

Art & Finance Report 2016



PASSIONATE ABOUT ART



PROFESSIONAL ABOUT INSURANCE

AXA ART is devoted to protecting and preserving your most precious belongings and objects. We are about sharing your love for art and the passion of collecting; whether this is for antiques, contemporary art, old masters, classic cars, porcelain or fine wine.

As the world's only art insurance specialist we are dedicated to not only providing tailor made solutions to protect your assets but also professional advice on how best to care for your collection. We protect some of the world's most wonderful collections from within a home to the greatest museums.

www.AXA-ART.com



redefining / art insurance

ART WORKS

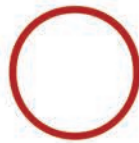
WE COLLATERALIZE YOUR COLLECTION.
THE FAST WAY OF ART FINANCING:
YOUR LOAN BASED SOLELY UPON YOUR ARTWORKS,
NOT UPON YOUR INCOME. DON'T MISS THE OPPORTUNITY.



PRIVATBANK

BERLIN

BY APPOINTMENT: + 49 30 / 300 683-11 · ART@PRIVATBANK.BERLIN



OVERSTONE
ART SERVICES

Independent Art Finance Advisory

www.overstoneart.com



ATHENA
ART FINANCE

Financing Solutions

For the Global Art Market

Our clients value their art collections. So do we. Athena Art Finance provides bespoke financing solutions for the global art market.

+1 212.937.7950 | INFO@ATHENA-ART.COM | 400 PARK AVENUE, 12TH FLOOR | NEW YORK, NY 10022

ATHENA ART FINANCE CORP MAKES NO REPRESENTATION OR WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY REGARDING THIS DOCUMENT OR THE MATERIALS AND INFORMATION CONTAINED OR REFERRED TO ON EACH PAGE ASSOCIATED WITH THIS DOCUMENT. COPYRIGHT © ATHENA ART FINANCE CORP 2016. ALL RIGHTS RESERVED.

PROTECTING
AND GROWING
YOUR WEALTH
FOR FUTURE
GENERATIONS

Private Banking



**EDMOND
DE ROTHSCHILD**

CONCORDIA - INTEGRITAS - INDUSTRIA

The lion on our emblem
symbolises the strength and
excellence at the service of
our clients every day.

edmond-de-rothschild.com





© SUMOII Don't Worry 'Cause I Know, 2015, Acrylique et aérosol sur toile, 140 x 100cm

Deloitte's services within the art market's ecosystem

01/

Traditional consulting for art-related companies

- Strategy & operations
- Finance
- Marketing
- Tax

02/

Public sector, museum, cultural institutions strategy

- Strategic planning
- Impact analysis & feasibility study
- Finance
- Global outsourcing and shared services centers

03/

Private wealth art-related services

- Tax
- Art-secured lending
- Strategy, operations and risks management
- AML and forensics

04/

Product development (i.e., art funds, art financing models)

- Art investment
- Art & collectible funds
- Art enhancement
- Education

Deloitte Luxembourg contacts

Vincent Gouverneur

Partner - Art & Finance Initiative Leader
+352 451 452 451
vgouverneur@deloitte.lu

Adriano Picinati di Torcello

Director - Art & Finance Initiative Coordinator
+352 451 452 531
apicinatiditorcello@deloitte.lu

www.deloitte-artandfinance.com

Table of contents

Foreword	10
Deloitte US	11
Introduction	12
Key findings	15
Priorities	21
1. The art market	24
2. Art and wealth management survey	52
Art & finance services—future directions	60
A. Private bank and family office survey findings	60
Art-secured lending	78
B. Art professionals & collector survey—key survey findings 2016	94
3. Art as an investment	102
Art investment funds	111
Survey findings	117
New developments	118
Challenges	119
4. Art and technology	124
New developments	130
5. Regulation	138
Highlights	140
Introduction	141
Survey results	142
Other issues affecting trust	143

Foreword



Adriano Picinati di Torcello

Director - Art & Finance
Initiative Coordinator
Deloitte Luxembourg



Anders Petterson

Managing Director
ArtTactic
London

Deloitte Luxembourg and ArtTactic are pleased to present the Art & Finance Report 2016, the 4th edition of the report.

This year's report comes at a challenging time for both the art market and the wealth management industry. With art market growth showing signs of slowing toward the end of 2015 and in early 2016, combined with slower economic growth, increasing volatility in the financial markets, and geo-political uncertainty, the picture is becoming more complex and unpredictable. Maybe it is exactly this uncertainty that draws people toward art, and as this report shows, the awareness and motivation for including art in traditional wealth management is becoming increasingly apparent, although not without its own set of complexities.

To address these issues we have invited 39 key opinion formers, representing different key stakeholders in the market, to express their views on what they believe are opportunities and challenges for the art and finance industry now and in the future.

As the art and finance industry is becoming increasingly global, we are also pleased to announce that what started as a local initiative in Luxembourg in 2011 has now become a truly global Deloitte initiative. Also, we are proud to announce a new partnership with the Van Gogh Museum in Amsterdam to provide complementary services.

Moreover, in collaboration with Deloitte Italy, we are delighted to have contributed a chapter to the book *L'art advisory nel private banking—Opportunità e rischi dell'investimento in arte*, which was published in December 2015—an AIPB initiative (*Associazione Italiana Private Banking*). This publication analysed various aspects of the Italian and international art market, including articles on investing in artworks, related tax and legal aspects as well as art advisory models for banks. We are also thrilled to have participate with Deloitte Austria to an Austrian publication called *„Das Sammeln zeitgenössischer Kunst“*, manual for all art collectors and art enthusiasts who seek practical guidance for an increasingly complex art market.

Once again, we would like to express our most sincere thanks to all the individuals and institutions that contributed to this report. Without their support, this report would not have been possible.

Source:

L'art advisory nel private banking. Opportunità e rischi dell'investimento in arte, M. Ragazzoni & B. Zanaboni, AIPB, 2015, 244 p.

Das Sammeln zeitgenössischer Kunst: Ein ganzheitlicher Ansatz, Franz Wojda & Werner Rodlauer, 1 November 2015, in collaboration with Deloitte Austria

Deloitte US

The international art market has continued to rapidly mature with momentous deals and disruptive innovation. Deloitte's mission is simple: to deliver creative solutions to the individuals and institutions at the crossroads of business, finance and the arts. We offer collectors, art-related business, and cultural institutions a segue into Deloitte's traditional tax, consulting, and business intelligence services and we help financial institutions integrate fine art and collectibles into their advisory models.

The team has a great passion for art, and we hold in high esteem the cultural subtleties that make up the art world's distinct ecosystem. But we also see incredible opportunities for innovation and change. From the growth of art as a capital asset to new sources of market liquidity and growing demand for art banking, the worlds of art and finance continue to converge. Deloitte is proud to announce that Phillip Ashley Klein joins this team to spearhead the US Art & Finance Group in the US. He has a great passion for the arts and works with our investment management clients globally on innovative strategies and transformation.




A big thank you to Julia Cloud and Gauthier Vincent for their continued focus, insight and leadership of the group as we continue to build out a diverse team of consulting, tax and business intelligence professionals. Together with Deloitte Luxembourg and our global network of specialists, we look forward to working with you. These are exciting times indeed.



Julia Cloud
National Private Wealth Leader
Deloitte US

Gauthier Vincent
National Wealth
Management Leader
Deloitte US

Phillip Ashley Klein
US Art & Finance Coordinator
Deloitte US

Service area	Art & Finance overview	Core offerings	Clients
 Consulting	We combine our knowledge of the art market with our experience of delivering strategy and operations advice to companies and governments around the world	<ul style="list-style-type: none"> - Strategy and operations - Digital strategy - Customer experience - Cost and revenue strategies - Education and learning 	<ul style="list-style-type: none"> - Private banks - Hedge funds - Art-related businesses - Museums - Cultural institutions - Public sector
 Tax	We help clients structure and manage their art collections in a tax-efficient manner	<ul style="list-style-type: none"> - Gift and estate planning - Philanthropy and charitable planning - Import/export strategies - US sales & use tax - VAT and GST tax - Code 1031 exchanges 	<ul style="list-style-type: none"> - Family offices - Asset managers - Individual collectors - Galleries - Museums
 Business Intelligence	We help art market professionals deal with the complex mix of counterparty, legal, and regulatory risks	<ul style="list-style-type: none"> - Anti-money laundering services - Fraud and investigations - Counterparty vetting - Forensics services - Know-Your-Customer (KYC) 	<ul style="list-style-type: none"> - Art secured lenders - Individual collectors - Auction houses - Freeports - Art funds

Introduction

It is now five years since we launched the first edition of the Art & Finance Report, and probably a good time to take stock of what has been achieved and which important issues are still outstanding.

Taking stock

Since the beginning, the aim of the report has been to monitor changes and to create a platform for discussion to inform and drive developments in the art and finance industry. Over the years, we have seen progress and setbacks, but there is no denying that art and wealth management industries today are closer than they have ever been before. The number and diversity of direct and indirect art and finance related activities that are now taking place (many of these covered by this report) shows that the market is starting to build momentum and critical mass. But with critical mass comes responsibility and the need for rules and frameworks to ensure that the industry is built on solid foundations. As illustrated throughout the report, the challenges are many, and the need for a coordinated response across all market stakeholders has never been greater and more critical than today. We hope that this year's edition of the Art & Finance Report will continue to provide a forum and platform for the art and finance industry to voice its concerns and needs, but also to encourage and facilitate sustainable relationships between two intertwined but different industries.

Changing client demands

With increasing volatility in global financial markets and a changing wealth management environment, wealth managers are forced to look beyond traditional investment and wealth management products. The future of the industry will notably be determined by its willingness and ability to meet the challenges and opportunities posed by changing client demands.

It is evident from the research produced by Deloitte Luxembourg and ArtTactic since 2011, that there is increasing recognition among wealth managers of the opportunities generated in relation to private wealth clients' needs around art and collectible assets. However, these demands are often complex and multi-faceted and call on private wealth managers to increasingly make connections between existing services and these non-traditional assets. Survey findings among art collectors signal that they are looking for services linked to management and preservation of art and collectible wealth. It is important that the wealth management industry starts to develop a cohesive strategy and value proposition around how existing services, such as wealth reporting, estate planning, philanthropy, research, and lending, can also incorporate non-traditional assets, such as art. We believe that in an increasingly competitive market place, client-centric services around passion assets, on the one hand, offer significant potential in building stronger bonds between the wealth management industry and their clients and, on the other hand, have a fiduciary responsibility to incorporate art and collectibles in their service offering as more and more wealth is allocated to passion assets.

However, we realize that there are significant challenges ahead; one of the key challenges is regulation and the increasing cost of compliance. Whilst the private banking and wealth management industry is undergoing and still adapting to increasing industry regulation, the art market itself is increasingly coming under scrutiny for the apparent lack of regulation—a topic discussed in depth as a new addition to this report (page 139).

Methodology and limitations

Deloitte Luxembourg and ArtTactic conducted the research for this report between November 2015 and January 2016. We surveyed 53 private banks (up from 35 in 2014) mainly in Europe and 14 family offices mainly in the United States (same number as in 2014). The addition of private banks from Dubai and the increasing presence of US private banks in the overall sample were new this year, and were part of our ongoing effort to ensure that the report is increasingly representative of the perceptions and opinions of the global wealth management community when it comes to issues around art as an asset class.

As for the previous editions, we conducted research among other important stakeholders in the art and finance market, such as art collectors and art professionals (galleries, auction houses, and art advisors). A total of 126 art professionals (up from 122 in 2014) and 94 important art collectors (up from 90 in 2012) from Europe, the US, the Middle East, Latin America, and Asia were surveyed on a variety of topics relating to art as an asset class, their motivations, current and future involvement, challenges, and opportunities.

Limitations:

Sample differences: the first Art & Wealth Management Survey was conducted in 2011 and included 17 private banks from Luxembourg. In 2012, the sample was increased to 30 private banks, including banks from Poland and Spain. In 2014, the survey included 35 banks predominantly from Europe, the US, and Asia (with no participation from Poland), and an additional 14 family offices from Europe and the US. This year's survey included 53 private banks (38 from Europe, 9 from the US, and 6 new banks from Dubai) and 14 family offices (with 8 new family offices from the US). Adding more banks from different geographical regions will have an impact on the results. We have highlighted these geographical and sample variations in the survey findings and analysis when significant.

Section 1 of the report includes findings (market outlook for different art markets) based on qualitative Art Market Confidence Surveys that ArtTactic sent out to 330 international art collectors, art advisors, galleries, and auction houses in January 2016. This section also

includes auction data analysis of different modern and contemporary art markets, and is predominantly based on data from Sotheby's and Christie's, but will also occasionally include other auction houses when they represent a major share of the market.

In order to provide a market context for the survey findings, we have given a broad, international overview of recent developments across various regional modern and contemporary art collecting categories. Most of the data is collected from Sotheby's and Christie's, as they account for the majority of the modern and contemporary art collecting categories covered in this section, although certain regional markets such as China, India, and Russia also include auction data from other leading auction houses.

Thanks to Deloitte US, we have estimated the size of the art-secured lending business in the United States and we have estimated the size of the global art fund industry, combining data and information from interviews with US and European art funds, as well as public records on art investment trusts and art funds in China. The Chinese art fund industry analysis is based on conservative estimates about size and maturity of different art investment trusts and art funds. However, many Chinese trust companies are no longer marketing or publishing information about their art related trust investment activities and its not possible to know whether these funds have been wound up early or are still active. Therefore, our estimates are based on publicly available information collected for the last edition of the Art & Finance report (July 2014). We have estimated the total Chinese art fund AUM based on stipulated maturity dates of existing funds (as per information available in July 2014) and added the total AUM of new art funds and art trusts coming to the market since then.

Like last year, we have also significantly expanded our coverage of the emergence of digital technology and the online art market, and the potential impact it could have on the art and finance industry in terms of addressing key challenges such as transparency, liquidity, and valuation. Thanks to Ateo, we have also added research related to the amount of investment that has gone into 23 art market start-ups in the last 12 years, and the impact of the investment boom that started in 2010.

We are pleased to be able to publish a series of interviews and opinions from key figures in the art and finance industry. These interviews and contributions include¹:

New this year is Section 5, which is dedicated to regulation issues in the art market—an increasingly contentious topic—and we are delighted to have contributions from leading lawyers and key individuals in this field.

Alan Mudie, Chief Investment Officer, Société Générale Private Banking

Kai Kuklinski, Global CEO, AXA ART

Andrew Davies, Art Historian

Adriaan Dönszelmann, Managing Director, Van Gogh Museum Amsterdam

Ana Andueza, Partner, Public Sector, Deloitte Spain

Phillip Ashley Klein, US Art & Finance Coordinator, Deloitte US

Michael L. Klein, Consultant, US Art & Finance Group, Deloitte US

Patricia Pernes, Tax Consultant, US Art & Finance Group, Deloitte US

Harco Van Den Oever, Founder, Overstone Art Services

Franziska Ida Neumann, Specialist for Art Loans, Private Bank Berlin AG

Jeanne Du Buisson, Associate Tax Director, Deloitte New Zealand

Eva Pleskova, Senior Consultant Tax, Deloitte New Zealand

Paul Becker, Founder and CEO, Art Money

Silvia Graemiger, Partner, Johann & Graemiger Partners

Adriano A. Sala, Attorney-at-law, Partner, GSLaw Studio

Dr. Nicolas Galley, Director of Studies, Executive Master in Art Market Studies (EMAMS), University of Zurich

Jianping Mei, Associate Professor, NYU

Michael Moses, Associate Professor, NYU

Vince Rosdhal, Tax Partner, Deloitte US

Marta Areny, Board Director, Day Star Private Art Fund

Ingrid Dubourdieu, Partner, D.Law

Mathilde Hersart, Business Analyst, Ateo

Robert Norton, CEO, Verisart

Prof. Rachel Pownall, Tilburg University

Rebecca Davies, Chief Executive, LAPADA, The Association of Art and Antiques Dealers

Karen Sanig, Head of Art Law, Mischan de Reya LLP

Pierre Valentin, Partner, Constantine Cannon LLP

Diana Wierbicki, Partner and Global Head of Art Law

Amanda A. Rotterdam Associate, Withers Bergman LLP

Steven R. Schindler, Partner, Schindler Cohen & Hochman LLP

Stephen D. Brodie, Herrick, Feinstein LLP

Michael Martin, Partner, Forensic & Restructuring, Deloitte Luxembourg

David Heurtevent, Senior Consultant, Forensic & Restructuring, Deloitte Luxembourg,

Sherry Xueyun Liu, Senior Consultant, Forensic & Restructuring, Deloitte Luxembourg,

Beatriz Niño and Isabel Niño, Partner of Nial, Art Law Partner of Nial, Art Law

Catherine Cathiard and Eric Perru, *Avocats aux Barreau de Paris et de Luxembourg*, Wildgen - Partners in Law

Laura Patten, Senior Analyst for Art and Antiquities Crime, FBI

We would also like to thank all the survey participants, without whom this report would not be possible. A special thank you goes to Professors Michael Moses and Jianping Mei for their continuous support in supplying valuable annual art market performance data. And we also address a special thank you to the Luxembourg artist Sumo who contributed to the quality and the originality of this report by allowing us to use a series of his own artistic creations. We wish you an inspiring reading.

Deloitte Luxembourg and ArtTactic recognize that the findings are indicative and acknowledge the limitations of these findings; however, we believe that the results reflect a broad representation of the perceptions and attitudes that exist in the global wealth management and art and collector community.

¹ The opinions, articles and interviews express the views of the respective authors only and do not represent the opinions, practices or policies of Deloitte or ArtTactic, which do not endorse the opinions/statements given by the authors. The content of these opinions, articles and interviews is therefore the sole responsibility of its authors

Key findings

Based on the findings of this 4th edition of the Art & Finance Report, we continue to see new and interesting developments in the art and finance industry, with particular emphasis on the role of art and collectibles in the broader wealth management context.

Despite an art market slowdown in China, as well as lower sales in Europe and the US, still six out of eight global art markets experienced a positive trend in 2015, with a neutral-to-positive outlook for 2016. This shows that art and collectibles will continue to play an important part of wealthy individuals' overall portfolios in the years to come.

Section 1: The art market

- **Economic uncertainty increases in 2016:** in February 2016, the OECD cut its global growth forecasts, with global GDP growth predicted at 3.0 percent in 2016, the same pace as in 2015 and 0.3 percentage point less than predicted in November 2015. Continued volatility is expected throughout the first half of 2016, before the supportive macro backdrop helps foster a recovery in risk assets by year-end.
- **UHNW population continues to grow in the next decade:** the total number of ultra-wealthy individuals is predicted to rise 41 percent² to 263,500 by 2025. Predicted growth rates vary widely on a regional basis, with emerging economies still leading the way.
- **Increasing wealth allocation to art and collectibles in the next 10 years:** 36 percent of the 400 private bankers and wealth advisors surveyed in a recently published Knight Frank report said they expected an increase in allocation toward "collectibles", such as art, wine, and classic cars, etc. (up from 26 percent in the past 10 years). This suggests that there will be increasing client demand for servicing this particular asset class, which is in line with the findings in this report.
- **The global contemporary art market contracted in 2015, but smaller regional art markets outperform:** the direction of the art market in 2016 is difficult to foresee as there are an increasing number of macroeconomic factors that could have an impact on the global art market in the coming 12 months. Despite a contraction in the global art market in 2015, Artprice.com reported a strong recovery of 7.2 percent in the first seven weeks of 2016.
- **Overall art market sentiment is less positive compared with 12 months ago:** the general market sentiment is less optimistic than last year, although the outlook for six out of eight regional art markets analyzed in this report remains neutral-to-positive about the next 12 months, which suggests solid growth in these markets over the coming year. The Chinese and Russian markets are the only ones to have a negative outlook for 2016.
- **Despite lower sales levels, there is still strong demand for quality and provenance:** the art market continues to see strong demand for the best quality art and collectibles. This was evident in London sales of Impressionist, modern and contemporary art in February 2016. Although the contemporary sector remains the largest category by value (45 percent in 2015, which was the same as in 2014) it is the modern and Impressionist art market that saw the biggest gain in market share, with 33 percent market share in 2015 (up from 27 percent in 2014) based on auctions at Christie's and Sotheby's. This supports the argument that collectors are increasingly seeking quality in the more established sectors of the art market.

- **US & European contemporary art market outlook:** experts have a neutral outlook for market growth in 2016 after five years of strong growth. Christie's, Sotheby's, and Phillips' post-war and contemporary evening sales in New York and London raised US\$2.81 billion in 2015, down 3.3 percent from 2014. Whilst New York auction sales were down 8 percent, this was offset by an 11 percent increase in London sales.
- **Chinese contemporary art market outlook turns negative:** the direction of the Chinese contemporary art market in 2016 suggests more uncertainty with a negative outlook for Chinese contemporary art. Confidence in the Chinese art market could be affected by increasing financial market volatility and the slowdown in economic growth. The Chinese contemporary art auction market has undergone a volatile period in the last five years, but 2015 became a particularly weak year for this sector. Overall sales from Christie's, Sotheby's, China Guardian, and Poly Auction dropped 41 percent compared with 2014.
- **Indian modern and contemporary art market sees positive improvement in 2015 and has a positive outlook for the next 12 months:** overall sales of modern and contemporary Indian art saw an increase of 13.5 percent from 2014, predominantly driven by strong growth in domestic sales. 95 percent of market experts surveyed remain positive-to-neutral regarding the Indian art market in the next 12 months.
- **Southeast Asian art continues to be one of the best performing markets:** since the global art market downturn in 2009, the Southeast Asian modern and contemporary art market has been on a steady climb, with 28 percent growth in auction sales in 2015 based on sales at Sotheby's and Christie's. There is a positive-to-neutral outlook for 2016, although some concerns about the sustainability of the market persist.
- **Latin American auction sales were higher in 2015, despite the Brazil art market downturn:** auction sales for modern and contemporary Latin American art in 2015 came in 11 percent higher than in 2014, and recorded the highest auction total for the Latin American art market since 2008. Experts have a neutral outlook for the Latin American art market in 2016, although their outlook for Brazil remains pessimistic for the next 12 months.
- **Middle Eastern art auction sales up 5 percent in 2015:** total auction sales of modern and contemporary Middle Eastern art were up 5 percent in 2015, as more auction houses started to offer sales of art from the region. With international sanctions on Iran lifted, many art market experts believe we could see strong domestic and international growth in the Iranian art market in the next 12 months. Experts have a neutral-to-positive outlook for the Middle Eastern art market in 2016, but with more downside risk because of geo-political tension and low oil prices.
- **Russian art market collapses in 2015:** auction sales of modern and contemporary Russian art dropped by 68 percent in 2015, as the Russian art market is feeling the pinch of lower oil prices, stagnating growth, and Western sanctions. Experts still have a negative outlook for 2016, although 42 percent believe the Russian art market will stabilize in the next 12 months, which could suggest that the bottom of the market has been reached.
- **African modern and contemporary art market continues to grow:** Bonhams organized three dedicated sales to African modern and contemporary art in 2015, up from one annual sale in previous years. Bonhams' Africa Now auctions raised £1.64 million in 2015, up 53 percent from 2014. Experts have a neutral-to-positive outlook for the next 12 months on the African art market.

Section 2: Art and wealth management survey

- **Majority of wealth managers believe that art and collectibles should be part of a wealth management offering:** the recent art and finance survey of wealth managers shows that 78 percent (up from 55 percent in 2014) say they think art and collectibles should be included as part of the wealth management offering. This is the first time in five years of monitoring the art and finance industry that we see an alignment of the wealth management industry with collectors and art professionals.
- **Client demand for art-related services:** an increasing number of wealth managers (48 percent) recognize that their clients are putting pressure on them to offer art-related services (up from 38 percent in 2014), especially those linked to the preservation of the capital allocated to art and collectible assets.
- **A large majority of collectors buy art for passion with an investment view:** 72 percent of art collectors said they bought art for passion with an investment view. 82 percent of art professionals said that this was also the main reason why their clients buy art. The emotional benefit of collecting, combined with the potential of a value increase and/or store of value, i.e., value protection, is the driving motivation among most art collectors in the art market. This is an important point to have in mind when designing and implementing art-related services for private banks and wealth managers.
- **Investment value is an increasingly important motivation among art collectors:** art collectors appear to be increasingly focused on investment returns, rising from 47 percent of art collectors saying this was an important motivation in 2014 to 64 percent in 2016. 44 percent of art professionals believe their clients are motivated by investment returns when buying art (down from 59 percent in 2014), which could signal that collectors are more motivated by the potential investment return

than art professionals believe is the case. However, art professionals and collectors do agree on the portfolio diversification benefits that art could offer, with 51 percent of art collectors seeing this as an important aspect of buying art (up from 37 percent in 2014). Equally, 47 percent of art professionals believe their clients are motivated by asset diversification (down from 54 percent in 2014).

- **Wealth managers are realizing the importance of art and collectibles as part of a wealth management offering, but are not yet aligned with their clients' expectations:** there are signs that wealth managers predominantly focus on traditional wealth management services, while art collectors are looking to their wealth managers for concrete art-related services, such as art valuation and art collection management. This suggests that collectors see their wealth managers also as their trusted independent advisors for their art-related activities.
- **Collection management and wealth reporting:** 73 percent of wealth managers in 2016 (up from 58 percent in 2014) said that their clients wanted to include art and other collectible assets in their wealth reports in order to have a consolidated view of their wealth. The ability to report on art and collectible assets is an effective way of providing value-added services to clients and to keep them aware of the financial aspects of their art collection.
- **Negative outlook from wealth managers on the growth of the art investment fund industry:** only 10 percent of wealth managers—the lowest level reported since the launch of the Art & Finance Report in 2011—believe the art investment fund industry will expand in the next two to three years (down from 20 percent in 2014). This shows that wealth managers remain very cautious about the art investment fund initiatives in today's market.

- **However, more than a third of collectors would be interested in art investment funds:** this is the highest reading since the launch of the Art & Finance Report in 2011. It clearly indicates collectors' increasing interest in the possibility of having financial exposure to art through an investment vehicle.
- **Art-secured lending continues to increase, boosted by third-party lenders:** 69 percent of wealth managers said their institutions now offered services linked to art-secured lending (up from 48 percent in 2014). 52 percent of wealth managers offered this service in-house, whilst 48 percent of wealth managers preferred to outsource this service to third-party providers (up from 25 percent in 2014).
- **The US art-secured lending market is expanding rapidly,** aided by low interest rates, an expanding art market, and an attractive legal environment provided by the Uniform Commercial Code (UCC). The size of the overall art-secured lending market is estimated at between US\$15 billion and US\$19 billion (value of average loans outstanding). Private banks dominate the market with a loan book size of between US\$13 billion and US\$15 billion, with a 13 percent five-year annual growth rate.
- **Lack of regulation in the art market remains a hurdle for the art and finance industry:** 62 percent of wealth managers said that the unregulated nature of the art and collectibles market remains the biggest challenge for incorporating art in their service offering. However, this was down from 83 percent in 2014, which suggests that although it is still a major hurdle, increasing awareness and understanding of the art market have eased the level of concern.
- **Skill and knowledge transfer between the art and wealth management sector:** public cultural institutions can monetize their knowledge, expertise, and skills by supporting and educating wealth managers in their provision of art wealth management services. A recent example of such a collaboration is the Van Gogh Museum's collaboration with Deloitte Luxembourg (Advisory Partner) and TIAS School for Business and Society, the Netherlands/China (Academic Partner). Thanks

to this collaboration, the Van Gogh Museum can deliver both creative solutions and financial services to individuals and institutions at the crossroads of business, finance, and the arts.

Section 3: Art as an investment

- **The Mei Moses® World All Art Index reported a 3.1 percent decline in 2015, while the performance of the S&P Total return index was up by 7.14 percent.**
- **A number of collecting categories continue to show positive performance:** the Mei Moses® Post-War & Contemporary Art Index was up 4.10 percent compared with 2014, the Impressionist & Modern Art Index saw a small increase of 0.05 percent, and the Latin American Art Index was up 1.40 percent in 2015.
- **Collection management strategy:** resale prices matter to collectors, as auction sellers are not inclined to sell if they are likely to make a loss. This supports the theory that there is much more to collecting art than following the simple conventional rhetoric of "just buying what you like and selling what you don't".
- **Diversification benefits of art:** variation in market prices, even for established individual artists, provides a means of efficiently diversifying art collections and reducing investment risk without having to hold a large number of artists in collections.
- **US & European art fund industry sees modest growth, whilst the Chinese art fund industry continues to slow:** the overall art fund market in 2015 is conservatively estimated to be US\$1.20 billion, down from US\$1.27 billion in 2014. The US and European art fund market has seen moderate growth in capital raising, predominantly from existing art funds, whereas the decline in the art fund market's overall AUM is largely on the back of a slowdown in the Chinese art fund and trust businesses.
- **Chinese government imposes new art market regulation in March 2016:** the measures are expected to standardize China's domestic art market, further regulate trading behavior, and protect the lawful rights and interests of the authors, traders, and consumers.

The Mei Moses® World All Art Index reported a 3.1 percent decline in 2015, while the performance of the S&P Total return index was up by 7.14 percent

- **The challenges of the art investment fund industry remain the same:** after five years of analysis, the hurdles to incorporating art investment fund products in a wealth management offering remain the same; issues related to due diligence, valuation, lack of liquidity, and an unregulated marketplace are at the top of the agenda.
- **Luxembourg complements its fund offering with an upcoming innovative unregulated fund regime expected to be introduced by mid-2016:** the Reserved Alternative Investment Fund (RAIF). The RAIF is particularly adapted to exotic or tangible asset classes.
- **Increasing confidence in technology and online art businesses and their role in the art market evolution:** the majority of art professionals (73 percent) and art collectors (69 percent) believe that online art businesses will play an important role in the art market in the next two to three years. New innovations, such as the use of blockchain technologies, are also an example of how technology and innovation could contribute significantly to the development of the art and finance industry going forward.
- **Art information and education are seen as areas where online business and technology could have a significant impact:** 82 percent of art professionals and collectors believe that the real potential for new online businesses will be in the information and education space. This highlights that both collectors and art professionals believe in increasing transparency—one of the pre-requisites for a well-functioning art and finance market.

Section 4: Art and technology

- **Increasing investment in art market start-ups in 2015:** increasing investment in art market start-ups demonstrates continued confidence in the growth of the online art and technology industry and the development of a corporate art finance business. The level of investment in art industry start-ups increased from an estimated US\$125 million in 2013 to an estimated US\$505 million in 2015 based on 23 art market start-ups.
- **Investment in essential support services for the art market:** in recent years we have seen growing interest and investment in support services for the art market. These products and services include cloud-based art collection management systems, using technology in authentication and attribution, improving logistics, and recently using blockchain technology to track and trace works of art. These new products and services will play an important role in the evolution of the art and finance industry.

Section 5: Regulation

- **Issues linked to the lack of transparency are undermining trust and credibility in the art market:** there is a consensus on a number of common themes across different stakeholders (collectors, art professionals, lawyers, and wealth managers) when it comes to price manipulation, conflicts of interest, lack of transparency, and secret commissions. In fact, nearly three out of four wealth managers, collectors, and art professionals share these views.
- **There is strong awareness and agreement on what the problems are; what is less obvious is how best to address these in a coherent and coordinated manner:** previous studies and initiatives show that, in principle, art market

operators agree on the need to take self-regulatory action. However, this tends to be under the condition that such collective action does not directly undermine the commercial interests of their trade. This highlights the problem of reaching a coherent and coordinated industry effort, without reducing the competitiveness vis-à-vis other art markets.

- **Authenticity related issues are a unified threat to the art market:** around 75 percent of all stakeholders surveyed agree that “authenticity, lack of provenance, forgery, and attribution” are the biggest threats to credibility and trust in the art market. A number of new initiatives aim to solve the problem of fakes and forgeries, such as the i2M Standards launched by the Global Center of Innovation, a not-for-profit institution previously known as the SUNY Center of Innovation. It is based at the State University of New York at Albany, in the US. The center brings together academics, and government and private sector shareholders from around the world to collaboratively establish definitive, third-party, peer-reviewed industry standards and solutions for art identification and authentication. Other innovations, such as the use of blockchain technology, by Verisart, could develop new standards and ways of addressing these market threats in the future.
- **Government intervention or self-regulation?** According to our latest survey of wealth managers, art professionals, and art collectors, the majority (two thirds) of opinions are in favor of self-regulation of the art market. However, a significant minority (36 percent) of wealth managers call for more government regulation of this market. Many art markets already have a rich history of self-regulating organizations in the form of trade associations. In the UK, there are three major bodies (namely, LAPADA, BADA, and SLAD), all of which hold their members to account via Codes of Practice/Conduct/Ethics. In France, the *Comité Professionnel de Galeries d’Art* recently announced that it would launch an updated and revised code of practice, which suggests that the global art industry is already responding to the need to reinforce self-regulation.
- **Art market transactions increasingly involve due diligence and written agreements:** as the value of art increases, so does the expectation of fair play. Art market transactions are moving from informal arrangements toward a market where careful due diligence and written agreements are becoming more common.
- **Lack of professional qualification standards for art market professionals:** the fact that there are few professional and qualification standards imposed on art market professionals means that they are often uninformed on the law. One way to improve the current situation is to invest in educating art market professionals on behavior that is illegal, and making it a requirement that they should inform themselves on the law.
- **Improving law enforcement instead of adding more layers of regulation:** litigation is hugely expensive and inconvenient for private individuals and businesses alike. An example of how to improve the current situation would be for governments to invest more resources to facilitate the enforcement of existing laws rather than invest in adding more layers of regulation.
- **Lack of transparency and secret commissions are major issues in the international private art market:** there has recently been a shift in the approach to resolving these issues because of the compliance requirements of the US Foreign Corrupt Practices Act and the UK Bribery Act 2010. These two acts are examples of how regulations not specifically meant to apply to activities in the art market are transforming the structure of international private art sales.
- **The regulatory landscape is changing as laws have been established or amended in several countries imposing anti-money laundering requirements on art dealers:** stakeholders in the art market can learn from regulated financial institutions and gradually implement essential measures to identify ultimate beneficial owners, understand customers (“know your client”), and monitor deal transactions. These measures will ultimately reduce the risk of abuse of the art market by money launderers and lower the risk of civil fines, criminal charges, and reputational damage to stakeholders.

Priorities

1. Wealth managers have to continue to invest in services aimed at preserving their clients' art and collectible wealth:

services such as estate planning, philanthropy, and art-secured lending are increasingly becoming relevant, particularly as the financial component and motivation for buying art and collectibles are becoming important drivers. However, for the wealth management industry to be able to deliver these services effectively, more investment in ongoing professional development and education about the art market, the art itself, and other collectible assets will be essential. It is also important to invest in and develop better analytical tools, art indices (performance benchmarks), and research to improve the data and information infrastructure around the art market and art as an asset class. These services would be relevant both for wealth managers, but also for their clients. 73 percent of wealth managers said art market research and information would be one of the most relevant services that they could offer their clients.

2. Integrating art and collectible assets into wealth reporting:

one practical way of improving the links between art and finance would be through a common reporting mechanism. This year's survey signals there is strong demand and an opportunity to integrate art and collectibles assets into overall wealth reporting; a 73 percent majority of wealth managers said their clients were looking for this option. Better integration of art and collectible assets would give wealth managers a unique insight into clients' total collectible wealth and allow wealth managers to tailor a set of art wealth management services around these specific needs. With existing collection management software predominantly focusing on the needs of collectors and galleries, there is also a need for a solution that meets wealth managers' needs.

3. Need for a new framework for art investment structures:

this year's survey shows that one third of art collectors would be interested in art investment products, such as art funds. Based on another Deloitte study from 2015, titled "10 Disruptive Trends in Wealth Management", younger investors expect to be treated as individuals, seeking

73 percent of wealth managers said art market research and information would be one of the most relevant services that they could offer their clients

advice and services tailored to their specific needs and circumstances. These individuals may also look for investments closely linked to their passions, such as art and collectibles, which reinforces the need for investment vehicles that can accommodate the demand of this generation. However, the reality is that the cost and complexity of getting these funds up and running often outweighs the purpose and benefits of such an art investment structure. Because of this, we see an increasing tendency of discrete and private art investment structures being set up to fulfill this demand for investment in art and collectibles. There could be several reasons for this: discretion is one key aspect, as keeping a low profile often gives the art fund and its advisors more flexibility and maneuverability when it comes to identifying opportunities in the art market. Secondly, the costs and complexity of setting up and managing a regulated art fund are significant.

Now the issue with a growing private, under-the-radar market for art investment structures and products raises the issue of transparency. Moving the art investment market away from the scrutiny of regulators, could cast a shadow over an industry that has struggled to create a trusted framework for art investment products. The challenge in the future would be to find a balance between investors' needs for market transparency and accountability and at the same time provide a structure that is

commercially viable and suited to the characteristics and dynamics of the art and collectibles market. The future will tell if the new Reserved Alternative Investment Fund (RAIF) created in Luxembourg can be the solution.

4. Europe needs to develop a similar regime to the US in order to grow the art-secured lending business: the US has been leading the global development for art-secured lending for some years now, supported by, among other factors, a favorable legal environment provided by the Uniform Commercial Code (UCC), which essentially allows the art collector to keep possession of the artworks while the loan is still outstanding, a strong attraction for most borrowers. However, as outlined in the Art & Finance Report 2014, the situation in Europe is quite different, where banks or specialist lenders often have no choice but to take possession of the collateral in order to protect their security interest. With several European countries having introduced a register of charges against chattels, and with new insurance products coming to the market, one would expect the European art-secured lending industry to start catching up to its US counterpart. If several countries develop their own register, the EU could set up a register that would aggregate the data from national registers.

5. Technology could reduce friction and increase confidence in the art market: in the early 2000s, auction price databases such as Artfact, Artnet, and Artprice created the first wave of art market transparency by providing click-of-a-button access to historic auction prices. Armed with past and comparable pricing data, potential buyers now had tools that allowed them to engage more effectively with the market place and address the information asymmetries that traditionally existed between buyers and sellers in the art market. But despite these efforts, the art market still remains opaque, and as discussed in the regulation section, many issues around lack of transparency still remain unresolved. This has increasingly put the art market and its practices in the spotlight, and often for the wrong reasons. However, there are signs that technology could be behind a second phase of increased transparency in the art market,

and it is particularly interesting to see new start-up companies such as Verisart using blockchain technology to address the need for a global public art ledger for tracking provenance in a way that is more robust and accessible than a paper trail. The perfect use of blockchain is when there is a unique ID on a device that cannot be changed and it is contained within an immutable ledger, which would open up the opportunity for a global “title” register for artworks, using blockchain technology.

