

**Name:** Angus Murray  
**Title:** CEO  
**Company:** Castlestone Management  
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### **Interview with Angus Murray**

#### **John Dawson**

Commodities yesterday, the oil price there showing you a decline of ½%, below now \$50 a barrel. Gold is marginally lower as well, as also is copper, again having shown strong gains of recent but still commodities therefore showing a slight change of direction. Now, an expert view, I'm now joined by Angus Murray, the founder of Castlestone Management which now has \$700m in assets. Angus joining the managers, the Aliquot Active Commodity Index Fund. Thanks for coming in.

#### **Angus Murray**

Thank you.

#### **John Dawson**

Happy Friday.

#### **Angus Murray**

Thank you indeed.

#### **John Dawson**

Oil price; how are you trading commodities right now, what is the preferred sort of commodity itself?

#### **Angus Murray**

It seems to me that most people have finally got to the picture that the world's still spinning and we're not going to collapse into a dark hole. Most asset classes therefore have bounced 20% or 30% from their lows, commodities seem to have done pretty much the same thing. With regard to crude in itself though, it seems to have met a supply/demand balance, and what OPEC has done with regard to cutting production seems to have equalled out the drop in the level of demand. So it's seen as stabilisation but at about 30% higher than some of the low prices we saw in the last three months.

#### **John Dawson**

Your fund is a long-only fund.

#### **Angus Murray**

That's correct.

#### **John Dawson**

So what's the long term view, let's say, 12 months to two years for the price of oil? Price-wise?

#### **Angus Murray**

I would say that on May 28 when OPEC meets again, if there is not an improvement in demand, which there probably will only just beginning to be signs then maybe, they will probably cut production again. OPEC, the oil producing countries, want a price of oil which is closer to \$60-80 a barrel. They're going to get that eventually, it's sort of like fighting the Federal Reserve, OPEC will eventually win and the price of oil will recover with the economies. That may take another six, twelve months, as you said, but the fiscal stimulus packages that are occurring at the moment haven't even really begun to bite. When they do some time over the next six to twelve months economic demand picks up slightly, that's why everything seems to be recovering, the oil price will be somewhere between \$60 and \$80.

**John Dawson**

So target? There's the price, there it is. What do you think it'll be in 12 months' time?

**Angus Murray**

Oh, \$72, \$78 a barrel?

**John Dawson**

Good call. Gold price, we often think obviously bad times safe haven is the obvious one is gold, is it having the demand that you'd expect or is it now seen as perhaps a bubble and that's the end of it?

**Angus Murray**

I think if I had watched your programme in the last couple of days you've sort of been saying it's in a no-man's land. Things can't always go up and things can't always go down. Gold is in an intermediary period between people's desire to own it as a safe haven base asset class and what will inevitably become the ultimate hedge against inflation, or one of the ultimate hedges against inflation. Gold is just a real asset and there's enough of it in the world, it's not down too deep to get out of the ground now, it's much too expensive, so what we're going to see is a slight pick-up in demand, people reassessing that they want to own real assets to hedge against inflation, the quantitative easing, the European problem, the world's problem, and they'll come back in to buy gold. Structurally that will shift the price trading range of gold from, say \$800-1,000 to \$1,000-\$1,200.

**John Dawson**

Which commodity are you actively buying into, quickly?

**Angus Murray**

We are doing a lot of research assessment on natural gas. I think the natural gas price at about 380 cents is increasingly appealing relative to the supply/demand problems. It's let its price down to where it is today, and probably where it'll be over the next 12 months.

**John Dawson**

Don't go away Angus, because contemporary art prices have slumped by half over the past six months. Wealthy buyers are drying up as even the rich and super-rich feel the pinch of this credit crunch. Castlestone Management is looking to capitalise on that and is setting up a fund to snap up art bargains from Banksy to Damien Hurst. The goal is to hold investments over a longer timeframe, in this case eight years. The fund will launch at the end of May and has raised so far \$25m, that's so far. Now back to the man behind that, of course, Angus Murray, again a busy man of course, you've got commodities in one hand and art in the other hand. What do you prefer, Angus, where's your heart?

