Frequently Asked Questions

Art Lending Fund LLC (ALF)

January 22, 2020

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1. What is art-secured lending and the Art Lending Fund (ALF)?

Art-secured lending is a form of asset-backed lending. Individual or multiple works of art are used as collateral to secure each loan.

ALF is a diversified portfolio of loans to various borrowers collateralized by museum-quality art from a mix of artists, genres, and media.

2. Why invest in ALF?

ALF offers:

- **Attractive, consistent returns**
    - After fees and expenses, ALF targets a net unlevered return of 7% - 8% for investors.

- **Principal protection provided by a conservative "loan-to-value" ratio ("LTV")**
    - LTV is calculated by dividing the loan amount by the value of the underlying collateral. The target portfolio-weighted average LTV of ALF is 50% although there may be loans at higher LTVs in situations with unusual security. For example, a $500,000 loan on an artwork valued at $1 million would equate to a 50% LTV.
    - A conservative LTV:
        - Provides insulation against significant price swings.
        - Helps compensate for transaction costs associated with art sales.
        - Provides the lender, in the case of a default, room from this gap between value and loan amount to recover the principal, interest, and default interest should the art be sold at a discount from its original valuation to facilitate a quick sale.

- ALF also expects a personal or corporate guarantee from the borrower. This gives ALF recourse, in the event of a default, to the borrower's other assets if the principal, interest, default interest and transaction costs are not covered by the sale of the art.

- **Strong collateral protection**
    - ALF files a UCC Financing Statement to establish the right to take possession and sell the art used as collateral if the borrower were to default.
    - "Possession is 9/10 *ths* of the law." In most cases, art is stored in a bonded, climate-controlled warehouse chosen by ALF, where the art remains for the duration of the loan. With suitable insurance coverage, however, the art may be displayed in museums or, in rare circumstances, kept in an office or home.
    - While ALF underwrites its loans with the expectation of being fully repaid at maturity, given ALF's conservative LTV guideline of approximately 50%, there can be incremental income potential if a loan defaults and the collateral is sold for more than the loan amount.
    - The art is insured for the loan amount, at a minimum, with coverage specifying the storage location. ALF is listed as an additional insured and loss payee on the borrower's insurance policy. For added protection, ALF worked with Chubb to create a backup fine arts insurance policy tailored to ALF's position as a lender-in-possession.

- **Reduced risk through diversification**
    - Diversification by artist, genre, media, and borrower reduces the impact of issues affecting any one of the foregoing.
    - The effect of any potential individual loan impairment on the performance of the whole portfolio diminishes as the pool of loans expands. By participating in ALF, an investor gains access to the benefits provided by this diversification.

- **Short duration reduces interest rate sensitivity**
    - ALF primarily targets loans with 12-month terms to produce a weighted-average duration of six to nine months. Short duration allows ALF to reinvest in higher-interest-rate loans in a rising interest rate environment.
    - ALF's relative liquidity matches the terms offered to investors who wish to exit their investment.
    - ALF helps protect investors from volatility in art values by investing in short duration loans. If a borrower requests an extension or renewal,

ALF re-underwrites the collateral value before agreeing to extend or renew the loan.

- **Liquidity**
  - Investing in short duration loans allows ALF to offer quarterly investor withdrawals after the first year with 90 days' notice.

- **Tax-advantaged legal structure**
  - All taxable investors: Investment expenses are 100% deductible at the master, which is unlike typical LP/LLC fund structures that pass through these (generally non-tax-deductible) expenses to the investor. Thus, after-tax returns are improved for ALF investors.
  - Tax-free/tax-deferred investors: No Unrelated Business Taxable Income (UBTI).
  - Offshore investors:
    - No Effectively Connected Income (ECI)
    - No withholding on interest income (Portfolio Interest Exemption)
    - Minimal effective master income to limit tax withholding on dividends
    - No high-cost offshore feeder with potential ECI or non-portfolio interest
  - These tax advantages increase after-tax yields when compared to most other credit funds.
  - The foregoing is a general discussion only and should not be considered as tax advice. Please discuss any tax issues or questions with an independent tax advisor before making an investment in ALF.

3. How does ALF compare to similar investments?

ALF targets a net unlevered return of 7% - 8% and a duration of six to nine months. As shown in the table below, this compares favorably to common fixed income investments with longer durations and lower returns.

Comparative Benchmarks 7/1/2017 – 9/30/2019			
	CAGR	Max. Drawdown	Duration (Months)
ALF (incl. incubation period)*	8.1%	0.0%	< 24
U.S. BIG Bond Index	4.3%	(2.5%)	72
PIMCO High Yield ETF	4.1%	(3.9%)	24

*Pro forma returns from the incubation period are described in Disclosure & Risk Information

ALF is a complement to existing portfolios as it is mostly uncorrelated to equities and global interest rates. It generates a higher yield than traditional fixed income investments and provides additional diversification by lending against unique collateral. Compared to real estate, art has the advantage of being an international asset. It can be sold in many markets around the world to take advantage of currency fluctuations or changes in demand as tastes and cultural trends evolve in different regions. Airplanes and ships are mobile as well, but depreciate over time. In contrast, art has historically appreciated, as shown by the Sotheby's Mei Moses Art Index (Question 9). Our comparison to similar investments is shown below:

Investment Type	Yield	Rising Rate Protection	Downside Protection	Liquidity	Correlation to Market	Volatility
ALF	**High**	**Yes**	**Yes**	**Moderate**	**Low**	**Low**
High-Yield Bonds	High	No	Moderate	Moderate	Moderate	Moderate
REITs	Moderate	Maybe	No	High	Moderate	High
MLPs	High	No	No	High	Moderate	High
Closed-End Bond Funds	High	No	No	High	Low	High
BDCs	High	No	No	High	Moderate	High
Income Property	Moderate	Maybe	No	Low	Low	Low

4. **How large is the market?**
   A vibrant and growing art market:
   - Global art sales reached $67.4 billion in 2018, a 6% increase over 2017 sales.[1]
   - The U.S. market was the largest worldwide, representing 44% of total sales by value.[1]
   - Works sold for over $1 million accounted for 61% of the $29.1 billion sold at public auction in 2018.[1]

[1] McAndrew, Clare. *The Art Market 2019.* Art Basel and UBS

Lending secured by art is a multibillion-dollar market with further expansion potential.