6. Strengthening the self-regulation frameworks in the art market: there is a consensus on a number of common themes among different stakeholders (collectors, art professionals, lawyers, and wealth managers) when it comes to issues that constitute a real threat to the reputation and functioning of the art market. These concerns center around issues of price manipulation, conflicts of interest, lack of transparency, and secret commissions. In fact, nearly three out of four wealth managers, collectors, and art professionals share these views. There is clearly strong awareness and agreement on what the problems are; what is less obvious is how best to address these in a coherent and coordinated manner.

Some measures have been suggested by experts in this report (see Section 5):

- Develop professional and qualification standards for art market professionals
- Reinforce deontological requirements
- Invest in educating art professionals on behavior that is illegal and perhaps make it a requirement that they should inform themselves on the law
- Encourage governments to invest more resources in facilitating the enforcement of existing laws
- Implement the US Foreign Corrupt Practices Act and the UK Bribery Act 2010 for private sales agreements worldwide
- Implement measures to identify ultimate beneficial owners
- Reinforce cooperation between countries (public and private sectors) and the effectiveness of measures to protect cultural goods

7. Continue to build closer relationships

between art professionals and the wealth management community:

this was a trend we identified in the Art & Finance Report 2012, and it remains a key priority for further development of the art and finance market. Initiatives already exist, such as PAIAM (Professional Advisors to the International Art Market) in London, which opened its membership to international advisors in February 2013. PAIAM is a networking association for professionals supporting the global art industry in terms of legal, consulting, tax, financial, insurance, logistics, research, recruitment, and communication services. Similarly, the Luxembourg Art Law and Art & Finance Association (Lafa www.lafa.lu) was set up in 2015 with similar objectives.

8. Provide access to exclusive social networks:

the social value of buying art is a key aspect for art collectors. 61 percent said this was a key motivation, while an even higher 80 percent of art professionals believed this was a key motivation for their clients (up from 72 percent in 2014). There is no doubt that the social value and status linked to art collecting is attractive for many High-Net-Worth Individuals (HNWIs). Invitations to art fair VIP openings around the world and gallery and museum dinners for collectors and patrons provide members with an exclusive network, giving access to the artists themselves, but also to other business people and celebrities. The wealth management industry should think strategically about how to create and provide services that offer access to exclusive events and networks for their clients, and how to build partnerships with art professionals to deliver this.





TRUCKER
MOM



SU

ALL THAT
GLITTERS

DAMN
STRAIGHT

EMILY SWART

DO NOT
PUSH ME
COS I M...
RSET

ALL THE
TIME
IN THE WORL...

NO

section 1

The
art
market

Highlights

- **Global economic growth slows down:** on 18 February 2016, the OECD cut its global growth forecasts, stating that the economies of Brazil, Germany, and the US are slowing and warning that some emerging markets are at risk of exchange-rate volatility. Their forecast is more pessimistic, with global GDP growth predicted at 3.0 percent in 2016, the same pace as in 2015 and 0.3 percentage point less than predicted in November 2015. Continued volatility is expected throughout the first half of 2016, before the supportive macro backdrop helps foster a recovery in risk assets by year-end.
- **UHNW population continues to grow in the next decade:** the total number of ultra-wealthy individuals is predicted to rise 41 percent³ to 263,500 by 2025. Predicted growth rates vary widely on a regional basis, with emerging economies still leading the way.
- **Increasing wealth allocation to art and collectibles in the coming 10 years:** 36 percent of the 400 private bankers and wealth advisors surveyed in a recently published Knight Frank report⁴, said they expected an increase in allocation toward “collectibles”, such as art, wine, and classic cars etc. (up from 26 percent in the past 10 years). This suggests that there will be increasing client demand for servicing this particular asset class, results which are in line with the findings in this report.
- **The overall global art market sales fell 7 percent in 2015:** According to the latest TEFAF report global sales reached \$63.8 billion in 2015, falling 7 percent year-on-year from the market’s previous highest ever total of \$68.2 billion in 2014.
- **The global contemporary art market contracted in 2015, but smaller regional art markets outperform:** it is difficult to anticipate the direction the art market will take in 2016, as there is an increasing number of macroeconomic factors that could have an impact on the global art market in the next 12 months.
- **Despite lower sales levels, there is still strong demand for quality and provenance:** the art market continues to see strong demand for the best quality art and collectibles. This was evident in London sales of Impressionist, modern and contemporary art in February 2016.
- **Overall art market sentiment is less positive compared with 12 months ago:** the general market sentiment is less optimistic than last year. The outlook for six out of eight regional art markets analyzed in this report remains neutral-to-positive about the next 12 months. The Chinese and Russian markets are the only art markets to have a negative outlook for 2016.
- **Contemporary art loses market share to more established collecting categories, while there is a lower market share for the contemporary art market:** although the contemporary sector remains the largest category by value (45 percent in 2015—the same as in 2014), the modern and Impressionist art market has seen the biggest gain in market share, with 33 percent market share in 2015, up from 27 percent in 2014, based on auctions at Christie’s and Sotheby’s.
- **US & European contemporary art market outlook:** experts turn neutral to market growth in 2016, after five years of strong growth.
- **Chinese contemporary art market outlook turns negative:** the direction of the Chinese contemporary art market in 2016 suggests more uncertainty with a negative outlook for Chinese contemporary art. Confidence in the Chinese art market could be affected by increasing financial market volatility and the slowdown in economic growth.
- **Indian modern and contemporary art experienced positive improvement in 2015 and has a positive outlook for the next 12 months:** overall sales of modern and contemporary Indian art saw an increase of 13.5 percent from 2014, predominantly driven by strong growth in domestic sales. 95 percent of market experts surveyed remain positive-to-neutral regarding the Indian art market over the next 12 months.

³ *The Wealth Report, 10th edition by Frank Knight, published in March 2016*

⁴ *Ibid*

- **Southeast Asian art continues to be one of the best performing markets:** since the global art market downturn in 2009, the Southeast Asian modern and contemporary art market has been on a steady climb, with 28 percent growth in auction sales in 2015 based on sales at Sotheby's and Christie's. There is a positive-to-neutral outlook for 2016, although some concerns about the sustainability of the market persist.
- **Latin American auction sales were higher in 2015, despite the Brazilian art market downturn:** auction sales for modern and contemporary Latin American art in 2015 came in 11 percent higher than in 2014, and recorded the highest auction total for the Latin American art market since 2008. Experts have a neutral outlook for the Latin American art market for 2016.
- **Middle Eastern art auction sales up 5 percent in 2015:** total auction sales of modern and contemporary Middle Eastern art were up 5 percent in 2015, as more auction houses started to offer sales of art from the region. Experts have a neutral-to-positive outlook for 2016, but with more downside risk because of geo-political tension and low oil prices.
- **Russian art market collapses in 2015:** auction sales of modern and contemporary Russian art dropped by 68 percent in 2015, as the Russian art market is feeling the pinch of lower oil prices, stagnating growth and Western sanctions. Experts still have a negative outlook for 2016, although 42 percent believe the Russian art market will stabilize in the next 12 months.
- **African modern and contemporary art markets continue to grow:** Bonhams organized three dedicated sales of African modern and contemporary art in 2015, up from one annual sale in previous years. Bonhams' Africa Now auctions raised £1.64 million in 2015, up 53 percent from 2014. Experts have a neutral-to-positive outlook for the next 12 months on the African art market.

Global art market trends in 2015

The global contemporary art market contracted in 2015, but smaller regional art markets outperform. It is difficult to anticipate the direction the art market will take in 2016, as there are an increasing number of macroeconomic factors that could have an impact on the global art market in the next 12 months. Uncertainty around China's economic growth and the potential for a contagion effect on other world economies, increasing volatility in global stock markets, the fear of a new financial crisis developing in Europe and the continued threat of terrorist attacks, and escalation of the conflict in the Middle East provides fertile ground for uncertainty. This is not necessarily only bad news for the art market. In the period between 2009-2012, when the financial markets and the sovereign debt crisis were at their worst, the global art market saw an influx of liquidity and wealth. With low yields and limited investment options available, art and collectibles were one of the alternative assets that were increasingly considered a store of value—a motivation that remains significant among collectors and art professionals, according to this year's survey results.

We are likely to continue to see strong demand for the best quality art and collectibles. This was evident in London sales of Impressionist, modern and contemporary art in February 2016, although the froth⁵ seems to have been coming off the overall art market in the last six months.

After record sales in 2014, the two biggest contemporary art markets, the US & Europe and China, experienced a market contraction, resulting in 7.8 percent lower sales of modern and contemporary art across all the markets covered in this report. However, whilst Chinese contemporary art has seen auction sales down by 41 percent, other Asian markets, such as India and Southeast Asia, have seen positive sales growth of 14 percent and 28 percent respectively.

The trends in the modern and contemporary art market reflect the broader trends in the global art market. Recent results from the TEFAF report show that global art sales reached \$63.8 billion in 2015, falling 7 percent year-on-year from the market's previous record of \$68.2 billion in 2014. This decline was largely caused by a significant decline in the Chinese art market sales of 23 percent.

⁵ Sotheby's, Christie's and Phillips evening sales of post-war and contemporary art came in 43,4 percent lower than in February 2015. However, new records were set for artists such as Alberto Burri and Andre Ghenie, showing that there is still strong selective demand for works of art.

Mind the gaps



Alan Mudie
Responsible for
the Société Générale
Private Banking
Investment Strategy

Financial markets often seem fickle. Some of the strongest returns in equities, for example, are recorded when the outlook appears bleakest. Although the Great Recession did not end until June 2009, the S&P500 index hit its low in early March that year and had already rallied by 36 percent by end-June.

Part of the explanation for this can be found in the study of behavioral finance. The latter stages of a bear market often see investors herding together, all seeking to liquidate positions at the same time. In addition, such consensus means that when the selling pressure is eventually exhausted, it becomes easier for the market to rally. Such moves do not require a shift in fundamentals—the easing of negative news-flow can suffice.

In the same vein, markets often fail to move in line with improvements in the macro picture. As a bull market develops, valuations tend to rise, and in its latter stages, there remains little room for multiples to increase further. Such gaps between market performance and economic fundamentals can be tricky to navigate. We believe that the current risk aversion in financial markets stands again in stark contrast to a broadly supportive macro and corporate backdrop.

We also see a number of gaps looming in the economic background for 2016, in the outlook for inflation, in central bank policy settings, in credit cycles, and in corporate earnings growth.

Regarding inflation, the picture has been muddied by the impact of the slump in energy prices, which has pushed the headline index close to zero in the US and below that in a number of eurozone economies. We expect the gap between the two economies to widen in 2016. As the US reaches full employment, wage pressures will start to build. Indeed, there are already signs that this has begun. This will feed a pick-up in core inflation in the US this year and next. In the eurozone on the other hand, unemployment has declined sharply to 10.4 percent, but remains well above the pre-crisis low of 7.2 percent. Consequently, wage pressures are largely absent and core inflation is well below the European Central Bank's 2 percent target.

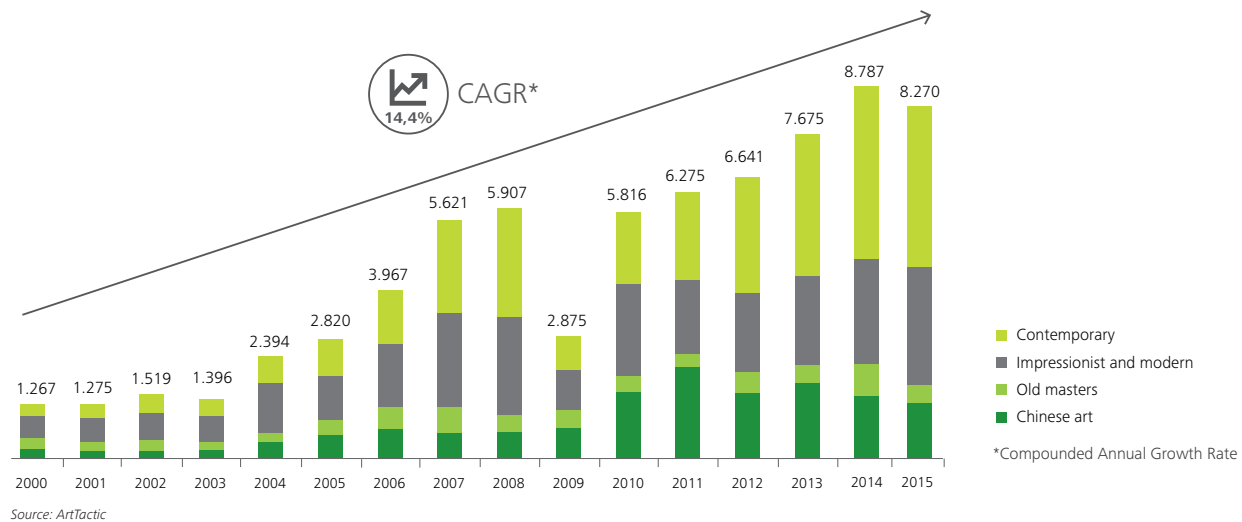
The US central bank, the Federal Reserve (Fed), recently announced its first hike in interest rates in almost ten years—employment continues to improve and wage pressures to build, reducing the need for such extreme policy settings. In Europe, the European Central Bank (ECB) faces a sluggish economy, low core inflation, and a banking sector that has been trimming its loan book to bolster capital buffers. It is no surprise that Chairman Draghi has been so vociferous about his intention to ease policy further.

This divergence has been widely flagged to markets, proof that the bout of nerves displayed by emerging market bond investors during 2013's "taper tantrum" has taught policymakers a lesson. Back then, the Fed spooked markets by intimating an early "tapering" (reduction) of its Quantitative Easing (QE) program, leading to worries of a sharp liquidity squeeze. This time, investors have had ample forewarning of the opposite moves planned by the Fed and the ECB. However, our observation remains that periods of Fed tightening do indeed tend to see a spike in the volatility of risk assets.

The US economic cycle is well advanced, with the recovery now in its sixth year. As regards the credit cycle, we note, however, a steady rise in corporate borrowing (to refinance maturing debt, fund mergers and acquisitions, and finance share buybacks). We view this as an early warning of a worsening in credit quality, which in due course will result in a rise in defaults. Prudence is warranted in the US, especially as regards bonds issued by the energy sector where we expect the rise in defaults to begin. Conversely, credit trends are more supportive in the eurozone where balance sheets do not exhibit the same strains.

Over the past 18 months, two key factors have driven the outlook for corporate earnings in the US and the eurozone: oil prices and foreign exchange rates. Interestingly, the effects have been opposite on each shore of the Atlantic. US corporate profits have been hard hit by the decline in the energy sector and by the impact of a stronger dollar on multinationals and US exporters. On the other hand, a weaker euro and cuts in energy bills have boosted eurozone profitability. These effects will, however, begin to reverse from Q2 2016.

Figure 1. Christie's and Sotheby's auction sales (in millions US\$) by category 2000-2015



Source: ArtTactic

Investor concerns have continued to shift in early 2016. First, they feared competitive devaluation in China. Then, it was the oil plunge and later on a world recession. Now, they are concerned by bank strength, especially in the eurozone. However, we expect this worrying phase of turbulence to be short-lived for several reasons.

First, despite the shock falls in China's currency in August 2015 and January 2016, we do not believe that the Chinese authorities have embarked on competitive devaluation. Actually, the shifts in China's exchange rate regime were aimed at moving towards a market-driven free float to help the yuan gain recognition as a world reference currency (the IMF's special drawing rights). The renminbi's overall decline against the US dollar remains contained. As a reminder, sterling suffered greater losses in early 2016 than the renminbi has since late 2014.

Second, the oil plunge does not result from weaker world demand—it is still rising—but rather from a supply shock triggered by a sudden surge in US shale oil reserves. The market's normalization will also come through US producers. We believe that the financial difficulties they are faced with—average breakeven costs are US\$60-65 per barrel—will trigger a series of defaults and bankruptcies. As such, we expect oil prices to return to above the US\$40 mark during the second half.

Third, all oil consumers should view the recent plunge as very good news. It improves economic growth prospects by enhancing consumer purchasing power and companies' margins (ex-energy sector). SG economists forecast slow but steady growth in 2016 in the eurozone

(+1.6 percent) and the United States (+2.4 percent). European countries have finally started creating jobs. Corporate and household credit conditions have also improved over the past year.

Finally, European banks have seen their stock prices plunge sharply since the beginning of the year. Despite sharp improvement in balance sheet quality following the implementation of new regulations, investors seem worried about their ability to adapt to the new context without harming their profitability. Our medium-term view on the financial sector is neutral. Falling prices have made valuations more attractive and regulatory constraints have helped the sector clean-up.

Potential upside in equity markets will be restricted by the current high valuations and the outlook for earnings growth. In this low-growth environment, security selection becomes key. Companies demonstrating an ability to grow their sales and cash flows despite new competitive pressures should do well in particular. Further, Japanese and eurozone equities will remain supported by abundant liquidity. However, despite these positive aspects, we do not expect major stock indices to pick up in the short term. The world will first have to adjust to the various gaps mentioned above and this may last until mid-2016.

In summary, the gaps listed above lead us to anticipate continued volatility throughout the first half of 2016, before the supportive macro backdrop helps foster a recovery in risk assets by year-end. Mind the gaps indeed.



Global art market outlook shows a mixed picture

So where is the global art market heading in 2016? Is the art market slowdown experienced in the US & European and the Chinese contemporary art markets a precursor for a broader value adjustment across all art markets? Or could we see a divergence in performance across different regional art markets? Based on results from a series of different art market surveys conducted by ArtTactic in December 2015 and January 2016, we have outlined some broad art market trends and expert forecasts for this year. Although the general sentiment looks less optimistic compared with last year, the outlook for six out of eight regional art markets analyzed in this report remains neutral-to-positive about the next 12 months. The Chinese and Russian markets are the only art markets to have a negative outlook for 2016.

In general, the art market is likely to follow the regional economic and wealth trends closely in 2016, with markets such as India and Southeast Asia likely to experience a faster growth rate than China, the US, and Europe.

In 2015, the US & European contemporary art market⁶ experienced its first market contraction since 2009, with auction sales decreasing by 6 percent from the market peak in 2014. The trend continued into the February winter sales season in London, where post-war and contemporary sales by Christie's, Sotheby's, and Phillips came in 43 percent lower than in February 2015. However, whilst the overall sales value was lower, buyers continued to pay top prices for artworks of the highest quality and where the pricing was deemed "fair" by the market.

⁶ These results are based on Sotheby's and Christie's global sales of post-war and contemporary art in New York, London, and Paris



© SUMO/I've Got The House In Check, 2015, Acrylique & aérosol sur toile, 190x100cm

Heightened concerns about the slowdown in the Chinese economy and uncertainty around China's ability to manage a potential "hard landing" is likely to continue to spook the markets in the coming months, and could also trickle down and dampen confidence in the Chinese and the global art markets this year. Chinese buyers reportedly account for an increasing share of art sales; Christie's reported in January 2016, that despite Chinese stock market volatility in the summer of 2015, they saw a 5 percent increase in Chinese buyers. Overall spending from Asian buyers accounted for 18 percent of global buyers (up 15 percent from 2014). Asian buyers contributed 30 percent of total sales at Christie's in 2015⁷.

The Latin American art market will be affected by the slowdown in Brazil, but this negative impact could be offset by positive growth in other Latin American art markets, such as Mexico. The outlook for the Middle Eastern art market remains neutral-to-positive, and with economic sanctions lifted in Iran—the region's biggest art market—one could see an increasing interest in this

regional market in the year to come. However, low oil prices and geo-political tension in the Middle East also mean there are significant downside risks. The Russian art market is likely to remain subdued due to continued economic uncertainty and low investor and consumer confidence. The African art market will continue to gain traction in the international art market, as art still offers good relative value compared with other international art markets, but domestic and regional buyers are likely to be negatively affected by slower economic growth in 2016.

It is also important not to paint all geographical modern and contemporary art markets with the same brush, as we are likely to see different dynamics and performance within specific artist categories and across different price segments. Certain segments of the art market are likely to be more robust than others, and in times of uncertainty, issues around historic and cultural importance, quality, and provenance will carry more weight.

⁷ South China Morning Post, 26 January 2016—<http://www.scmp.com/lifestyle/arts-entertainment/article/1905392/economic-uncertainty-slowing-art-market-christies-and>

Increasing risk of an art market bubble bursting

Economics professors at the University of Luxembourg concluded in a 2014 paper⁸ that the international art market is overheating, creating the potential for a “severe correction” in the post-war and contemporary, and American segments. The report uses a unique methodology to detect “explosive behaviors” in the market. The authors say that conditions are remarkably similar to those of the 1990 bubble and that the market is still inflating, in what they term the “mania phase of its formation”. The analysis provides some support to predictions that problems in the global economy could spill over into the art market.

Growth in the online art market remains strong despite global art market slow down: The online art market grew an estimated 24 percent last year⁹, from an estimated \$2.64 billion to \$3.27 billion, fueled by strong growth among a number of online art platforms. Despite increasing economic uncertainty and lower reported art market sales in 2015, it looks like the online art market, which predominantly represents the lower end of the market (classified as being pieces sold for \$10,000 or less) is still in great shape, and could prove more resilient to a slowdown than works selling in the mid- to high-end price range. However, it’s not only the art commerce that has benefitted from advances in technology, as discussed in Section 4: Art & Technology – an emerging industry of art businesses aiming to tackle issues around transparency, tracking and authentication of art and collectibles are likely to have an increasing impact on the art market in the future.

Economic outlook

The International Monetary Fund (IMF) revised down its world economic growth forecast for 2016 in January from 3.6 percent to 3.4 percent. According to the IMF’s January 2016 update, growth in advanced economies is projected to rise to 2.1 percent and to hold steady in 2017, a slightly weaker pick-up than the IMF forecasted in October 2015. On 18 February 2016, the OECD cut its

global growth forecasts, stating that the economies of Brazil, Germany, and the US are slowing, and warning that some emerging markets are at risk of exchange-rate volatility. Their forecast is more pessimistic, with global GDP growth predicted at 3.0 percent in 2016, the same pace as in 2015 and 0.3 percentage point less than predicted in November 2015.

The IMF said in its January revision that overall activity is forecasted to remain robust in the United States, despite the OECD’s less optimistic outlook. The US economy will be supported by still-easy financial conditions and improvements in labor and housing markets, but the IMF sees the strengthening of the dollar as a concern, and this is likely to have an impact on the US manufacturing sector. In the euro area, the IMF considers that stronger private consumption supported by lower oil prices and low interest rates are outweighing a weakening of net exports. According to the IMF, growth in Japan is also expected to improve in 2016 on the back of fiscal support, lower oil prices, accommodative financial conditions, and rising incomes.

Emerging market and developing economies are facing a situation of lower growth, with cyclical and structural forces undermining the traditional growth paradigm, as pointed out by IMF chief Christine Lagarde. Growth forecasts for most emerging market and developing economies show a slower pick-up than previously predicted. Growth is projected to increase from 4 percent in 2015—the lowest rate since the 2008–09 financial crisis—to 4.3 and 4.7 percent in 2016 and 2017, respectively. However, these numbers hide significant regional differences.

The IMF views India and parts of emerging Asia as exceptions, with robust growth projections, whereas Latin America and the Caribbean are forecasted to see a contraction in 2016, reflecting the recession in Brazil and economic stress elsewhere in the region. Most other countries in the region, however, will continue to grow. Emerging Europe is expected to grow at a steady pace,

⁸ Dr Roman Kräussl, Prof. Thorsten Lehnert, and Dr. Nicolas Martelin from the Luxembourg School of Finance at the University of Luxembourg, have used a new and direct statistical method of bubble detection. They analyzed more than one million auction records from the past 36 years, examining six major art styles

⁹ Source: Hiscox Online Art Trade Report 2016

Growth in the online art market remains strong despite global art market slow down

although given that Russia could remain in recession in 2016, this could potentially have a dampening effect on growth. Most countries in sub-Saharan Africa will see a gradual pick-up in growth, but only to rates that remain lower than those achieved during the past decade.

Risks shifts to the downside

An update by the IMF on the 19 January 2016 focuses particularly on risks associated with:

- A sharper-than-expected slowdown in China, which could have a contagion effect on trade, commodity prices, and confidence
- A further appreciation of the dollar and tighter global financing conditions, which could raise vulnerabilities in emerging markets
- A sudden bout of global risk aversion
- An escalation of ongoing geopolitical tensions in a number of regions

Wealth population growth forecasted to slow in the next decade, although Asia will continue to outpace the rest of the world.

According to a recently published report¹⁰ by Knight Frank, the global population of Ultra-High-Net-Worth Individuals (UHNWIs) has grown by 61 percent in the last 10 years. There are now 187,500 UHNWIs with US\$30 million or more in net assets, excluding their principal residence, around the world. This figure is up 61 percent from 116,800 in 2005. The report forecasts that the global population of UHNWIs will continue to expand; however, it predicts that the pace will be significantly slower than in the previous 10 years. The total number of

ultra-wealthy individuals is forecast to rise 41 percent to 263,500 by 2025. Predicted growth rates vary widely on a regional basis, with emerging economies still leading the way. The ranks of Asian UHNWIs are set to expand by 66 percent over the next decade, compared with 27 percent growth in Europe. In 10 years, North America is forecasted to continue to have the largest population of UHNWIs, although growth in Asia's UHNWI population will significantly outpace that of the US.







In 2015, the global UHNWI population saw its first decline since the financial crisis in 2008, with 57 countries out of 91 experiencing a fall in the overall UHNWI population. Close to 6,000 people dropped out of the UHNWI wealth bracket in 2015, a 3 percent decrease. The rate of global economic growth slowed in 2015, while growth in equity, commodity and other asset prices also decelerated. Sharp falls in oil prices also had a notable effect on the ultra-wealthy in many Middle Eastern and some African countries.

Increasing allocation to art and collectibles in the next 10 years

The Knight Frank report looks at past and future allocation to different asset classes and how these have changed over time. It is interesting to note that 36 percent of the 400 private bankers and wealth advisors surveyed said that they expected an increase in allocation towards "collectibles", such as art, wine, and classic cars etc. (up from 26 percent in the past 10 years). This could signal that the art and collectibles market will continue to grow in the next 10 years and that there will be increasing client demand to service this particular asset class, which is in line with the findings in this report.

10 The Wealth Report, 10th edition by Frank Knight. The findings are based on 400 of the world's leading private bankers and wealth advisors who, between them, manage assets for about 45,000 ultra-high-net-worth individuals (UHNWIs) with a combined wealth of over half a trillion US dollars

Table 1: Regional market trends in modern and contemporary art and 2016 outlook

				
Geographical market	Future wealth indicators: predicted growth in UHNWIs in the next 10 years ¹¹	Percentage of allocation to art and collectibles (breakdown of UHNWIs wealth portfolio allocation) ¹²	Increase in allocation to art and collectibles (in percent of respondents) ¹³	Auction sales trend 2014-2015 ¹⁴
Global trends	+41%	2%	36%	Although there are significant regional differences, global sales of modern and contemporary art were down in 2015, mainly driven by a slowdown in the Chinese and the US & European post-war and contemporary art markets.
 US and European contemporary ¹⁷ art	Europe: +27% US: +30%	Europe: 3% US: 2%	Europe: 43% US: 42%	-6%
 Chinese contemporary art	+75%	2%	28%	-41%
 Indian modern and contemporary art	+105%	2%	28%	+14%
 Southeast Asian modern and contemporary art	+36%	2%	28%	+ 28%
 Latin American modern and contemporary art	+41%	1%	38%	+11%
 Middle Eastern modern and contemporary art	+54%	2%	38%	+5%
 Russian modern and contemporary art	+72%	1%	40%	68%
 African modern and contemporary art	+50%	4%	41%	+53%

11 Knight Frank, The Wealth Report, 10th edition, page 64

12 Knight Frank, The Wealth Report, page 68

13 Knight Frank, The Wealth Report, page 68

14 These auction sales is predominantly based on sales by Sotheby's and Christie's, but will also include domestic auction houses for markets such as China and India



Art market outlook trend 2015-2016¹⁵



Collector outlook 2016¹⁶



Art & Finance outlook

Economic uncertainty has a dampening impact on confidence in the global art market. With all art markets (except India) expressing less positive development in the next 12 months.

The majority of collectors maintain a neutral-to-positive outlook on the next 12 months. However, the outlook for China, Europe, and the US—the world’s largest modern and contemporary art markets—is more pessimistic than 12 months ago.

More art market uncertainty, less liquidity, and lower values could have a negative impact on certain aspects of the art and finance industry, such as art investment funds and the art-secured lending market.

On the other hand, more economic and financial uncertainty could see UHNWIs increasing their allocation to tangible assets, including art and collectibles.

-10%

Collector poll: market direction
 ⊕ **UP:** 32%
 ⊖ **FLAT:** 52%
 ⊖ **DOWN:** 16%

For the first time since 2009, the US & European contemporary art market saw a 6% decline in auction sales compared with 2014.

NEUTRAL

-54%

Collector poll: market direction
 ⊕ **UP:** 26%
 ⊖ **FLAT:** 29%
 ⊖ **DOWN:** 45%

The Chinese contemporary art auction market has undergone a volatile period in the last five years, but 2015 was a particularly weak year for this sector. Overall sales from Christie’s, Sotheby’s, China Guardian, and Poly Auction dropped 41% compared with 2014.

NEGATIVE

+9%

Collector poll: market direction
 ⊕ **UP:** 53%
 ⊖ **FLAT:** 42%
 ⊖ **DOWN:** 5%

The overall sales of modern and contemporary Indian art saw an increase of 14% from 2014, predominantly driven by strong growth in domestic auction sales.

POSITIVE

-28%

Collector poll: market direction
 ⊕ **UP:** 40%
 ⊖ **FLAT:** 41%
 ⊖ **DOWN:** 9%

The latest spring season of Southeast Asian auction sales in April/May 2014 reached a new high for this market, with US\$31.1 million in total sales, an increase of 12% from the last record set in autumn 2013.

POSITIVE/NEUTRAL

-30%

Collector poll: market direction
 ⊕ **UP:** 25%
 ⊖ **FLAT:** 61%
 ⊖ **DOWN:** 14%

The auction sales for modern and contemporary Latin American art in 2015 came in 11% higher than 2014, and recorded the highest auction total for the Latin American art market since 2008.

NEUTRAL

-16%

Collector poll: market direction
 ⊕ **UP:** 45%
 ⊖ **FLAT:** 31%
 ⊖ **DOWN:** 24%

Total auction sales of modern and contemporary Middle Eastern art were up 5% in 2015, as more auction houses started to offer sales of art from the region.

NEUTRAL/POSITIVE

-34%

Collector poll: market direction
 ⊕ **UP:** 16%
 ⊖ **FLAT:** 41%
 ⊖ **DOWN:** 43%

Auction sales of modern and contemporary Russian art dropped by 68% in 2015, as the Russian art market is feeling the pinch of lower oil prices, stagnating growth, and Western sanctions.

NEGATIVE

-2%

Collector poll: market direction
 ⊕ **UP:** 39%
 ⊖ **FLAT:** 50%
 ⊖ **DOWN:** 11%

Bonhams organized three dedicated sales of African modern and contemporary art in 2015, up from one annual sale in previous years. Bonhams’ Africa Now auctions raised £1.64 million in 2015, up 53% from 2014.

POSITIVE/NEUTRAL

¹⁵ The Collector Outlook 2016 is based on an annual ArtTactic collector survey conducted in January 2016. The percentage represents the change in the ArtTactic Confidence Indicator between 2015 and 2016

¹⁶ ArtTactic Outlook Survey among art collectors, art advisors, galleries, auction houses in January 2016

¹⁷ Same as Post-War & Contemporary. In a western auction context, modern art belongs to the Impressionist & Modern auction category, and is therefore not included



© SUMO/No Better Time Than Now, 2015, Acrylique, aérosol et sérigraphie sur papier, 65x50cm

Trends in global auction sales of modern and contemporary art

As in previous editions of the Art & Finance Report, we have focused the art market section on global trends in the modern and contemporary fine art market. We believe that the overall trends emerging in the modern and contemporary art sector across different regions give a representative view of some of the key trends taking shape in these art markets. It is also our aim to link the dynamics in the art market to wealth trends in order to give us a better understanding of and draw a potential connection between the global art market and the global wealth management industry.

The following analysis focuses on modern and contemporary art by artist origin, focusing on the United States, Europe, China, India, the Middle East, Latin America, South East Asia, Russia, and Africa. Rather than providing a comparative analysis of the different regional markets, the analysis will focus on the art market trends and wealth trends within each region to see how the two elements might be linked, and what this could tell us about the potential for an art and finance industry.

Art market analysis is not necessarily about auction sales data generated within the country or region itself. For instance, the analysis of the Latin American modern and contemporary art market is based on sales at Sotheby's, Christie's, and Phillips in New York, but the majority of buyers in these sales are of Latin American origin. The same goes for the Russian art market, where sales take place in London, but most buyers are from Russia or the CIS. The analysis is predominantly based on auction sales by Christie's and Sotheby's, although other auction houses are included as they represent a major share of the overall market for that particular modern and contemporary art segment. This is highlighted in each individual section.

For the United States and Europe, and China and Africa, we have used the contemporary art category to reflect the broad trends in the market. However, for markets related to Indian, Middle Eastern, Latin American, and Southeast Asian artists, we have included the modern art segment based on the auction category classification used by the main auction houses, such as Sotheby's and Christie's.

We have also added wealth trends for each of the geographical markets, when available, drawing on results from research reports produced by Wealth-X and UBS, Knight Frank.

Figure 2. Market Share, regional modern and contemporary art markets (in millions US\$)

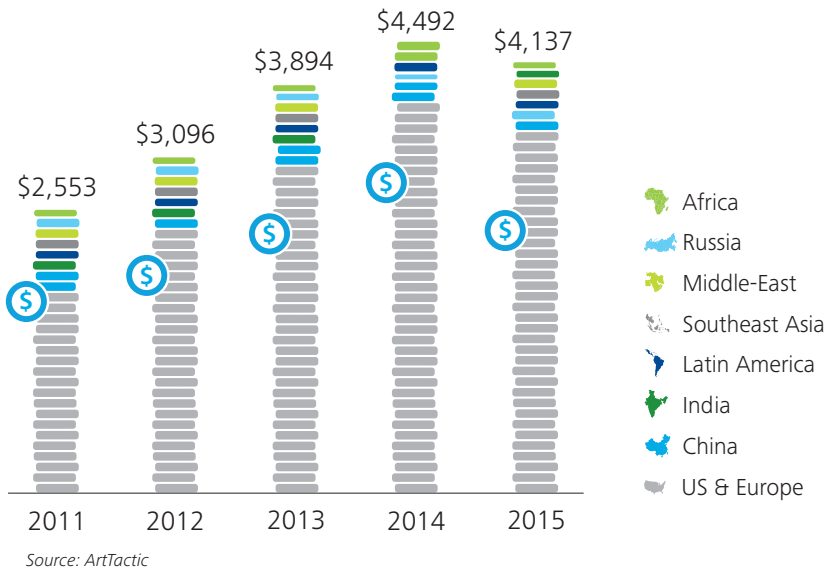
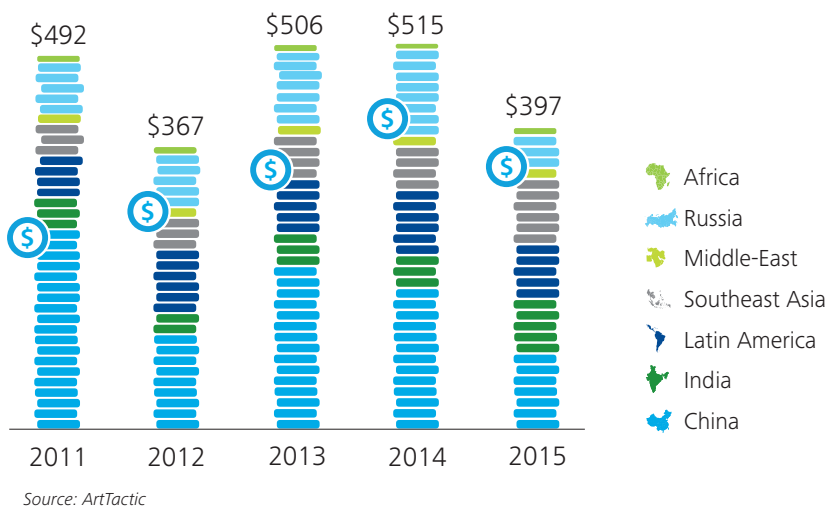


Figure 3. Excluding post-war & contemporary US/Europe (in millions US\$)





US & EUROPE

Market review 2015

Slowdown in contemporary auction sales: Christie's, Sotheby's, and Phillips' post-war and contemporary evening sales in New York and London raised US\$2.81 billion in 2015, down 3.3 percent from 2014. Whilst New York auction sales were down 8 percent, this was offset by an 11 percent increase in London sales.

London gains market share: London gained market share in the auction market for post-war and contemporary art (based on evening sales), up from 25.4 percent in 2014 to 28.6 percent in 2015.

Lower market share for contemporary art market: although the contemporary sector remains the largest category by value (45 percent in 2015, which was the same as in 2014), the modern & Impressionist art market has seen the biggest gain in market share, with 33 percent market share in 2015, up from 27 percent in 2014.

The guarantee race starts to cool: there were signs during the November 2015 sales season that auction houses might start to take a more careful approach to financial guarantees in 2016. Christie's had significantly reduced the number of guaranteed lots from 51.4 percent of total lots in May 2015 to 26 percent of total lots in November 2015. With the overall art market slowing, one could see less appetite for guarantees in the coming year, although these financial incentives are likely to continue to play an important role in attracting the best consignments.

Outlook 2016

Experts turn neutral to market growth in 2016: 32 percent of experts believe the market will rise in the next 12 months (down from 41 percent in January 2015). A larger number of experts, up from 45 percent in January 2015 to 52 percent in January 2016, believe that the contemporary art market will remain flat in the next six months. 16 percent of respondents believe the market will fall in the next 12 months. This indicates that there has been a slight shift towards a less positive, more neutral stance on the post-war and contemporary art market in 2016.

