Lafayette Square and the National Cathedral in Washington, D.C.

David Paul Steiner – Advisory Board Member



Mr. Steiner, principal of David Steiner & Associates PLC, has earned a national reputation as a trusted advisor and counselor in art law and art litigation matters. David did his undergraduate work at Stanford University, graduating Cum Laude. He went to law school at the University of California Hastings College of the Law, where he founded and was Editor in Chief of the Hastings Constitutional Law Quarterly. Mr. Steiner has practiced art law since 1981.

David has lectured widely on art law subjects, both in the United States and in Europe, also writing for various magazines and participating in various symposia. Mr. Steiner co-edited *The Visual Artist Manual*, the first of its kind, which was published in 1981. He also has served as an adjunct professor at University of Southern California Law Center, teaching a class in art law. David's practice has included art lending matters, large private mandate transactions, multiple cases including authenticity of works, auction issues, representation of important artists' estates and committees (e.g., Degas), art insurance issues and cross border transactions.

Although his firm specializes in art law and art litigation matters, it also pursues practice areas involving complex business litigation in both State and Federal Courts, intellectual property litigation, and Internet transactions and Internet litigation, and enjoys a specialization in credit card processing litigation. Mr. Steiner, who is a former President of the Beverly Hills Bar Association Barristers, is admitted to practice in the States of California and Colorado. He has been admitted Pro Hac Vice in many states.

Jean Tardy-Vallernaud – Advisory Board Member



Mr. Tardy-Vallernaud is a practicing art and wealth consultant, advising clients in the U.S., Europe, Asia, and the Middle East. Jean founded Gainsborough Capital Art and Finance in 2001, providing art succession planning, private art sales advisory, art financing, art market research, and guidance on the treatment of art as an asset class. Through Gainsborough Capital, Jean offers his global client base access to best-of-class investment manager talent.

Prior to Gainsborough, Jean had a 30-year finance career including executive positions in New York, Paris, Brussels, London and Los Angeles with major private banks including Julius Baer, Citi Private Bank, First Interstate Bank, and Bankers Trust. Jean was a co-founder and director of First Interstate-Edmond de Rothschild, a Geneva investment management firm owned 50-50 by each bank. Client profiles have ranged from governments and corporations to wealthy individuals and families in the Americas, Europe and Southeast Asia.

Raised in a family of art collectors, Jean has devoted much of his time to the Los Angeles art community. He founded The Arts Council of the Century City Chamber of Commerce and The Century City Art and Culture Foundation, working to organize exhibitions and educational events for the community. He is also a member of the Investment Committee of the Board of Cedars-Sinai.

Mr. Tardy-Vallernaud studied in France at the University of Lyon, earning his Graduate Liberal Arts Certificate and Baccalaureate of Law. Jean then moved to the United States, earning a BS in Business Administration from the University of California, Berkeley and his MBA from Wharton School.

Alan Snyder – Founder, CIO

43 years of experience in finance and investments



Alan Snyder founded Shinnecock Partners in 1988 and serves as its Managing Partner. Alan spent 14 years at Dean Witter (now Morgan Stanley) and finished his career there as an Executive Vice President, Board Member and Executive Committee Member. He formulated the launch of the Discover Card as a member of a three-person management team. Subsequently, he restructured First Executive/Executive Life, a \$20 billion life insurance holding company including a \$1.5 billion alternatives portfolio, as President and Chief Operating Officer. He was later appointed as Executive-in-Charge by the California State Insurance Commissioner. He has served as a special advisor to Goldman Sachs and Kelso Partners.

He founded and was Chairman, President and CEO of Answer Financial, which became the largest independent seller of auto and home insurance in the U.S. Answer was sold to Esurance, who sought its technology and third-party distribution and was more recently purchased by Allstate.

Harvard Business School (Baker Scholar, MBA) and Georgetown University (Wall Street Journal Scholar, BSBA). Former Chairman and President of the Western Los Angeles County Council of the Boys Scouts of America.



Upcoming Events

Shinnecock will be in attendance and/or speaking at the following events. We'd be happy to have you join us!

December 13 – New York

ivyFON Family Office Trends Forum

Venable LLP

1270 Avenue of the Americas, 24th Floor, New York, NY 10020

For information and registration: <http://www.ivyfon.com/>

Agenda: <https://ivyfon.com/dec13forum/agenda.html>

*****Alan Snyder is speaking at this event on the topic of “Opportunities in Art Lending.” As an invitee of Shinnecock, your single-family office may attend without charge by emailing the organizer, Marty Secada (martysecada2008@gmail.com) and copying Alan. (Other discounts available for multi-family offices.)**