- The value of outstanding art-secured loans grew to $17 - $20 billion in 2017, a 13.3% increase over the previous year.[2]
- Boutique lenders' loan books grew 15% annually from 2011 - 2015.[3]
- There is 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]

5. What is the competitive landscape for art-secured lending?

Private banks hold the largest portion of outstanding loans, but these loans are typically underwritten based on the overall credit-worthiness of the borrower and dependent upon the borrower's fee-generating relationship with the bank. Auction houses and boutique lenders (such as ALF) hold the remainder of the loans and account for approximately 8% and 11% of the market, respectively.[3] In their first report focusing on art-secured lending, The European Fine Art Foundation estimates that in 2017 boutique lenders had a total of $800 million - $1.4 billion of loans backed by art.[4]

Boutique lenders offer borrowers several advantages over private banks and auction houses:

- Speed: complete the loan process and send out the 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
- Singularity of purpose: do not require the borrower to maintain a wealth management relationship with the lender

6. What led you to create ALF?

Shinnecock invested directly in art-secured lending through Shinnecock Income Fund L.P. (SIF) for 22 months prior to the launch of ALF in May 2019. We have been happy with the performance, safeguards, and simplicity ever since making our

[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.*

initial investment. The demand for art-secured lending continues to grow as collectors and dealers increasingly look to access the cash value of their art, often to finance their inventory. ALF aims to take advantage of this opportunity through constructing and growing a diversified portfolio of loans collateralized by fine art. Investors in ALF access the benefits of art-secured lending with reduced risk only available through diversification and scale.

7. Why Shinnecock?

Shinnecock Partners has managed money successfully for more than 30 years through the creation of multiple portfolios, with a particular focus on niche strategies. The due diligence process is intense, far reaching, and transparent (see the "Articles" section of our website at www.shinnecock.com for detailed descriptions of our processes). Shinnecock first invested in alternative lending opportunities seven years ago, and in 2016 launched Shinnecock Income Fund ("SIF") as a diversified portfolio of alternative lenders and direct investments across multiple strategies.

Shinnecock retained outside counsel to construct comprehensive legal documents tailored to SIF's current direct investments in art-secured lending. ALF builds on this experience and utilizes structures with many of the same terms and covenants.

Demand for art-secured loans currently outpaces ALF's growth. This is a direct result of Shinnecock's efforts to develop and manage multiple loan origination channels that can provide a steady flow of loans secured by high-quality collateral. We continue to see additional referrals as we make new connections with advisors, lawyers, and other lenders in the fine art world. The launch of our new website geared toward prospective borrowers, www.ArtLending.com, immediately gave our origination capabilities a boost. The site provides information on our typical loan process, standard terms, and requirements.

Shinnecock works with nationally recognized service providers to ensure third-party confirmation of performance and control over all cash:

- **Deloitte & Touche**, a big four accounting firm, performs a comprehensive annual financial audit, confirming investment balances and other pertinent information directly with the underlying loan originators.
- **SS&C GlobeOp**, one of the largest administrators in the world, calculates the fund NAV with direct access to the underlying data; prepares and distributes investor statements; and utilizes rigorous cash controls.
- **First Republic Bank**, a highly rated bank familiar with the unique needs of investment managers and their investors, provides special bank accounts with no check-writing, ACH debit or in-person withdrawals – money can only be sent by wire transfer, with the approval of both a

Shinnecock principal and authorized party at SS&C via electronic passwords and voice confirmation.

- **Stradling Yocca Carlson & Rauth**, a law firm skilled in lending, provides general legal counsel to ALF.
- **Faegre Baker Daniels**, a law firm expert in investment structures, provides advice on regulatory issues and offering documents.
- **Paul Hastings**, a law firm expert in complex investment structures, assisted in the determination that ALF qualifies for a 3(c)(5) exemption, allowing ALF to accept up to 1,999 accredited investors.
- **Buchalter**, a law firm with especial expertise in debt transactions, assists with loan structuring, documentation, and collateral perfection.

8. What are the functions of the advisory board and who are the members?

The advisory board provides sophisticated counsel to ALF on art-related matters. The members evaluate and enhance our due diligence process, originate loans for ALF, and provide advice in special situations.

Susan Ginsburg

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.

Ms. Ginsburg earned her MA in Art History from the University of California, Los Angeles and 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, she 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. She 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

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.

Chase W. Rynd

Mr. Rynd has served as executive director of the National Building Museum since 2003. Created by Congress in 1980, the National Building Museum, a private, nonprofit institution, commemorates American achievements in architecture, design, construction, urban planning, and engineering, and encourages excellence in the building arts. The Museum has achieved a strong national profile through enhanced educational programs, scholarly and visually engaging exhibitions, and numerous outreach efforts. With increasing media attention and fast growing attendance, the Museum is recognized as a collaborative partner with many regional and national organizations and associations.

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.

A former longtime Seattle resident, 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. While in Seattle, Chase served on numerous boards and served as chair of the design committee for St. Mark's Cathedral.

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

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. Mr. Steiner 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 in Los Angeles and many other venues.

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.

9. What are the challenges associated with art-secured lending?

ALF mitigates risk and prepares for challenges that may arise through various safeguards and extensive due diligence. The challenges include:

- **Collateral liquidity**

  See Question 12.

- **Collateral valuation**

  Accurate valuation of the collateral is critical for any asset-based loan, and there are several valuation issues similar to other hard asset lending strategies. The value of art is influenced by subjective factors such as tastes, cultural trends, and speculation. There is no securities exchange to provide Level I pricing for art, as each piece is unique. Appraisers review past sales of the artwork in question along with recent sales of similar works by the same artist (and in similar condition) to determine the current value.

- ALF requires a third-party appraisal or recent auction result from a major auction house (Sotheby's, Christie's, Phillips, and Bonhams). We believe that there is no better method of price discovery than a public auction accessible to collectors worldwide, and this compares favorably to any other non-public asset (e.g., real estate).
- As part of the due diligence process we use the largest database of fine art auction results (Artprice.com) to review past sales prices of artworks considered as collateral as well as prices realized by comparable artworks.
- A conservative LTV ratio creates a cushion to potentially absorb a gap between appraised value and actual market value.

- **Collateral objective measures**

The fine art market is difficult to analyze due to the low volume of transactions and the uniqueness of each individual work of art sold.[5] The Sotheby's Mei Moses Art Indices use repeated sales data from 45,000 different artworks. Of these, approximately 4,000 change hands each year, adding recent sales information to the database.[6] Since 1965, The Sotheby's Mei Moses Art Index has been uncorrelated to the S&P 500 and had a compound annual growth rate of 7.9% for the 50-year period ending 2015.[4,7] However in the Great Recession (late 2000s), a period of sharp correction, art values fell.