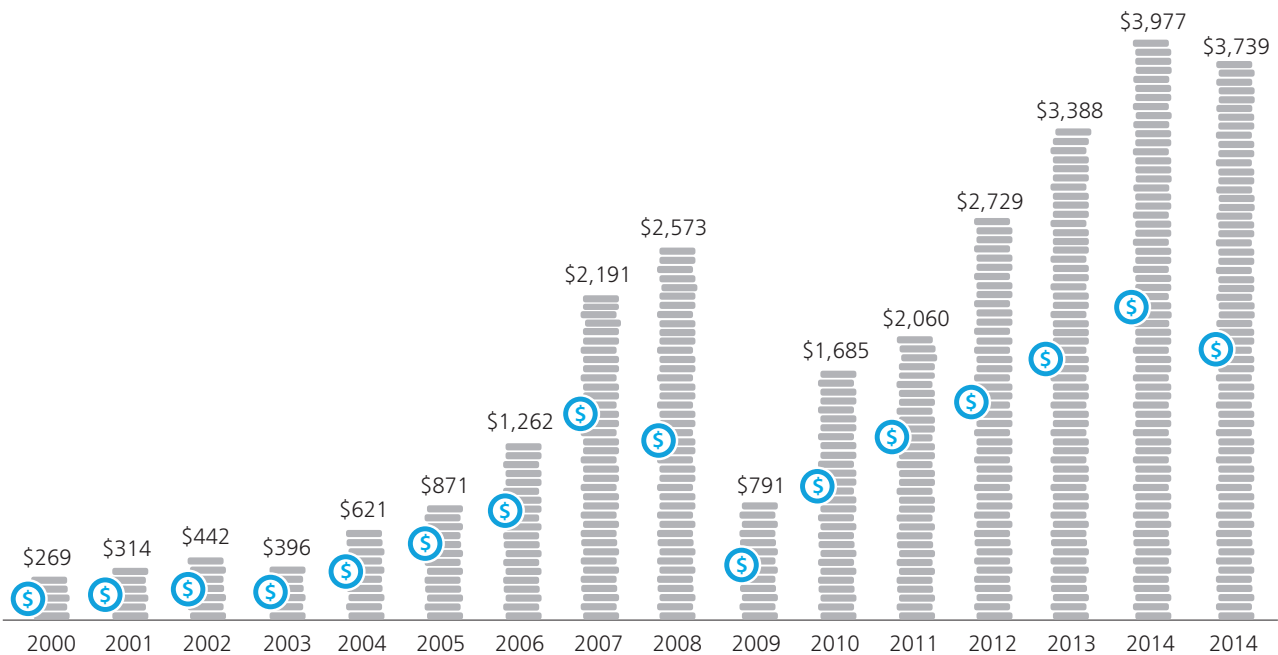
Increasing economic uncertainty could undermine confidence in the art market: since the beginning of 2016, economists and market commentators have gone from bullish to bearish in less than three weeks, which signals that low oil prices and stock market volatility and slowdown in China could weigh on global growth prospects in 2016. With the US & European contemporary art market already showing signs of cooling, 62 percent of experts surveyed stated that "increasing economic uncertainty" remained the biggest risk to art market growth and confidence in 2016.

Economic outlook in Europe and the US: the consensus forecast for eurozone GDP growth in 2016 is between 1.7-1.9 percent, up from 1.5 percent in 2015. The consensus forecast for 2016 US GDP growth is between 2.5-3.0 percent, up from 2.4 percent in 2015, which is more or less in line with last year's growth.

Wealth trends: Europe has experienced a 44 percent increase in UHNWI population since 2005, accounting for an accumulated wealth of \$4,169 billion. The predicted growth in this population for the next decade is estimated to be 27 percent, reaching 58,465 individuals by 2025. North America have seen a similar trend, with 33 percent growth in UHNWI population in the last 10 years, and with forecasted population growth of 30 percent by 2025, with an estimated population of 85,427. Total accumulated wealth for UHNWIs in North America in 2015 was \$6,928 billion.

A larger number of experts, up from 45 percent in January 2015 to 52 percent in January 2016, believe that the contemporary art market will remain flat in the next six months

Figure 4. US & European post-war and contemporary art market
Auction sales (in millions US\$) Sotheby's/Christie's

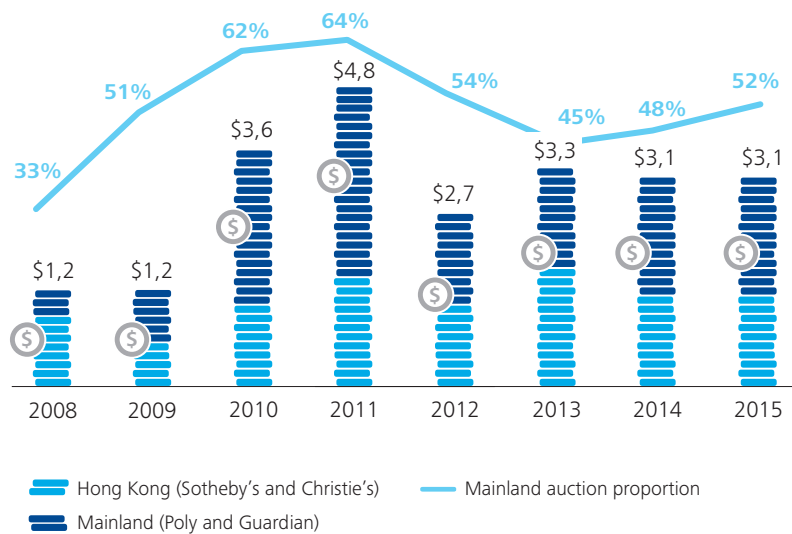


Source: ArtTactic



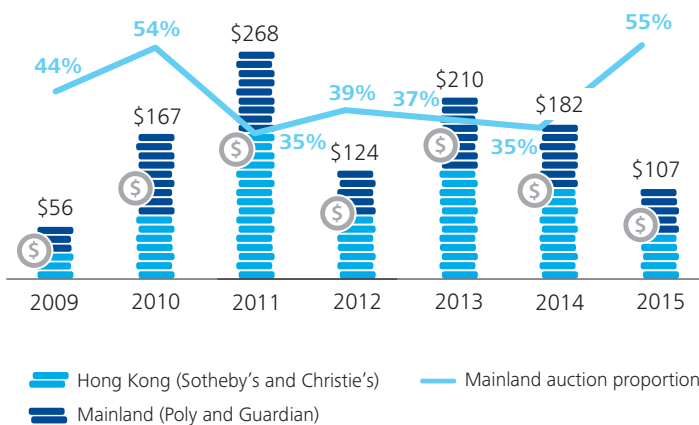
CHINA

Figure 5. Chinese Art Auction Sales (all Chinese collecting categories):
Auction sales (in billions US\$) in Hong Kong and Mainland China (Sotheby's, Christie's, Poly and Guardian)



Source: ArtTactic

Figure 6. Chinese Contemporary Art Sales:
Auction sales (in millions US\$) in Hong Kong and Mainland China (Sotheby's, Christie's, Poly and Guardian)



Source: ArtTactic

Market review 2015

Contemporary Chinese art sales continue to show weak results: the Chinese contemporary art auction market has undergone a volatile period in the last five years, but 2015 became a particularly weak year for this sector. Overall sales from Christie's, Sotheby's, China Guardian, and Poly Auction dropped 41 percent compared with 2014. Sotheby's and Christie's sales of Chinese contemporary art saw the biggest decline of 59 percent, versus 9 percent for the two domestic houses. This drop can be attributed in part to the main Western auction houses' increasing shift away from Chinese to other Asian contemporary art markets, such as Japan, Korea, and Southeast Asia.

Steady overall art market sales: after a 10.7 percent drop in Chinese art auction sales (all art categories) between 2013 and 2014, the Chinese art market has stabilized and came in at the same level in 2015 as in 2014, based on auction results from Christie's, Sotheby's, China Guardian, and Poly Auction.

Domestic auction houses gain market share: Poly and China Guardian gained significant market share in 2015, and accounted for 52.2 percent of sales compared with 47.8 percent in 2014. While Sotheby's saw a 15.1 percent decline in overall sales of Chinese art, Poly Auction posted a 19.1 percent gain in sales during 2015. Both Christie's and China Guardian experienced lower sales in 2015, with 2.6 percent and 5.6 percent decreases respectively.

Sotheby's and Christie's find the Chinese mainland market challenging: both Sotheby's and Christie's entered the Chinese domestic art market in autumn 2013. However, both houses have struggled to create any significant impact on this market. Sotheby's sales in Beijing were 69 percent lower than in 2014. Christie's sales in Shanghai were 39 percent lower than in 2014.

Outlook 2016

The direction of the Chinese art market in 2016 suggests more uncertainty with a negative outlook for Chinese contemporary art: 45 percent of experts surveyed by ArtTactic believe the market will fall (versus 16 percent in January 2015), 26 percent believe the Chinese contemporary art market will rise in the next 12 months (versus 61 percent in January 2015), and the remaining 29 percent believe the market will remain flat (versus 23 percent 12 months ago).

International art auction houses are shifting their attention to other Asian markets: there was a significant drop in sales of Chinese contemporary art by Sotheby's and Christie's in 2015, partly because the auction houses are increasingly focusing on artists from Japan, South Korea, and Southeast Asia instead. With increasing economic uncertainty in China, we believe this trend will continue in 2016.

Domestic Chinese auction houses exposed to economic uncertainty: with both Sotheby's and Christie's failing to make any significant inroads in the Chinese mainland art market in 2015, and with Poly Auction and China Guardian gaining market share since 2013, we could see a reversal this year. Confidence in the domestic Chinese art market could be affected by the increasing financial market volatility and slowdown in economic growth. Although this could also hit Sotheby's and Christie's sales in Hong Kong, their more diverse client base is likely to offset some of these risks.

Economic outlook: the Chinese economic slowdown inflicted considerable pain on energy and commodity producers in 2015, but it also hampered growth in the rest of the developing world. China's stock market volatility in January 2016, combined with further disappointing economic data and the Chinese central bank's weakening of the yuan, has sparked fears of a currency war. This means that China's well-being could again have a serious impact on the global economy in 2016, unless the Chinese government can get the situation under control.

Wealth trends: China has experienced a 330 percent increase in UHNWI population since 2005. Although the growth rate in the last 10 years is predicted to slow down, the forecasted UHNWI population growth is estimated at 75 percent by 2025, to 22,773 individuals, and continue to outpace the growth in Europe and the US.

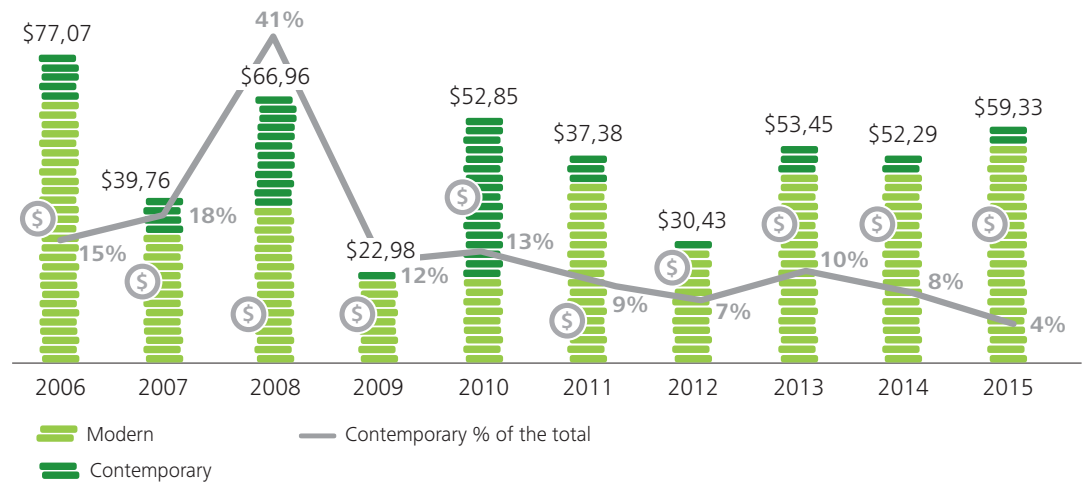
The Chinese contemporary art auction market has undergone a volatile period in the last five years, but 2015 became a particularly weak year for this sector



INDIA

Figure 7. Indian Modern & Contemporary art market (2006-2015)

Auction sales (in millions US\$) based on Christie's, Sotheby's and Saffronart



Source: ArtTactic

Market review 2015

Indian auction sales increase in 2015: overall sales of modern and contemporary Indian art saw an increase of 13.5 percent from 2014, predominantly driven by strong growth in domestic sales.

Stronger domestic demand: domestic sales (auction sales taking place in India) accounted for 61 percent of the overall total, up from 55 percent in 2014 and 46 percent in 2013. This growth was led by Pundole's and Saffronart, with both auction houses experiencing strong growth in 2015.

Christie's Mumbai sale strategy was a success: the Christie's India sale in Mumbai in December 2015 was a success, raising a total of US\$14.67 million, up 20 percent from 2014. The Mumbai sale has become the auction house's most important season for modern and contemporary Indian art.

Increasing auction competition in the Indian art market: Christie's remained the market leader in the modern and contemporary Indian art market in 2015, with a 35.7 percent market share (down from 38 percent in 2014). Saffronart increased its market share to 26 percent in 2015 (up from 23.5 percent in 2014), putting it ahead of Sotheby's 16.2 percent market share (down from 19.8 percent in 2014). Pundole's increased its market share to 11.7 percent, up from 5 percent in 2014.

Overall sales of modern and contemporary Indian art saw an increase of 13.5 percent from 2014, predominantly driven by strong growth in domestic sales

Outlook 2016

Positive-to-neutral outlook for the modern Indian art market in 2016: 53 percent of experts believe the modern and contemporary Indian art market will rise in the next 12 months (down from 61 percent in January 2015). A further 42 percent believe it will remain flat (up from 26 percent in 2015). This suggests that the positive momentum in the Indian art market is likely to continue this year.

Domestic Indian auction market set to grow in 2016: whilst New York and London used to dominate modern and contemporary Indian sales, there has been a clear shift towards auctions held in India in the last three years, with Saffronart and Pundole's strengthening their market position in 2015. We expect this trend to continue this year.

Collecting taste is broadening: whilst the Indian art market has been largely dominated by modern Indian art in the last five years, Saffronart and Pundole's are introducing a wider program of antiquities, fine and decorative art, design, and jewelry. The focus on single-owner collections has also brought freshness, new material, and interesting provenance to the Indian art market—something that has been lacking in the past.

Economic outlook: the IMF cut its prediction for growth in India's gross domestic product by 0.2 percentage point to 7.3 percent for the year ending 31 March 2016, but left its forecast of 7.5 percent for the following 12 months unchanged from its most recent update in July. "Growth will benefit from recent policy reforms, a consequent pick-up in investment, and lower commodity prices," the IMF said. While many commodity-oriented emerging markets are doing poorly, many others are net commodity importers and could potentially do better going forward, including India.

Wealth trends: India has experienced a 349 percent increase in UHNWI population since 2005. Although the growth rate in the last 10 years is predicted to slow down, the forecasted UHNWI population growth is among the highest and the population is expected to more than double (105 percent growth) by 2025, with an estimated 12,341 individuals with more than \$30 million, up from 6,020 today. Outpacing the forecasted growth rate for China in the next 10 years.



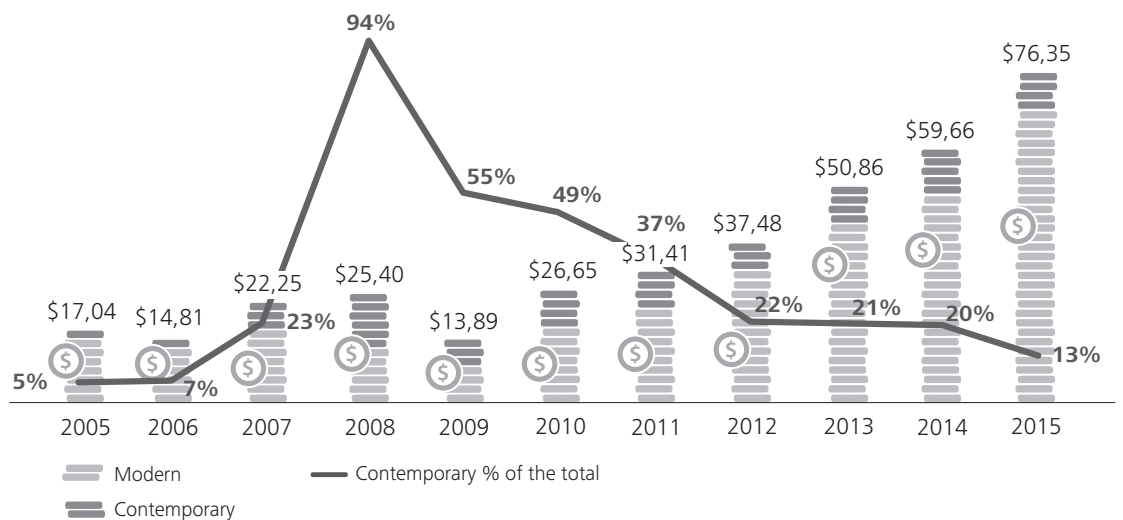
© SUMO/Détail de *Simmer Down*, 2015, Acrylique & aérosol sur toile, 130x130cm



SOUTHEAST ASIA

Figure 8. Southeast Asian Modern & Contemporary Art Market (2005-2015)

Auction sales (in millions US\$) based on Christie's and Sotheby's



Source: ArtTactic

Market review 2015

Southeast Asian art continues to be one of the best performing markets: since the global art market downturn in 2009, the Southeast Asian modern and contemporary art market has been on a steady climb, with 28 percent growth in auction sales in 2015 based on sales at Sotheby's and Christie's.

Southeast Asian contemporary artists are in vogue as Chinese contemporary art weakens: whilst Chinese contemporary art has seen a steady decline in the last three years, Christie's and Sotheby's have increasingly directed their attention towards Southeast Asian artists in their Asian contemporary sales in Hong Kong.

Modern art dominates with several new records in 2015: modern Southeast Asian art accounted for 87 percent of the 2015 sales total (up from 80 percent in 2014). Blue chip Indonesian works have performed well, with Indonesian artist Hendra Gunawan selling a painting for an artist record of US\$3.4 million through Sotheby's in Hong Kong.

Indonesian art dominates: Indonesian art dominates the region's art market with a 54 percent market share based on total auction sales at Sotheby's and Christie's.

High sell-through rates: in October 2015, Sotheby's presented the largest-ever evening sale grouping of Southeast Asian modern and contemporary art, which achieved an exceptional sell-through rate of over 90 percent.

Outlook 2016

Positive-to-neutral outlook for 2016, although concerns about the market's sustainability persist: the positive auction sales trend in 2015 is likely to continue into 2016, but possibly at a slower pace. A survey of international collectors conducted in January 2016 by ArtTactic showed that 40 percent believe the Southeast Asian modern and contemporary art market will rise further in 2016 (down from 53 percent in 2014), with 40 percent of the belief that market growth will flatten out this year (down from 44 percent in 2014).

19 percent believe there is significant downside risk in this art market in the next 12 months (up from 4 percent).

Improved art market infrastructure will help the regional art market to prosper: Art Stage Singapore, the premier art fair in the region, is holding its 6th edition in January 2016. The fair has acted as a catalyst for the Southeast Asian art market and encouraged new investment in art market infrastructure, such as Gillman Barracks (gallery district) and the launch of the National Gallery Singapore. The coordination of these efforts has finally enabled Singapore to put itself on the international art map and position itself as a serious contender to other Asian hubs such as Hong Kong.

Philippine art market set to grow: whilst the majority of the focus has been on Indonesian artists in recent years, the Philippine art market, with its well-developed auction market, international art fair, and vibrant local gallery scene, is well positioned to grow into one of the leading regional Southeast Asian art markets in the future.

Economic outlook: growth in Southeast Asian nations is projected to average 5.2 percent over 2016-20, led by growth in the Philippines and Vietnam. Private consumption will be a large contributor to overall growth, while exports will contribute less than during most of the previous decade. Indonesia, Southeast Asia's largest economy, has experienced mild moderation in its real growth, with both domestic and external demand slowing to 5.5 percent in the medium term. Southeast Asian consumer confidence continued its steady rise during 2015, reaching the highest level recorded to date and far outstripping other global markets.

Wealth trends: Indonesia has experienced a 349 percent increase in UHNWI population since 2005. The forecasted UHNWI population growth in the next 10 years is expected to be 110 percent, with an estimated 2,302 individuals reaching wealth levels of more than \$30 million. Vietnam has also seen strong growth in the last 10 years, with a 354 percent increase in the country's UHNWI population, and with predictions that this population will continue to grow by 140 percent in the next decade. Other countries in the region, such as Singapore have experienced slightly slower growth, with 95 percent increase in their UHNWI population in the last 10 years, and with predicted growth rate of 48 percent over the next 10 years, reaching a UHNWI population of 3,493.

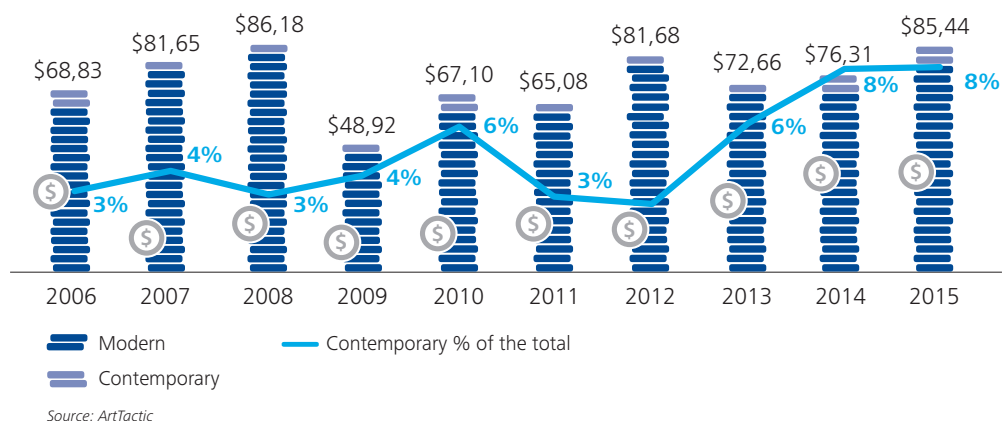
Southeast Asian
consumer confidence
continued its steady rise
during 2015, reaching the
highest level recorded to
date and far outstripping
other global markets



LATIN AMERICA

Figure 9. Latin American Modern & Contemporary art market (2006-2012)

Auctions sales (in millions US\$) based on Christie's, Sotheby's and Phillips



Market review 2015

Auction sales higher in 2015 despite Brazilian art market downturn: auction sales for modern and contemporary Latin American art in 2015 came in 11 percent higher than in 2014, and recorded the highest auction total for the Latin American art market since 2008.

Phillips continues to gain market share in the Latin American auction market: Christie's Latin American sales accounted for 50 percent of the total in 2015, up from 49 percent in 2014. Phillips saw the highest gain, with 8 percent market share (up from 5 percent in 2014). Sotheby's market share was 42 percent, down from 46 percent in 2014.

Mexican art dominates auctions, with increasing demand for Cuban art: Mexican art continues to account for the largest share of the market with 29.2 percent of overall sales. In second place were Colombian artists (one artist, Fernando Botero, accounted for the majority of this). In third place, we have Cuban art, which accounted for 10.5 percent in 2015, up from 5.3 percent in 2014, and became one of the fastest growing segments of the Latin American art market in 2015.

The bottom falls out of the Brazilian art auction market: Brazilian art represented only 4.3 percent of Latin American auction sales in 2015, down from 14.3 percent in 2014 and 26 percent in 2013. Economic and political uncertainty has had a significant impact on the Brazilian art market, once a darling of the global art market.

Outlook 2016

Neutral outlook for the Latin American art market in 2016: 25 percent of experts surveyed by ArtTactic in January 2016 (down from 44 percent in January 2015) believe the Latin American art market would see a positive growth trend this year, with 61 percent predicting the market would come in at around the same level as in 2015. 14 percent of respondents believe the Latin American art market could deteriorate in the coming 12 months, citing economic uncertainty as the biggest risk.

Phillips will continue to lead the development in the contemporary Latin American art market: with Sotheby's and Christie's predominantly focusing on modern Latin American art, Phillips have successfully carved out a niche in the contemporary segment of the market. During last year's November sales,

Mexican art continues to account for the largest share of the market with 29.2 percent of overall sales

contemporary Latin American art accounted for 44.8 percent of sales, up from 22.1 percent in May 2015. With Phillips gradually building confidence in the contemporary Latin American art market, we could see both Sotheby's and Christie's increasing their share of contemporary art in 2016.

More geo-diversity in the Latin American art market: Mexican artists have dominated the Latin American art auction market in the last eight years, except for in 2013, when Brazilian art gained the largest market share. However, last year's auction breakdown shows a more diverse picture, with artists from smaller peripheral markets such as Venezuela, Nicaragua, and Uruguay representing 18.3 percent in 2015 (up from 15.2 percent in 2014).

Economic outlook: growth trends among the region's financially integrated economies—Brazil, Chile, Colombia, Mexico, Peru, and Uruguay—are

expected to diverge over the coming period, reflecting differentiated exposure to global commodity markets and other country-specific factors. Brazil is experiencing the most serious economic downturn in more than two decades, with output projected to fall by 1 percent in 2015. Mexico, the second largest economy in the region, faces a comparatively favorable outlook. Growth is projected to expand by 3 percent this year. Chile, Colombia, and Peru are all facing headwinds from lower commodity export prices and the related cuts to corporate investment.

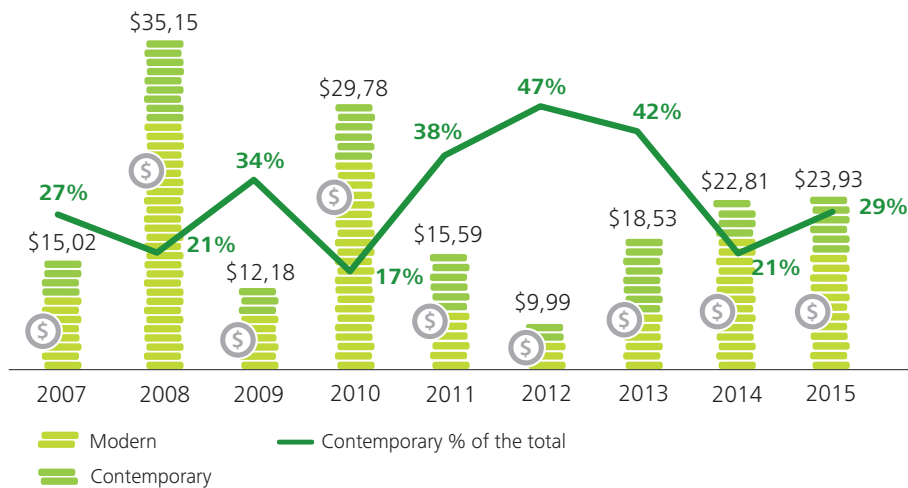
Wealth trends: Latin America has experienced a 80 percent increase in UHNWI population since 2005, accounting for an accumulated wealth of \$997 billion. The predicted growth in this population for the next decade is estimated to be 41 percent, reaching 13,380 individuals by 2025.



MIDDLE EAST

Figure 10. Middle-East Modern & Contemporary art market (2007-2015)

Auction sales (in millions US\$) based on Christie's, Sotheby's and Bonhams



Source: ArtTactic

Market review 2015

Auction sales up 5 percent in 2015: total auction sales of modern and contemporary Middle Eastern art were up 5 percent in 2015, as more auction houses started to offer sales of art from the region. However, Christie's sales in Dubai experienced a 22 percent decrease in turnover during 2015.

Sotheby's and Bonhams add new auction sales:

Christie's dominant position in the modern and contemporary Middle Eastern art market since 2006 has come under threat, as both Sotheby's and Bonhams increased their market share in 2015. Christie's share has fallen to 56 percent from 85 percent in 2014. Sotheby's has increased its market share to 28 percent (up from 16 percent) and Bonhams accounted for 16 percent in 2015 (there were no sales in 2014).

Iranian, Lebanese, and Egyptian artists dominate:

based on Christie's recent sale in October 2015, artists from Iran, Lebanon, and Egypt represented 75 percent of the sales total. At Bonhams, modern Iraqi artists accounted for 42 percent of total sales in October 2015.

Outlook 2016

Neutral-to-positive outlook for 2016, but with more downside risk: a recent survey of international art collectors conducted by ArtTactic showed that 45 percent believe the modern and contemporary Middle Eastern art market will see further growth in 2016 (down from 56 percent in 2015), with 31 percent believing the market will remain flat. However, there are concerns about the next 12 months, with 24 percent (up from 16 percent in 2015) predicting that the Middle Eastern art market will fall. Wars, terrorism, and geo-political tension in the region were cited as the main reasons for this, as well as the oil price decline.

More auction competition will stimulate demand:

up until 2015, Christie's had been the only auction house with a long-term, continuous commitment to the modern and contemporary Middle Eastern art market through its twice-yearly sales in Dubai. However, there are signs that both Sotheby's and Bonhams are increasing their focus on the region. More competition will help increase the size of the Middle Eastern art market and broaden the collector base.

Iranian art market could see a lift in 2016: with economic sanctions being lifted for Iran, economists and market commentators expect strong economic growth in the country in the years to come. We believe this could fuel the already active domestic art market and further strengthen Iranian artists' position in the international art market.

Economic outlook: the World Bank's economic forecast for the Middle East and North Africa (MENA) shows that the regions' economies have stalled, with GDP growth to be less than 3 percent for the third year running. Low oil prices, conflicts, and the global economic slowdown make short-term prospects of recovery unlikely.

Wealth trends: Middle East has experienced a 89 percent increase in UHNWI population since 2005, accounting for an accumulated wealth of \$980 billion. The predicted growth in this population for the next decade is estimated to be 54 percent, reaching 13,763 individuals by 2025.

Based on Christie's recent sale in October 2015, artists from Iran, Lebanon, and Egypt represented 75 percent of the sales total



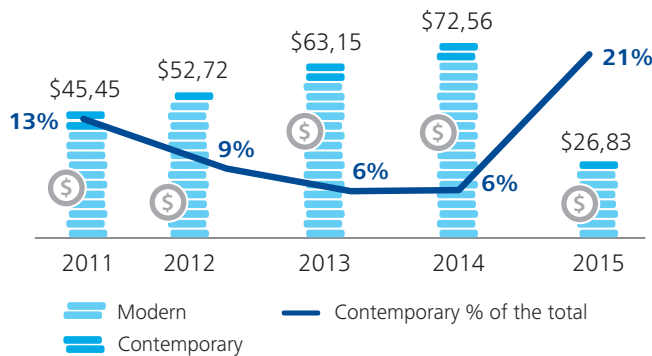
© SUMO//I've Got The, 2015, Acrylique & aérosol sur toile, 100x100cm



RUSSIA

Figure 11. Russian Modern & Contemporary art market 2011-2015

Auction sales (in millions US\$) based on Christie's, Sotheby's and MacDougall)



Source: ArtTactic

Market review 2015

Russian art market collapses in 2015: auction sales of modern and contemporary Russian art dropped by 68 percent in 2015, as the Russian art market is feeling the pinch of lower oil prices, stagnating growth, and Western sanctions. Russia's GDP contracted 4.1 percent in the third quarter of 2015; crude oil prices have plunged by almost two-thirds from their high point last year; and the Russian rouble is down more than 50 percent against the dollar.

London consolidates its position as the location of choice for the international Russian art market: Christie's announced that it is ending standalone sales of Russian art in New York and focusing its Russian activities out of London. Sotheby's ended its New York Russian sales in 2013.

Sotheby's dominates the Russian art market: despite a poor year, Sotheby's has a clear lead in the modern and contemporary Russian art market with a 55 percent market share, against Christie's 20 percent and MacDougall's 25 percent.

Outlook 2016

Negative outlook for 2016, although 42 percent believe the Russian art market will stabilize: a recent survey of international collectors conducted by ArtTactic showed that 43 percent believe the modern and contemporary Russian art market will fall further in 2016 (up from 42 percent in 2015), with 41 percent believing market growth will flatten out this year (up from 30 percent in 2015). 16 percent believe there is upside potential in the Russian art market (down from 28 percent in 2015).

Economic recession expected to continue: the Russian economy is expected to contract by 3.7 percent in 2015, hit by falling oil prices and Western sanctions. Whilst many thought that the peak of the crisis had been reached, the recent financial market turmoil and the further fall in the oil price have left Russians facing the prospect of a second successive year of recession. The World Bank has updated its economic outlook for Russia for 2015-2017 to reflect a recent downward adjustment in oil prices. The World Bank has maintained its 2015 projections of a 3.8 percent real GDP contraction by this year. Growth for 2016 was revised down slightly to -0.7 percent (from -0.6 percent).

Wealth Trends: Russia and CIS has experienced a 199 percent increase in UHNWI population since 2005, accounting for an accumulated wealth of \$702 billion. The predicted growth in this population for the next decade is estimated to be 72 percent, reaching 10,517 individuals by 2025.

Russian economy is expected to contract by 3.7 percent in 2015, hit by falling oil prices and Western sanctions



AFRICA

Market review 2015

Bonhams sees increase in sales of contemporary African art: Bonhams organized three dedicated sales to modern and contemporary African art in 2015, up from one annual sale in previous years. Bonhams' Africa Now auctions raised £1.64 million in 2015, up 53 percent from 2014.

Contemporary African art fair expands to New York: 1:54, the leading international fair dedicated to contemporary African art, launched its inaugural art fair in New York in May 2015, following two successful editions in London.

Nigerian corporate art collection comes to market: the corporate art collection of Afren, the London-listed oil drilling company that was put into administration in July 2015, sold 100 works of art from its collection through Bonhams in October 2015. The sale raised £375,000.

Nigerian auction market stabilizes: the Nigerian auction house, Art House Contemporary, registered US\$1.3 million in overall auction sales in 2015 (up 10.5 percent from 2014). However, the 2015 total was still 24.5 percent lower than in 2013.

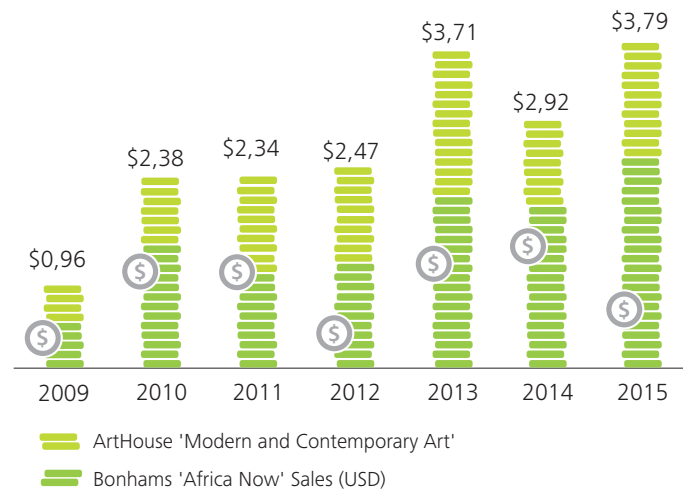
Outlook 2016

Neutral-to-positive outlook for the next 12 months: 39 percent of experts surveyed in January 2016 believe the modern and contemporary African art market will rise in the next 12 months (down from 49 percent in January 2015). Meanwhile, 51 percent expect that the market will remain flat and 11 percent believe the market will fall in the next 12 months (against 12 percent who expected the market to decline in January 2015).

Bonhams' success is likely to attract competition: on the back of Bonhams' success in the African art market, we could see Phillips, Sotheby's, and Christie's starting to dedicate new sales to this region.

Figure 12. African Modern & Contemporary Art (2009-2015)

Auction sales (in millions US\$) based on Bonhams and ArtHouse



Source: ArtTactic

Low oil prices could hit the Nigerian art market: with Nigerian collectors playing a key role in the African art market, there is a significant risk that we could see the Nigerian economy slowing on the back of falling commodity prices this year. More economic uncertainty could weigh on consumer confidence and the willingness to invest in art.

Economic outlook: the economies in Sub-Saharan Africa are expected to pick up slightly in 2016, providing we see a recovery in the global economy. Lower prices for oil and other commodities, coupled with negative spillovers from severe droughts, are expected to restrict growth, put public finances under additional strain, and cause uncertainty in the financial markets, particularly among economies driven by commodity exports.

Wealth trends: Africa has experienced a 64 percent increase in UHNWI population since 2005, accounting for an accumulated wealth of \$301 billion. The predicted growth in this population for the next decade is estimated to be 50 percent, reaching 3,933 individuals by 2025.



ALL DRINK OUT

TO BE KING
YOU DON'T NEED
A CASTLE

DRA

section 2

Art
and
wealth
management
survey

Highlights

- **A large majority of wealth managers believe art and collectibles should be part of a wealth management offering:** the recent survey shows a significant increase in the number of wealth managers saying that they think art and collectibles should be included as part of a wealth management offering (from 55 percent in 2014 to 78 percent in 2016). For the first time in five years of analysis, this aligns the wealth management industry with that of collectors and art professionals.
- **Client demand for art-related services:** an increasing number of wealth managers (48 percent) recognize that their clients are putting pressure on them to offer art-related services.
- **A large majority of collectors buy art for passion with an investment view:** 72 percent of art collectors said they bought art for passion with an investment view. The emotional benefit of collecting combined with the potential of a value increase and/or store of value, i.e., value protection, is the driving motivation for most art collectors in the art market. This is an important point to bear in mind when designing and implementing art-related services among private banks and wealth managers.
- **Wealth managers are realizing the importance of art and collectibles as part of a wealth management offering, but are not yet aligned with their clients' expectations:** there are signs that wealth managers predominantly focus on traditional wealth management services, while art collectors are looking to their wealth managers for concrete art-related services, such as art valuation and art collection management. This suggests that collectors also see their wealth managers as their trusted independent advisors for their art-related activities.
- **Collection management and wealth reporting:** 73 percent of wealth managers in 2016 (up from 58 percent in 2014) said that their clients wanted to include art and other collectible assets in their

wealth reports, in order to have a consolidated view of their wealth. This trend suggests that the wealth management industry is recognizing art and collectibles as an asset class and increases the likelihood that art and collectibles will be included in an overall asset management and wealth reporting structure in the near future. The ability to report on art and collectible assets is also an effective way to provide value-added services to clients and to keep them aware of the financial aspects of their art collection.