**Angus Murray**

Yeah, but they're both real assets. They're the both the same underlying actual asset. Art is an irreplaceable, unleveraged real asset, gold is an unleveraged real asset. They're both rising because the value of money, or they both will rise because the value of money is going to fall. You can't pump this much money into the economies as we have done, not only recently but in the last 20 years, and not have the value of money depreciate. So art, like most other asset classes, has declined, you said by about 50%, we would have thought by 30-34% or thereabouts.

**John Dawson**

Up to 50%.

**Angus Murray**

Yeah, okay, up to 50%, that would be fair. Particularly in contemporary art, perhaps post-war and impressionist not the same degree. We hope to complement the financial skills that Castlestone Management has on risk management and asset management with those of hiring people in the art world that really understand art in detail. If we then combined art as

an asset class, hold it over a long period of time, it should perform in line with all other real assets.

**John Dawson**

People often read the papers, etc, and art is the next bubble to burst because some of these paintings, for example, are being sold for exorbitant prices. Is that a fair thing to say? Because some of these, it really is so high in this credit crunch, it doesn't seem realistic for it to last any longer.

**Angus Murray**

Well let's assume that it's already come down, contemporary maybe by 50%, impressionist by 30%, that's a pretty big break already.

**John Dawson**

Sure.

**Angus Murray**

In line with say developed equity markets around the world, emerging markets crashed a little bit further than that, commodities came down a little fast and maybe because of the dollar's appreciation which pushed commodities even down further. So I would indicate that like gold having come from \$1,000 an ounce to \$700 and then bouncing, art has probably done or is doing the same type of thing. It will just take maybe the next six to twelve months to see those prices begin to rise. But nearly every other major asset class has now shifted up by 30%, and art has yet to do that. So it's probably an asset class that is trailing behind the economics of expectation which we get factored into equities, and art will begin to do that over the next six to twelve months.

**John Dawson**

So you launch this fund end of May, minimum investment starts at \$10,000 or £10,000, which one is it?

**Angus Murray**

It depends on which currency you're investing in.

**John Dawson**

That's a bit unfair on the pound isn't it?

**Angus Murray**

But it's about the same. It's about the same these days. We started the fund ...

**John Dawson**

What's the return projection that you have?

**Angus Murray**

If the world has been printing money since the 1970s at about 7% per annum, I'd say 7% per annum, it's just a real asset. We actually started the fund itself back in November 2007 and have since then purchased, and will purchase US\$25m worth of art. I couldn't ask you to put in £10,000 and, which you'd have to do through a professional financial adviser.

**John Dawson**

You could, but I wouldn't have it to give you to you!

**Angus Murray**

You would need to, when the money comes in you would need to have an already fully diversified art portfolio. So we had to start a fund with a fully diversified portfolio already, hence why the requirement was to start with \$25m of art, which will be May 31<sup>st</sup>, so that if you do decide to invest you have a diversified portfolio.

**John Dawson**

How much attraction have you had from clients, new clients?

**Angus Murray**

There's been a lot of what I would say interest. Some of it I'm sure is very sincere.

**John Dawson**

Interest or, okay, right, go on.

**Angus Murray**

Some of it I think is sincere, people who genuinely understand and believe in the asset class, some of the people will probably be it's more about novelty and general interest. What we're trying to do though is to buy and hold the art. I believe it would be statistically improbable that I could buy and sell art given how much it costs to buy and sell it, and beat an index, a little bit like an ETF almost always beats and actively managed manager because of the cost of trading and human error, so we really want to buy the asset, hold it over eight years and then sell the asset very well. Therefore it should as a real asset outperform.

**John Dawson**

Thank you very much indeed. Good luck with the fund.

**Angus Murray**

Thank you.

**John Dawson**

Launching a fund in this market is always quite hard but good luck with that. Angus Murray there, from Castlestone Management.

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