- Fine art prices are generally stable within short timeframes, and a conservative LTV ratio can protect against price volatility. Over the past 20 years, the average annual percentage change in the Sotheby's Mei Moses Art Index was +5.3% with a standard deviation of 10.5%. Within this timeframe, the index only experienced a decline greater than 15.7% (two standard deviations below the mean) during the 2008 crisis (-21.9%). The average annual percentage change in the index over rolling two-year periods is +10.8%. This indicates a portfolio average LTV of 50% should provide a buffer to absorb any price volatility that may occur. Over the same time period, this index experienced a maximum single-year drawdown of 25.5%, highlighting the importance of a modest LTV ratio. Additionally, we generally obtain signed personal or corporate guarantees

[5] Mei, Jianping, and Michael Moses. *Art as an Investment and the Underperformance of Masterpieces.*
[6] Sotheby's. "Sotheby's Acquires the Mei Moses Art Indices."
[7] Sotheby's Mei Moses Art Index

from the borrowers (except in cases of unusual security), providing recourse, if necessary, to the borrower's other assets.
- Price levels across different artists and genres often do not move together. ALF is diversified by artist and genre to reduce the portfolio-level impact of price volatility affecting any single artist or genre.

- **Provenance and authenticity**

  Provenance and analysis from art historians are used to determine authenticity for any given work of art.[8] ALF must establish provenance – the history of ownership of a work of art – before accepting an artwork as collateral. Gaps in provenance, however, are not always suspicious or irregular. It is possible that records covering an older artwork's entire ownership history are incomplete. As a result, certain works can be sold or accepted as collateral with some gaps in provenance, depending on when and where the gaps occur.

  Authentication experts may review the following:

  - Certificate of authenticity (issued by authentication board or artist-endowed foundation)
  - Catalogue raisonné (a guide to all known works by a particular artist)
  - Invoices, appraisals, auction records, purchase agreements, correspondence, or other sales documents
  - Museum catalogues, exhibition records, scholarly articles, or photographs
  - Export permits, lawsuit records or insurance certificates
  - Stolen art databases available to the public or through law enforcement agencies

  Some documents mentioned above may be lost or nonexistent, but each is useful when available. Our research paper on art-secured lending "Creative Collateral: Lending Against Fine Art" includes more details on provenance and the documents listed above.

- **Security of the collateral**

  Secure storage and full insurance coverage mitigate risks associated with art's portable and fragile nature. Additionally, taking possession of the art can reduce the time and resources needed to recover the collateral from the borrower in a default scenario. ALF uses the following risk controls:

[8] Morden, Apryl. *Interdisciplinary Practice and Attribution: Challenges Facing the Catalogue Raisonné in an Authentication Framework*.

- ALF files a UCC Financing Statement to perfect a first priority security interest in the art used as collateral. This establishes ALF's right to take possession and sell the art in an event of default.
- Art is typically stored in a storage facility approved by ALF, where it remains for the duration of the loan. The storage facilities have experience storing fine art and are equipped with precise climate controls. The art may be displayed in museums or, in a few circumstances, kept in an office or home with the proper insurance coverage.
- The art is insured for the loan amount at a minimum and fully covered at the storage location. ALF is listed as an additional insured and loss payee on the borrower's insurance policy (alternatively, the borrower can add a lender's loss payable endorsement). As a backup, ALF secured a customized fine art insurance policy from Chubb to protect against any unforeseen issues that may arise with the borrower's insurance policy. In situations where ALF is a participant in the loan and not the lender, the lender maintains its own backup policy for ALF's benefit.
- Our recent article on the intricacies of fine art insurance, "Disaster Strikes Your Fine Art! R U Truly Protected?" can be found on our website for those interested in learning more.

10. What type of art does ALF accept as collateral (i.e. our investment criteria)?

ALF extends loans secured by museum-quality, auction-worthy art. Art that is desirable enough to be accepted at the major auction houses is easier to sell quickly in an event of default. ALF targets loans with the following characteristics:

- Competitive interest rates: Deliver 7% - 8% net-to-investor return target
- Short term loans: 12 - 24 month terms, targeting a six to nine-month weighted average duration
- Conservative LTV ratios: Target portfolio-weighted average LTV of approximately 50%
- Sound collateral: Museum-quality artworks with valuations supported by strong recent and historical sales of comparable works at public auction, and good provenance (described in Questions 9 and 10).
- ALF will generally subscribe to the following guidelines relative to the fund's NAV:
    - No more than 15% loaned to a single borrower
    - No more than 15% allocated to loans secured by art from one individual artist

11. Beyond art, what types of additional collateral does ALF accept from the borrower?

Our loans are conservatively underwritten as if the art is the only collateral available. In an event of default, however, a financial guarantee can give us recourse to the borrower's other assets such as real estate, cash, securities, and other art from the borrower's collection.

12. How liquid is the collateral?

ALF only lends against art deemed to be museum-quality or collectible, increasing the chances of finding interested buyers in an event of default. Art that is desirable enough to be sold at the major auction houses (e.g., Sotheby's, Christie's, Phillips, Bonhams, etc.) is easier to sell, given their global reach, visibility, and access to collectors and dealers. Global art sales reached $67.4 billion in 2018, a 6% increase over 2017. Works valued at over $1 million accounted for 61% of the $29.1 billion of fine art sold at public auction in 2018.[9]

The Global Art Market: Value and Volume of Transactions

Year	Value ($m)	Volume (m)
2008	62,020	43.7
2009	39,511	31.0
2010	57,025	35.1
2011	64,550	36.8
2012	56,698	35.5
2013	63,287	36.5
2014	68,237	38.8
2015	63,751	38.1
2016	56,948	36.1
2017	63,683	39.0
2018	67,380	39.8
Growth 2017 - 2018	6%	2%
Growth 2008 - 2018	9%	-9%

© Arts Economics (2019)

Liquidity of any individual piece is driven primarily by artist and by movement or genre. As the lender, we consider the liquidity of the art market segment, other works

[9] McAndrew, Clare. *The Art Market 2019.* Art Basel and UBS

by the same artist, and the individual piece of art when evaluating each artwork that may be held as collateral. ALF's advisory board offers insights on the art market and shifting demand for different artists and genres as collectors' tastes evolve. Recent auction sales data can illustrate how the liquidity of works by one artist compares to the liquidity of works by his or her peers, or how demand in a certain movement/genre compares to demand in another. To evaluate this, we use a database that provides 30 million auction results covering 630,000 artists, with data originating from 6,300 auction houses.