- **Wealth managers prioritize services centered around wealth preservation:** the financial component of art collecting seems increasingly to be a primary driver for developing art wealth management services. The key interest is not the investment or yield-seeking aspect of it; rather it is more the preservation of the capital allocated to art and collectible assets.
- **Negative outlook from wealth managers on the growth of the art investment fund industry, despite appetite for art investment products:** only 10 percent of wealth managers—the lowest level reported since the launch of the Art & Finance Report in 2011—believe the art investment fund industry will expand in the next two to three years (down from 20 percent in 2014). This demonstrates that wealth managers remain cautious about the art investment fund initiatives in today's market.
- **More than a third of collectors would be interested in art investment funds:** this is the highest reading since the launch of the Art & Finance Report in 2011. It clearly indicates collectors' increasing interest in the possibility of having financial exposure to art through an investment vehicle.
- **Art-secured lending continues to increase, boosted by third-party lenders:** 69 percent of wealth managers said their institutions now offered services linked to art-secured lending (up from 48 percent in 2014).

- **The US art-secured lending market is expanding rapidly**, aided by low interest rates, an expanding art market, and an attractive legal environment provided by the Uniform Commercial Code (UCC). We estimate that the overall market stands at US\$15 billion to US\$19 billion (value of average loans outstanding). Private banks dominate the market with a loan book size of between US\$13 billion and US\$15 billion, with a 5-year annual growth rate of 13 percent.
- **Regulation remains the biggest concern and the enforcement of existing regulation is difficult:** 62 percent of wealth managers said that the unregulated nature of the art and collectibles market remains the biggest challenge for incorporating art into their service offering. However, this was down from 83 percent in 2014, which suggests that although it is still a major hurdle, growing awareness and understanding of the art market have eased concern.
- **Skill and knowledge transfer:** cultural institutions can use their knowledge, experience, and skills to support wealth managers in their provision of art wealth management services.
- **Potential for more pro-active art and wealth management services in Switzerland:** Switzerland has always been a nation of art collectors and it is host to many of the world's biggest art events. It also has one of the most important private banking sectors. However, art wealth management activities in Switzerland are mainly limited to art entertainment, corporate collections, and sponsoring. Swiss wealth managers would be ideally positioned to expand their art-related service offering for client acquisition and retention purposes, by taking a more pro-active approach when it comes to art and wealth management.

72 percent of art collectors said they bought art for passion with an investment view

Art wealth management services can be built around four core areas

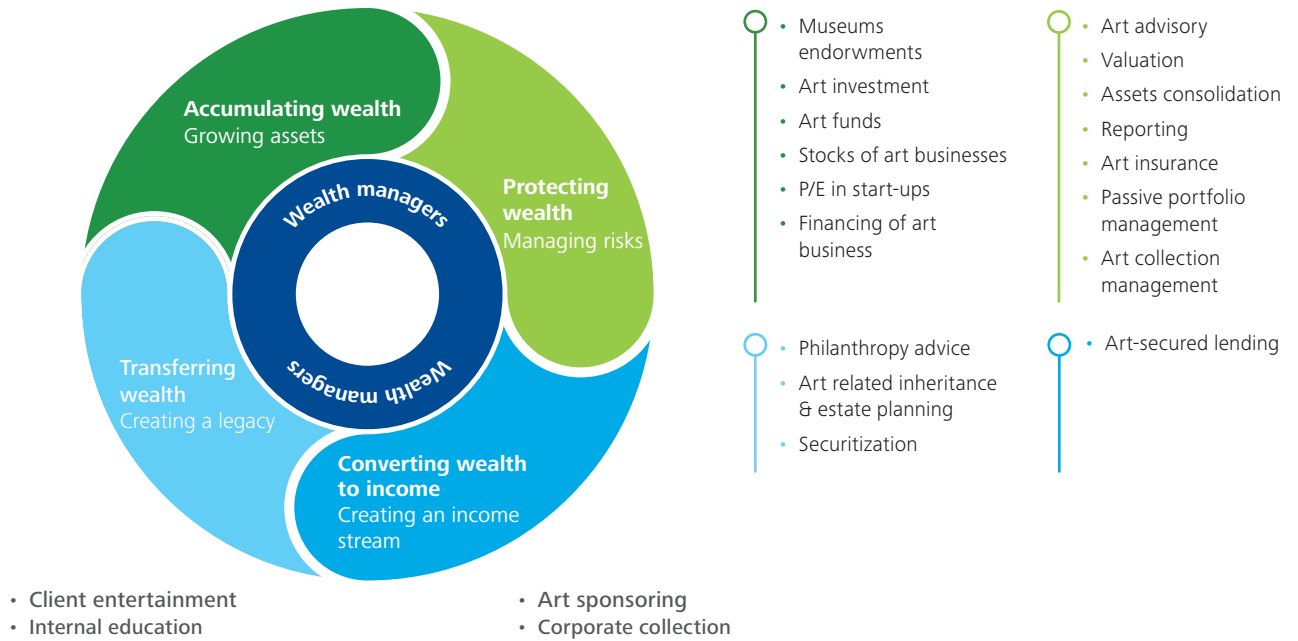
Art and wealth management is not a new concept. For many decades, private banks and wealth managers have helped address the needs of their clients regarding art and collectible wealth. However, with the increase in value and holdings¹⁸ of art and collectible assets among HNWIs and UHNWIs, a more strategic and holistic approach to art wealth management is required in order to fully meet clients' demands and expectations.

We have organized this report into four main wealth management areas. Three of these areas are dedicated to the preservation of wealth over time, from protecting wealth, converting wealth to income, and finally transferring wealth to the next generation. The final area is related to the accumulation of wealth, risks, and opportunities related to investment in art.

When we talk about art wealth management services, we are referring to a full range of services that address the four focus areas (figure 13). In our definition of art wealth management services, we consider art-related entertainment or corporate collections as peripheral activities to wealth management, but acknowledge that they can play an important role in onboarding and promoting a broader spectrum of art wealth management services within an organization. Finally, developing an art wealth management offering can be naturally extended to cover other collectible assets.

¹⁸ In 2014, Deloitte estimated that there are at least 400,000 art collectors in the top wealth segments (HNWIs and UHNWIs) with an estimated USD 1.5 trillion of wealth in art assets

Figure 13. Typology of art wealth management services



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

A natural starting point to being able to fully integrate and implement an art wealth management offering is to get a better overview of clients’ art and collectible assets, the actual physical condition of these assets, and where they are kept. Findings from this year’s survey show that 73 percent of wealth managers surveyed said they expected their clients to want to include art and other collectible assets in their wealth reports to have a consolidated view of their overall wealth and a better view of their exposure (up from 58 percent in 2014 and 40 percent in 2012). This clearly shows how far the wealth management industry has come in terms of recognizing the need to start integrating art and collectible assets in existing wealth reporting, and this is a critical starting point to being able to provide a more active management approach when it comes to art-related wealth.

Stakeholder analysis: a comparative view

In this section, we present the survey findings for private banks, family offices, art professionals, and art collectors from surveys conducted between November 2015 and January 2016 on issues related to art and wealth management.

The aim is to gain a better understanding of the motivations, current involvement, and challenges that each of these stakeholders face, and how an effective strategy can be developed to bring these stakeholders together, to help create a better foundation for the art and finance industry.

Overview of private banks, family offices, art professionals, and collectors

The first part of the analysis aims to provide a combined view of the stakeholders involved in the art and finance industry. The objective is to bring together some of the key elements raised by each stakeholder group (private

banks, family offices, art professionals, and art collectors) and help us to identify the aspects in relation to which stakeholders' views are aligned, on which topics they differ, and the likely implications of this in the future.

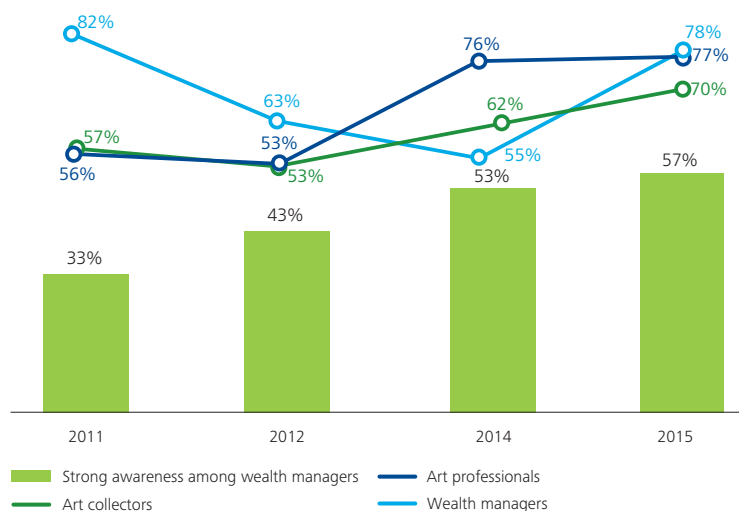
Converging views among stakeholders in the art and finance industry

Between 2011 and 2014, the wealth management community had reservations regarding the role of art as a potential wealth management service. These concerns were most likely founded in an increasing realization (and awareness) of the complex nature of the unregulated art market and how to interact with a highly regulated financial services industry. This put the wealth management community on a diverging trend compared with art collectors and art professionals. Although these issues remain, there are signs that the wealth management sector is increasingly prepared to address the complex nature of the art market in order to serve clients' needs.

The recent survey shows a significant increase in the number of wealth managers saying they think art and collectibles should be included as part of the wealth management offering (from 55 percent in 2014 to 78 percent¹⁹ in 2016). For the first time in five years of analysis, this aligns the wealth management industry with that of collectors and art professionals, where 70 percent and 77 percent stated the importance of including art as part of a wealth management strategy and offering.

Supporting the above trend, is the increasing awareness²⁰ among wealth managers around issues and developments related to art as an asset class. This is a trend that has been on a steady increase since 2011, with 57 percent of wealth managers stating that they are aware/very aware of developments in the art and finance industry (up from 53 percent in 2014 and 43 percent in 2012).

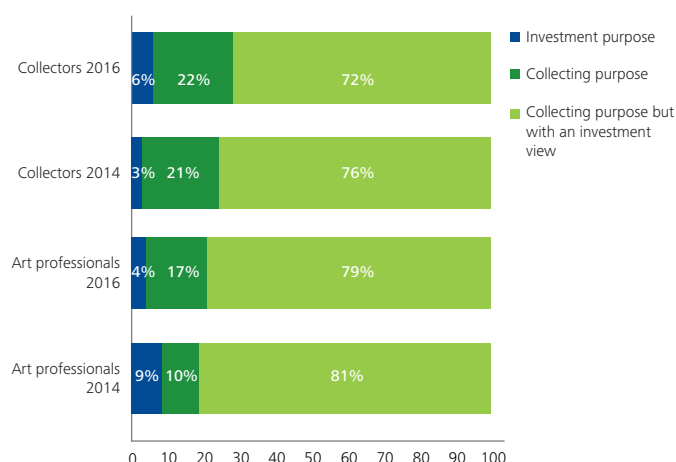
Figure 14. Do you think that art and collectibles should be part of a wealth management offering? (% answering Yes)



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

Sample	2011	2012	2014	2015
Private banks	19	30	35	53
Family offices	0	0	14	14
Art collectors	48	81	90	94
Art professionals	140	112	122	126

Figure 15. Why are you/your clients buying art?

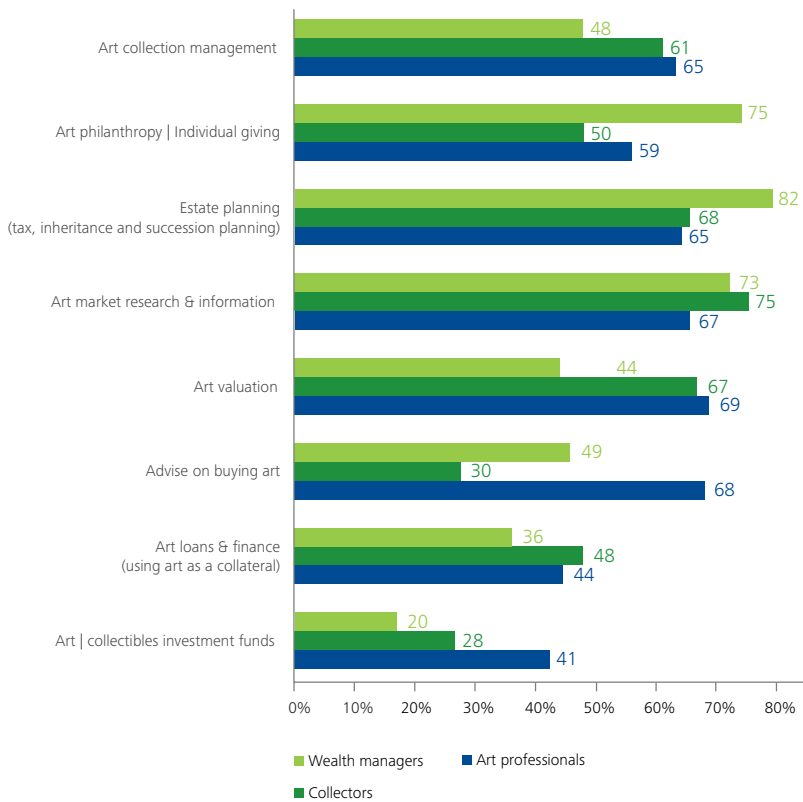


Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

¹⁹ We cannot ignore the fact that the increase could also be a result of the changes and growth in the sample. The first Art & Wealth Management Survey was conducted in 2011 and included 17 private banks from Luxembourg. In 2012, the sample increased to 30 private banks, including banks from Poland and Spain. In 2014, the survey included 35 banks predominantly from Europe, the US, and Asia (with no participation from Poland), and an additional 14 family offices from Europe and the US. This year's survey included 53 private banks (six new banks from Dubai) and 14 family offices (with eight new family offices from the US)

²⁰ This survey question aims to capture the level of awareness among wealth managers when it comes to developments and trends in the Art & Finance industry. The figures here are based on percentage of individuals who answered aware and very aware (i.e. only option 4 and 5 on a Likert scale of 1 to 5)

Figure 16. Which of the following 'art and wealth management services' do you feel would be most relevant to your clients and/or the institution you represent?



For the first time in five years of analysis, this aligns the wealth management industry with that of collectors and art professionals, where 70 percent and 77 percent stated the importance of including art as part of a wealth management strategy and offering

We cannot ignore the fact that the increase could also be a result of the changes and growth in the sample. The first Art & Wealth Management Survey was conducted in 2011 and included 17 private banks from Luxembourg. In 2012, the sample increased to 30 private banks, including banks from Poland and Spain. In 2014, the survey included 35 banks predominantly from Europe, the US, and Asia (with no participation from Poland), and an additional 14 family offices from Europe and the US. This year's survey included 53 private banks (six new banks from Dubai) and 14 family offices (with eight new family offices from the US).

Current needs vs. current offering:

Wealth managers are realizing the importance of art and collectibles as part of a wealth management offering, but are not yet aligned with their clients' expectations. There are signs that wealth managers predominantly focus on traditional wealth management services, while art collectors are looking to their wealth managers for concrete art-related services such as art valuation and art collection management, which suggests that collectors also see their wealth managers as their trusted independent advisors for their art-related activities.

According to the above comparative analysis, a number of areas require wealth managers' focus, while some areas are better left to others.

Demand for valuation, art market research, and information as part of a wealth offering: both art collectors and art professionals strongly believe that valuation (62 percent and 69 percent respectively), as well as art research and information services (75 percent and 67 percent respectively), should be offered by private banks or family offices. It is likely that the neutral position of wealth managers in the art market would give more credibility to both art valuation and market research. That is not to say that wealth managers should offer valuation in-house, but they could play a key role in ensuring that the appropriate processes are in place when it comes to providing fair, unbiased, and accurate valuations.

Collection management and wealth reporting:

both collectors and art professionals see collection management as an important remit of a wealth manager (61 percent and 65 percent respectively). This particular demand has been identified by the wealth management community, where 73 percent of wealth managers in 2016 (up from 58 percent in 2014) said that their clients wanted to include art and other collectible assets in their wealth reports, in order to have a consolidated view of their wealth as illustrated in (figure 21). This positive trend suggests that the wealth management industry is recognizing art and collectibles as an asset class and increases the likelihood that art and collectibles will be included in an overall asset management and wealth reporting structure in the near future. This is an important finding. It shows that wealth allocated to art needs to be managed and included in overall wealth reporting, which as mentioned earlier indicates it is an opportune moment to start to look strategically at what art-related services could be offered.

Estate planning: it is evident from both art collectors (68 percent, up from 57 percent in 2014) and art professionals (65 percent, up from 57 percent in 2014) that issues related to estate planning are increasingly becoming a top priority. Again, there is a great deal of awareness of this demand among wealth managers, with 82 percent of respondents saying that this was one of the most relevant wealth management services that they could offer with regard to art and collectibles. There seems to be increasing recognition that wealth managers need to respond to their clients' growing estate planning needs in key areas related to art and collectibles, particularly with regard to valuation, taxation, inheritance, and succession planning.

Art-secured lending: the survey of art collectors and art professionals shows that 57 percent of collectors surveyed said they would be interested in using their art collection as collateral for a loan (this was up from 48 percent in 2014) and 53 percent of art professionals

said the same (this was up from 44 percent in 2014). Again, the wealth management community seems to be responding, with 54 percent of wealth managers saying this was an important and relevant client service. This figure was up from 40 percent in 2014, and signals an increase in confidence in using art and collectibles as collateral for financing purposes.

Demand for art advisory²⁰ services on the increase:

whilst only 30 percent of art collectors in 2014 said they felt that art advisory services should be part of a wealth management offering, 52 percent of art collectors in 2016 said they felt this service would be relevant, and 57 percent of wealth managers felt the same. This is another indication that art collectors are looking for a broader spectrum of art-related services provided by their wealth management providers, as they can play the role of a trusted neutral advisor.

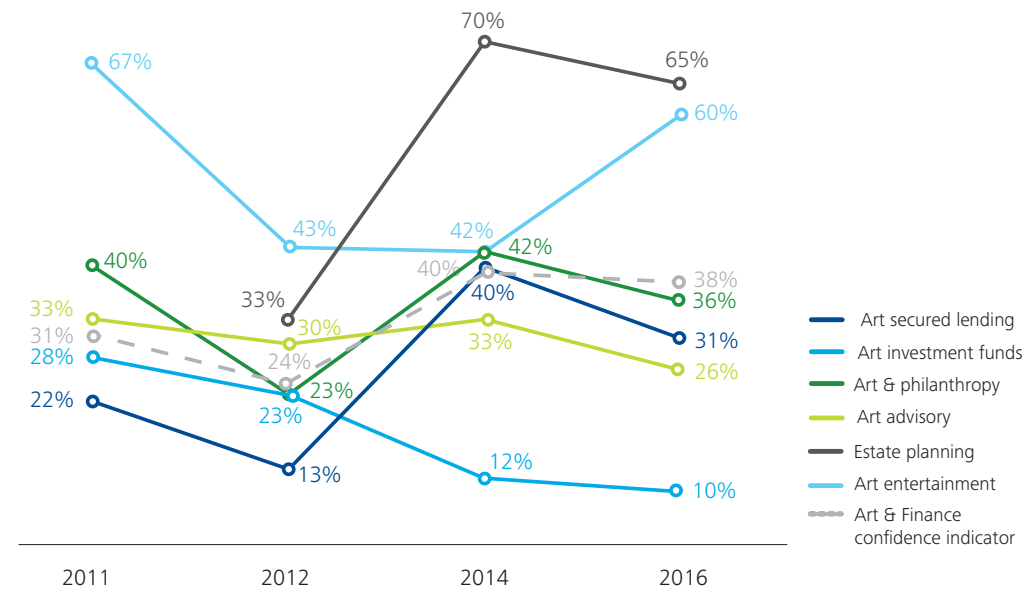
Negative outlook from wealth managers on the growth of the art investment fund industry, despite appetite for art investment products: only 10 percent (figure 17) of wealth managers, the lowest level reported since the launch of the Art & Finance Report in 2011, believe the art investment fund industry will expand in the next two to three years (down from 20 percent in 2014). This shows that wealth managers remain very cautious about art investment fund initiatives. There has also been a negative shift in perception among art professionals, with 34 percent of art professionals (down from 41 percent in 2014) feeling that an art investment fund is a service that the wealth management industry should be able to offer. 35 percent of art collectors (up from 28 percent in 2014) held this view. However, contrary to the view of wealth managers, 62 percent of art professionals and 66 percent of art collectors believe the art fund industry will expand in the next two to three years, which means that there is demand for such products, but that the costs and complexity of setting up and managing such investment products currently outweigh the benefits.

20 Art advisory is a broad definition of services mainly related to buying and selling art and collectibles on behalf of their clients. Although other services such as collection management and valuation could be defined as an art advisory service, for the purpose of this report, we have separated these out as standalone services

Art & finance services —future directions

General motivation and perception among wealth managers, art professionals, and collectors.

Figure 17. Future Services - Which services will you focus on in the next 12 months?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

A. Private bank and family office survey findings

Art & Finance Future Indicator – which services will you focus on in the near future?

The overall Art & Finance Future Indicator shows a neutral trend for the next 12 months: in 2014, we saw a significant rise in future expectations around investment in all art and finance related services, except art investment funds. This year, wealth managers will continue to invest in art-related services aimed at preserving the proportion of their clients' wealth that is allocated to art, such as estate planning, philanthropy, and art-secured lending, but most likely at a slower rate than in the last 18 months. If we link these results to the findings on what wealth managers are currently offering (figure 19), we could conclude that many

wealth managers surveyed already have art-related services, and that the focus is now directed at other areas/products in the wealth management sector. Another explanation could be due to the expansion of the sample, where new banks added to the sample already have these services in place, and are unlikely to invest more or focus on these areas in the next 12 months.

As mentioned earlier, the art investment area is at its lowest level since we started this report, while art and client entertainment has never been so high, illustrating the strong willingness of wealth managers to use art as a tool in engaging and building client relationship around passions such as art.

1. Motivations & rationale

The financial component of art collecting seems increasingly to be a primary driver for developing art wealth management services. The key interest is not the investment or yield-seeking aspect of it; rather it is more the preservation of the capital allocated to art and collectible assets.

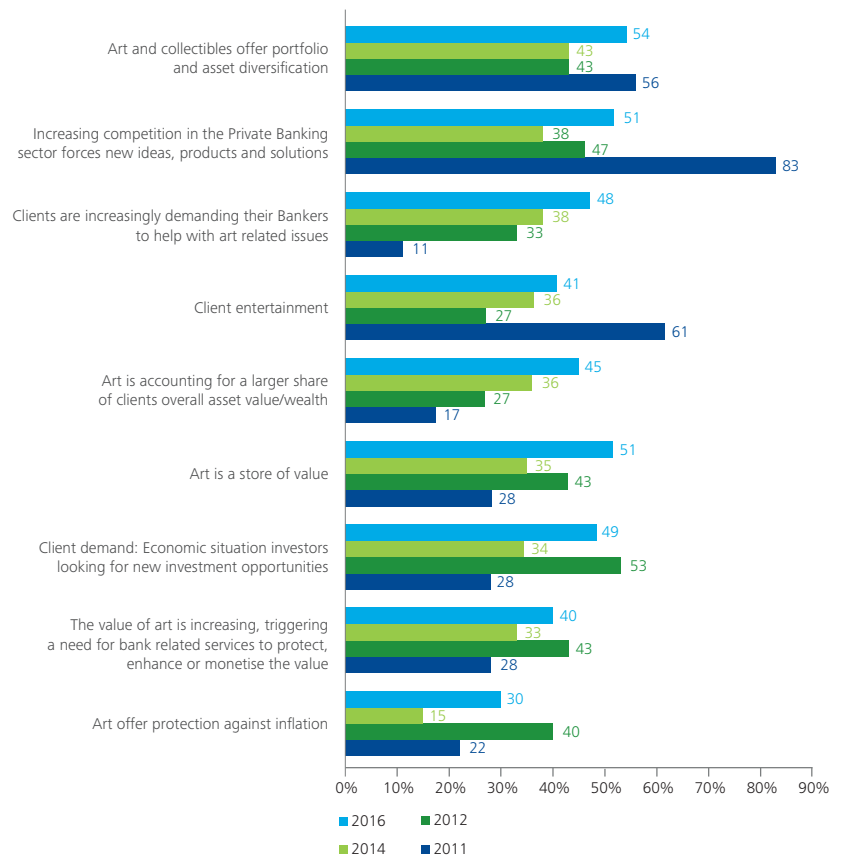
Asset diversification and inflation protection become more important motivations: 54 percent of wealth managers (up from 43 percent in 2014) said the strongest argument for including art and collectibles in a wealth management context was based on portfolio and asset diversification opportunities offered by art and collectibles. A further 30 percent of wealth managers said that the strongest argument was that art offers protection against inflation (up from 30 percent in 2014).

Art is increasingly seen as a store of value: 51 percent of wealth managers (up from 35 percent in 2014)—the highest reading since the survey was launched in 2011—see art increasingly as a store of value.

Seeking new investment opportunities: 49 percent also said that the current economic situation meant that clients were looking for new investment opportunities and that this was a driving factor considering art and collectibles (up from 34 percent in 2014). These findings are likely to come on the back of increasing volatility in global financial markets and geo-political uncertainty. It is likely that this perception has been reinforced by the global art market boom experienced since 2009, and the “store of value” in high quality works of art and collectibles, despite the apparent slowdown in the art market experienced in the last six months (see Section 1 for art market outlook).

An increasing number of wealth managers (48 percent) recognize that their clients are putting pressure on them to offer art-related services: 48 percent of wealth managers (up from 38 percent in 2014 and 32 percent in 2012) said that clients increasingly request help from their private bankers

Figure 18. What do you consider the strongest arguments for including art and collectibles in traditional wealth management/private banking?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016



and wealth managers with art-related issues. This was felt more strongly among private banks, particularly in the US, where six out of seven private banks said client demand was the most important reason for including art and collectibles as part of a service offering.

Client entertainment continues to be an important motivation: 41 percent of wealth managers surveyed said that client entertainment was one of the most important motivations for including art and collectibles as part of a wealth management offering (up from 36 percent in 2014). This is also one of the areas that wealth managers say they are likely to focus on in the next 12 months (figure 17), and corresponds with the increasing “social” motivation that collectors have for being involved with art and the art world.

Increasing competition in the wealth management sector drives the need to differentiate: 51 percent of wealth managers (up from 38 percent in 2014) see services related to art and collectibles as a way of differentiating themselves from their competitors.

Art accounts for an increasing share of clients’ overall assets: the art market boom that started in 2009 has encouraged more wealthy individuals to start buying or dedicating a larger share of their wealth to art and collectibles²¹. A total of 45 percent of wealth managers (up from 36 percent in 2014) said that this was the strongest argument for building an art service offering for their clients. This argument goes along with the fact that 40 percent of wealth managers feel the value of art is increasing, triggering a need for bank-related services to protect, enhance, or monetize this value (up from 33 percent in 2014).

2. Current art-related service offering

Current engagement

What type of art-related services do you currently offer: 63 percent of wealth managers surveyed said that they offered some kind of art-related service; this was down from 73 percent in 2014, but in line with the 2012 level. The lower percentage can be attributed to sample differences between 2014 and 2016 (as outlined in the methodology section on page 13). The sample

²¹ This is supported by recent reports, such as the Knight Frank Wealth Report 2015, which stated that 61 percent of private bankers believe their clients are becoming more interested in collecting passion investments.



© SUMO/Jubilee, 2015, Acrylique & aérosol sur toile, 460x210cm

54 percent of wealth managers (up from 43 percent in 2014) said the strongest argument for including art and collectibles in a wealth management context was based on portfolio and asset diversification opportunities offered by art and collectibles

has expanded from 49 to 67 private banks and family offices, including six new private banks from the Middle East, where only two banks (33 percent) offered art-related services.

It is important to note²² that the figures below apply only to the banks and family offices that said they currently offer art-related services (63 percent of survey respondents).

There has been a significant increase in art-related service offerings among wealth managers aimed at preserving wealth since 2014, and this corresponds with the wealth industry's expectations in 2014 (figure 17).

Art and estate planning services see strong growth in the wealth management sector: 79 percent of wealth managers said they were offering advice in the area of art and estate planning; this is up significantly from 64 percent in 2014. 81 percent of wealth managers were delivering this service in-house, and this is clearly one of the services that play to the wealth management sector's existing strengths.

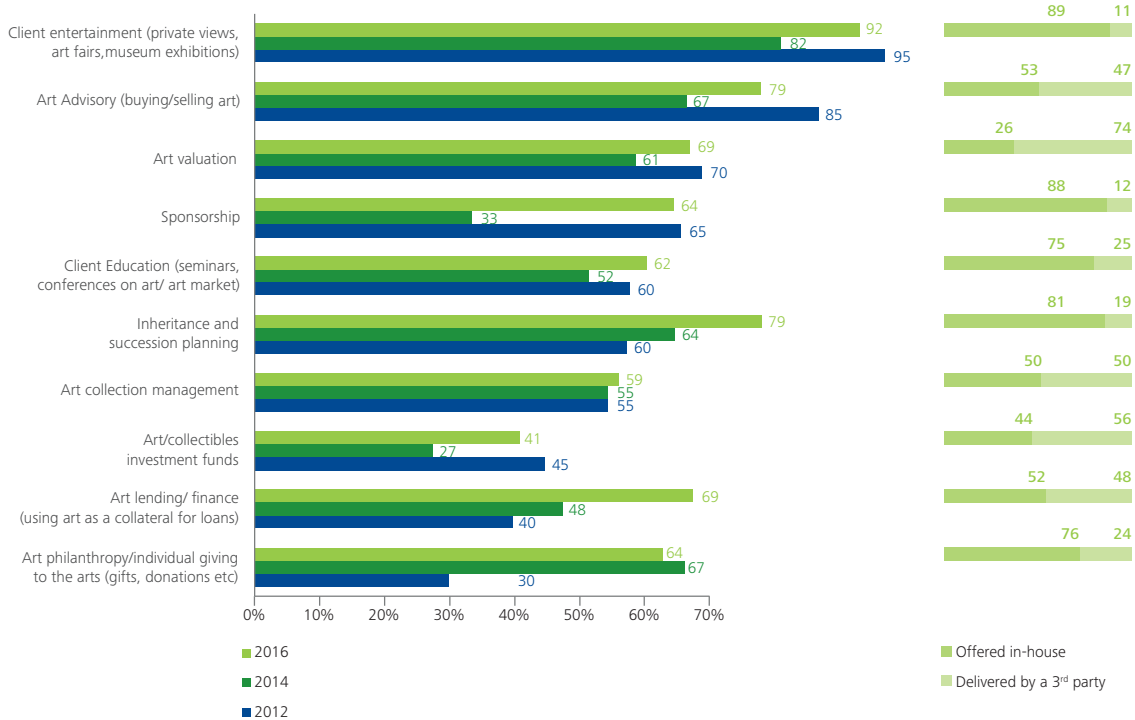
Art-secured lending continues to increase boosted by third-party lenders: 69 percent of wealth managers said their institutions now offered services linked to art-secured lending (up from 48 percent in 2014), and in line with the expectations that wealth managers had in 2014 (figure 17). 52 percent of wealth managers offered this service in-house, whilst 48 percent of wealth managers preferred to outsource this service to third-party providers (up from 25 percent in 2014). All of the US private banks surveyed offered art-secured lending in-house, versus only 21 percent of their European counterparts.

Private banks and family offices are adding art advisory capabilities: 79 percent of wealth managers said they offered art advisory services (this was up from 67 percent in 2014), where 53 percent of these said they were delivered in-house, which suggests that an increasing number of private banks and family offices are adding an art advisory capability to their existing offering.

²² The above graph has been changed from 2014 to include both in-house services and the ability to deliver 3rd party services in these areas. Important to note that the results are only among banks who said they offer art related services already, which accounted for 63% of the wealth managers in the survey (down from 73% in 2014)

Figure 19. Among the wealth managers already offering art related services:

Which of the following services do you offer (percent includes both services offered internally and third-party services)



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

Collection management services increasingly on demand: 59 percent of wealth managers said that they offered art collection services; this was up from 55 percent in 2014. 50 percent said the art collection services were delivered by third parties (up from 44 percent in 2014). Wealth managers are on the lookout for robust and dynamic solutions. This could suggest that third-party collection management providers, such as Collectrium, Artbase, Artlogic, Winston Art Group, Pall Mall Art Advisors, and collection management museum software providers, such as Axiell Group AB and others have the potential to build a larger presence in the wealth management sector. However, with a strong focus on client discretion and confidentiality, the wealth management sector might be reluctant to have art collection data stored in the cloud. That said, providers that can link or provide a hybrid solution based on a traditional art collection management system and integrate this with the bank’s existing wealth reporting systems is likely to find demand in the wealth management industry.

Valuation services are important, but predominantly delivered by third-party experts: 69 percent of wealth managers said they offered valuation services (up from 61 percent). Of those who offered this service, 74 percent used third-party valuation services (up from 70 percent in 2014).

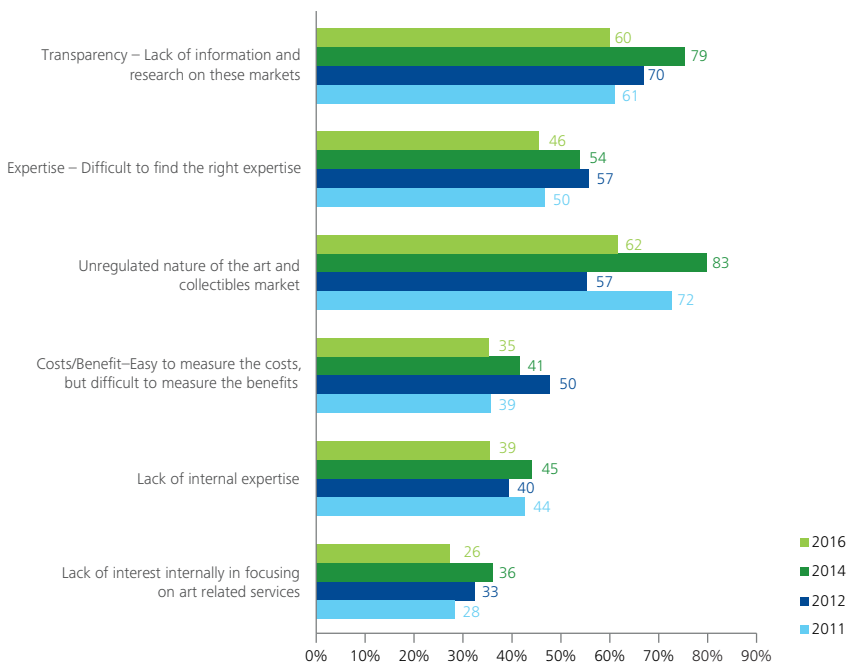
The provision of art investment fund products remain a niche service: 41 percent of wealth managers that said they offered art related services²³ said they also provided their clients with the opportunity to get exposure to art investment funds. Only 18 percent of wealth managers surveyed offer an art investment fund product as part of their in-house offering²⁴ (down from 19 percent in 2014). However, more banks are able to offer art investment funds through a limited number of third-party providers and 23 percent of banks said they do so (up from 8 percent in 2014). However, in terms of art-related services, art fund products remain niche, and this corresponds with the decline in the number of art fund providers in recent years (see also Section 3 on art investment).

²³ 63% of the respondents said they offered art related services

²⁴ We believe this finding could be a matter of definition of what is considered in-house vs. third party services. Very few banks to our knowledge offer art investment products which are originated in-house, and we believe these findings also reflect that several wealth managers do offer the opportunity for their clients to invest in art through partnerships with existing art fund providers. We do believe respondents may consider these products as an in-house offering, although they are delivered by external third party providers

3. Challenges

Figure 20. What do you see as the biggest challenge in offering art-related services/products?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

The most important challenges facing wealth managers when incorporating art in their service offering are still ranked in the same order as in 2014; however, it looks like the wealth management industry is becoming more comfortable with all of the challenges and risks as the art and finance industry matures and the knowledge of the art and collectible market increases. It is also encouraging to see that there are a number of new initiatives—several of these outlined in the art and technology section—to try to address these challenges.

Regulation remains the biggest concern and the enforcement of existing regulation is proving costly and difficult: 62 percent of wealth managers said that the unregulated nature of the art and collectibles market remains the biggest challenge for incorporating art into their service offering. However, this was down

from 83 percent in 2014, which suggests that although it is still a major hurdle, increasing awareness and understanding of the art market have eased concern. In addition, recent efforts by the art industry to address the misconception that art is an unregulated industry could have had an impact on this perception. A report compiled by the lawyer Pierre Valentin of Constantine Cannon LLP at the request of the British Art Market Federation (BAMF) lists 167 laws and regulations (as of February 2015) that apply to the British art market in England and Wales, suggesting that a dealer active today operates in a regulated market. The real difficulties, as discussed by Pierre Valentin (page 147), are the issues of enforcement of the law and the prohibitive costs associated with this process.

Increasing art market transparency is key to the future development of the art and finance industry: the second biggest challenge was lack of transparency in the art market, which 60 percent of wealth managers cited as the biggest obstacle to a wider adoption of art-related services (down from 79 percent in 2014).

Finding experts and a lack of internal expertise: 46 percent of wealth managers said that finding the right expertise remains one of the key challenges in building an art-related service offering (down from 54 percent in 2014). Another 39 percent said that the lack of internal expertise was a key hurdle (down from 45 percent in 2014).

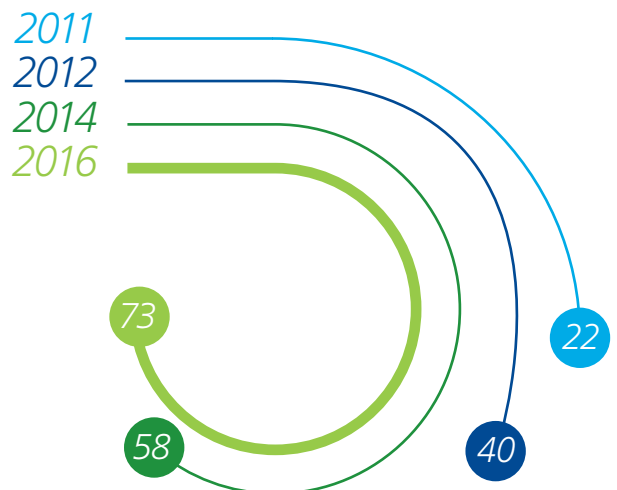
As with regulation, the decline in the number of wealth managers stressing lack of transparency and finding experts as major impediments is likely to be the result of the increasing knowledge of and experience in the art market of wealth managers surveyed, rather than an overall reduction in the level of risk associated with these two aspects.

4. Reporting

In line with the increasing demand for collection management services, collectors want to have art and collectible assets included in their wealth reports: 73 percent of wealth managers expect their clients to want to include art and collectibles as part of their overall wealth reporting (up from 58 percent in 2014 and 40 percent in 2012). This suggests that art and collectibles are increasingly considered an asset by both wealth managers and their clients and that the ability to monitor art and collectible wealth as part of total wealth and the exposure associated with their art investments is desirable. This also reinforces the fact that there are increasing opportunities for existing art collection management providers to work with the wealth management industry to integrate collections data with existing reporting systems. The ability to report on art and collectible assets is also an effective way of providing value-added services to clients and to keep them aware of the financial aspects of their art collection. Incorporating such services is certainly a good first step in developing an art wealth management service strategy.

73 percent of wealth managers expect their clients to want to include art and collectibles as part of their overall wealth reporting (up from 58 percent in 2014 and 40 percent in 2012)

Figure 21. Do you expect your clients to want to include art & collectibles in their wealth reports in order to have a consolidated view of their client wealth and a better view of client exposure?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

5. Art & insurance

Safeguarding your collection: what are the trends, perils, and solutions?

Introduction

Motivations for collecting art vary, but irrespective of whether clients collect because of a passionate interest or because they have acquired a collection through inheritance or as an investment, art collections represent a significant proportion of high-net-worth individuals' non-financial assets (art accounts for approximately 17 percent of their investments in passion assets). If you have been entrusted with the task of properly safeguarding a collection, protecting an asset in financial terms should be your primary responsibility. Fine art preservation relies on proper insurance coverage and risk transfer. Simply put, the purpose of insurance is to protect, to make risks assessable, to settle legitimate or fortuitous claims, and to return the owner to their original state.

Claims stories can subtly remind us of the need for specialist insurance. In one example, after a "Bring Your Child to Work Day", a smiley face was found drawn in marker pen on a car hubcap in a Claes Oldenburg painting. Valued at US\$95,000, the painting was later fully restored. A more extreme incident involved a wrecking ball swinging backwards, as if in a cartoon, into the wrong building, destroying a Giorgio Di Chirico painting worth hundreds of thousands of euros. Careless accidents can happen too, as when an over-enthusiastic customs officer opened a package with a Stanley knife, putting an extra hole into a Fontana painting.

Trends

Specialist art insurance is different from general household insurance because of art "clusters", which often lead to acute accumulations; be it in museums, galleries, or corporate and private collections and locations. Certain storage facilities and freeports, art fairs such as Art Basel or TEFAF, and leading auction rooms might also develop very large accumulations. Exacerbated by a strong art market, these increasing values evaporate underwriters' financial capacity. In recent decades, the art market has opened its arms to the world; it is global. New international collectors operate on a flashy art scene, with billionaires often going head-to-head for trophy pieces. Many such collectors now have a number of homes dispersed in areas prone to earthquakes and wildfires, whilst others are exposed to hurricanes and humidity. The rich used to live on hills and had water carried to them; but today, given the choice, they flock to the water's edge. As if these concerns were not enough, some collectors have turned their homes into galleries that require museum-like management, which might not be conducive to family life.

The dynamics of catastrophic risks, global transit, material usage and other long-lasting effects (such as climate change) require expert knowledge, research and data collection, plus improvements in predictive power and claims experience.



Kai Kuklinski
Global CEO AXA ART



Andrew Davies
Art Historian



Solutions

As a global operating company, we expect large losses, but it is impossible to determine the type of losses, or indeed, where they might occur.

The last great art loss disaster was the MOMART fire in East London in May 2004, which reduced hundreds of artworks to ashes. As a reaction, AXA ART co-founded The Global Risk Assessment Platform (GRASP), a risk assessment system for evaluating warehouse and museum facilities, which provides a uniform and recognized standard by which these facilities operate and their policies are assessed to assure the optimal safety of their contents.

Sheer bad luck can happen to anyone, but risk management advice, known as preventative conservation, aims to mitigate the majority of simple or unnecessary claims. These pre-loss actions are basically common sense and good old-fashioned housekeeping, some of which dates back to a standard set by Alice Rothschild in *Miss Alice's Rules* at Waddesdon Manor c.1900. These rules advocated limiting light exposure and forbade moving objects unnecessarily. Indeed, an old insurance maxim is "three moves is often as good as a fire". To begin with, you should have a full inventory and valuation of your collection. We advocate that clients utilize digital collections management systems, incorporating images to record collections fully.

Art in its widest sense encompasses not only paintings and sculptures, but also other asset classes, such as sporting guns, wine, musical instruments, and even classic cars. Not all can be insured on a "new-for-old" basis in the same manner as houses and electrical items, but they do have to be valued to produce an agreed value as a basis for insurance purposes in the high-value home. It is this clarity that makes art insurance unique, where both parties (insured and insurer) know what the basis of settlement shall be in advance, free of sentiment. A valuation also informs risk management so that consideration can be given to appropriate levels of physical security etc. for higher valued items.

Looking forward, AXA ART's "Art Protect" program

is an investment in risk prevention and research to ultimately help clients extend the lifespan of their collections. Research projects have included “light control”, care for plastic furniture, and the cleaning of acrylic paintings.

Period works, art or antiques can often be relatively easily restored by utilizing proven techniques. Many have probably had interventions over time without much detriment to their value; indeed, successful restoration can sometimes be a positive. However, for contemporary works, especially where the artist is living, condition is critical to the resale market. It is crucial to understand the medium of the piece; it is impossible to restore a photographic print from a tear or scuff, whereas older furniture or traditional paintings could sustain the same damage and easily be restored. Novel materials and techniques used in contemporary art often pose additional complexities.

Perils

Our policies cover “all risks”, i.e. the main perils that threaten collections and household contents. The perils of fire and theft are some of the most dramatic forms of loss from a client’s point of view. However, these can generally be designed out with risk management and are on the decline.

Fire has a surprisingly low and consistent rate of incidence, perhaps only 2-3 percent of claims, but it often results in significant costs. A localized fire is not necessarily the main cause of loss because the consequential water and smoke damage can be more destructive. Theft has an incidence of around 12-15 percent, but good physical security and intruder alarms etc. keep these numbers stable (please note that claims incidence percentages are for illustrative purposes only and fluctuate between years and territory).

Major art theft is on the decline. If the art physically exists, the chances of a recovery can be better than 50-50, although you might have to be patient.

The dynamics of catastrophic risks, global transit, material usage and other long-lasting effects (such as climate change) require expert knowledge, research and data collection, plus improvements in predictive power and claims experience

A publically known example of this is the Rest on the flight into Egypt by Titian, which was recovered seven years after it was stolen. It was found, minus its frame, in a plastic bag at a bus stop in London. The majority of thefts are purely opportunist. To debunk two popular myths derived from cinema, thieves are not gentlemen as in the Thomas Crown Affair, but criminality often uses stolen art as collateral for drugs, arms, or people trafficking. Similarly, art is not stolen for private enjoyment. This idea originates from Goya’s portrait of the Duke of Wellington, which was stolen from the National Gallery in London in 1961. A copy was seen in Dr. No’s lair in the eponymous film of 1962, suggesting that he had stolen it. In fact, this painting was returned in 1965 when the thief, a disgruntled retired bus driver, confessed to the robbery.

Simple loss actually has a higher incidence than theft, although values tend to be more modest and it generally relates to items lost outside the home, such as hearing aids, luggage, and electrical equipment. 2-3 percent of these claims are as a result of artworks simply being lost somewhere in transit. The vast proportion of this category relates to jewelry – where precious stones, if not the whole piece, can be lost – or the classic example of valuables kept in sock drawers, where they might subsequently get mixed up and lost in the laundry!

Never has the quantity and value of artworks traveling around the world been so high. Whilst transport logistics systems are very efficient, when transit losses do occur they can be significant, especially in the case of contemporary art where as previously stated, any damage can be ruinous to its value. It is interesting to note that accidental damage accounts for approximately 40 percent of claims, but of these, under half relate to transit. The majority relate to accidents that we all experience in life, especially those of us with children and animals.

Water in all its forms is a major cause of claims. From pipes bursting or baths and guttering overflowing to natural hazards such as hurricanes, typhoons or floods, losses involving water account for nearly 40 percent of claims incidence. Water damage is most harmful to paper and other organic materials, but when an object survives it can be restored to some degree and a payment for any financial depreciation made.

These are the classic perils, but specialist policies do incorporate additional cover specifically designed for collectors. These practical points include automatic cover for new acquisitions, emergency evacuation of the collection to safe storage if the home is rendered uninhabitable or the security is compromised, and cover for items undergoing restoration or repair. Lack of or "defective title", perhaps as a result of restitution, is another benefit along with liability cover within set financial limits. What is excluded from all insurance policies is "inherent vice", i.e. the inevitable decay of a work over time. You cannot insure for a watercolor painting fading or a Polaroid photograph changing. All forms of vermin are also generally excluded from insurance policies, as the general insurance principle is that clients should maintain their collections in good order.

Conclusion

What cannot be easily predetermined are random events that coincide to lead to a major loss. No one expected an art student's spray foam sculpture to cause the explosion of a nearby slide projector, ultimately leading to the partial loss of the Glasgow School of Art. Or that a dried flower falling onto a mantelpiece candle might lead to the loss of nearly €10 million worth of art, including works by Picasso and Helmut Newton.. And who would expect that a US museum security guard would turn his gun on the artworks he was tasked to protect before tragically turning it on himself?

Fine art and collectibles insurance is designed to settle claims in an amicable and satisfactory manner to give you peace of mind; should the worst happen, you are insured.

Never has the quantity and value of artworks traveling around the world been so high

6. Art wealth management services and cultural services

Another addition to this year's report is that we look at how cultural institutions could use their knowledge, experience, and skills to support wealth managers in their provision of art wealth management services.

Whilst wealth managers indicate in this year's survey that they find it hard to build up internal art competences, public institutions at their end are struggling with cuts in public funding and the need to create new revenue streams. This suggests that there could be room for a closer relationship between these institutions and the wealth management community, a point demonstrated in the following two case studies.

The first case study is about the Van Gogh Museum and the recent development of its professional services.

The second case study looks at the global impact model developed by Deloitte Bilbao to assess the social and economic impact of culture. This tool could be highly relevant for wealth managers wanting to support their clients in evaluating the social and economic impact of their philanthropic activities.

Private art museums and philanthropy: a new research report²⁵ found that there were 317 privately funded contemporary art museums around the world. A fifth of these were set up in the past five years and 70 percent of the museums were founded after 2000. Europe is home to the largest number of private museums in the world, with 45 percent. Asia takes second place with 33 percent of global private

museums, and North America is third, with 15 percent. The growth in private museums has coincided with rapid growth in personal wealth worldwide, and the desire to build and leave a legacy for the local community and future generations. According to the report, private museums seek not only to be a venue for exhibiting art collections, but also to demonstrate the philanthropic mission of supporting and enhancing a city or region's cultural landscape. Only 4 percent of art collectors named tax benefits as an incentive for establishing a private art museum. The rules for a non-profit organization to qualify for tax benefits vary from country to country. Still, in many regions, these foundations can profit from tax advantages. This illustrates the close relationship between art and philanthropy, and an opportunity for wealth managers to address this growing trend among their wealthy clients.

The growth in private museums has coincided with rapid growth in personal wealth worldwide, and the desire to build and leave a legacy for the local community and future generations

25 The Private Art Museum Report, an international research project initiated by the art collector database Larry's List and Art Market Monitor of Artron, is one of the first systematic efforts to understand the rapid rise of private museums over the past decade. The survey authors collaborated with 166 private museums from more than 40 countries



Adriaan Dönszelmann

Managing Director
Van Gogh Museum

Dr. Adriaan Dönszelmann is the Managing Director of the Van Gogh Museum Amsterdam. He came to the museum in 2011, bringing extensive experience in many leading organisations both in the cultural and business field.

His expertise is particularly on the business side like finance, governance, (cultural) brand management, commercial endeavors and (new) business development.

Van Gogh Museum Amsterdam

Art can be viewed from several perspectives—as a family heirloom, a masterpiece for a nation to cherish, an investment or a business, a part of a trust or estate, or a gift to a cultural institution.

At the Van Gogh Museum, we consider art to be priceless objects of cultural heritage that need to be preserved for the future, yet, at the same time, displayed and made accessible to the general public. This is because we believe that objects from the world of art tell us something more about who we are and where we come from.

The Van Gogh Museum recognizes that the relationship between art and wealth management is becoming closer. The growth of wealth moving into art, the use of art as collateral, and the development of indices and many online data sources, all provide the financial services industry with a number of new products and services. However, these developments have consequences that need to be taken into consideration.

The trend towards a growing closeness between the art community and portfolio management professionals is an opportunity for the art and finance industry. However, as these worlds do not traditionally go hand-in-hand, it is necessary to build a bridge to be able to reach out to each other's expertise as and when needed. In doing so, we can leverage this highly interesting and rapid development and ensure that "art and cultural heritage" is being properly maintained and preserved according to internationally accepted standards. Furthermore, by combining our strengths, we can strive to ensure that important objects of art will not simply disappear into bank vaults, but continue to be widely seen, be the subject of academic research, and importantly, be preserved for future generations.

Collector's needs

Collectors might have various reasons for collecting and it can therefore often be difficult to fully understand collectors' needs. Collecting art involves more than simply looking for and buying objects of art to expand one's collection. Since art is often made of vulnerable materials, and it often concerns an object of cultural heritage, it needs to be taken care of according to internationally recognized standards and methods.

If this is not the case, there is a risk that the art object's condition might deteriorate due to a lack of care, or it could become damaged. As a result, the object may lose its value over time or come into conflict with (inter-)national jurisdiction due to a lack of knowledge regarding provenance and regulation. It is therefore extremely important to be aware of such matters and to handle objects of art in the correct way so as to both maintain a collection through the generations and protect its integrity.

There are also collectors who want to make their collection (more) visible to the public. They aim to turn their art into a working asset by enhancing the visibility of a unique art object or a special collection. In this situation, besides building your own museum, it can be very interesting to collaborate with a museum. Not only because it can be financially attractive but also because the collector can contribute to society at large. Whatever your goals, you still need to have the right expertise on board to be able to meet these objectives.

Services

Due to the increasing demand for art-related services, the Van Gogh Museum has created a wide range of services that it offers to public bodies, private institutions, and private individuals (including wealth management). The mission is simple: to offer, as a service, the expertise in which the Van Gogh Museum excels and that arises from the museum's operations.

The Van Gogh Museum is a unique museum of international importance. The museum has over 40 years of international museum management expertise and both contains and demonstrates all the disciplines essential to governing and taking care of such a priceless collection. Furthermore, as one of the world's largest cultural brands, it displays the highest quality in all its disciplines.

As a result of this new activity and recent developments in the art market, the Van Gogh Museum has entered into a collaboration with Deloitte Luxembourg (Advisory Partner) and TIAS School for Business and Society in the Netherlands/China (Academic Partner). These unique

collaborations in the world of art, finance, and culture reflect our ambition to build a bridge between the two traditionally separate worlds of art and finance.

Deloitte Luxembourg and the Van Gogh Museum will work together closely to provide their complementary services when either the competences of Deloitte or the Van Gogh Museum are called for. Thanks to this collaboration, the Van Gogh Museum can deliver both creative solutions and financial services to individuals and institutions at the crossroads of business, finance, and the arts.

The services focus on areas in which the Van Gogh Museum has been proven to possess a high level of expertise. These are grouped into six fields of expertise: museum management, objects, collection, exhibitions, building and visitors.

The services provide an indirect, but valuable, contribution to the mission of the Van Gogh Museum, as any revenue is used to support the Museum's primary functions.

Some examples include:



Providing recommendations for sustainable climate-control systems



A to Z advice on how to build and run a museum for UHNWIs



Tailor-made training courses (i.e., Collection Care or Exhibition Development)



Masterclasses and an executive Master's in Art & Finance

The mission is simple: to offer, as a service, the expertise in which the Van Gogh Museum excels and that arises from the museum's operations



Ana Andueza
Public Sector
Partner
Deloitte Bilbao
Spain

The Deloitte Global Impact model, a way to assess the social and economic impact of culture/cultural projects

In recent years, there has been growing concern regarding how to assess the **social impact** of different types of organizations in the cities, regions, nations, or areas of interest in which we act and operate.

From a global perspective, and in the longer term, it is easy to see the contribution made by certain activities and organizations. Examples include big companies (Microsoft, which generates a significant number of jobs), huge infrastructure (metro systems, as they can encourage new investment in metropolitan areas), and sporting events (FC Barcelona, which attracts thousands of tourists and supports media development) and we can all recognize that they are important because of the sizable effects they generate.

However, such impacts are normally measured only from an **economic perspective**. They are positive for our region because they generate economic wealth; but is that the only perspective that really matters?

This question has led us to look for new perspectives and new assessment methods, not only from an economic perspective or in terms of wealth creation, but also taking into consideration the generation of intangible assets that can support the progression and welfare of our regions, affecting different aspects of our lives. Those impacts are the ones that really matter.

We have focused, for example, on culture. In principle, museums and opera houses are not particularly important in terms of economic impact, but can they

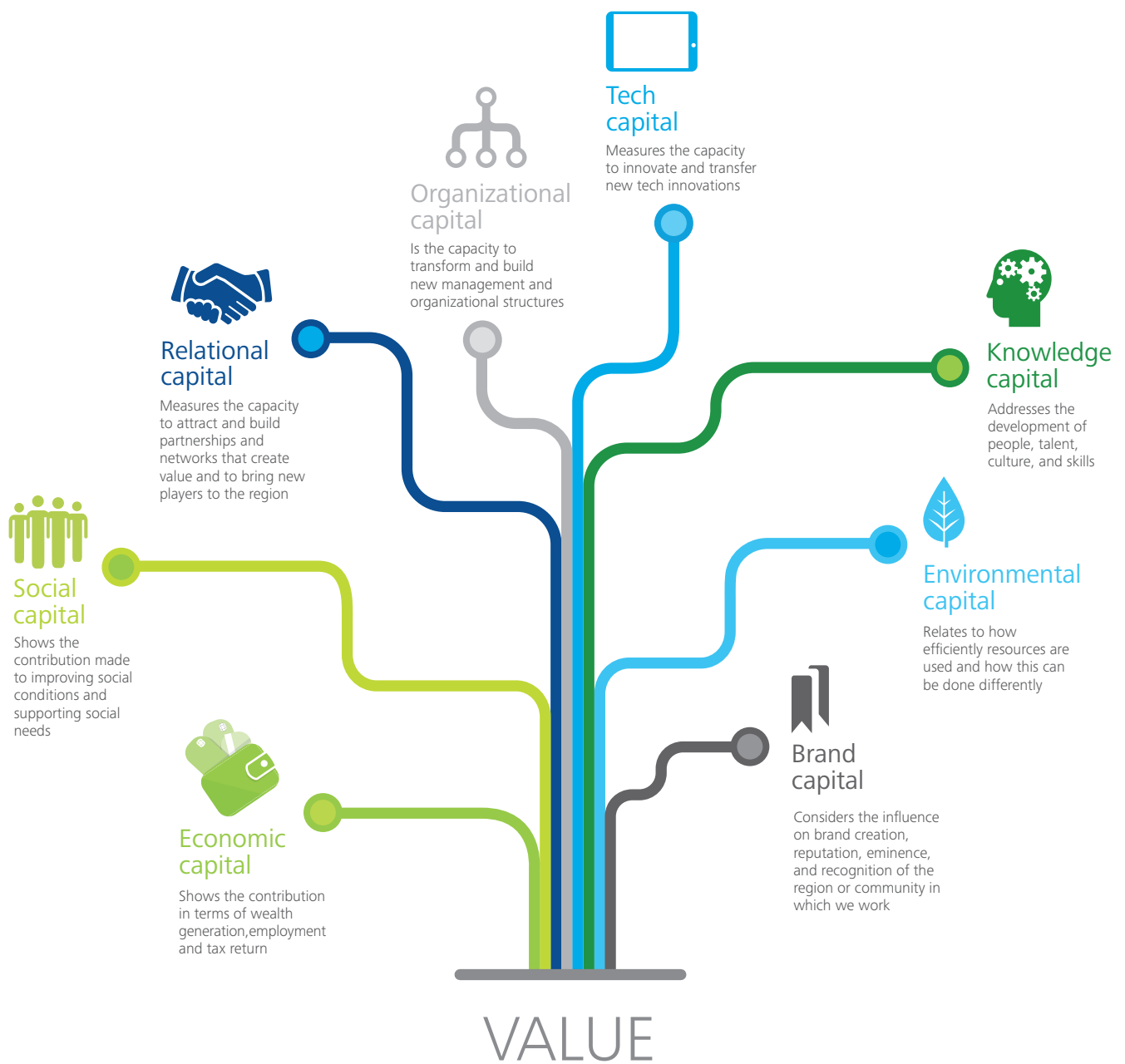
really create wealth? Do they benefit society? How do they contribute to other factors that can be even more relevant for our communities than the economic impact?

A socio-economic impact assessment, such as Deloitte's Global Impact Model, is a tool wealth managers can use to support UHNW clients in monitoring the "social" return on their investments. It can be useful for family offices dealing with UHNWIs setting up private museums who wish to evaluate the impact of their cultural initiatives. It can also prove useful for philanthropic purposes when deciding which cultural project to support (maybe to Deloitte oriented if we put in the key findings). Our Global Impact Model reveals the specific impact cultural projects have on society. We understand "soft power" to mean the capacity to influence a region through culture and programed activities that create very powerful relational links for communities.

All these factors for assessment introduce an engaging and new narrative to the value and benefits to which we contribute that can be presented to a whole host of stakeholders.

Now, our main challenge is to be able to provide companies of any type with a **common assessment method** that offers objective assessment and indicators so as to have a dashboard describing and evaluating the organization's real impact.

We use eight main “capitals” to guide this analysis:



The Deloitte Global Impact model

Here are some examples that may help to understand how we can define and evaluate the contributions of each of the “capitals”:

- **The economic impact of culture:**

The 12 main opera theatres in Europe contributed €331 million to annual GDP in 2012-2013. This means that for each euro of public subsidy granted to opera activities, 22 percent is returned annually taking into account the amount of subsidies received by the opera houses²⁶. Nearly one million audience members attend opera activities at those theatres each year, with an average individual expenditure up to €85.40, thus benefiting different sectors, such as transport, hotels, and restaurants, etc. We have another example to explain how **social capital** can be built through the Bilbao Guggenheim Museum experience. If we consider the capacity that this museum has to improve social conditions and educate young people, these are the main findings:

- More than 615,000 students were involved in training sessions. This is a clear social benefit for the community and it can also be measured in terms of economic benefit (number of hours multiplied by training costs)
- 1,400 disabled people participated in museum activities; this is a benefit for society in terms of costs allocated for social purposes
- The increase in the number of young people involved in programmed activities as volunteers allows the city to encourage young people to develop new values and explore new ways to benefit society. The number of hours dedicated by young people is a measure of the museum’s capacity to develop social commitments

- **Relational capital:**

One of the main motivations for sponsors, patrons, collectors, and art tenants investing in cultural institutions is the “status” they can acquire simply by belonging to those institutions. This occurs because people enjoy being part of exclusive VIP clubs.

- Art institutions have the capacity to engage prestigious people. The impact of this relationship asset on a city can be measured through: the number of VIP people engaged

as stakeholders or invited to openings, dinners, and restricted activities; the number of foreign institutions linked to these institutions; and the number of world leaders that want to visit them.

- What is even more relevant is the creation of an enriched industry value chain. Collectors, wealth managers, artists, and auction firms, etc., can be attracted by those projects, thus creating additional wealth. Those influential people can represent significant value added for the city or society that hosts them.

- **Technological and knowledge capital:**

- Digital museums and digital exhibitions, for example, offer access to thousands of people interested in art, thus multiplying the number of visits to art collections. The development of digital exhibitions allows easier access to art. How many tickets should be sold for all those digital clients? And what about new tech-based businesses that spin off? We have some figures: 67 percent of art professionals see potential for new business focusing on online museums, and 77 percent of art professionals believe that the online art auction market, for example, will become one of the winning business models²⁷.
- New professions, new businesses, and even new tech infrastructure, such as tech-freeports, have the potential to become important hubs for the art and wealth management industry (based on high-tech storage facilities and duty-free zones).

- **Environmental capital:**

- Museums also play an important role. They have developed Social Responsibility Programs, which address the environmental aspect, including reduction of energy consumption, water and electricity management, selective collection, and waste management.
- Others have dedicated specific exhibitions to art and the environment. They can play an important role in boosting society’s awareness of environmental issues, and supporting creative strategies to use art as a tool for social change. A growing number of people have been involved (artists, students, schools, etc.) in programs contributing to environmental respect.

²⁶ Source: *Opera theatres’ participants in Deloitte study*

²⁷ Source: *Deloitte & ArtTactic Art & Finance Report 2014*

- **Brand capital:**

- *Firstly*, most cities have a piece of art as their city landmark (Paris, Bilbao, and Sydney all have representative buildings; Copenhagen and Brussels have pieces of art in their logos). Those landmarks form brand capital and have an incredible promotion value worthy of evaluation. But how? Let us say, for instance, that we can measure the demand for those logos to be used for different purposes. In that case, the number of requests to use such logos in films or promotional videos, etc., would add value to the city landmark, and to the city destination.
- *Secondly*, luxury brands, such as fashion brands, are increasingly using museum exhibits as a way for further story-telling and to align themselves with quality (Bulgari, Dior, Louis Vuitton, and Alexander McQueen). Some of those luxury brands work with their own curators to build artistic heritage and increase the value of the brand. Others hire external curators, but pursue the same purpose. What is true in both cases, however, is that those exhibitions attract thousands of visitors and increase the value and emotional relationship between people and museums. By how much has the value of the Alexander McQueen brand increased following the exhibition held in New York's Metropolitan Museum of Art? Similarly, how much has the Met benefited from it? More than 650,000 visitors, and 23,000 new members doubling the Met's previous number of members.
- *Finally* sponsors, donors, and patrons are willing to participate in museums, as they wish to link their own brand to art. But why is this the case? "Quality is one thing that museums have, and they mainly document important history". It is important to measure the contribution made by museums to third-party brands. But what is true, is that the highest value museums have to offer is that of their brand.

- **Organizational capital:**

- Cultural institutions act as meeting points for diversity, attracting different private and public companies: from wealth managers and collection owners, to businessmen, politicians, educational institutions, city managers, and Fairtrade institutions, etc., and ultimately, the general public from all backgrounds in terms of age, status, education, and origin. This is a powerful matrix in which we evaluate the capacity to foster the creation of new organizations with influential potential, with new values, and new management methods, etc. If we are able to influence the generation of companies working with new purposes, we can contribute to the creation of "organizational capital".

Conclusion:

Since we intend to understand the impact of cultural projects, we are required to work with complex models adopting a **holistic approach, and linking economic results and non-economic results**. Above all, we are required to explain the reality of the real contribution made, not the theoretical one.

Secondly, it is necessary to **give value to the intangible concepts** we call "social benefits". The need to identify indicators that can measure those intangible assets is one of the main concerns, as they are not normally included in organizations' balanced scorecards.

Lastly, it is essential to identify both the short-term and long-term **contributions**, and build up **assumptions** about the ways in which we can create new social contributions.

If we are aware of the power we have to influence society (soft power) and have the means to evaluate this, we are in a position to contribute to the evolution of our community, and this is the key to success.

Art-secured lending

With an increasing amount of capital tied up in art and collectible assets, art-secured lending²⁸ can be seen as an effective way of enabling art collectors to access the equity value in their artworks without having to sell them.

Art-secured lending makes it possible for collectors to redeploy their capital into new art acquisitions, attractive business opportunities, or to refinance existing loans.

The US has been leading the global development of art-secured lending for some years now, supported by, among other factors, a favorable legal environment provided by the Uniform Commercial Code (UCC), which essentially allows the art collector to keep possession of the artworks while the loan is still outstanding, a strong attraction for most borrowers.

However, as outlined in the last edition of the Art & Finance Report 2014, the situation in Europe is quite different, where banks or specialist lenders often have no choice but to take possession of the collateral in order to perfect their security interest. Yet, with several European countries having introduced a register of charges against chattels, and with new insurance products coming to the market, one would expect the European art-secured lending industry to start catching up to its US counterpart. However, ideally, if several countries develop their own register, the EU will set up a register that will aggregate the data from national registers.

Survey findings

More wealth managers are offering art-secured lending, mainly through third-party providers: 69 percent of wealth managers that said they offered art-related services said they offered art-secured lending and art financing services. 52 percent of wealth managers offered this service in-house. There has been a shift towards third-party providers, where 48 percent of banks offering this service say they would operate through external partners (up from 25 percent in 2014) to deliver this service.

The above trend could indicate that banks are more reluctant to take on art-related loan risks in the current environment, and prefer passing this business onto specialist providers in the art market. An example of this is the collaboration between UBS private banking in the US and Emigrant Bank Fine Art Finance.

28 There are two main forms of art-secured lending: 1) recourse lending, where artworks form part of the collateral for a loan (traditional lending), and 2) non-recourse lending, where loans are offered against the security of a single artwork or an art collection (asset-based lending). Different providers offer this service: private banks, auction-houses, pure art asset based lenders, and specialised financing boutiques

Challenges related to art-secured lending

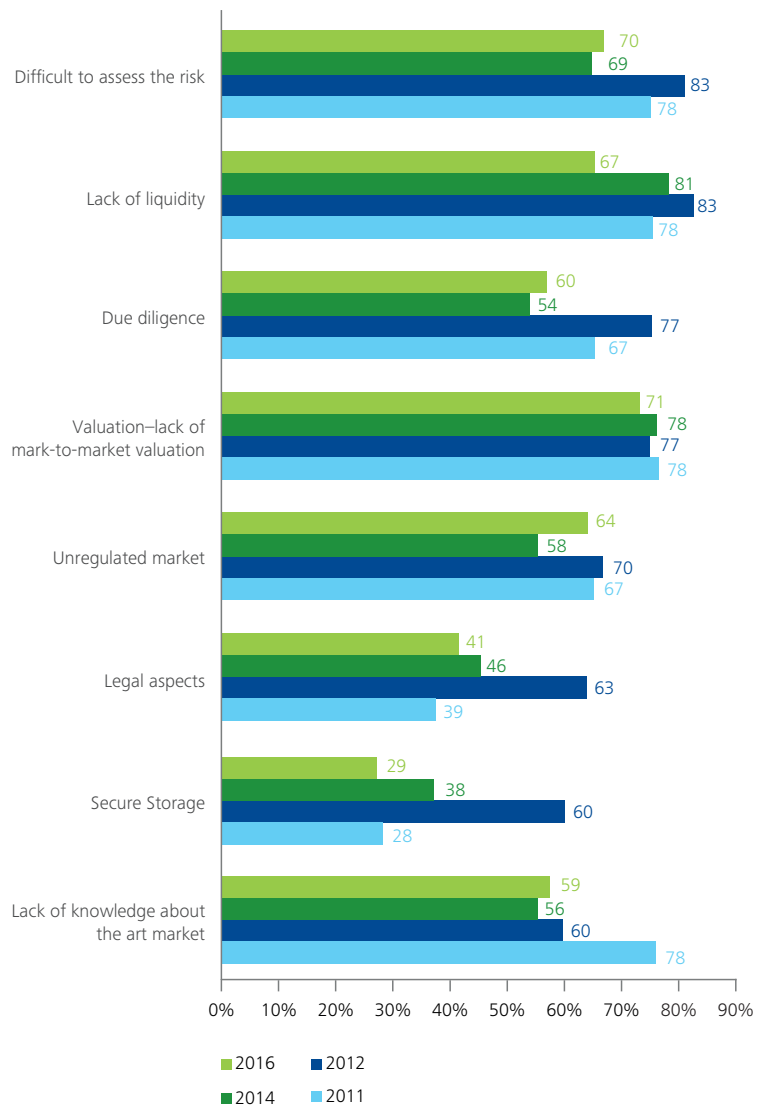
In the last five years of this report’s existence, we have noticed a small improvement in the perception of the risks associated with art-secured lending. However, three quarters of the stakeholders surveyed still rank valuation, difficulties in assessing risk, and liquidity as the main challenges.

Valuation and risk assessment: like in 2014, valuation and risk assessment issues remain among the biggest hurdles to art-secured lending, with 70 percent of wealth managers citing these as the top two challenges. 71 percent of wealth managers in 2016 (down from 78 percent in 2014) considered valuation and the lack of mark-to-market valuation as the biggest hurdle. The lower percentage could suggest that as more banks are outsourcing the art-secured lending service, this particular risk is now passed on to third-party providers.

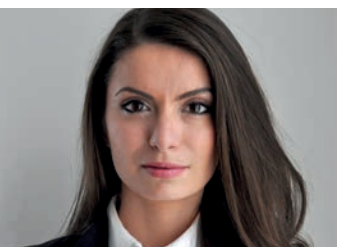
Liquidity risk is no longer the main perceived risk: the issue of liquidity remains a concern among 67 percent of wealth managers (down from 81 percent in 2014). Again, the decrease in the perception of risk associated with “lack of liquidity” in the art market could reflect that the art-secured lending market is yet to experience a market event that would properly test the liquidity problem often associated with the art market.

Perceived lack of art market regulation: one of the areas that has seen an increase since 2014, is the unregulated nature of the art market, which is perceived by 64 percent of wealth managers as the biggest hurdle to offering art-secured lending services to their clients (up from 58 percent in 2014). This could also be a reason why banks increasingly prefer to outsource this service.

Figure 22. What do you feel is the main hurdle for providing art-secured lending/art as collateral to the bank’s current clients?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016



Phillip Ashley Klein

US Art & Finance
Coordinator

Patricia Pernes

Tax Consultant
US Art & Finance Group

Michael L. Klein

Consultant
US Art & Finance Group

Art-secured lending in the US—industry trends & developments

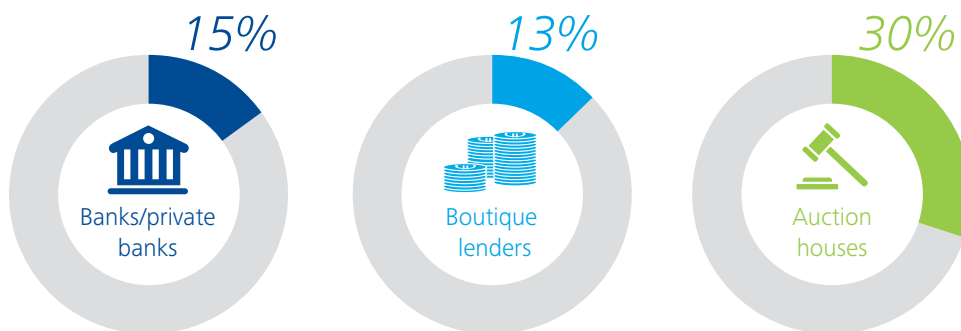
Deloitte US has conducted an in-depth analysis of the art-secured lending market in the US

The US art-secured lending market is expanding rapidly, aided by low interest rates, an expanding art market, and an attractive legal environment provided by the Uniform Commercial Code (UCC). We estimate that the overall market stands at US\$15B to US\$19B (value of average loans outstanding).

Of the three market segments, private banks (e.g., U.S. Trust, Citi Private Bank, J.P. Morgan Private Bank, Northern Trust Wealth Management, Emigrant Bank Fine Art Finance, Wells Fargo Private Bank, Morgan Stanley Wealth Management, Goldman Sachs Private Wealth Management, Deutsche Bank Private Wealth Management, and U.S. Bank Private Client Group) dominate the market with a loan book size of US\$13B to US\$15B with a 5-year annual growth rate of 13 percent.




Auction houses (Christie’s, Sotheby’s, Heritage, Phillips, and Bonhams) are a distant second with US\$1B to US\$1.4B in lending capacity with a staggering 5-year annual growth rate of 30 percent. Boutique collateralized lenders (e.g., NewOak, Art & Finance Partners, Art Capital Group, Athena, and Special Opportunity Funds) have a market size of US\$700K to US\$1.2B with 15 percent 5-year annual growth.