ALF does not "loan to own." In an event of default, the only goal is to recover outstanding principal, interest, default interest, and costs associated with the sale of collateral. Conservative loan-to-value (LTV) ratios (typically around 50%) create a buffer between the value of the art and the loan amount, leaving ALF room to recover interest, default interest, and transaction (including any legal) costs. The gap between value and loan amount also allows us to sell the art at a discount to facilitate a quicker sale.

Similar to any market, a decline in art values reduces liquidity. Collectors and dealers would be reluctant to sell at reduced prices. Since 1980, the worst annual decline of the Sotheby's Mei Moses Art Index was 25.5% in 1990. The second largest decline came in 2008 (21.9%). In 2008-2009, equity indexes experienced sharp declines as well: the S&P 500 dropped 53%, while the NASDAQ was down 72%. For both art and equities, owners trying to sell their holdings were able to find buyers at reduced prices. ALF's conservative LTV of approximately 50% helps protect against art market declines. If portfolio collateral value decline matched the worst annual loss of the Sotheby's Mei Moses Index since 1980, a portfolio loan buffer of 50% would decline to 24.5% yet remain substantial. If ALF cannot recover all amounts owed by selling the art held as collateral, a personal or corporate guarantee generally serves as a final layer of protection.

Because there is no passive investment in art, art values do not experience additional downward pressure that would be created by forced liquidation in a crisis. By comparison, collateralized loan obligation ("CLO") holders faced market conditions where it became next-to-impossible to transact. If investors had held CLO investments purchased before the crisis, they would have performed well.

In comparison to real estate, art can be transported and sold in different markets around the world to take advantage of currency fluctuations, evolving cultural trends and changing demand. If property values decline in a certain area, real estate investors cannot move their buildings to stronger markets.

In an event of default, our advisory board has the capacity to provide assistance selling art. Their art industry experience and connections can help us reach dealers and private collectors to find interested buyers.

13. ALF offers quarterly investor withdrawals after the first year. How do the underlying investments match the liquidity terms of the fund?

Investing in short-duration loans allows ALF to offer quarterly investor withdrawals after the first year with 90 days' notice. On average, with an even distribution of loans in a seasoned portfolio with a nine-month duration, one-third of the portfolio would turn over each quarter. If an investor submits a withdrawal request, we will be able to give a minimum 90 days' notice to our borrowers that we will not extend or renew their loans. This will give affected borrowers ample time to plan ahead: They may hold onto any cash generated by sales in anticipation of paying off the loan on the maturity date or find another source of financing. If they cannot repay ALF on maturity, ALF will begin the process of selling the collateral.

For once, the liquidity terms of the fund generally match the underlying portfolio. We continue to work with several potential leverage providers, negotiating terms suited to ALF's requirements and favorable to its investors. Modest leverage would boost returns, simplify cash management, and allow ALF to achieve greater diversification.

14. What is the profile of a typical borrower?

Understanding the characteristics of a potential borrower and his/her motivations for taking out a loan enables ALF to ensure that all parties' interests are aligned for the term of the loan. Demand for art-secured lending is driven by collectors and dealers looking to gain liquidity by accessing the value of their art collections without selling any of the individual pieces, which might incur high transaction costs and trigger capital gains taxes.

ALF lends primarily to dealers or collectors looking for short-term liquidity to fund further art acquisitions, finance inventory, or pursue other business opportunities. Occasionally, borrowers repay the loans early if an attractive opportunity arises to sell the art used as collateral. SIF's first loan was prepaid after just a few months when the borrower (a dealer) received an offer for the art and decided to repay the loan, including the prepayment penalty, in order to sell immediately. This resulted in a windfall to our investors.

15. How does ALF source loans?

ALF can source loans through multiple channels:

- ALF can originate loans directly through www.ArtLending.com. Prospective borrowers are provided with information on our typical loan process, standard terms, and requirements.
- Loan originators with extensive experience working in fine art finance and at major auctions houses can provide deal flow.

- Other asset managers or lenders investing in or originating art-secured loans may be subject to position limits, similar to ALF (see question 11 for ALF's portfolio limits). To reduce exposure to a single position or to any given category, these groups can sell whole loans to ALF. Alternatively, groups looking to reduce exposure can sell portions of individual loans. ALF is able to purchase these portions and invest as a participant in the loans.
- As art industry veterans, ALF's advisory board members can leverage their network of other industry players to create relationships with galleries, dealers, or private collectors searching for financing options.
- ALF would be interested in working with art advisors or other industry service providers that are interested in offering art-secured lending as a financing solution to their clients.

16. What is ALF's loan process?

The loan process generally takes two to six weeks to complete, and can be broken down into four segments:

Collateral Evaluation

- Underwrite the art against our detailed criteria
- Complete the valuation using past sales prices, 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

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

The loan process entails a number of agreements and documents that secure the collateral, define the loan terms, and set out the legal responsibilities of the borrower, loan originator and ALF. In addition to the loan documents, we review a number of documents related to the appraisal, insurance, and provenance.

Valuation

To establish the valuation, ALF requires a third-party appraisal or recent auction results from a major auction house (Sotheby's, Christie's, Phillips, and Bonhams). We believe that there is no better method of price discovery than a public auction accessible to collectors worldwide, and this compares favorably to any other non-public asset (e.g., real estate). Valuation experts review past sales results and exhibition history of the artwork in question along with recent sales of similar works (in similar condition) by the same artist to determine the current value. Independently, as part of the due diligence process we use the largest database of fine art auction results (Artprice.com) to review past sales prices of artworks considered as collateral as well as prices realized by comparable artworks.

Authenticity and Provenance

As mentioned previously, we look for well-verified and "good" provenance. It is wise to avoid art from certain geographic regions and time periods, such as antiquities from the Middle East, North Africa, and other conflict areas. These works are at risk of being seized by their countries of origin under cultural repossession laws if they were stolen or illegally exported in the past, which would result in the loan being unsecured. In order to establish provenance and authenticity, we collect and review the following documents, as available:

- Certificates of authenticity (issued by authentication board or artist-endowed foundation)
- Catalogue raisonné (a guide to all known works by a particular artist)
- Invoices, appraisals, auction records, purchase agreements, correspondence, or other sales documents
- Museum catalogues, exhibition records, scholarly articles, or photographs
- Export permits, lawsuit records, or insurance certificates
- Stolen art databases available to the public or through law enforcement agencies

Insurance

We obtain the borrower's insurance policy and certificate to verify that the art is insured for the loan amount at a minimum. When lending against multiple works of art, ALF ensures each individual artwork is covered and that the coverage continues for the full term of the loan. ALF checks for any exclusions or gaps in coverage. ALF requires that the borrower cannot cancel the insurance during the term of the loan. Our recent article "Disaster Strikes Your Fine Art! R U Truly Protected?" can be found on our website for those interested in learning more about the intricacies of fine art insurance.