Figure 23. 5-year average annual growth rate by market segment



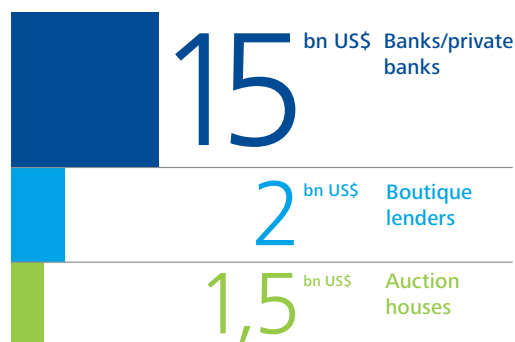
Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

Table 2: US Art-secured lending stakeholders

Client segment	Lenders	Loan portfolio size	Avg. interest rates	5-yr annual growth rate
 Banks/ private banks	<ul style="list-style-type: none"> - U.S. Trust - J.P. Morgan - Citi Private Bank - Goldman Sachs - Emigrant Bank - Northern Trust - Morgan Stanley Wealth Management - BNY Mellon Private Bank - CIT Private Bank 	US\$13B to 15B	Libor + 1 to 3%	15%
 Boutique lenders	<ul style="list-style-type: none"> - Borro - NewOak - Athena - Art & Finance Partners - Artemis - Special Opportunity Hedge Funds - Family Offices 	US\$700K to 1.2B	Libor + 7 to 15%	13%
 Auction houses	<ul style="list-style-type: none"> - Sotheby's - Christie's - Heritage Auctions - Phillips - Bonhams 	US\$1B to 1.4B	Libor + 5 to 7%	30%

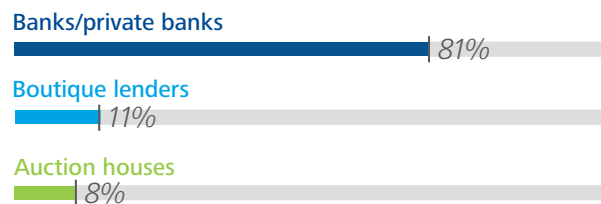
Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

Figure 24. Market size (value of outstanding loans in billions US\$)



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

Figure 25. Market share by segment



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

The US art-secured lending market is growing significantly. We estimate the US art-secured lending market has grown by 15 to 20 percent annually over the last five years (measured by value of loans outstanding). Growth is being driven primarily by private banks responding to clients who increasingly view their art collection as a source of capital in a low interest-rate environment. Several private banks have entered or re-entered the art-secured lending market in the last three years. The second major growth driver comes from auction houses that have expanded or launched art-secured lending services. Albeit the smallest, a potentially important driver of future growth has been the expansion of non-recourse asset-backed lending from hedge funds and boutiques, like Athena, Art & Finance Partners, and Borro. Speaking on industry growth, Keith Banks, CEO of U.S. Trust, says collectors are now “more keenly attuned to art as an asset for both its aesthetic and economic value, and more are leveraging their collections to create liquidity to take advantage of opportunities across all parts of the spectrum.”

The US continues to dwarf other markets. One multi-national bank we spoke with boasts US\$2 billion lent against art in the US, but zero outstanding art loans in Europe. This is primarily driven by the legal environment of the UCC under which lenders register their security interest in the collateral and borrowers remain in possession. Because the physical location of the work of art is the operative factor, multinational banks allow non-domiciled clients to transfer art to the US to collateralize a loan. The pragmatism of the UCC is mirrored in the mindset of US collectors. Michael Plummer of Artvest Partners LLC explains that in Europe there is a strong negative connotation surrounding borrowing against one’s art, equivalent to going to the pawnshop, which came out of the hard times families went through following WWII. But “art-secured lending grew out of New York City’s financial culture,” Plummer says. Unlocking the liquidity of one’s art for investment purposes is the US mindset.

Private banks are growing the art-secured lending business. The four largest art lenders, Bank of America (U.S. Trust), J.P. Morgan Private Bank, Citi Private Bank, and Wells Fargo Private Bank, have collectively

grown their art-secured lending businesses by 15 to 20 percent annually over the last five years. Credit exposure remains highly concentrated in real estate, allowing banks to lend more aggressively against alternative forms of collateral, such as art. Loans in this space tend to be full-recourse, fully secured, and priced based on the credit worthiness of the borrower rather than the value of the underlying collateral. Suzanne Gyorgy, Head of Citi Art Advisory, notes that the broader art market’s rapid rise is causing banks to use art-secured lending as an entry point into new client relationships. Private banks also increasingly view art-secured lending as a revenue driver rather than simply an accommodation for existing clients. John Arena, Bank of America Senior Credit Executive for Fine Art, notes that Bank of America has seen significant growth in its art-secured lending business and “is expanding into new art genres and mediums, such as Latin American and Cuban art.” Several private banks are in the early stages of developing a more fully integrated suite of services (e.g., lending, wealth planning, and advisory) to meet the evolving demands of their clients.

New private banks are lending against art. While old-line lenders like U.S. Trust, Citi Private Bank, and J.P. Morgan still dominate the space, new players have entered the market. Northern Trust Wealth Management recently began lending against art and is one of the only private banks willing to fully collateralize their loans. Dan Desmond of the recently launched Blue Rider Group within Morgan Stanley Wealth Management notes that his firm now provides art loans to larger clients, while Goldman Sachs Private Wealth Management has in recent years significantly expanded the firm’s custom credit business (which includes art loans). Several private banks like UBS offer art loans via a third-party arrangement with Emigrant Bank Fine Art Finance in New York City. Other institutions are using club deals where the lead lender syndicates the loan to other banks as a way to reduce exposure. A scan of UCC filings indicates that these club deals are proliferating, with many of the largest art lenders participating. Deloitte expects the number of club deals to increase significantly in the near term as more private banks aim to service art collectors with a lower capital commitment.



© SUMO/Cool Man Cool, 2015, Acrylique & aérosol sur toile, 120x80cm

Collectors are more comfortable with monetizing their art. According to a recent Barclays report, 10 percent of US wealth is held in pleasure assets like art, wine, and classic cars. This is reflected in wealth advisors paying more attention to how these assets, and especially art, behave when held as a capital asset. Our Deloitte Art & Finance Survey has shown over the years that collectors increasingly view their art with an eye on investment. This cultural shift is congruent with the rapid expansion and professionalization of the art market more broadly. John Arena of Bank of America says, “collectors are more comfortable using their art to unlock capital to buy more art or invest in a fund or new business. Borrowers now use interest-only revolving credit lines, which allows them to repay the loan as cash is generated from recurring income sources or liquidity events.” Michael Plummer of Artvest explains that the stigma previously associated with using art as collateral has largely disappeared and the practice is becoming more commonplace in estate planning situations. Andy Augenblick, President of Emigrant Bank Fine Art Finance, sees “older collectors borrowing against their art like a reverse mortgage to access to equity in their collection. They can defer repayment of the loan until death and benefit from the step-up in tax basis so they don’t have to pay capital gains tax by selling during their lifetime. We also see divorcing couples borrowing to fund a divorce settlement. Often the art is marital property. One spouse wants the art. The other spouse wants to receive half the value of the collection which is funded through an art loan.”

New players in the middle market. While private banks dominate the space, the emergence of boutique lenders and mid-market private banks presents more options for borrowers who may want to borrow on a non-recourse basis. Collateralized debt funds, auction houses, and asset-backed lenders lend at higher rates but are far more flexible and creative in deal structuring. Following its 2015 acquisition of OneWest Bank of California, CIT Group’s Private Bank, led by Jay Sanders, former head of Structured Lending at Merrill Lynch, is developing a suite of art banking services including term loans for collectors and gallerists with much lower minimums than other private banks. Andrea Danese, CEO of recently launched Athena Art Finance, notes that “better data and increased market transparency lets new players complete more complex transactions.” Eric Manley, Managing Director at NewOak, a New York based investment bank, said that his firm sees “good deal flow since they launched a coverage group focused on art and exotic assets back in 2009.”

Auction houses are acting more like financial institutions. Leading auction houses are accelerating their move into financial and advisory services in an effort to achieve growth in a business beset by competitive pressure and margin compression. Sotheby’s Financial Services is by far the largest asset-backed art lender in terms of both committed capital and annual loan originations. In 2015, the firm expanded the credit facility with GE Capital dedicated to its finance business to approximately US\$1 billion—an 88 percent increase from their previous line. During the same year, the company’s average loan portfolio

One major auction house we spoke with contemplated securing art loans with short-term commercial paper, but ultimately deemed the liquidity risk too high

grew 26% to US\$733 million versus the prior year and the finance business revenues reached \$65 million, a 38% increase compared to 2014. “Even though the lending service was historically used primarily as a tool to attract consignments, it is now treated as a standalone finance business with its own performance targets,” noted Jan Prasens, Managing Director of Sotheby’s Financial Services. Christie’s has historically opted not to use firm capital for art-secured lending, instead referring clients to boutique lenders, but the house is again considering expanding its financial services division via capital partnerships. Smaller houses, like Heritage Auctions, have set up credit lines with financial institutions to aggressively compete for consignments, or as Mike Haynes, Heritage Auctions CFO, puts it, “to accommodate clients who simply want to monetize their art without removing it from the wall.” Auction houses are moving down market, now offering bridge loans as small as US\$40,000 to secure consignments for day sales. As the market matures, we expect to see art-secured lending as a core service of every major auction house.

Art loan securitization faces hurdles. Lenders are exploring the possibility of securitizing art loans as a way to lower the financial risk of carrying art on their balance sheet. Securitization could take the form of Art Collateralized Debt Obligations (ACDO) or an Art Credit-Default Swap (ACDS). Such structures would enable lending institutions to transfer the financial risks to market participants who want the exposure and fee payments. One major auction house we spoke with contemplated securing art loans with short-term commercial paper, but ultimately deemed the liquidity risk too high. Still, Andrea Danese of the recently launched boutique lender Athena has ambitions to create a market for securitized art-backed debt. For now, however, the broad consensus from

credit executives, hedge fund managers, and auction house professionals we spoke with is that art loan securitization is not on the near horizon. Our belief is that the art collateralized debt market will start with bespoke deals between auction houses and hedge funds or art funds. We do not expect large lending institutions or private banks to securitize art loans any time soon.

Risk mitigation tools are slow to catch on. Lenders find that the provisions of the UCC offset the need for safeguards such as title insurance, a sign that art-secured lending is fairly low risk. Pip Deely, member of the New Museum’s NEW INC tech incubator explains that the real risks of art-secured lending do not involve possession. Eric Manley of NewOak noted that lenders would rather rely on appraisers for valuation, attribution, and authenticity than add an insurance rider. Furthermore, most banks we spoke with say that borrowers are simply unwilling to digest the extra 1.5 to 2.5 percent in fees for a policy. One exception that may call for a policy is in succession situations. John Arena of Bank of America only uses title insurance “if a client is in an estate planning situation where the fiduciary or heirs are unaware of the provenance or how the art came into the deceased’s possession.”

The art-secured lending space is ripe for innovation

- *Alternate sources of credit:* “post credit crisis, collectors are more concerned about liquidity, which has given rise to alternative sources of credit like peer-to-peer platforms,” says Eric Manley, Managing Director at NewOak.
- *More robust data tools:* better data tools are being developed to aggregate art prices and performance metrics into a language that financial institutions and investors are more familiar with.

- *Blockchain*: banks are beginning to examine blockchain technology to improve the loan process. "As a programmable protocol, it will provide more flexibility for creating loan structures and ease in monitoring interest payments," says Pip Deely of the New Museum's NEW INC tech incubator.
- *Bridging the gap*: Fintech and peer-to-peer lending could connect smaller loan providers and niche lenders to the larger banks to provide loans in the US\$10K–US\$250K range.

Potential growth headwinds in the art-secured lending market

- *Interest rates*: a rise in interest rates will raise the opportunity costs of holding cash-negative assets like art, which may put downward pressure on overall demand for art loans in the future.
- *Tight credit*: art-backed lending increased in 2009, as borrowers monetized their art to meet short-term liquidity needs; however, a systemic drop in financial system liquidity would reverberate strongly in the art-secured lending market.
- *A fall in art prices*: could cause margin calls on outstanding loans, as was the case in 2008 and earlier in 1990. Causes could range from a drop in the value of an artist's name to a poor auction season. Lenders would ask borrowers to pay down loans or collateralize more art to keep the loan.
- *Default*: a sizable art loan default could cause certain private banks to reassess their strategy and tighten lending practices.
- *Underwriting*: laxity in underwriting standards could lead to mistakes and potential defaults.

Recent developments in US art-secured lending

Sotheby's,²⁹ under its Sotheby's Financial Services branch, increased its overall credit facilities by US\$484 million to now total approximately US\$1 billion (US\$1.3

billion for all of Sotheby's), providing for a dramatic increase in the amount of credit it can offer clients. The auction house is growing its finance business through collaboration with GE Capital, its administrative and collateral agent. GE Capital Markets, JP Morgan Securities, and HSBC Bank are joint bookrunners.

*Bank of America*³⁰ is seeking to double the art loan amount it has outstanding, currently at US\$3 billion, according to Bloomberg on 20 October 2015. The expansion strategy is based on offering basement interest rates to UHNW clients. Based on regulatory filings, the institution is shown to have provided art loans to prominent finance industry clients, most recently Steven Wynn, who, according to Bloomberg, secured a loan at under 1 percent in exchange for pledged works. This is congruent with actions taken last year alongside art loan industry competitors like Citigroup Inc., JPMorgan Chase & Co., and Goldman Sachs.

*Athena Art Finance Corporation*³¹ launched in October 2015 with US\$280 million of equity capital led by Carlyle Group and Pictet Group, a Geneva wealth and asset manager. Based in New York and looking to expand its physical presence to London and Geneva in 2016, Athena will offer loans exclusively collateralized by high value works of fine art to UHNW individuals and family offices. Loans will start at US\$1 million at 50 percent Loan To Value (LTV) and range from typical terms of six months to seven years.

Blue Rider Group,³² launched by Morgan Stanley in July 2015, will provide financial services to the art community. The bank began to increase its lending book in 2013 with growth benchmarks set for 2015 and beyond. The group will function under a family office approach and, in addition to financial services, will provide advisory services to collectors, artists, artist foundations, galleries, museums, non-profits, and academic institutions seeking to manage their broader investment portfolios.

29 www.privateartinvestor.com/art-finance/sothebys-increases-its-lending-power-to-attract-customers/; <http://www.monitordaily.com/news-posts/ge-capital-agents-sothebys-credit-facility/>

30 www.bloomberg.com/news/articles/2015-10-20/the-1-find-deal-from-banks-to-match-their-status-1-art-loans; <http://www.bloomberg.com/news/articles/2014-05-06/goldman-sachs-supports-cohen-with-loan-backed-by-fine-art>

31 www.finalalternatives.com/node/31888; http://www.nytimes.com/2015/10/09/business/dealbook/carlyle-in-art-financing-venture.html?_r=1

32 <https://news.artnet.com/market/blue-rider-group-morgan-stanley-interview-344885>; <http://www.morganstanleypwa.com/blueridergroup/>; www.reuters.com/article/us-morganstanley-wealth-idUSBRE9B305Y20131204

ArtAssure, the specialist asset lender, has shifted its strategic focus to follow the auction seasons, offering prospective sellers advances of up to 50 percent of the loan to value of the collection's auction estimate for collections or items valued above US\$500,000. The rates are congruent with the specialist lender rate of between 10 and 15 percent.

Borro, the online personal asset lender, has introduced a new term loan product, providing loans for periods of 18-36 months, with monthly interest rates from 0.99 percent. Clients can secure loans of up to US\$10 million with a minimum value of US\$100,000. The company's newly launched mobile app expedites the loan application process and eligible customers can have money in their bank account in less than 24 hours. Unbolted is a new UK p2p platform asset lending company offering loans and sale advance loans for prospective auction buyers. Requiring no credit, only proof of UK residency, the company lends against works with a secondary market in the UK, with loans from £20,000 to £1,000,000.

Willstone Management, having previously secured a US\$100 million credit line from a pair of New York hedge funds, has re-thought the opening of its second office, and set its sights on China rather than, as previously intended, New York, citing Chinese stock market volatility as an opportunity for business growth.

Rosenthal&Rosenthal, a privately held financing company that offers specialized asset-based lending to art dealers and galleries, welcomed a new head of asset-based lending in March 2015. Rob Miller intends to double the company's ABL unit from a US\$300-million portfolio over the next few years. The company offers a variety of art financial products, including acquisition loans, revolving credit loans against collateral and 3-6 month bridge loans. The loan size ranges from US\$800,000 to US\$8 million at around 40 percent LTV at 8-13 percent rates.

New European Developments

The Fine Art Fund Group is launching a new business, Fine Art Financial Services, which will provide loans secured against high quality works of art and jewelry. Fine Art Financial Services is open for investment from March 2016 and expects to be making loans available by May 2016. Fine Art Financial Services will provide art-backed lending solutions, ranging from US\$250,000 to US\$50,000,000, for collectors and owners of art and jewelry who may have immediate liquidity needs or require longer-term financing to facilitate the release of investment capital from collections.

Peer-to-peer lending against art and collectibles new addition to the art secured lending market: The market for art secured lending has been growing in the last 5 years, with advent of more traditional bank lending as well as the growth of asset based lenders, such as Borro. The newest addition to the art secured lending space is Unbolted, an online-only, peer-to-peer (p2p) lending platform allows borrowers to receive immediate funds against their personal assets. With the US p2p lending market alone expected to reach \$350 billion by 2025³³, there is clearly potential to develop a p2p model also around lending against personal assets such as art and other collectibles. However, the challenges outlined in this report such as lack of market liquidity, fair market valuation, authenticity and provenance issues will remain significant obstacles for this industry to grow.

Vastari and Overstone have come together to provide a new art-secured lending service, whereby collectors, corporates bodies, and family offices can leverage against their works of art in exchange for the right to place the star pieces on short or long-term loan with major institutions interested in exhibiting the artwork. The Pledge Loan product focuses on deal sizes starting at US\$3 million. Overstone undertakes the financial side of the deal, conducting stringent due diligence and connecting the borrower with reputed non-bank lenders. Vastari will conduct a survey to identify the appropriate institution for displaying the work of art and connect the two parties.

³³ Source: Research & Markets http://www.researchandmarkets.com/research/qhjr6w/us_alternative



Expert view of Harco van den Oever

Founder of Overstone Art Services

Art-secured lending: The view of the European collector

Where is art-backed lending today and how do you see it grow?

You'll find that pure art-secured lending is still a fairly small offering compared to other asset backed lending markets, think of real estate for instance. However, we, alongside other participants, have seen significant growth in activity this year due in part to the entry of new specialist lenders that have actively advertised their services, thereby raising the awareness amongst both lenders and borrowers.

In fact, the market is in comparison even smaller in Europe as a fragmented legal environment combined with the lack of a central database of pledged assets and regulated players means that there are still roadblocks for it to reach its full potential.

What kind of collectors are willing to borrow against their art?

Whilst our initial expectation was that we would see the typical asset rich/cash poor borrowers, our experience has in fact been very different—no owners of mansions in the countryside seeking financing to repair their leaking roof, but very astute individuals who have identified an opportunity to create liquidity out of an otherwise unleveraged asset. In Europe, these are generally wealthy UK or Continental European entrepreneurs in need of short to medium term liquidity so that they can invest in their businesses or other projects. They are of course keen collectors who do not want to sell their art.

How do collectors see art-secured lending?

On the one hand, post 2008, many European banks are generally not keen to lend to individuals. On the other, some lenders such as non-banks are finding it difficult to find decent returns. This has resulted in an opportunity for collectors to tap into a previously non-existent group of lenders in order to raise financing.

However, many of these entrepreneur collectors still feel a strong emotional bond with their art and find it difficult to talk about it in pure financial terms with their bankers or other financial services providers.

What are the challenges for collectors?

How can they overcome those challenges?

With new offerings coming to the market on a regular basis, borrowers are finding it difficult to identify the right counterpart for themselves and their specific requirements. For instance, whilst some lenders prefer Old Master pictures, others focus on contemporary art and again others are agnostic about the category. For some a short-term loan is preferred whilst others seek longer maturities. Some find the loan to value most critical whilst for others it is just about the interest rate. These are important distinctions and, as mentioned, collectors also want to feel that the lenders have sensitivity when it comes to their art.

Borrowers should get a good understanding of the offers available and the approach of the various lenders as well as different options around managing their collateral, including conservation and lending to museums. This will ensure, as a result, that they know they have the best deal, that their works of art are taken care of by knowledgeable people and that their collection doesn't necessarily have to be kept in a vault for the term of the loan.

In Europe, these are generally wealthy UK or Continental European entrepreneurs in need of short to medium term liquidity so that they can invest in their businesses or other projects

”



Times are changing

The German market for art-secured loans is developing and gaining visibility

Times are changing. Extremely low interest rates force more and more investors to invest in tangible assets. The fact that works of art are no longer considered to be only decorative is also becoming increasingly known in Germany among gallery owners, collectors, and investors. Art is capital, but of an illiquid nature. Thus, the possibility to turn art temporarily into money, without having to sell it, is an important option when considering investments in this asset class.

The desire for cash has many different motivations: a private collector might find a piece of art he has always been looking for and want to buy it immediately. Others have to cope with the typical tragedies of death, debt, and divorce. A wealthy entrepreneur could be surprised by back taxes or discover an interesting venture idea. Galleries seek art-secured loans to temporarily pre-finance art fairs all around the globe or to finance their working capital, mainly consisting of works of art kept in art storage facilities. And even artists may need to borrow on their own works of art to buy raw materials and pursue new projects.

Thus, there is demand. On the other hand, the challenges for lenders are clear. Forgeries, unclear ownership, and incorrect evaluations can make art-secured lending a financial risk.

A business model specializing in art market clientele and based on international standards has been developed in the German market over the last few years: collateralized non-recourse loans on high-value works of art. Pawnbrokers, such as Kunstleihhaus Brocker, have been active for many years in the business of accepting works of art as collateral. Although new players have recently entered the market (for example online pawnbroker Valendo), the structural limits of these lenders remain the same: mostly self-financed, the loan volume is finite. Pawnbrokers do not have a banking license, thus the structure of their loans is limited to the standard structure required by law.

Furthermore, the interest payable often does not provide a basis for longer-term financing for the borrower. Hence, doing business with pawnbrokers has its weaknesses and, so far, they have not been able to outgrow their existence as niche providers.



Franziska Ida Neumann, M. A.
Specialist for Art Loans
Privatbank Berlin von 1929 AG

Art is capital, but of an illiquid nature. Thus, the possibility to turn art temporarily into money, without having to sell it, is an important option when considering investments in this asset class

But which institutions and concepts would be able to offer long-term solutions and reasonable interest rates for collateralized loans on high-value works of art in Germany? These questions have been asked for some time now. There are companies internationally to do this, such as Art Capital Group and Emigrant Bank Fine Art Finance. In addition, big banks and private banks provide such financing, primarily for wealthy private customers as well as large auction houses, which offer art-secured lending solutions as a way to promote their core business.

In the European market, and especially in Germany, Privatbank Berlin von 1929 AG has been a specialist provider of solutions for owners of high-value art for around four years. The bank plays a leading role in this sector and closes the gap between the financing offers of traditional banks, on the one hand, and pawnbrokers, on the other. Great value is placed by the bank on absolute transparency for customers in the financing process, while also ensuring discretion and

the provision of professional advice. Customers include domestic and international professional art dealers, as well as private collectors. The typical term is two years and loans are offered on a fixed or flexible (line of credit) basis.

Due to the legal framework in Germany, tangible assets pledged under a German pledge agreement must—in contrast to the British chattels mortgage or the US UCC system—be possessed directly or indirectly by the lender. Nevertheless, generally a loan can be taken out in Germany and secured by a work of art that is stored abroad. Privatbank Berlin von 1929 AG has already worked out various international customer-storage constellations (for example in Switzerland and the UK) and offers different structures, such as pledges and chattels mortgages, to its customers. New providers including Athena Art Finance Corp now follow this model.

The most important criterion from the customer's point of view is the development of flexible financing solutions, while ensuring discretion, high standards of interaction, and an understanding of art. This requires both deep knowledge of the art and financial markets and a professional approach.

Conclusion:

Demand for loans secured by works of art in Germany is growing. It is up to participants, primarily providers, to consolidate and optimize this market. Expert art knowledge and finance experience must be combined to develop this sector successfully. If this combination succeeds, despite the risks, this business model can conquer the market, providing benefits for both participants—lenders and borrowers. A win-win situation for all involved and ultimately for the German art market itself.



DELOITTE NEW ZEALAND

Money for art's sake

Shaking things up from down under

Relative to the global market for the visual arts, the Australian and New Zealand markets are seen as small fish in a big pond. However, these small players should not be underestimated, and they are emerging as the ones to watch on the art scene. The art market in New Zealand alone, a country of around 4 million people, is now reputedly worth more than NZD\$50 million annually, with more than NZD\$12 million in exports.

The visual arts segment has the highest participation level of any art form in New Zealand and art galleries and exhibitions are attended significantly more than digital or video art events in New Zealand. Australian households spend almost AUD\$2.13 billion on visual arts and crafts annually with AUD\$550 million of this attributable to paintings, carvings, and sculptures. With a diverse range of both indigenous and non-indigenous art forms, it is no wonder that visiting art museums and galleries are the most popular forms of arts tourism in Australia. The appetite for art services in this corner of the world is growing and the arts continue to play a vital role in these culturally ambitious nations.

There is a number of players that have come in and bridged the gap between the art elite and everyday Australians and New Zealanders by making art accessible and affordable. One such player, who is seen as a market leader in Australia and New Zealand, is Art Money. Art Money's simple deferred payment system allows for more purchasers to participate in the vibrant art culture.



Eva Pleskova

Senior Consultant Tax
Deloitte New Zealand



Jeanne Du Buisson

Associate Director Tax
Deloitte New Zealand



Interview with Paul Becker

Founder and CEO,
Art Money, January 2016

Paul is the founder and CEO of 10 Group, a Sydney-based company specializing in art engagement. Paul is also founder and CEO of Art Money, an innovative start-up borne out of 10 Group, launched in April 2015. Art Money makes it easier and more affordable for people to buy art at participating galleries (which pay fees for being part of that arrangement) by providing interest-free loans. He leads the strategic thinking and entrepreneurial drive of the business whilst remaining hands-on with many projects and clients. With a background in marketing, Paul is fascinated by the intersection of creativity and commerce—the creative economy—and is inspired by technology as an agent of change.

Where did the vision for providing an Art Money type of service come from?

In developing ways to increase engagement with contemporary art, it had always struck me that one of the biggest barriers to entry was that buying art is made much harder than it should be. This manifests in a number of ways in the art industry, however one of the big issues is the upfront payment required. Every other industry has solved this problem, so why not the art world? I thought I could do something about that.

What is your typical client profile and why do they choose to use Art Money?

There is actually widespread adoption across the client demographic, so there is really no one “typical” client. Around 20 percent are first-time buyers of art, whilst around 40 percent identify as regular buyers/collectors. I would say a common misconception is that Art Money is for people who “can’t afford” to buy otherwise. For example, we have a large number of high-net-worth collectors, who certainly could afford to buy outright, but prefer to buy this way. As well as the benefits of cash flow and higher budget, using Art Money to buy art is a psychological preference—it feels less extravagant, more responsible, and it is the way most of us buy the important (expensive) things in life. It is an interesting culture change that we are facilitating—changing the way people buy art.

What factors do you perceive as crucial to your success in the art industry?

The key factor is that we come from a genuine place of engagement with the art market and are rightly perceived as growing and supporting the industry. We are an art business, not a finance company. Our strong relationships with the art world are key, as well as truly providing a service that benefits all stakeholders, i.e., buyers, artists, and galleries. I would also add to that list an understanding of finance & regulatory environments, customized IT systems, and strong branding.

Where do you see your company's growth?

You already have plans for expansion into the US and the UK, but are there any other opportunities you see in the pipeline?

We are building Art Money as a premium global art/finance brand, facilitating the purchase of art. There are many ways in which the brand is scalable and we are implementing those strategies as we grow internationally across all markets. Opportunities are not the problem, rather staying focused is the challenge. For now, it is about taking one step at a time.

What do you think is the current state of the New Zealand and Australian art market? What changes do you see in the art industry in the future?

Both Australia and New Zealand have a strong contemporary art scene and punch above their weight in a global context. I would say many of the artists and galleries are world class. The biggest challenge is the small local market size, which generates issues of commercial sustainability. Growing the local market and reaching an international audience is the key.

I see the art market opening up to new audiences—this is the biggest challenge, but it is also the biggest opportunity. It is part of the “democratization” of art, which does not mean dumbing down; it means increasing access. I also see the growth of art as a social experience, and the continued rise of art fairs, art tourism, and online purchasing (from known, trusted art brands).

”

In developing ways to increase engagement with contemporary art, it had always struck me that one of the biggest barriers to entry was that buying art is made much harder than it should be

**B. Art professionals & collector survey—
key survey findings 2016**

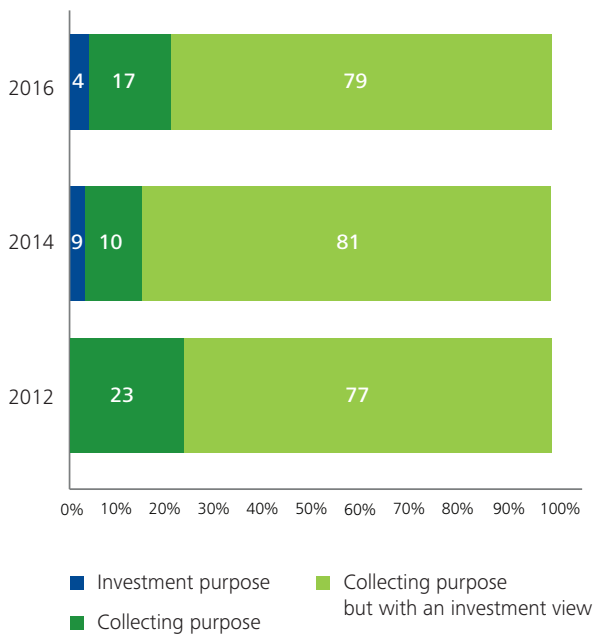
Emotions vs. investment

Collecting art with an investment view: similar to previous survey findings, we find that a large majority (82 percent) of art professionals said their clients buy art and collectibles for emotional reasons (passion of collecting), but with a focus on investment value (not only investment return, but also art as a “store of value”), this was up from 81 percent in 2014. Only 6 percent of art professionals surveyed buy art only for investment reasons (down from 9 percent in 2014), and 12 percent said their clients bought art for collecting purposes only. Although the order of motivations remains the same for art collectors, there is a higher

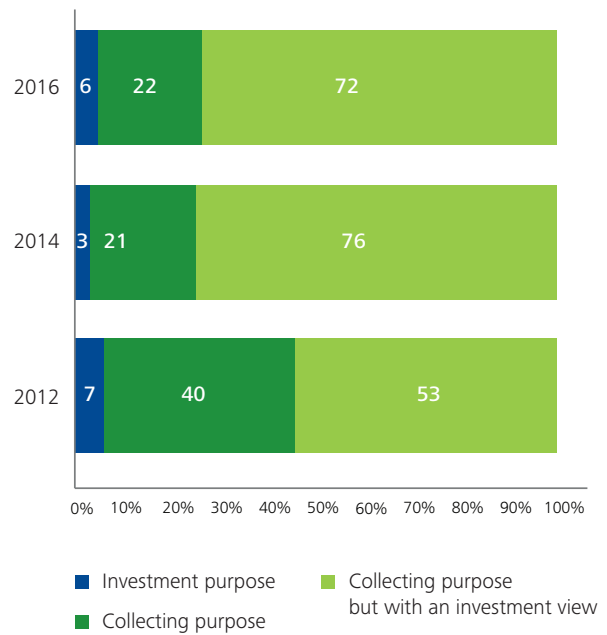
portion of art collectors that say they are driven by “pure” collecting. At the same time, the survey findings suggest that we are seeing an increasing number of investors entering the art market—6 percent of art collectors described their buying motivation as a pure investment (up from 3 percent in 2014).

Overall, this implies that art as a pure investment product is only attractive to a small (but growing) minority of art buyers, and that it is the emotion of collecting combined with the potential of a value increase and/or store of value, i.e., value protection, that is the driving motivation among most art collectors in the art market. This is an important point to bear in mind when designing and implementing art-related services among private banks and wealth managers.

**Figure 26. Emotion versus investment:
why do your clients buy art? (art professionals)**



**Figure 27. Emotion versus investment:
why do you buy art? (art collectors)**



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

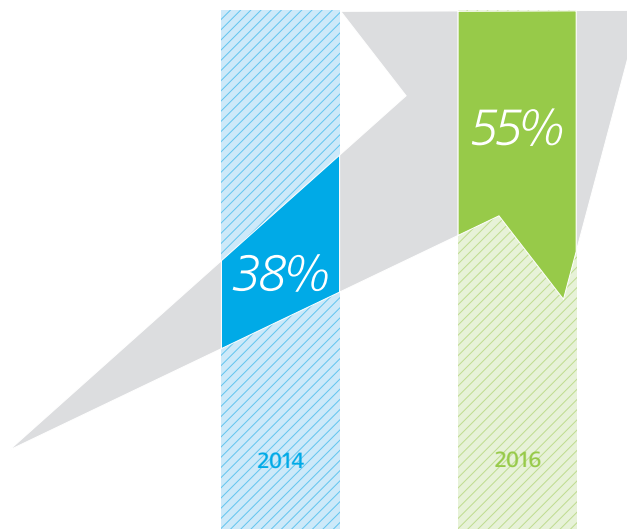
Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

These findings correspond with feedback from wealth managers, where 55 percent (figure 29) said that their clients increasingly view art as an asset class, up from 38 percent in 2014.

The next two charts are particularly interesting because they show, for the first time since we launched the Art & Finance Report, that art professionals' views differ from those of collectors in terms of motivation. Although in both cases the emotional and social values are most important, the financial value is becoming more significant for collectors.

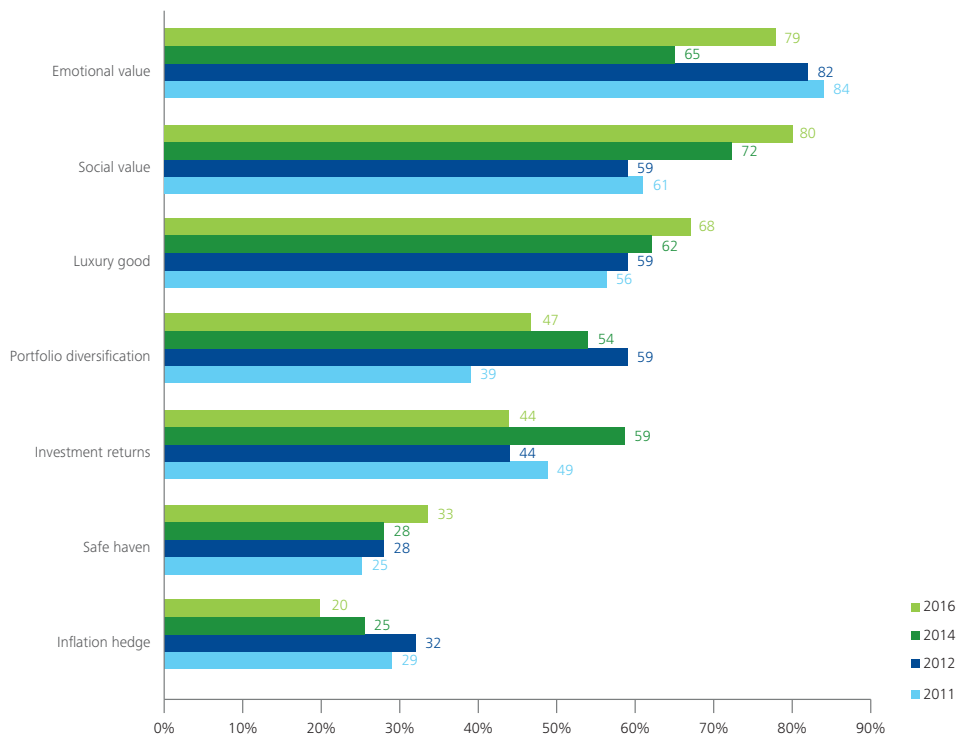
It is worthwhile noting that art professionals do not seem to correctly interpret collectors' motivations in terms of the importance of the financial aspect (particularly investment returns), which is considerably higher for art collectors (64 percent) compared with art professionals (44 percent).

Figure 29. Are your clients likely to increase their focus on art as an asset class in the future?



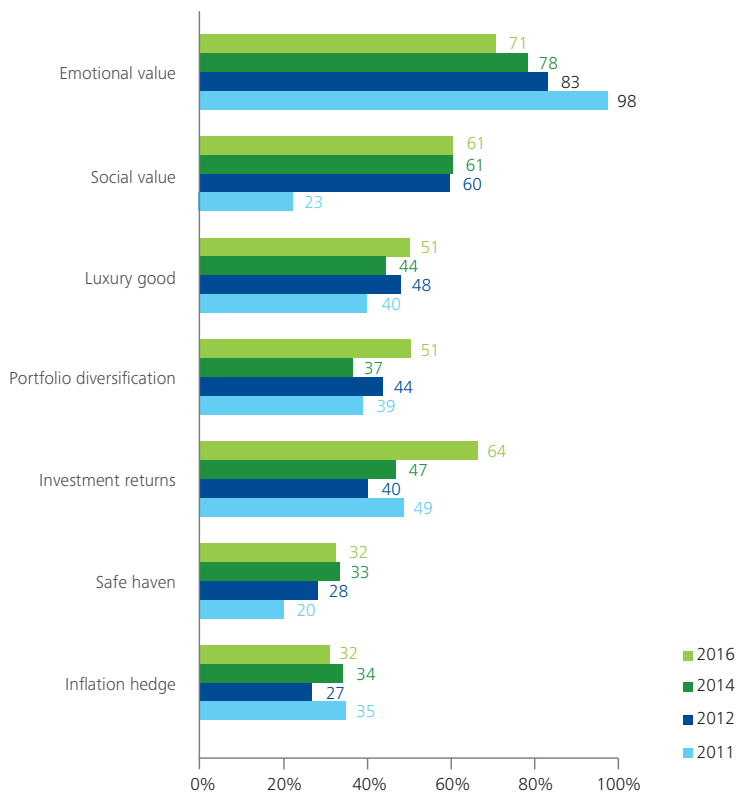
Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

Figure 28. Art professionals: which of the following motivations are most important in buying art?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

**Figure 30. Art collectors:
which of the following motivations are most important in buying art?**



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

Social value remains a prime motivation for art collectors: for the second time since the launch of the survey in 2011, according to art professionals, the social value associated with buying art and being part of the art world remains the primary motivation among art collectors (this was the opinion of 80 percent of art professionals surveyed, up from 72 percent in 2014).

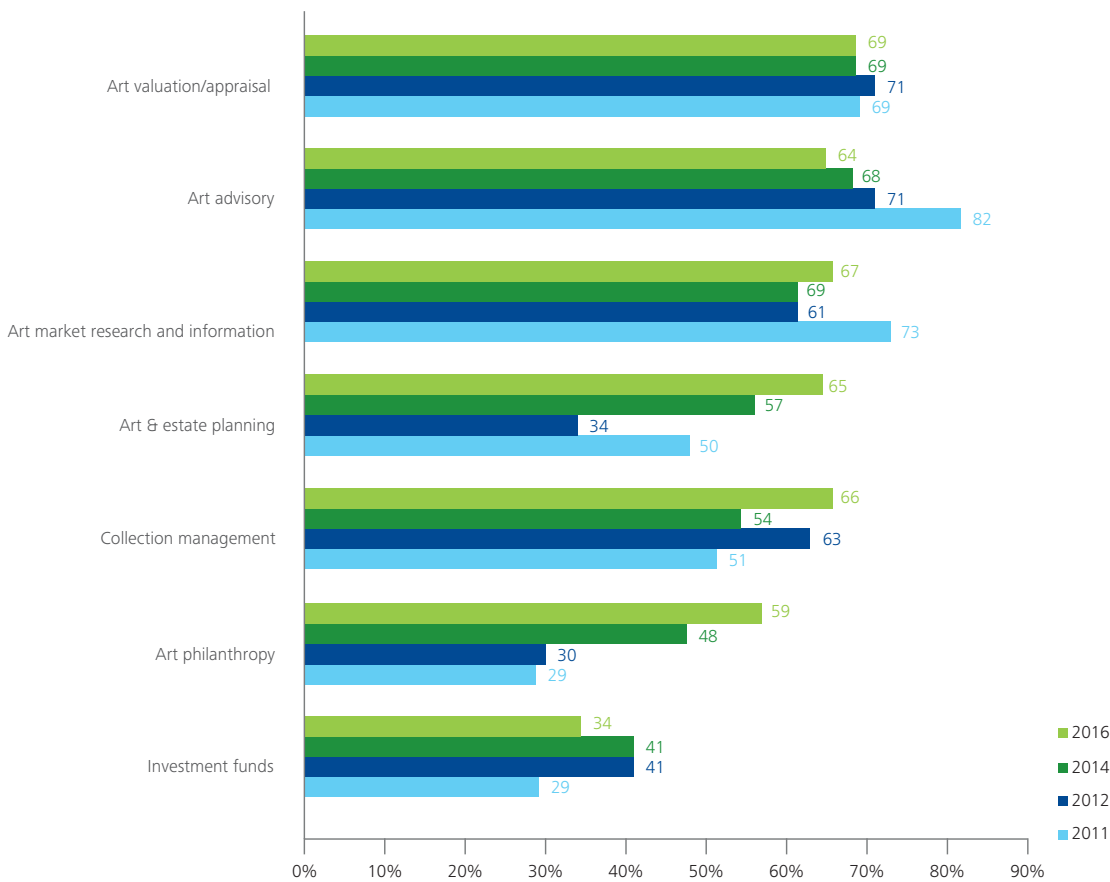
Social value was marginally more important than emotional value, with 79 percent of arts professionals saying this was a primary motivation for buying art. However, collectors still feel that emotional value (71 percent of collectors) remains the primary driver when buying art, followed surprisingly by “investment returns” (64 percent of collectors said this was an important motivation) as their second most important reason for buying art. Social value was the third most important motivation, with 61 percent of collectors saying this was a key motivator for buying art.

Portfolio diversification and art as a “safe haven”: 51 percent of collectors surveyed said portfolio diversification was an important motivation when buying art, up from 37 percent in 2014, and 32 percent (compared with 33 percent in 2014) considered art as a “safe haven”. Similar results were found among arts professionals, suggesting that art and collectibles are increasingly playing a role in a well-balanced wealth portfolio, and both collectors and art professionals feel it offers a degree of safety and diversification in times of economic and political uncertainty.

Investment value is an increasingly important motivation among art collectors: after seeing an increase in motivations driven by “investment returns” in 2014, this has dropped back to 2012 levels according to art professionals, with 44 percent stating that this is a key motivation for their clients. However, art collectors seem to be increasingly focused on investment returns, increasing from 47 percent of art collectors saying this was an important motivation in 2014 to 64 percent in 2016.

There is a consensus among art professionals and art collectors on which art wealth management services they would like to be offered by their wealth managers.

Figure 31. Art professionals:
which of the art wealth management services are most relevant for your clients?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

Art valuation and value appraisal should be offered as wealth management services: 69 percent of art professionals surveyed stated that art valuation would be the most relevant art wealth management service for their clients. 62 percent of collectors said this was the most relevant service, but ranked it in third place in terms of collectors’ priorities after art market research and art and estate planning. It is interesting to note that only 34 percent of private banks and family offices see this as an important service for their clients.

Art advisory: 52 percent of art collectors believe that wealth managers should offer art advisory services (up from 30 percent in 2014). This increase could suggest that collectors would feel more confident using art advisory services offered by a regulated entity. As the art market has experienced a large influx of art advisors in recent years, it is clear that this unregulated profession is of concern to collectors, where 42 percent of collectors said that a ‘lack of standards around professional qualifications in the art market’ was of major concern (see also Section 5: Regulation for further information and discussion).



Art market research and information is increasingly seen as a service that wealth managers could provide: 67 percent of art professionals (up from 61 percent in 2014) and 75 percent of art collectors (up from 61 percent in 2014) surveyed said that market research and information would be a product they would like to see in a wealth management offering. This could indicate that collectors and art professionals are seeing the wealth management industry as a neutral party when it comes to providing valuation and market research.

Art and estate planning: 68 percent of art collectors said that art and estate planning was a service that would be very relevant and needed (up from 57 percent in 2014). 65 percent of art professionals agreed with this.

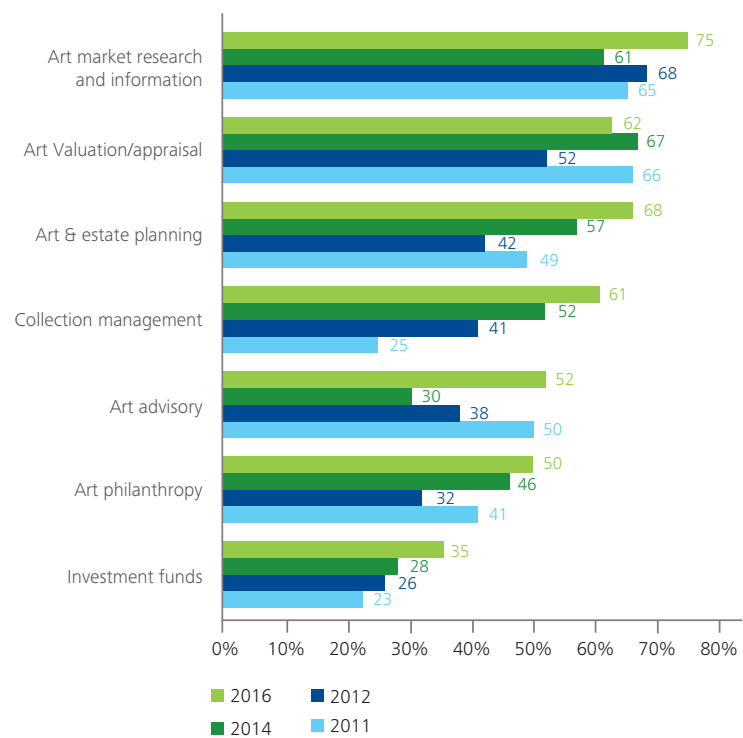
Collection management systems integrated in wealth reporting: 61 percent of art collectors and 66 percent of art professionals (up from 52 percent and 54 percent in 2014) believe collection management is a service that should be offered by the wealth management industry, and this corresponds with wealth managers' view that more clients want to have their art consolidated into overall wealth reporting.

Art and philanthropy: 50 percent of art collectors said that wealth management services related to art and philanthropy would be important to them (up from 46 percent in 2014). This trend was supported by 59 percent of art professionals surveyed (up from 48 percent in 2014). This implies that art is increasingly becoming important in legacy planning for high net worth individuals.

More than a third of collectors would be interested in art investment funds: this is the highest reading since the launch of the Art & Finance Report in 2011. It clearly indicates collectors' increasing interest in the possibility of having financial exposure to art through an investment vehicle. 34 percent of art professionals think that their clients would be interested in art investment funds (down from 41 percent in 2014), and 35 percent of art collectors (up from 28 percent) said they would be interested in art investment fund products. These opinions stand in contrast to how private banks and family offices view the art investment fund market, with only 10 percent planning to look at art investment fund products in the next 12 months. As a result of an increasing motivation among art buyers in seeking financial return when buying art, we could start to see more demand for art investment fund products, as collectors and investors are looking for services that can combine art market access, expertise, and a more regulated investment environment.

35 percent of art collectors (up from 28 percent) said they would be interested in art investment fund products

Figure 32. Art collectors: which of the art wealth management services are most relevant?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016



Silvia Graemiger

lic. oec. HSG, EMAMS
Partner at Johann
& Graemiger Partners

Adriano A. Sala

Attorney-at-law
EMAMS
Partner at 'GSLaw
attorneys-at-law'

Under the supervision of

Dr. Nicolas Galley

Director of Studies
Executive Master in Art
Market Studies (EMAMS)
University of Zurich

Art and wealth management in Switzerland: overview, challenges, and opportunities

According to the Swiss Customs Administration, in 2014, Switzerland exported CHF 2.257 billion worth of works of art, collectors' pieces and antiques, while it imported CHF 1.764 billion of them. Exports grew by 57 percent from 2000 and imports increased by 30 percent. These figures underline the importance of Switzerland as a major art market hub. Many factors have contributed to this achievement since the 1950s, but political stability, liberal legislation, a favorable tax regime and the absence of artists' resale right (*droit de suite*) should be mentioned among the most significant. Swiss freeports and free zones have also been developing apace and have followed the solid recovery and expansion of the art market since 2009.

Although recent events have called their functioning into question, their expertise in matters of logistics, storage, and handling is renowned among major art market players and should not directly affect their success. The recent new provisions³⁴ related to the implementation of the 2012 Revised Financial Action Task Force (FATF) Recommendations Act involves the necessity to comply with new tax regulations and increases the certainty related to the identification of the ultimate beneficial owner of any financial transaction. These developments improve the reliability of transactions involving artworks and these amendments should also make them more appealing for wealth management strategies. Following the hedge fund industry example, more transparency and a clear legal framework should prove beneficial to the art market and might encourage interest among new investors.

Although Switzerland's role in the art market is well-known, its US\$2.04 trillion in assets under management

(22 percent of worldwide global assets) award it the leading position among international private wealth management centers. The Swiss Association of Asset Managers (SAAM) is composed of almost 1,000 members and most of them can be considered boutique structures—53.6 percent have less than CHF 100 million under management. The correlation between the development of the art market and the success of wealth management has long been established. The number of UHNWIs settling in Switzerland largely contributed to the exceptional percentage of high-profile collectors based in the country, but active on a global scale. According to Artnews, more than 5 percent of the top 200 collectors were based in Switzerland in 2015. Even though this ranking can be methodologically questioned, it underlines the often-heard statement that Switzerland has the highest concentration of collectors as a percentage of its population. These individuals are substantial clients of wealth management entities.

The study of art market-related services offered by Swiss wealth managers reveals three major areas. First of all, the sponsorship of art market-related events (such as art fairs or gallery openings) is often part of an overall sponsoring and engagement strategy aimed at enhancing wealth managers' branding through partnerships with luxury and exclusive art market institutions. These sponsored events are often conceived as platforms for networking, client acquisition, and retention. Secondly, Swiss financial institutions, banks, and insurance firms in particular, have been very active for several decades in developing corporate collections. UBS substantially improved its collection when taking over PaineWebber in 2000 and can now claim to own major contemporary artworks,

³⁴ The background to this is that the revised FATF recommendations of 2012 asked countries to include tax crimes as predicate offenses. (<http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatfstepsupthefightagainstmoneylaunderingandterroristfinancing.html>). This Swiss law includes qualified tax offenses as predicate offenses for money laundering even if "committed with respect to taxes payable outside Switzerland; provided that the relevant conduct constitutes an offence in the relevant country, amounts to a tax fraud from a Swiss perspective and the evaded tax amount exceeds the equivalent of CHF 300,000." It includes both tax fraud and tax crimes. "Only qualified tax offenses committed as of January 1, 2016 are considered predicate offenses for money laundering"

"The revised AMLA [Anti Money Laundering law of Switzerland] provides for a duty of financial intermediaries to identify the beneficial owner of a legal entity in all cases with effect as of January 1, 2016"

while Credit Suisse decided to focus on works by Swiss and Swiss-based artists. Buying national or local living artists occurs frequently and constitutes one of the important aspects of arts patronage. These acquisitions do not only provide financial support to the artists, but also to the galleries representing them.

Although corporate collecting and art market event sponsoring draw many wealth managers close to the art market, few of them offer comprehensive “art advisory” services. This third and heterogeneous category is defined very differently from one company to the next. Estate planning, artwork valuation, and due diligence processes in relationship to the acquisition, sale, or donation of works of art are some of the usual tasks grouped under the “art advisory” umbrella.

Aiming to become the only and responsive partner of a wealthy family, multi-family offices often mention collectibles and artworks as part of the assets they manage. However, it is quite clear that such services are outsourced to a privileged partner. Even though sponsorship and corporate collecting might seem to relate directly to art advisory services, several wealth managers—mainly banks—are reluctant to officially offer these services, as they consider them to be incompatible with the philanthropic aims they pursue through the building of a collection or financing of an art market event. Nevertheless, interviews have revealed that most major wealth managers have at least once offered some kind of art advisory service or even an art loan to a high-profile client or prospect.

The current form of the global art market presents new challenges and opportunities for Swiss wealth managers. Since 2009, the top segment of the art market has been extremely strong and numerous auction records were surpassed one after another. Guarantees provided by auction houses or third parties have also fueled this market and led to risky exposure. These high prices have also meant that considerable liquidity has been tied up for several years in artworks that could only face significant loss of value if offered for sale too early. This situation creates a fertile ground for art loans specialists and the number of requests is

growing. While major banks outsource these loans to partners or prefer not to be involved, Pictet and Carlyle have decided to join forces to address these demands.

Swiss legislation still obliges creditors to physically keep the artwork under their responsibility or to assign this task to a third party. As regards jurisprudence, the federal court has already been confronted by an art loan case and ultimately ruled in favor of the bank providing the loan. This case demonstrated some of the potential risks related to artworks or collectibles pledges, but on the other hand, it set some legal standards in such transactions. Whilst the opportunities offered by art loans and other art wealth management services in terms of client acquisition and retention can be interesting, the risks related to the development of art advisory products should be addressed professionally. The worst-case scenario involves art loans structured without any consideration for “old and reliable” clients, who are not even aware of the risks they face when requesting such a loan. While art buyers from emerging economies or newcomers from mature markets are definitely offering new opportunities for Swiss wealth managers interested in art-related solutions, some new services and tools will have to be assessed. This process should be integrated into the great changes undergone in recent years by Swiss wealth management and its repositioning.

Conclusion:

Switzerland has always been a nation of art collectors and is the host to many of the world’s biggest art events. It also has one of the most important private banking sectors. However, art wealth management activities in Switzerland are mainly limited to art entertainment, corporate collections, and sponsoring.

With the changes occurring in the private banking sector in Switzerland and elsewhere, Swiss wealth managers would be ideally positioned to expand their art-related service offering. Services such as art-secured lending, art & estate planning, and art & philanthropy—to name the most viable propositions—could be used for client acquisition and retention purposes. By taking a more pro-active approach when it comes to art and wealth management, Swiss wealth managers have an opportunity to differentiate themselves from their global competitors.

WORRY

WON'T

UPTOWN
TOP
RANK



section 3

Art as an
investment

Highlights

- **The Mei Moses® World All Art Index** reported a 3.1 percent decline in 2015, while the performance of the S&P Total return index was up by 7.14 percent
- **A number of collecting categories continue to show positive performance:** the Mei Moses® Post-War & Contemporary Art Index was up 4.10 percent compared with 2014, the Impressionist & Modern Art Index saw a small increase of 0.05 percent and the Latin American Art Index was up 1.40 percent in 2015
- **Top end of the art market experienced strong growth:** According to the latest TEFAF report in 2016, ultra-high end sales (sales above \$10 million) have performed best, with an increase of more than 1,000% over ten years, and a compound annual growth rate (CAGR) of 27% per annum. This CAGR is not only outpacing other segments of the art market (at more than five times the growth of the low-end) but it also more than doubled that of rapidly growing commodities, including gold.
- **Collection management strategy:** Resale prices matter to collectors, as auction sellers prove averse to sell if they would realise a loss, providing evidence that there is much more to collecting art than following the simple conventional rhetoric of “just buying what you like”, and “selling what you don’t like”.
- **Diversification benefits of art:** Variation in market prices even for established individual artists provide a means of efficiently diversifying art collections and reducing investment risk without having to hold a large number of artists in collections.
- **The US & European art fund industry sees modest growth, whilst the Chinese art fund industry continues to slow:** the overall art fund market in 2015 is conservatively estimated at US\$1.20 billion, down from US\$1.27 billion in 2014. The US and European art fund market has seen moderate growth in capital raising, predominantly from existing art funds, whereas the decline in the art fund market’s overall AUM is largely on the back of a slowdown in the Chinese art fund and trust businesses
- **Chinese government imposes new art market regulation in March 2016:** the measures are expected to standardize China’s domestic art market, further regulate trading behavior, and protect the lawful rights and interests of authors, traders, and consumers
- **The art investment industry is becoming less transparent:** is regulatory compliance and the cost and complexity of setting up art investment funds increasingly forcing the industry to become more private and less transparent?
- **Wealth managers are reluctant to offer art investment products:** the recent survey of wealth managers shows that only 10 percent of wealth managers consider it likely that they will offer their clients an art investment fund product in the next two to three years (this is down from 20 percent in 2014, and 30 percent in 2012)
- **The challenges of the art investment fund industry remain the same:** after five years of analysis, the hurdles to incorporating art investment fund products in a wealth management offering remain the same; issues related to due diligence, valuation, lack of liquidity, and an unregulated marketplace are at the top of the agenda
- **Luxembourg is improving and modernizing its fund offering** with the upcoming introduction of an innovative, unregulated fund regime expected by mid-2016: the Reserved Alternative Investment Fund (RAIF). The RAIF is particularly suited to exotic or tangible asset classes

The Mei Moses® Post-War & Contemporary Art Index³⁵ was up 4.10 percent compared with 2014, the Impressionist & Modern Art Index saw a small increase of 0.05 percent and the Latin American Art Index was up 1.40 percent in 2015

The performance of art as an asset class

The Mei Moses® World All Art Index declines by 3.1 percent in 2015

Since 2012, the performance of the Mei Moses® World All Art Index has been negative. After 2011 experienced an all-time year-end closing high for the Mei Moses® World All Art Index (All Art-W), we have been on a steady decline since. The index fell by 3.28 percent in 2012, 1.3 percent in 2013 and 2.7 percent in 2014. In the same period the S&P500 dividend reinvested increased by 13.4 percent in 2012, 29.6 percent in 2013 and 11.4 percent in 2014³⁶.

In 2015, the Mei Moses® World All Art Index continued to respond negatively to global economic conditions. The Mei Moses® World All Art Index declined by 3.1 percent while the performance of the S&P Total return index was down by -0.7 percent dividend reinvested³⁷. However, a number of the Mei Moses® collecting category indexes continue to show positive performance. Post-war & contemporary art was up 4.10 percent compared with 2014, Impressionist & modern collecting saw a small increase of 0.05 percent, and Latin American art was up 1.40 percent in 2015.

Year-end 2015 performances of the collecting categories comprising the Mei Moses® World All Art Index®

WORLD ALL ART INDEX (All Art-W)	⊖ DOWN	-3.10%
WORLD TRADITIONAL CHINESE WORKS OF ART INDEX (TCWA-W)	⊖ DOWN	-4.10%
WORLD IMPRESSIONIST AND MODERN INDEX (IMP-W)	⊕ UP	0.05%
WORLD POST-WAR AND CONTEMPORARY INDEX UP (PWC-W)	⊕ UP	4.10%
WORLD OLD MASTER & 19 TH CENTURY INDEX (OM19-W)	⊖ DOWN	-23.40%
NEW YORK-BASED LATIN AMERICAN INDEX	⊕ UP	1.40%
NEW YORK-BASED AMERICAN ART INDEX	⊖ DOWN	-12.80%
LONDON-BASED BRITISH WORKS OF ART INDEX	⊖ DOWN	-0.06%

Historical index performance of the Mei Moses® world art indexes and the s&p 500 total return index with dividends reinvested tax free and the financialtimes index without dividend reinvestment®

³⁵ Source: <http://www.artasanasset.com>. Disclaimer: the information is intended for your own personal use and enjoyment. Any non-personal or commercial use of this information by any person or organization is not permitted without the prior consent of the authors. This information should in no way be construed as a recommendation for art as an investment. Past performance is no guarantee of future results

³⁶ Bloomberg

³⁷ Bloomberg

Table 3: Mei Moses® World and Collecting category indexes®

Years	All Art-W	IMPMOD-W	OM19-W	Post War and Contemporary-W	TCWA-W	S&P500 Total Return (TR)	FTAS
20 years							
CAR	5.26%	5.04%	1.01%	10.71%	9.13%	8.33%	3.07%
STDEV	10.67%	8.13%	14.59%	12.87%	18.95%	19.25%	15.51%
COV	2.03	1.61	14.50	1.20	2.08	2.31	5.04
CORR-S&P	0.007	0.037	0.140	-0.132	-0.215	1	0.906
50 years							
CAR	7.89%	7.44%	6.63%	10.85%		9.70%	7.17%
STDEV	15.89%	18.78%	17.50%	34.02%		17.03%	26.48%
COV	2.01	2.52	2.75	3.13		1.76	3.69
CORR-S&P	0.001	-0.042	0.044	-0.317	-0.100	1	0.65

CAR=COMPOUND ANNUAL RETURN; STDEV=STANDARD DEVIATION
COV=COEFFICIENT OF VARIATION=RISK PER UNIT OF RETURN

Return & performance

20-year period: Based on the Mei Moses® family of fine art indexes the most recent 20-year (1995-2015) Compound Annual Return (CAR) for art was 5.26 percent, below the S&P500 total return of 8.33 percent. Post-war & contemporary and traditional Chinese works of art delivered compound annual returns of 10.71 percent and 9.13 percent respectively—above the performance compared with US equities in the last twenty years.

50-year period: the most recent 50-year (1965-2015) Compound Annual Return (CAR) for art was 7.89 percent, below the S&P500 total return of 9.17 percent. Post-war & contemporary works of art delivered compound annual returns of 10.85 percent—above the performance compared with US equities in the last 40 years. However, Impressionist & modern and Old Masters and 19th Century art recorded compound annual returns of 7.44 percent and 6.36 percent respectively for the same period.

Risk and correlation

In addition to return, relative risk is another important measure of financial performance. The risk associated with traditional assets enhances the appeal of including art in an optimal portfolio allocation.

20-year period: it is clear from (table 3) that the S&P 500 Total Return Index has been more volatile than all of the art indices over the last 20 years. The risk associated with each index is measured by the standard deviation of the changes in their annual returns. The absolute risk associated with the Mei Moses® All Art Index has been lower than that of the S&P 500 Total Return Index over the last 20 years (10.67 percent vs. 19.25 percent respectively).

50-year period: over this longer period, all of the art indices, except the Mei Moses® All Art Index, have shown higher volatility than the S&P 500 Total Return Index. The absolute risk associated with the Mei Moses® All Art Index has been lower than that of the S&P 500

Total Return Index over the last 50 years (15.89 percent vs. 17.03 percent respectively). However, the Post-War and Contemporary Index demonstrated a significantly higher level of volatility during this period, at 34.02 percent.

According to Mei Moses®, the correlation of returns among assets is another measure used in financial decision-making. The negative or close-to-zero correlation factor between the annual percentage changes in the different art categories and stock indexes for the last 20 and 50 years indicates that art may play a positive role in portfolio diversification.

Figure 33. Last 50 years

Mei Moses® world collecting category indexes versus the s&p 500 total return index and the financial times all shares without dividend reinvestment®

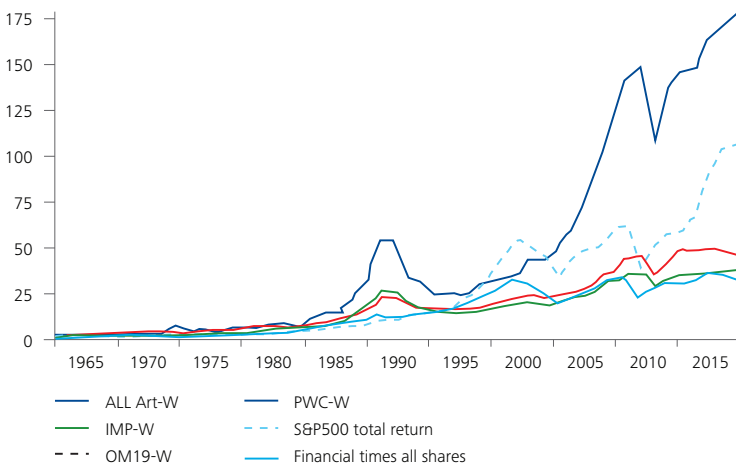
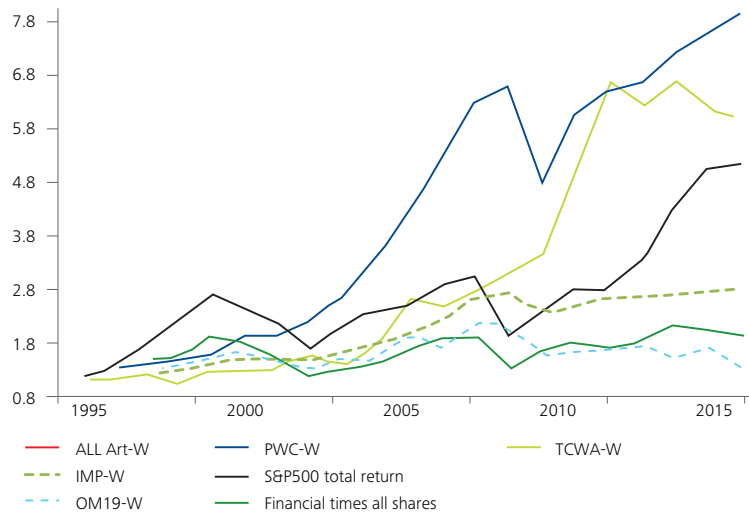


Figure 34. Last 20 years

Mei Moses® world collecting category indexes versus the s&p 500 total return index and the financial times all shares without dividend reinvestment®





Rachel A. J. Pownall

Professor of Arts & Finance
Maastricht University

Professor Dr. Rachel A. J. Pownall was the first professor of art finance and museum management worldwide at the TIAS School for Business and Society, which is part of the Tilburg University and is kindly supported by the Van Gogh Museum. Professor Pownall also holds a part-time chair on 'arts finance' at the Maastricht Centre for Art and Conservation, Culture and Heritage (MACCH) at Maastricht University.

To foster these developments, Professor Pownall founded the Annual Art Market Symposium, now in its 10th year, and more recently developed bespoke masterclasses in art finance, as well as art finance and collections management.

These initiatives strive under the premise that understanding the divergent cultures of art and finance will lead to mutual benefits across these markets, as well as to innovative funding possibilities for creative entrepreneurship in the art market.

Spotlight on London

There has been enormous interest in investing in art and the returns from art over time. Conventional art market wisdom suggests you should “buy the best you can afford”, while financial advice recommends “not to hold all your eggs in one basket” by diversifying your art collection across genres and artists. Unless money is no object, it would appear hard to follow both these pieces of advice.

Professor Rachel Pownall explains how various types of art collectors and investors may be acting more harmoniously and efficiently than you may think.

Viewing their art collection from the perspective of a financial advisor, many art collectors would be hard pressed to find a broad range of artists, art movements and artistic periods. It comes as no surprise that taste often dictates how collections are tailored towards a certain genre or domain. Although museums may be better placed to serve a broader set of tastes to attract the general public, many museum collections are also highly specialized and their collections focus on a particular theme or movement. Then there are also the few maverick collectors, who may shy away from such a focused approach, but only those with a small fortune are able to maintain quality across a widely diverse collection. From a financial perspective, should museums and collectors be worried about this apparent lack of diversification? And can we dispel either of these two widely held beliefs about art markets and finance?

If a collector is not concerned about the resale value of the collection, then the question is irrelevant. With such an approach, “buying what you love” remains very good advice and finds justification in the rhetoric often repeated at the end of many advisers’ articles on the subject. The idea that you would not wish to sell something you had bought “out of love” anyway is the conventional wisdom underlying this advice.

Yet, collectors do sell. Tastes change. Prices also go down. The market becomes much less liquid when prices are on the way down, highlighting a reluctance to sell when the seller could potentially incur a financial loss. A recent paper³⁷ by Professor Pownall (with co-authors Kathryn Graddy and Lara Loewenstein, and index providers Michael Moses and Jianping Mei) using auction sales data finds evidence of sellers exhibiting loss aversion in art markets. Setting a reserve price that is at least as high as the inflation- and market-adjusted price at which the artwork was purchased is clear evidence of this.

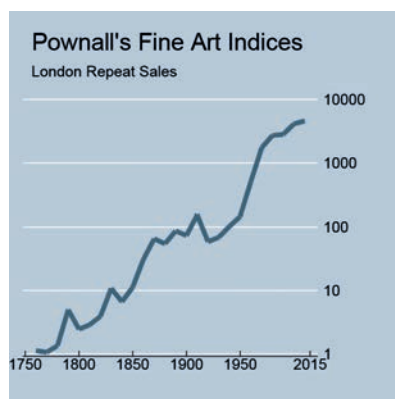
³⁷ Graddy, Kathryn, Lara Loewenstein, Jianping Mei, Michael Moses, and Rachel A. J Pownall. “Anchoring or loss aversion? Empirical evidence from art auctions” Link: <https://ideas.repec.org/p/cue/wpaper/awp-04-2014.html>

So where does that leave a collector who is actually concerned about the resale value? No doubt, collectors like to replace artworks sold from their collection and therefore still want to follow the advice to buy the “best that they can afford” with the money received from the sale; even while simultaneously following the motto “for the love of it”. Indeed, the “love of it” may fade, and few can afford not to care about the sale price when selling an artwork from their collection. Even if one’s wallet does not take a hit, one’s pride might. While collectors might not set the maximization of risk-adjusted returns as their main objective, more than likely they would still like to minimize losses. If the distribution of the likelihood of upward price movements is the same as that of price drops, then economic theory teaches us that this approach is just two sides of the same coin.

Loss minimization also requires holding a less risky portfolio. There are two ways to analyze this, which depend on how risk is measured and interpreted. When risk is defined as fluctuations in market prices (financial risk), academic theory suggests holding artworks from different artists and movements, such that the market dynamics driving the individual artists or movements differ enough across the variety of artworks held that the value of the individual pieces in the collection do not fluctuate in the same way. The key concept is to invest in markets that move at different paces, or tap to different beats. For a diversified equity portfolio, this means investing in different industries and countries. For financial assets, this means investing in alternative asset classes. For the art investor, this could mean investing across genres and countries. But is this really necessary with art?

One way to gauge the effect is to look at art indices. These provide a truly diversified picture of the art market. Replicating the investment strategy would require a high level of wealth, but offers the attraction of securitizing a replicating portfolio. Tracking such an art portfolio gives an indication of the long-term, real-rate of price appreciation. For example, taking the historic period of 1776–2014 on the London market shows a 5.3 percent rate of return over the whole period (a more moderate 3.2 percent real rate of return after accounting for inflation).

Figure 35. London Fine Art Index for Sales at Sotheby’s and Christies Auction Houses 1776-2015



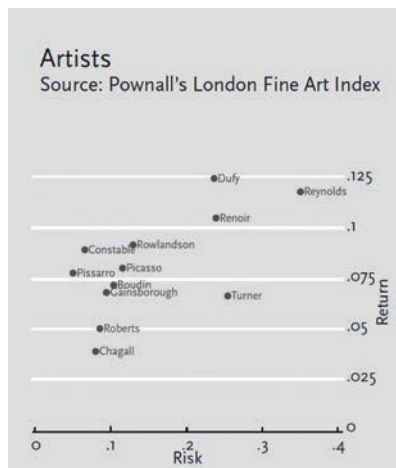
However, until it becomes possible to invest in a market index, collecting art will inevitably lead to an undiversified collection among those constrained by wealth. The interesting question that arises is just how inferior this approach actually is? Interestingly, in the long run, it does not turn out to be that bad at all. At least for old master paintings sold in London.

By focusing on the price appreciation of identical fine artworks over time, we see that among the 12 most liquid artists in the auction resale market in the long term, a minimum of 40 artworks were sold more than once and many artworks were sold multiple times. Interestingly, the trade-off for individual artists is a relatively straight line. In the long run, the art market appears to be rather efficient in terms of rewarding investors with higher rates of price appreciation in connection with artists that are more risky in terms of the variability of individual artworks’ resale prices.

With regard to individual artists, without the possibility of taking into account any diversification benefits from disharmony in the price trends of artists or movements over time, Professor Pownall finds a strikingly positive trade-off between risk and return. There is sufficient idiosyncratic risk within artists' repeat-sales distributions to help contribute to a diversified portfolio even by holding a single artist.

Although individual idiosyncratic risk still remains, it can be seen that works by Joshua Reynolds, Raoul Dufy and Pierre Auguste Renoir, for example, generated high returns, albeit with a greater dispersion in prices over time. Similarly, artists whose artworks experienced less price variability in the market also exhibited lower returns over the same period; examples include Marc Chagall and David Roberts.

Figure 36. Price Appreciation Characteristics from Most Liquid Artists in London Art Auction Sales 1776-2015



What does this tell us? For old master collectors, for whom diversification is unlikely to take precedence, the focus is simply on buying great art. We can take comfort in finding that the resulting strategy is fairly efficient, at least in the long term.

Observing individual return distributions across artists provides an objective measure of how price appreciation relates to risk. Given sufficient data, any discrepancy in the empirical return distributions across artists is subjective and provides a measure of a latent unobservable factor. Stylized aspects such as reputation and liquidity are additional factors here, which contribute to the overall risk in risk measurement. In pricing, it is these latent variables that we still have the most to learn from. Quantitative models are mere aids and provide us with tools to help us in our understanding of the prices and valuation of art markets. As academics, we are aware that we can never truly do justice to the adequate modeling of the beauty of art.

So, back to buying the best that you can afford—well, given that this helps mitigate the risks that accrue for artworks that do not have a strong provenance, it makes sense to buy the best you can afford, from a reputable dealer, auction house, or art fair, where these additional types of risks are reduced.

The variability of prices is greater for contemporary artists, but so is the expected reward in terms of price appreciation. Of course, this type of analysis provides opportunities to look across a greater range of artists, akin to stock picking. Those with the highest expected risk-adjusted returns will be more appealing from an investment perspective. Predicting the taste of the future is key, and one may be skilled or lucky at this. But if you are concerned about the future resale value of your contemporary art collection, or are a contemporary art dealer or museum, it is essential to diversify across a number of less established contemporary artists to reduce such financial risks.

Supporting a number of young, less well-known artists, many of whom scrape to make a living, provides for a lottery-style strategy where the upward potential can be huge, while limiting the overall risk of the collection. For established artists, it is less important to hold a diversified collection across artists. This is also good news for museums and art collectors with well-known collections.

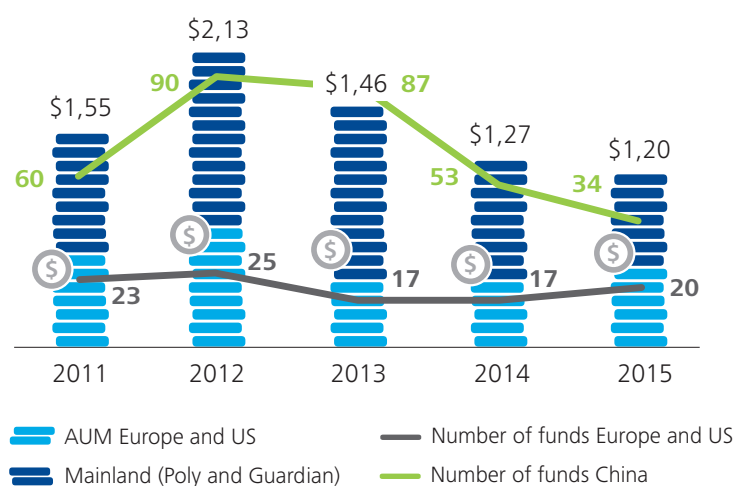
Art investment funds

Modest AUM growth in the art fund market in the US and Europe as existing art funds raise more capital

The overall art fund market³⁸ in 2015 is conservatively estimated at US\$1.20 billion³⁹, down from US\$1.27 billion in 2014 and US\$2.13 billion at its 2012 peak. The US and European art fund market has seen moderate growth in capital raising, predominantly from existing art funds, whereas the decline in the art fund market's overall AUM is largely on the back of a slowdown in the Chinese art fund and art trust business winding down in the last three years. The estimated AUM for the Chinese art investment fund/trust business has fallen from US\$1.48 billion at the peak in 2012 to an estimated US\$652 million⁴⁰ in 2015. It is very difficult to ascertain the level of art investment fund or trust activity in China at the moment, as very few trust companies are currently marketing these products openly, which could indicate that art investment fund activity is increasingly taking place under the radar and away from public and government scrutiny.

The US and European art fund market saw modest growth in 2015, with an estimated US\$557.9 million of assets under management⁴¹. New capital has largely been raised on the back of existing art funds rather than an influx of new ones. It is clear that those funds with a longer track record are finding it easier to attract investors in the current climate, whilst those with no track record are struggling to catch investors' attentions. To illustrate this point, The Fine Art Fund Group accounts for more than US\$350 million of the US\$ 557.9 million total, and European art investment funds account for an estimated 80.2 percent of the US and European AUM.

Figure 37. Global art investment fund market 2011–2015
Estimated Assets Under Management (AUM) in billions US\$



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

The actual size of the art investment fund market is most likely larger than what publicly available data is able to tell us

³⁸ Measured in terms of Assets Under Management (AUM)

³⁹ A conservative estimate of US\$557.9 million of this total is based on the art investment funds in Europe and the US that reported their AUM. The Chinese art fund and art investment trust market was worth an estimated US\$652 million in January 2016 based on publicly available information

⁴⁰ This figure is based on conservative estimates of the size and maturity of different art investment trusts: information that was publicly available in July 2014. However, many Chinese trust companies are no longer marketing or publishing information about their art-related trust investment activities and it is not possible to know whether these funds have been wound up early or are still active. Our estimates are based on publicly available information as at July 2014

⁴¹ This is a conservative estimate and is based on art investment funds in Europe and the US that reported their AUM. A number of art fund providers included in last year's figures did not submit their AUM and they are therefore not included in the above total. Fine wine and collectibles funds are also excluded, as are private, family wealth-oriented art funds that do not raise funds from external investors



© SUMO/Double Busy 3, 2015, Acrylique & aérosol sur toile, Diptyque 200x100cm

A couple of new art funds have emerged in Europe; Callia Art Fund, which is an art investment fund set up by Carmen Reviriego; and The Fine Art Fund Group (TFAFG) and the Art Fond - Central European Contemporary art in Slovenia.