Storage

Art held as collateral is generally stored in a specialized fine art storage facility approved by ALF, and a UCC Financing Statement is filed to perfect a first priority security interest in the art. When art arrives at the storage location, an art expert from our advisory board examines the piece or we commission an inspection performed by fine art professionals at the storage facility on our behalf. Upon completion, we are sent a report and the warehouse receipt.

Borrower Due Diligence
Although the loans are underwritten as if the art is the only collateral available, it is important to be aware of any financial obligations that may affect the borrower's ability to repay the loans held by ALF. Public record searches reveal existing liens or encumbrances on the borrower's assets and provide critical information about the borrower's financial condition. Our goal is to avoid litigious borrowers and other "bad actors." The records and reports we review are listed and described in Question 17.

In cases where ALF is a participant in a loan alongside a separate lender, ALF holds the loans in a standalone special purpose vehicle (SPV) to provide insulation from any financial difficulties of the lender. The SPV seeks to be "bankruptcy remote," with ownership transferred to ALF if the lender becomes insolvent.

17. What due diligence is done on the borrower?

It is important to be aware of any financial obligations that may affect the borrower's ability to repay the loans held by ALF. Public record searches reveal existing liens or encumbrances on the borrower's assets and provide critical information about the borrower's financial condition. We review the reports below on the borrower:

Business

- Secretary of State Filings Search
    - Shows basic corporate structure information about the business, including incorporation date, filing state, corporate status, principals, and addresses of the principals and the business
    - Draws from Secretary of State Filings, reports, records, and registries across all 50 states

- Experian Business Profile
    - Identifying information
        - Includes general information such as the company name, address, phone number, incorporation date, primary business category, past names, and subsidiaries
    - Legal filings and collections (bankruptcies, tax liens, judgements)
        - Reveals liabilities and encumbrances that may be evidence of financial distress and/or could affect the position of our security interest
        - Shows accounts that have been placed for collections
    - Credit information
        - Covers new, recent, and historical trade experiences within the previous 36 months

        - Presents accounts, total debts, days beyond terms (DBT), late payments, recent high credit, date the account was updated, and the general industry category of the payee

- Experian Business UCC Report
    - Contains details such as the collateral type, filing date, document number, and filing location for all UCC filings listing the business as a debtor
    - Gives the name and address of all lenders that have filed a UCC Financing Statement to perfect a security interest in property owned by the business

Personal: individual borrower or guarantor of loan to business (e.g., an art gallery)

- Watchlist search
    - Screens the guarantor against critical anti-terrorism, anti-money laundering, and other sanctions databases in fulfillment of regulatory and compliance requirements associated with the Federal Patriot Act.

- Enhanced People Search
    - Verifies and returns personal information including name, social security number, date of birth, current address, and previous addresses
    - Checks whether guarantor is living person through Death Master File verification to guard against identity theft of deceased

- Bankruptcies, Liens & Judgments Search
    - Contains:
        - Debtor name, address, and social security number
        - Attorney and Docket number and county
        - Filing state, type, and number
        - Any civil filings
        - Bankruptcy filings and type
        - Judgments
        - Dismissal date and release date
        - Tax lien type
        - Asset amounts

- Property Search
    - Includes detailed information on real estate owned or recently sold by the guarantor, displaying details on the owner, property type, sale price, and mortgage
    - Sheds light on the value of assets backing the personal guarantee

- Credit Profile
    - Traditional credit report comprising open accounts, balances, payment history, delinquencies, and credit score

In some instances, we may hire a third-party due diligence firm to complete an in-depth background report on the borrower. The report includes any criminal, legal, regulatory, and media filings in addition to confirmation of the borrower's education and employment history.

Although we review the reports listed above, our loans are conservatively underwritten as if the art is the only collateral available. In an event of default, however, a financial guarantee can give us recourse to the borrower's other assets including real estate, cash, securities, and other art from the borrower's collection.

18. How does ALF guard against authenticity or provenance issues?

There is no perfect solution, but we have taken a number of steps to decrease the likelihood of taking a fraudulent piece of art as collateral.

1. ALF focuses on museum-quality, auction-worthy art. Art sold through major auction houses has been inspected and verified by their experts. Part and parcel to this inspection is the discovery, development and confirmation of the art's chain of title. An auction house like Sotheby's is staking its reputation as a fine art expert when it brings a piece to auction. Likewise, a piece of art which has been displayed at a museum will have been inspected by art experts at the museum in an effort to confirm authenticity and establish provenance.

2. The borrowers have reputational risk. When a dealer sells a piece of art, it is represented as being genuine. The dealer's business is the sourcing, identification, and sale of fine art. A forgery would significantly tarnish the dealer's reputation as an art professional, if not ruin it altogether.

3. The art is inspected once we have possession. When art arrives at a storage facility approved by ALF, we have an art expert from our advisory board examine the piece or we commission an inspection performed by fine art professionals at the storage facility on our behalf. Upon completion, we are sent a report and the warehouse receipt.

4. We consult professional sources. Among other sources, the artist's catalogue raisonné will be consulted to confirm the artist indeed created this piece. This catalogue verifies various pieces of art as having been created by that artist.

5. The borrower is incentivized to honor the loan. ALF typically secures a personal or corporate guarantee from a person or entity affiliated with the borrower (for example, a gallery owner would generally be required to sign a personal guarantee in connection with a loan made to his or her gallery). This creates an alignment of interests between the guarantor and ALF. If the borrower defaults, ALF can access the guarantor's personal assets to recover the principal, interest, and any outstanding fees.

6. Portfolio diversification. The effect of any potential individual loan impairment on the performance of the whole portfolio diminishes as the pool of loans expands. ALF has established portfolio diversification targets of no more than 15% to any single artist or borrower for a seasoned portfolio with the expectation of being below these targets. By participating in ALF, an investor gains access to the benefits provided by this diversification.

7. We check the FBI's National Stolen Art File to ensure the piece of art in question has not been reported stolen.

This overall process has been refined by our advisory board of art experts, and remains subject to improvements as they surface. As stated previously, it is the goal of our advisory board to enhance, adjust, and improve our process so that there are fewer chances of fraud or other issues surrounding the value of the art collateral.

19. Does the borrower bear the risk of authenticity or provenance issues?

Yes, the borrower bears the risk, although the loans do not have a put feature. We generally secure a personal or corporate guarantee from the borrower, giving us full recourse to the borrower's other assets if the proceeds from the sale of the collateral do not cover the amounts owed in a an event of default.

20. What happens if the borrower fails to disclose private information or has other unique knowledge about certain art trading patterns that may affect the appraisal?

We have the advice of our advisory board, experienced originators, and third-party appraisers who have significant experience with different trading patterns and market cycles of various genres and artists. Because our loans are short term, it is unlikely that the cycle or market for the art backing any individual loan will dramatically shift during the 12-24 months each loan is outstanding (All loans made to date have had initial terms of 12 months or shorter). If relevant information is unknown to the appraiser and the public at the time of the appraisal but is made public during the term of the loan, our modest LTV ratio provides a buffer against lost value.

Conservative LTV ratios (50% on average) provide a margin for error in an event of default. A financial guarantee from the borrower can provide an additional avenue to recover the full amounts owed as well.

21. How does ALF ensure borrowers and individual artworks are not overleveraged?

First time borrowers are subject to standard due diligence. This generally includes performing credit and background checks, and searching public records for liens, judgements, and bankruptcies. We also request personal references in some instances.

We search for liens on the art to be used as collateral, as we do not want to lend against encumbered art. If the search results are satisfactory, we file a UCC Financing Statement (Form UCC1) to perfect a first priority security interest in the art. This form is filed to give public notice that we have the right to take possession of and sell the collateral in an event of default. UCC filings are public records, therefore a search reveals if the borrower has other secured loans on record and if he/she already has a secured loan using the same art as collateral. The art is typically stored in a bonded warehouse and cannot be moved without our permission.

22. Is the borrower required to provide additional collateral if the LTV ratio changes during the term of the loan?

The loans made by ALF are not margin loans (as commonly available through brokerage houses) or warehouse lines with borrowing bases. The borrower is not required to provide additional collateral during the term of the loan to support the original LTV. Our loans have short terms, generally only 12 months targeting a weighted average portfolio duration of six to nine months. Fine art prices are generally stable within short timeframes. Over the past 20 years, the average annual percentage change in the Sotheby's Mei Moses Art Index is +5.3% with a standard deviation of 10.5%. Within this timeframe, the index only experienced a decline greater than 15.7% (two standard deviations below the mean) during the 2008 crisis (-21.9%). The average annual percentage change in the index over rolling two-year periods is +10.8%. This indicates a portfolio average LTV of 50% should provide a buffer that can absorb price volatility that may occur. Over the same time period, this index experienced a maximum single-year drawdown of 25.5%, highlighting the importance of a modest LTV ratio. Additionally, we generally obtain signed personal or corporate guarantees from the borrowers (except in cases of unusual security), providing recourse to the borrowers' other assets if necessary.

23. Will ALF renew existing loans?

Yes. Many art dealers, gallerists and collectors will hold their artworks for longer than the initial term of the ALF loan. They are making a longer-term bet that the art will appreciate. ALF makes loans based on the value of hard asset collateral and is not wagering on any potential appreciation, which would accrue to the owner/borrower. Therefore, to limit ALF's risk of collateral value declines, loan terms are short.

However, if a borrower seeks to extend the term of the loan, we will re-evaluate and renew our underwriting of the collateral to keep our LTV ratio within the target range. If we are satisfied with the collateral value upon completion of this review, we will extend the term of the loan. This is a good thing for investors and borrowers alike since costs are lower for any renewed loan.

24. Does ALF employ leverage?

ALF is currently working with several potential leverage providers to put in place a credit line equal to 50% of equity (50 cents of debt for every dollar of investor equity), negotiating terms suited to ALF's requirements and favorable to its investors. Modest leverage would boost returns, simplify cash management, and allow ALF to achieve greater diversification. For example, if ALF has $50 million of committed capital, ALF will borrow $25 million to be able to invest $75 million.

25. What rate of return should I expect?

After fees and expenses, ALF targets a net unlevered return of 7% - 8% for investors.

26. What was the performance of your art-secured lending investments in Shinnecock Income Fund L.P. ("SIF")?

Beginning July 2017, our diversified alternative lending vehicle funded five art-secured loans totaling approximately $4.6 million, backed by ten pieces of art appraised at $12 million. One of the loans prepaid after only six weeks but SIF received four months interest due to the prepayment penalty. These loans produced an annualized gross return of approximately 10%. Under ALF's terms and fees and assuming a 0.5% annual direct expense load, this would equate to a net unlevered return of 7.7%.

Shinnecock (through SIF) now invests in art-secured lending through ALF only and does not maintain a separate art-secured loan portfolio (thus avoiding any potential conflicts).

27. How variable are returns? Will there be loss months?

We do not expect loss months (though possible), as the potential for loan impairments is mitigated by diversification across artists, genres, and borrowers. Further, the target portfolio weighted average loan-to-value ratio of the portfolio is 50%, although there may be individual loans at higher LTVs in situations with unusual security. As a result, collateral prices must be significantly impaired to make the value of the collateral (net of transaction costs) lower than the amount owed on the loans.

The short duration of loans in ALF helps reduce interest rate sensitivity. However, these loans have a practical ceiling based on what borrowers are willing to pay and may not be able to fully adjust if interest rates increase dramatically.

There may be incremental income potential if a loan defaults and the collateral is sold for more than the outstanding loan amount, given ALF's conservative portfolio weighted average LTV target of 50% (there may be individual loans at higher LTVs in situations with unusual security). This may create upside volatility and opportunity.

28. Is ALF's cash flow smooth or lumpy?

Interest is typically prepaid as a deduction against the loan proceeds originally extended. Therefore, the cash flow is realized when the loan is paid off. The resulting lumpiness can be partially smoothed out by creating a portfolio of loans with various maturities. Although the interest is paid upfront, it is earned over the life of the loan. As a result, returns are more evenly distributed.

29. What type of reporting does ALF provide to investors?

ALF sends out monthly commentary that covers portfolio-level information including the weighted average yield and LTV ratio. It also details new loans made in the quarter, as well as any collateral sales, defaults, or impairments. General comments or information about the art-secured lending market as a whole may be included.

30. What is ALF's portfolio valuation policy?

The value of ALF's investments in art-secured loans is generally the aggregate outstanding balance due on such loans, including any accrued interest and other accrued amounts payable to ALF, as of the valuation date. If any loan is in default or otherwise impaired, we will make a valuation determination based on the individual circumstances pertinent to the impaired loan.

In short, we will mark down a loan's valuation if we determine the outstanding balance due is unlikely to be recovered. Because loans held by ALF generally have LTVs of approximately 50% (including interest), this acts as a built-in buffer to help protect both ALF's initial advance amount and the interest accruing over the term of the loan, from changes in collateral value.

ALF primarily targets loans with 12-month terms to produce a portfolio-weighted average duration of six to nine months. The short duration reduces the interest rate sensitivity of individual loans in ALF's portfolio.

31. What is the overall capacity of the fund?

Through our research on the art-secured lending market and discussions with boutique lenders and loan originators operating within the space, we estimate ALF could reach $200 - $250 million. We intend to grow ALF slowly to match the pace of deal flow in order to minimize cash drag in the portfolio and not be tempted to lower loan standards.

32. What is ALF providing for the fees/costs charged to me?

- **Management and incentive fees**
  - Shinnecock Partners L.P. charges a 1% management fee (monthly in arrears, calculated based on NAV).
  - Shinnecock Partners L.P. earns a quarterly incentive fee of 10% of net profits, subject to a high water mark.

  For the fees charged, Shinnecock adds value through:

  - Years of experience in the alternative lending space and art-secured lending specifically
  - An advisory board of knowledgeable art experts
  - Direct loan origination capabilities through www.ArtLending.com
  - Relationships with loan originators and art industry professionals providing steady deal flow
  - Diversification across borrowers, artists and genres that is only possible with an aggregated capital pool
  - Rigorous due diligence and risk controls
  - Extensive legal documentation, developed and refined over prior deals, with strict covenants establishing ALF's recourse to the collateral and borrower as well as defining ALF's relationships with the loan originators
  - Monthly portfolio commentary provided to investors

- **Expenses and origination costs**
  - Operating expenses are capped at 1% annually (based on ALF's average monthly gross asset value) and include:
    - Legal fees
    - Yearly audit
    - Fund administration
    - Tax preparation
    - Banking services
  - At a portfolio level, the aggregate origination costs are split approximately 80%/20% between the borrower and the fund, respectively. Based on the aggregate value of loans originated, the total origination costs are approximately 1%. For each individual loan, the proportion of origination costs paid by each party varies. As a result, the 80%/20% division is an expected average and may fluctuate.
  - ALF employs an independent third-party firm to audit select loans during their terms. The auditors contact the borrower to confirm the amount received, and by sampling on a random basis inspect selected artworks in the warehouse. This service provides an additional layer of security and is included in the expenses.
  - As stated in Question 7, ALF uses blue-chip service providers.
  - Expense cap does not include leverage costs or extraordinary expenses, if any.
  - The borrower is generally responsible for primary insurance costs, storage costs, and, on average, 80% of the origination costs. However, ALF's insurance policy with Chubb is an expense of the fund. This policy can be considered "belt and suspenders" in respect to the borrower's obligation to maintain primary insurance.
  - Consult the ALF Private Placement Memorandum for a detailed description of expenses and fees.

33. What are the terms of ALF?

Structure:	Delaware limited liability company
Target Return:	7% - 8% (unlevered, net to investor)
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
Legal Counsel:	Stradling Yocca Carlson & Rauth, PC, 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 not less than five business days' prior notice. The draw period for each investor's capital commitment ends six calendar months after the first day of a calendar month on or following the date such capital commitment was accepted by ALF. Following the end of an investor's draw period, the investor will generally be released from any further obligation to ALF with respect to capital commitments not previously drawn upon.

34. Can I invest through my IRA or other qualified plan?

Yes. ALF is available to both taxable and non-taxable/tax deferred investors.

35. What tax impact should I expect from my investment in ALF?

For tax exempt and tax deferred investors, ALF should not generate Unrelated Business Taxable Income (UBTI). ALF does not intend to directly utilize leverage (although the master fund in which ALF invests may alternatively utilize leverage which should not result in UBTI). In addition, we do not believe that the investment of substantially all of ALF's assets in debt and equity securities of the master fund would constitute UBTI, and as a result, we do not anticipate that tax-free/tax-deferred investors would recognize UBTI solely as a result of an investment in ALF (unless the tax exempt or tax-deferred investor were to itself utilize leverage to acquire its interest). The foregoing is a general discussion only and should not be considered as tax advice. Please discuss any tax issues or questions with an independent tax advisor before making an investment in ALF.

36. When are K-1s and audited financials for ALF issued?

ALF may be unable to issue tax information by April 15 and investors therefore should plan accordingly and be prepared to file a tax extension. The schedule K-1 is issued to limited partners once ALF completes its audit and tax return.

37. Is there more information available?

Yes. We have put together a data room that contains the ALF summary sheet, presentation, monthly commentaries, offering documents, organizational documents, and details on individual loans in the portfolio. Access to the data room requires an NDA.

Appendix A

ALF Loan Documentation Guideline Summary	Internal Deal Name (e.g. "Borrower Name 01")

Notes:
ALF uses one of two methods to determine value:
1. If the artwork has been sold at auction through a major auction house (e.g., Sotheby's, Christie's, Phillips, Bonhams) within the past two years, we will accept the auction sales price as the value.

2. If the artwork has not been sold at auction in the past two years, we will use a third-party appraiser to determine the value of the art.

Independently, we look at sales prices of comparable artworks by searching the auction results database Artprice (containing over 11 million artworks) to find past auction results and recent sales prices of similar works (when available).

ALF avoids art with questionable provenance from certain geographic regions and time periods, such as antiquities from the Middle East, North Africa, and other conflict areas.

ALF will follow the following guidelines relative to the master fund's NAV in a fully-seasoned portfolio: no more than 15% loaned to a single borrower, and no more than 15% allocated to loans secured by art from one individual artist.

Insurance will be full coverage at a minimum for the loan amount.

General Information

Borrower	
Guarantor	
Originator	
Principal Amount	
LTV	
Interest Rate	
Start Date	
Maturity Date	

Borrower Due Diligence

Business Reports

Business Name(s) (list):	
Secretary of State Filings Search	For each confirmed filing/entry:
Experian Business Profile	"Underwriter's Initials, Date"
Experian Business UCC Report	e.g., MC 4/23/2019

Individual Reports

Key People (list):	
Driver's License/Passport	
Watchlist Search	
Enhanced People Search	
Bankruptcies, Liens, & Judgements	
Property Search	
Credit Profile	
Google search (Individual and business)	

ALF Loan Documentation Guideline Summary

Internal Deal Name (e.g. "Borrower Name 01")

Insurance

Insurance Policy	
Insurance Certificate	
Lender listed as additional insured/loss payee (req)	
Lender's loss payable endorsement added (alt)	
Waiver of subrogation endorsement added (alt)	
Storage facility listed as named location	
Extraordinary/nonstandard sublimits, exclusions, or gaps in coverage (described in notes)	

Security Interest

UCC filing search	
UCC-1 completed and filed	
Filing state(s) (list):	

Storage

Warehouse receipt for collateral	
Inspection upon receipt at warehouse	
Photographs of collateral in storage	
Warehouse or bailment agreement	

Collateral Analysis

Number of artworks held as collateral:	

Artwork 1 (name/title):	This section will be copied below for each additional piece of collateral
Valuation ($):	
Insured for ($):	
Proof of Ownership	
Appraisal	
Recent Auction Result	
Historical sales prices	
Recent sales prices of comparable works	
Provenance research	
Ownership history	
Catalogue raisonné	
Exhibition records	
Scholarly articles	
Auction catalogues	
Photographs	
Other historical documents referencing Artwork 1	
FBI National Stolen Art File search	

ALF Loan Documentation Guideline Summary

Internal Deal Name (e.g. "Borrower Name 01")

Loan Documents

Loan Application/Borrower financing request	
Grid Promissory Note	
Loan Proceeds Schedule	
Loan and Security Agreement	
Origination Agreement	
Origination Agreement Side Letter	
Participation Agreement	
Purchase Right Side Letter	
Servicing Agreement	
Financial Guaranty (if applicable)	

Disclosure & Risk Information

This document is for discussion purposes only and does not constitute an offer to sell or a solicitation of an offer to buy an interest in the Art Lending Fund LLC ("ALF"). Any offer to sell or solicitation of an offer to buy an interest in ALF may be made only by the delivery of ALF's Confidential Private Placement Memorandum specifically addressed to the recipient thereof. In the event that the terms of this document and the Memorandum are conflicting, the Memorandum's terms shall control. You must be an "accredited investor" to receive a copy of the Memorandum, but only investors that meet all of ALF's investor suitability requirements are allowed to invest.

The limited liability company membership interests in ALF are speculative securities and their purchase involves a high degree of risk. **You should consider all risk factors set forth in the Memorandum before investing in ALF.** Specifically, you should be aware that:

- You could lose a substantial portion, or even all, of your investment
- Tax-exempt investors should consult their tax, legal and financial advisers regarding the specific tax consideration of an investment in ALF.
- Withdrawals and transfers are restricted; no market exists or is expected to exist for the limited liability company membership interests
- ALF is not a mutual fund and is not subject to regulation under the Investment Company Act of 1940, as amended

***Performance Statistic Definitions and Notes**

The 2-Year Treasury Constant Maturity Rate ("2-Year Treasury C.M."), published by the Federal Reserve Board, is the interpolated two-year yield of on-the-run (most recently issued) U.S. Treasury securities. The inputs used to construct the yield curve are the close of business bid yields for the on-the-run securities.

The FTSE Russell Broad Investment-Grade (BIG) Bond Index ("U.S. BIG Bond Index") measures the value of the broad U.S. investment-grade bond market, including Treasury, government agency, corporate and mortgage-backed securities. All bonds in the index must be rated at least BBB- or Baa3, have a maturity of at least one year, and a total value outstanding of at least $200 million.

The PIMCO 0-5 Year High Yield Corporate Bond Index Exchange-Traded Fund ("PIMCO High Yield ETF") is designed to capture, before fees and expenses, continuous exposure to the short maturity segment of the high yield corporate bond sector. The fund tracks The ICE BofAML 0-5 Year US High Yield Constrained Index, and has an effective duration of approximately 2 years.

"CAGR" or "Compound Annual Growth Rate" is the annual return that an investment would have realized over the specified period had the investment grown at a consistent interest rate for the duration of such period.

"Max. Drawdown" means the largest peak-to-valley decline experienced by the specified strategy, i.e. the greatest cumulative percentage decline in month-end net asset value due to losses sustained in any period in which the initial month-end value is not equaled or exceeded by a subsequent month-end net asset value.

"Asset Duration" is the weighted-average time until principal repayment. Consideration is given to amortization of principal, interest received and any prepayments. For the Citigroup Broad Investment Grade Bond Index and the PIMCO 0-5 Year High Yield Corporate Bond Index Exchange-Traded Fund, the approximate current effective duration is shown.

"Loan-to-Value" (LTV) is the ratio of a loan amount to the value of the underlying asset or collateral securing the loan. For example, a $500,000 loan secured by an artwork appraised at $1,000,000 would have a loan-to-value of 50%.

We provide various indices as proxies for certain sectors of the broader markets. However, inclusion of this data in no way implies a direct comparison to the performance of ALF. An unmanaged index does not represent the return available from any particular investment as there is no consideration of the costs that would be incurred to achieve the results, e.g. transaction fees, bid/ask spreads, administrative and management expenses, etc.

"Accredited Investors" are generally individuals with a net worth of at least $1 million (including assets held with spouse but excluding primary residence), or $200,000 income ($300,000 with spouse) in each of the past two years and expected in the current year.

Pro forma returns from the incubation period

Shinnecock Income Fund L.P. ("SIF"), a fund managed by the same general partner as ALF, began investing in art-secured loans in July 2017. Pro forma returns shown were calculated by deducting estimated ALF expenses (1% annual), a 1% annual management fee and a 10% incentive fee from the actual gross returns of the art-secured loans held by SIF. For loans that were made after the first day of the month, or exited prior to the last day of the month, the return for that loan was adjusted to reflect the expected return that would have been achieved for the entire monthly period. SIF transferred its art-secured loans to ALF at ALF's launch and became an LLC member with no special liquidity provision (SIF has ceased making any direct art-secured loans).

Because SIF is already a widely diversified alternative-lending portfolio, its art-secured lending allocation was more concentrated than ALF's portfolio diversification guidelines of no more than 15% to any borrower or artist. August 2017 performance was an outlier due to the collection of a prepayment penalty. Because the pro forma returns reflect the performance of the SIF art-secured loan portfolio as a whole, and because partial-month loan returns are adjusted to reflect full-month returns, the pro forma performance shown does not reflect the actual or theoretical impact of any uninvested portions of the portfolio (i.e., "cash drag"). SIF is audited annually by Deloitte & Touche.