Are art investment funds going underground?

The actual size of the art investment fund market is most likely considerably larger than what publicly available data is able to tell us. Just recently, we learnt that The Art Agency, Partners, which was acquired by Sotheby's in January 2016, established an art fund that now holds about US\$52 million in capital⁴². This was an art fund that was only known to a small number of insiders and investors, and there are likely to be many more of these private, under-the-radar investment structures.

Regulatory compliance and the cost and complexity of setting up art investment funds is increasingly forcing the industry to look at "lighter", more cost-efficient structures, operating largely under the radar of financial regulators. This is cause for concern. With more art collectors expressing an interest in art investment products, but with the wealth management community reluctant to offer such a service, there is an increasing possibility that the art investment market could grow into becoming an unregulated shadow market, further undermining market transparency and potentially increasing speculation and volatility in the art market.

The Chinese government imposes new art market regulation: in January 2016, China's Ministry Of Culture (MOC) released the "Measures for Administration of Artwork Trade (MOU Order No. 56)," which reportedly took effect in March 2016⁴³. The measures are expected to standardize China's domestic art market, further regulate trading behavior, and protect the lawful rights and interests of authors, traders, and consumers. The new measures aim to cover five main art businesses: 1) buying, selling and renting artwork 2) managing artwork operations, such as the importing and exporting of artwork 3) authenticating artworks 4) commercial exhibitions, and 5) other investment management and services related to art trading. It explicitly stipulates that selling artwork via online trading platforms is also subject to these new rules.

A recent development in the Chinese art and finance industry is the launch of the Asia Institute of Art and Finance ("Shanghai Asia Institute of Artwork and Finance Business Management and Training", known as "AIAF"). AIAF is a non-diploma, not-for-profit higher education institution working together with leading international academic institutions, universities and several leaders in the fields of finance and art. AIAF has received education approval from the Education Bureau of Shanghai Municipal and it is the first higher education institution of art and finance in China (Shanghai) Pilot Free Trade Zone. The aim of AIAF is to educate and create a new type of profession and standard in order to provide the Chinese government, the financial industry, as well as the cultural and art industry with particular skills developed for the growing art and finance industry.

⁴² Source: New York Times, <http://www.nytimes.com/2016/01/25/arts/international/with-acquisition-sothebys-shifts-strategy.html>

⁴³ www.china-briefing.com/news/2016/02/08/china-market-watch-tax-environment-latest-update-chinas-art-market.html

“

Vince Rosdhal shares his view on the US art fund market

“As many high profile art pieces have exchanged hands these past few years, we have seen an increase in market activity around art as an investment asset class. Initially spurred by some high net worth individual investors, several knowledgeable art advisors and investors have been approached and requested to put their expertise to work for others.

We have observed several new investment funds being formed that take ownership of art pieces primarily for the investment value. Having the expertise to identify what pieces are currently undervalued is one area in which these new fund managers add value.

They also add value in structuring their businesses to provide for the beneficial lower federal income tax rate on collectibles.”

”



Vince Rosdhal

Tax Partner
Deloitte US

Case studies: art investment funds

Below are two examples of art investment funds that actively focus on market transparency by making performance figures available to the public.

Table 4: two examples of art investment fund structures and performance

	Tiroche Deleon Collection (Art Vantage PCC Limited)	Day Star Private Art Fund (DSPAF)
Launch year	2012	June 2014
Term	10 years	10 years
Investment objective	Contemporary art from developing markets	19 th century to present day artworks by well-known and famous artists
Total return	30.92% (since January 2011)	20.39%
Minimum subscription	US\$500,000	50,000 ⁴⁴
AUM	US\$22 million (January 2016)	US\$61.9 million
Website	www.tirochedeleon.com	www.daystarfund.com
Domicile of fund	Gibraltar	Gibraltar (UK)

⁴⁴ Investors may contribute artworks to the fund subject to full due diligence and acceptance of such by Day Star Private Art Fund board



Interview with Marta Areny

Board Director
Day Star Private Art Fund

DAY STAR PRIVATE ART FUND

Day Star Private Art fund (DSPAF) is an investment fund with a 10-year investment horizon. DSPAF only invests in 19th century to present day artworks by well-known and famous artists. The principal objective of DSPAF is to acquire outstanding examples of fine art while taking care to preserve capital in order to earn an attractive rate of return for investors. DSPAF offers diversification, stability, and reduces risk by investing in a wide range of carefully selected artworks.

Can you describe the profiles of your investors and location?

The investors may or may not collect directly for themselves, but they have an understanding of the art market, and especially of the complexity of the market. They are wealthy private individuals, family offices, private banks, private equity firms, and family foundations. Most of our investors are looking for tangible assets to diversify their portfolio. An investment fund offers investors in-depth market knowledge and a specialist art and financial advisory team to pinpoint the best opportunities and get good returns. Our investors are from Europe, UAE, Latin America, and Asia.

Can you explain their motivations to invest in art fund?

Collecting works of art can be a passion, a pleasure, and an addiction. Although collecting art is definitely one of life's most enjoyable activities, managing a collection requires time, money, knowledge, and expertise. An individual intent on going it alone to leverage art as a rational investment opportunity would require literally decades of experience through trial and error. An art fund is the best opportunity to be a collector without spending your time finding an art advisor, dealer, lawyer, etc. A professional art & finance team will look for investment-quality artworks at prices significantly below current fair market value, and endeavor to minimize the cost of all transactions. Do not forget the high cost involved in maintaining an artwork, such as custody in a security house, insurance, etc. Currently, the investment funds have historically produced attractive returns over the long term.

Can you explain the fund's investment strategy?

DSPAF invests in masterpieces from the 19th century to the present day by well-known artists. This will include modern, post-war and contemporary art as well as other types of art. These categories of artwork are the most marketable and are the ones with the greatest potential for increases in value in the medium to long term. We only focus on contemporary art when the investment strategy is very clear. We buy art from

contemporary artists where we think there is potential for a substantial increase in value in the next three to five years. We know that the returns on contemporary art are very good but the risk is higher than for other established artists.

Do you plan any new developments? If yes, can you tell us what?

Currently, we are working with a private bank in Bogotá (Colombia) to launch an investment fund dedicated exclusively to Latin American art. We are offering our knowledge and expertise about the fund industry to the bank. We are going to work with two important art advisor teams from the United States and potential clients will be from South America, Miami, and New York. An increasing number of new collectors are appearing in Latin America and they are keen to become fine art collectors. An investment fund is the perfect solution when they are not familiar with the complexity of the art market.

Do you think the art market should be more “regulated”? If yes, in which areas?

At present, there is more information available about the art market, such as the Mei Moises Fine Art Index and various indices that provide information to quantify the long-term trends of price appreciation in the fine art market. Moreover, we have been able to find specialized law firms, wealth managers, and databases for tracking recent sales of artworks, which has helped transparency and provided benchmarks for the valuation and orderly trading of artworks. Even so, most sales and purchases strictly in private and contemporary art do not have a track record of the artists and artworks. We might add that the US art market is ahead of the European market in terms of regulations.

How do you see the development of art funds?

Art funds and investors from emerging countries have been major players in the art market in recent years. We just need to look at the latest results of international auctions to see that. Moreover,

wealth managers have lost their fear of the art fund industry. They prefer to invest in art funds—financial vehicles that are regulated and audited by financial professionals—rather than directly in an artwork. However, the establishment of any asset class requires the general acceptance by the investment community of the idea that the underlying asset can historically produce significant investment returns, and that a developed and functioning market for the orderly acquisition, management, and disposal of the asset exists. Step by step, art funds have become an essential agent in the art market.

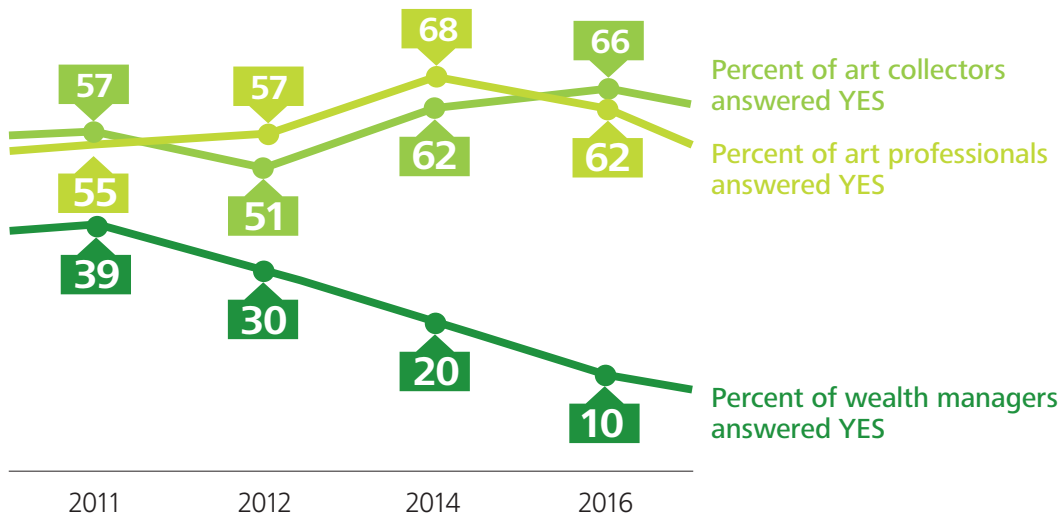
What are your views on the development of the art market in 2016?

Last year, we had a new record with the sale of Picasso’s Femmes d’Alger. Art is a rare asset and it becomes more so every day as museums and private collectors buy works of art of all kinds, not only for enjoyment but also as pure investments. Emerging economies have also developed an appetite for art. In the past few years alone, over 100 new museums around the world have opened their doors. Each of these requires around 2,000 works of art, which has triggered a huge demand for quality works of art. In China alone, an estimated 6,000 new galleries will be built by 2020. All of these works will be housed in museums or will be retained by private collectors, all of which contribute towards keeping inventories low and prices elevated. However, we are concerned about the impact of the financial crisis in China, and falling energy prices may have a negative impact on the art market this year. Some colleagues have been talking about a bubble in the art market this year. We do not believe this will happen but we must nevertheless pay attention to the online art market, which is growing each year. A new generation of entrepreneurs is creating its wealth online and they feel very comfortable with the online market; as such, we think that the art market will have an important role to play in 2016.



Survey findings

Figure 38. Do you believe the Art fund industry will expand in the next 2-3 years



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

Only a small minority of banks are planning to offer art investment fund products to their clients: the recent survey of wealth managers shows that only 10 percent of wealth managers consider it likely that they will offer their clients an art investment fund product in the next two to three years (this is down from 20 percent in 2014, and 30 percent in 2012). These results are most likely a product of a declining art fund industry (see page 111), and further evidence of how difficult it is to create a high quality art investment product. Also, the complexity and costs of setting up an art investment fund often outweigh the perceived benefits.

Neutral outlook for the art fund industry: 27 percent of wealth managers said they have noticed an increase in demand for such investment products from their clients (up from 20 percent in 2014). This increase corresponds to the collector trend, where 66 percent believe the art fund industry will expand in the next two to three years.

Better marketing and promotion of art fund industry players: 44 percent of wealth managers wanted to know more about the art funds that exist, which suggests that the art fund industry is struggling to create a proper footprint in the wealth management industry, and that there are opportunities for creating a better dialogue between art fund providers and the wealth management community.

New developments



© SUMO/Off The Wall, 2014, Acrylique & aérosol sur toile, 190x90cm

At auction time, the hammer price obtained at the auction for a specific artwork serves as the basis for the definition of the settlement price of the related CFS contract

Pi-eX Ltd: Passion investment-eXchange⁴⁸

In February 2016 Pi-eX Ltd, based in London, received the authorization from the FCA (Financial Conduct Authority) to arrange and sell a new type of financial instrument for the fine art world, called Contracts on Future Sales (CFS). CFS are standardized derivative contracts based on specific artworks scheduled to be auctioned at top auction houses.

Pi-eX's CFS are an answer to the issue of volatility in the art market. CFS allow art owners to hedge their risk versus an upcoming sale, while providing art buyers with an opportunity to also hedge future potential purchases. In the meantime, institutional investors can buy the standard contracts to put on economic exposure to the art market as part of an asset diversification strategy. When buying CFS, investors can build synthetic portfolios of specific chosen artworks, reflecting their investment views and preferences without having to own the underlying assets. At auction time, the hammer price obtained at the auction for a specific artwork serves as the basis for the definition of the settlement price of the related CFS contract.

⁴⁸ Pi-eX Ltd is a private limited company in England and Wales with registered number 09206090. It is authorised and regulated by the FCA (registration number 713829)

Challenges

After five years of analysis, the hurdles to incorporating art investment fund products in a wealth management offering remain the same.

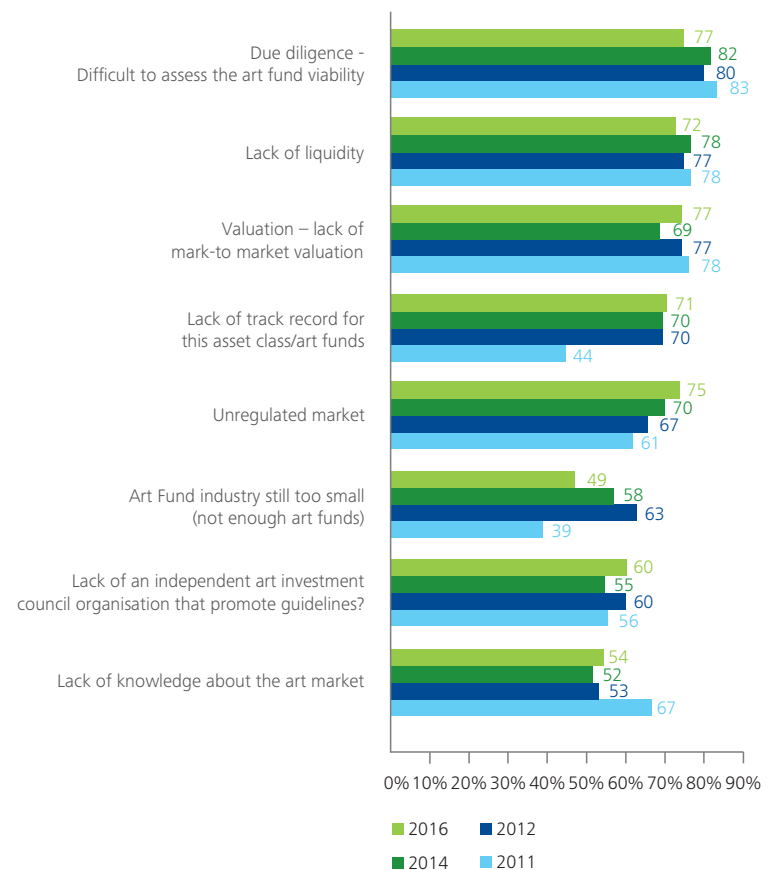
Pre-investment process: 77 percent of wealth managers surveyed said that due diligence and assessing the viability and credibility of the art fund was one of the main obstacles (down from 82 percent in 2014). This challenge is linked to other aspects of the art fund industry and the art market, such as: 1) lack of track record for art funds (71 percent said this was important) 2) unregulated nature of the art market (74 percent said this was an important aspect).

Post-investment monitoring: 77 percent of wealth managers cited the lack of mark-to-market valuation as a major challenge for incorporating art in the wealth management offering (this was up from 69 percent in 2014). Like in the art-secured lending market, art market liquidity was cited as a major risk factor, with 69 percent of wealth managers saying this was a major challenge.

Unregulated market: 75 percent of wealth managers cited the unregulated nature of the art market as the main hurdle to incorporating art investment funds in their wealth service offering (up from 70 percent in 2014). As we have seen earlier, regulation is increasingly becoming an issue and concern in the art market and among the wealth management community (see section 5 on Regulation).

The lack of transparency in the art fund market regarding performance remains an obstacle to the further development of this market; however, in recent years, we have started to see a new generation of art funds (see page 114) that have been more open about their performance and that have started to build a track record.

Figure 39. What do you feel are the main hurdles for incorporating art investment funds as part of the bank's current client offering?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016



Ingrid Dubourdieu

Partner

D.Law

An unregulated vehicle for a free market

A recent survey applying the “archetypes” methodology of Carl Gustav Jung to define the real personality of a country implies that Luxembourg is seen as: an open country where multiculturalism and diversity are key; a steady country with a strong social and economic environment; and, last but not least, a dynamic and pragmatic country able to adapt and reinvent itself.

Luxembourg’s adaptability is definitely undeniable when it comes to the fund industry. Luxembourg has been successful in becoming the second largest regulated fund center worldwide, after the United States of America, with 3,878 fund structures representing €3.506,201 billion in assets under management within a well-developed range of regulated funds and benefiting from a well-established brand worldwide.

Luxembourg has now confirmed its forward-thinking reputation by improving and modernizing its fund offering with the upcoming introduction of the innovative, unregulated fund regime expected by mid-2016: the Reserved Alternative Investment Fund (RAIF). By addressing market demand for a new fund that displays the features of existing regulated funds while being non-regulated, Luxembourg will be well-positioned to further increase its market share in the world fund market.

The RAIF: a better vehicle for the art market

Straightforward setup. Since it is not subject to supervision by the Luxembourg regulatory authority as such, the RAIF is not required to seek any authorization before or after its launch or making any changes to its structuring or documentation. The absence of ex-ante or ex-post authorization is key to ensuring an effective time-to-market strategy and prompt setup so it can be offered to investors swiftly, as is the case in offshore jurisdictions.

No lengthy discussions. Within this context, the RAIF is particularly suited to exotic or tangible asset classes, such as diamonds, gold, musical instruments, jewelry, or art. So far, the Luxembourg Specialized Investment Fund (SIF) has been the designated regulated vehicle for these asset classes—although not without difficulty considering, on the one hand, the art market’s high-risk, illiquid, still opaque, unregulated, and



© SUMO/Here I Am, What Are Your Other Two Wishes? 2015, Acrylique & aérosol sur toile, 120x100cm

disruptive features with high transaction costs and high degree of specialization, and, on the other hand, the supervisory role of the Luxembourg regulatory authority calling for more transparency and a stricter framework.

The regulatory approach regarding regulated funds investing in art is driven by the complexity of this asset class, which is not yet fully “financialized” and is likely to result in lengthy discussions. Such complexity is notably related to understanding and knowing the mechanism of the art market and artworks at various levels, such as the entrepreneurial dimension and market positioning of the artists; the segmentation of the artworks and artists; the valuation processes of an artwork and artist, taking (or not) into account the emotional value thereof; and the globalization of the art market, etc. Concerns in that regard generally focus on how the fund can create value with an asset that is not productive in itself: if an art fund is able, for instance, to participate in the merchandizing of the artworks and to create a commercial activity that nurtures the economic system, a strong business plan can be produced. The weight of regulation may partly explain why there is, so far, such a small number of art funds operating under a regulated framework and it leads one to expect that the RAIF will be seen as a more suitable option for setting up an art fund in a timely manner.

The issue of investor protection

Multi-layer protection. Although unregulated, the RAIF offers investors protection through the requirement to appoint an authorized Alternative Investment Fund Manager (AIFM), a Luxembourg established depositary bank that is required to act independently, honestly, fairly, professionally and in the best interest of investors, and an independent auditor to audit its financial statements on an annual basis. The authorized AIFM, which can be located either in Luxembourg or in another EU member state and, shortly, in a third country, shall ensure that the RAIF complies with all applicable legal requirements. The fact that the AIFM does not need to be based in Luxembourg is undoubtedly appealing, especially when it comes to finding a suitable AIFM that is specialized in a specific segment of the art market.

Disclosure to investors. Information given to investors will have to comply with the AIFM legal requirements. Furthermore, the RAIF is required to issue, besides its annual report, an offering document containing the information necessary for investors to be able to make an informed judgment of the investment proposed to them and, in particular, of the risks attached thereto. Though AIFM law requirements will apply, there will be room for a high degree of flexibility in the content of the offering document due to the lack of regulatory weight.

Attractive marketing possibility

EU passport. In terms of marketing, the authorized AIFM permits the RAIF to benefit from easy access to the EU markets through an EU passport.

Eligible investors. This access will be facilitated considering that retail investors are excluded from the scope of eligible investors. The RAIF is indeed dedicated to the same group of well-informed investors as the SIF, namely institutional investors, professionals, or otherwise sophisticated investors generally investing at least €125,000. There is, however, a notable difference that ought to be emphasized in this respect: the Luxembourg government has recently introduced a bill, from which it may be deducted, in a nutshell, that access to SIF investing in exotic and tangible assets (including artworks) would be limited to (i) professional investors within the meaning of Appendix II of Directive 2014/65/EU of the EU Parliament and Council of 15 May 2014 on markets in financial instruments (MiFID), and (ii) which would not make non-professional investors bear the risks related to such investments. As a result of such a proposed change to the existing SIF framework and in light of the current bill relating to the RAIF, the latter would be able to target a much broader range of investors than the SIF for said asset classes, including institutional investors, professional investors within the meaning of Appendix II of the above-mentioned directive, and otherwise sophisticated investors generally investing at least €125,000.

A large choice of structuring options

Legal form. In terms of structuring, the RAIF can adopt a corporate form (such as a société anonyme—S.A., a société à responsabilité limitée—S.à r.l.), a partnership

form (such as a société en commandite par actions—S.C.A., a société en commandite simple—S.C.S., a société en commandite spéciale—S.C.Sp.), or a contractual form (fonds commun de placement—FCP), each time with variable share capital and limited liability for investors (other than the associé commandité in the partnership forms).

Determination of the legal form depends on the targeted investors. By using a Luxembourg limited partnership legal form (S.C.S or S.C.Sp.), the RAIF might be more attractive to Anglo-Saxon or US investors used to this type of structure and it might offer a strong value option to offshore segregated portfolio companies (or SPCs) or other non-regulated limited partnerships not benefiting from the variable share capital and umbrella structure. Moreover, as regards tax treatment, the RAIF under the S.C.A. form should be eligible for the “check the box” tax treatment as a partnership for US tax purposes.

Confidentiality. On another note, the RAIF, under the form of an SCSp allowing the identity of the limited partners to be kept confidential, may offer a good option for offshore jurisdictions, which are often considered opaque tax havens.

Umbrella structure and segregation of assets and liabilities. The RAIF may also be constructed using a multi-sub-fund structure (umbrella), allowing the creation of sub-funds on an as-needed basis without any prior or subsequent approval from the Luxembourg regulatory authority. In such umbrella structures, each sub-fund is segregated from the others, thereby having its own investment policy and strategy and

without the risk of one sub-fund contaminating the others in case of insolvency, liquidation, or another similar event. In addition, each such sub-fund may have its own portfolio manager, investment advisor, and investment committee as appointed by the AIFM and may determine its own fee structure.

Risk diversification. Similar to the SIF from which it draws its inspiration, the RAIF must comply with a risk diversification requirement of having 30 percent of its gross assets or commitments in one asset (subject to exemptions that are not likely to apply for direct investments in art).

A word on costs and tax treatment

Cost effectiveness. Due to the absence of supervision and related implications, the RAIF is likely to be more cost effective than the existing Luxembourg regulated fund structures and should be able to stand up to competition with offshore jurisdictions.

A favorable tax regime. Under its default tax regime, the RAIF is not subject to income tax, there should be no tax on speculative capital gains, or withholding tax on distributions. No Luxembourg VAT should apply for management, performance, and/or investment advisory fees paid in consideration for the management of the RAIF. The RAIF is similar to the SIF regarding the annual subscription tax (taxe d'abonnement), which applies at a rate of 0.01 percent (subject to various exemptions).

The RAIF is a multi-purpose vehicle for financial institutions, art brokers, art investment services houses, investors/collectors, wealth management planners, and museums seeking structuring flexibility and speed to market, which the existing options are not able to properly address in the emotional alternative investment field of art

HOTEL MOTEL HOLIDAY INN



IT'S
GOOD
TO BE
KING
WORD

UPPER CUT

UPTOWN
TOP
RANKING

JUST
BE
IT
KAPPA

DOESN'T
MEAN IT WON'T

E

P

D

ALL
ART
BY
DAVID
LAURENCE

section 4

Art
and
technology

Highlights

- **Increasing investment in art market start-ups in 2015:** increasing investment in art market start-ups demonstrates continued confidence in the growth of the online art and technology industry and the development of a corporate art finance business. The level of investment in art industry start-ups increased from an estimated US\$125 million in 2013 to an estimated US\$505 million in 2015 based on 23 art market start-ups.
- **Investment in managing, tracking, and identifying art objects:** in recent years, we have observed growing interest in a number of service areas that are going to be important to the future growth of the art and finance market. These technology products and services include art collection management systems that use technology in authentication and attribution, and recently blockchain technology to track and trace works of art, including technologies that embed bio-engineered DNA elements within the surface of art objects.
- **Increasing confidence in technology and online art businesses and their role in the art market evolution:** the majority of art professionals (73 percent) and art collectors (69 percent) believe that online art businesses will play an important role in the art market in the next two to three years. New innovations such as the use of blockchain technologies are also an example of how technology and innovation could contribute significantly to the development of the art and finance industry.
- **Online art businesses and technology can tackle many of the challenges facing the art and finance market:** overall, there is an increasing perception that online art businesses and technology will dismantle many of the “hurdles” facing the art market. This trend is also likely to facilitate the development of art wealth management services.

- **Art information and education is seen as the area where online business and technology could have a significant impact:** 82 percent of art professionals and collectors believe that the real potential for new online businesses will be in the information and education space. This highlights that both collectors and art professionals believe in increasing transparency, one of the pre-requisites for a well-functioning art and finance market.

Equity investments in art businesses

Increasing investment (101 percent CAGR for the period 2013 to 2015) in art market start-ups demonstrates continued confidence in the growth of the online art and technology industry and the development of a corporate art finance business: the level of investment in art industry start-ups increased from US\$125 million in 2013 to an estimated US\$505 million⁴⁹ in 2015 based on 23 art market start-ups, according to research from Ateo. Notable rounds of investment in 2015 came from Auctionata, which raised US\$45 million in Series C financing in March 2015 led by MCI Management and including Hearst Ventures. Artsy also raised a significant round of US\$25 million Series C financing in March 2015 led by private equity firm Catterton. Paddle 8, the online auction house, followed with a Series C round of US\$34 million, raising money from existing as well as new investors. The reputable art gallery owner, David Zwirner, joined the board of Paddle8.

However, 2016 could become a more challenging year for new start-ups to raise money, as valuations of public tech giants, such as LinkedIn, dropped close to 40 percent in a single day in February on the back of less optimistic earnings outlooks.

⁴⁹ Athena Art Finance accounted for US\$280 million in equity finance in 2015.

Overview of start-up venture capitalist investments in art market start-ups



The company

Ateo develops back-office software used by leading financial institutions around the world, such as banks, brokerage companies, and professional traders. Having noticed important similarities between the financial markets and the art market, ATEO is diversifying its business by investing and looking for opportunities in the international art market. We believe that our IT expertise developed since 2000 can provide management solutions for an increasingly financialized art market.

Approach

We conducted this study to illustrate the growing Venture Capital interest in art market start-ups in the last five years. The research focused on the US and European art market. Only one Chinese company is included in the sample (hihey.com). It is important to understand the limitations of this study and the total amount raised, as the data does not include start-ups that have raised less than US\$1.2 million and in some cases information regarding capital raising is not made public. Also, we ought to bear in mind that self-financed or debt-financed initiatives are not included in the totals of this analysis. In total, the investment in 29 art market start-ups is aggregated.

The graph is based on information collected on the Cbinsights website for the period 2003–2013. The following years are based on public information researched by Ateo.

This research shows that:

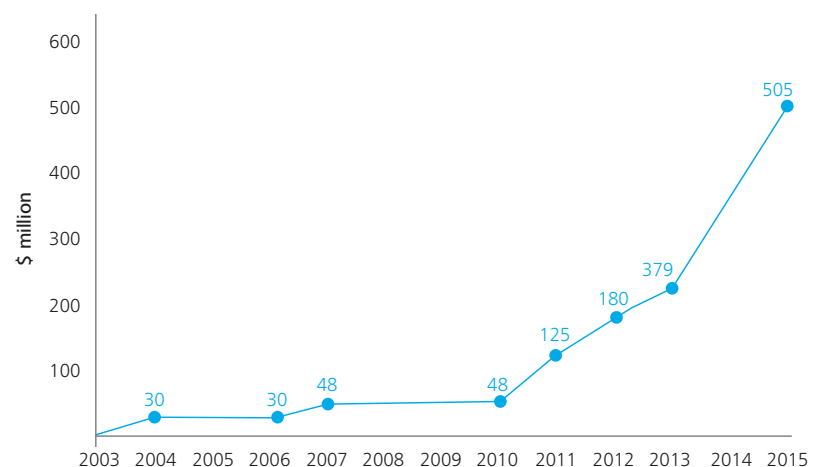
1. A total of US\$1.19 billion was invested in 23 art market start-ups in 12 years
2. A total of US\$998,7 million was invested for the period 2013-2015, i.e., 84 percent of US\$1.19 billion
3. Investment in art market start-ups has increased exponentially, with 2015 being the peak year, with US\$505 million invested in only 23 art market start-ups
4. Investors in these start-ups are investors that traditionally invest in the financial markets and not in the art market

Mathilde Hersart

Business Analyst
Ateo

Study conducted by Ateo,
a company based in Paris

Figure 40. Yearly VC investments in art market start-ups



Source: Ateo

Selected investments in art market start-ups

Table 5. Investors in selected art market start-ups

Company	Investors	Description	Company	Investors	Description
1stdibs	Alibaba Benchmark Index Ventures Insight Venture Partners Spark Capital SV Angel	Online market place	Artsper	Steve Roseblum Severine Boutry Philippe Charpentier Alexandre Mulliez Entrepreneur Factory	Online art gallery
500px	Andreessen Horowitz CAA Ventures Deep Creek Capital Dustin Plett ff Venture Capital Harrison Metal High Line Venture Partners Rugged Ventures Visual China Group	Online photography gallery, e-commerce, social network, sharing, and discovery	Artsy	Alexis Ohanian Alt Option Return BoxGroup Catterton Partners Charlie Cheever Dasha Zhukova Dave Morin David Kidder David Tisch Eric Schmidt Founder Collective Idan Cohen IDG Capital Partners Jack Dorsey Jaws Ventures Jim Breyer Keith Rabois Kevin Collieran Larry Gagosian Michael Broukhim Oliver Jung Peter Lehrman Peter Thiel RadWebTech Sky Dayton Slow Ventures Stuart Peterson Thrive Capital Tom Nicholson Wendi Deng Wendi Murdoch	Online marketplace for art galleries and search engine
Art.com	Benchmark Polaris Partners Saints Capital Southern Capitol Ventures Stripes Group	Online sale of posters, prints, and other art-related products and framing services	Athena Art Finance Corp	The Carlyle Group Pictet Group	Art-secured lending provider
ArtBanc	Not communicated	Online art sales, expertise, collection management, valuation services for artworks, jewels, and other collectibles	Auctionata	Bright Capital Earlybird Series C Earlybird Venture Capital e.ventures Groupe Arnault Hearst Ventures Ken Bronfin HV Holtzbrinck Ventures Kite Ventures Kreos Capital MCI Management SA Sylwester Janik Raffay Group RI Digital Ventures TA Ventures Yuan Capital	Online auction house
Artbinder	Abdullah Al-Turki Adam Freed Ben Sontheimer Bruce Gibney David Rosenblatt Index Ventures Julio Pekarovic Leon Black Maria Baibakova Matt Cohler	Gallery software management			
Arthena	2020 Ventures AngelPad Ankur Pansari Aslanoba Capital Beamonte Investments C15 Ventures Cheerland Investments CLI Ventures Foundation Capital The R-Group, LLC Thomas Korte	Crowdfunding platform to invest in art			
Artspace	Accelerator Ventures Alexander Lloyd C. Richard Kramlich Canaan Partners Felicis Ventures Kresge Foundation Metamorphic Ventures Pamela P. Kramlich Robert Pittman Tim Mott	Online marketplace for fine art and design			

Company	Investors	Description
Barneys	Art and Culture Howzat Partners Industrifonden Monkfish Equity Richard Chen STING Active Venture Partners Inbox Capital	Search engine for artworks and antiques in auctions
Borro	Augmentum Capital Canaan Partners Eden Ventures European Founders Fund OurCrowd Ribbit Capital RockBridge Capital Partners Rocket Internet The R-Group, LLC Victory Park Capital	Art-secured lending provider
Collectrium	:2013: Arthurs Berliner Joshua Chodniewicz Max Burger Michael Marston Monique Burger Christie's (2015 purchase)	
EyeEm	Atlantic Labs Earlybird Venture Capital Open Ocean Passion Capital Valar Ventures Wellington Partners	Sharing platform for photographs
Expertissim	NextStage CM-CIC Capital Privé	Online art gallery
Hihey.com	CITIC Securities Schenzen Capital Group	Online auction house
Invaluable	Ascent Venture Partners Asset Management Ventures (AMV) Commonwealth Capital Insight Venture Partners	Online auction house
Liveauctioneers	Bessemer Venture Partners	Aggregator of online auction sales
Lofty	Fabrice Grinda Founders Fund Great Oaks Venture Capital Jose Marin Kima Ventures QueensBridge Venture Partners TA Ventures Teodoro D'Ambrosio	Online art gallery

Company	Investors	Description
Paddle8	Alexander Von Furstenberg Damien Hirst David Zwirner Edgar Berger Eric Fellner Founder Collective Haystack Jay Jopling Mellon Family Mousse Partners Debt Financing Redline Capital Management S. A. (RCM) Rolf Sachs Semil Shah Stavros Niarchos	Online auction house
Saatchi Art	Balderton Capital Greycroft Partners Project A Ventures	Online art gallery
The Saleroom	Mobius Equity Partners	Aggregator of online auction sales
ATG Media	ECI Partners	

Main sources: Crunchbase, Fortune, Cbinsights, Hiscox Online art market report 2015, Deloitte & ArtTactic Art & Finance report 2014, companies' websites

New developments

Although the majority of the financing has gone into ecommerce-related art businesses, we also saw a number of significant transactions in the art-services and art-infrastructure space.

In this section, we have highlighted a number of new and recently launched initiatives in the art and technology space, which can have a real impact on the art and finance market in the future.

Increasing competition in the collection management market: in recent years, we have seen growing interest in the art collection management area, including Christie's US\$16 million acquisition of collection management service provider Collectrium in February 2015. Artbinder raised US\$3.17 million in Series A funding in July 2014, and other new providers are joining the market, such as Arteia. There are also a number of existing providers such as Artlogic and Artbase that have a substantial share of the market. However, there still seems to be a gap between existing collection management software and the desire to include art and collectibles in wealth reporting.

Equity crowd-funding platforms for art investors and collectors: last year, Arthena, an equity crowdfunding platform that gives individuals access to art collections built up by art world experts, launched its new business. The platform allows individuals to invest in the collection of their choice and to own a share of an art collection. Arthena aims to democratize the art world by providing curated, vetted opportunities for everyone to invest and engage in the art world.

Using technology in authentication and attribution: RECENART®, the European art research center in Finland, offers unique on-site, as well as portable, analytical services for the art world. Built on the infrastructure of the University of Jyväskylä, RECENART® is founded on the synergy of experienced art historians and innovative scientists. They provide concrete and unbiased research results about works of art and are developing a unique nano-tagging solution to secure

collections. Other companies in this space include Art Analysis and Research AA&R (Art Analysis & Research (AA&R) offers unparalleled technical investigations of paintings through a fully equipped and state-of-the-art laboratory. AA&R applies both technical art history and science-based analytical approaches). In addition, Fine Arts Expert Institute SA is a private, independent company based at Geneva Freeport. Founded in 2009, its purpose is to provide all players in the art market with objective and reliable scientific expertise on the subjects of authenticity, dating, and the state of conservation of works of art and other cultural objects (paintings, sculptures, ceramics, and archaeological and ethnographic objects etc.).

ARTPLUS is a platform on the market providing a complete end-to-end solution for media art; encryption protected works and players for viewing, 2-tier authorized transfers, preservation, as well as making an exhibition platform available.

This means artists and their representatives now have a "fighter product" which is a worthy alternative to the countless unprotected and free video sites. Both the art lover and the collector will benefit from an app that allows to securely and easily enjoy media art.

Vetting and navigating the art world: one of the key challenges faced by wealth managers when offering their clients third-party art-related services, is finding and vetting art experts. The fragmented nature of local and international associations representing dealers, advisors, auctioneers, and appraisers makes it difficult to find and compare expertise across different disciplines, as well a geographical boundaries. A new US-based online company called The Clarion List aims to become the leading directory of art service providers with ratings and reviews.

Blockchain technology and fraud prevention: a number of new companies, including Everledger, Ascribe, and Verisart, are using Bitcoin blockchain as a platform for provenance and combating fraud. **Everledger started with diamonds, with a view to expanding into all sorts of luxury goods, such as high-end watches, designer handbags, and fine art:** basically high value items whose provenance might otherwise be reliant on paper certificates and receipts that can easily be lost or tampered with. The blockchain is a distributed public ledger for tracking provenance in a way that is more robust and accessible than a paper trail. Verisart, another start-up, which launched its beta version in March 2016, is initially targeting the fine art market, with particular focus on living artists. Another start-up, Ascribe, raised US\$2 million in seed funding last summer for its “notary and timestamp for intellectual property and creative works”, which uses the blockchain to store and sign digital images, thus creating an immutable record of their existence and enabling copyright to be enforced on digital artworks. Everledger recently formed a strategic alliance with Britannia Mining to introduce state-of-the art digital solutions to reduce risk and improve the execution of trading deals in the diamond industry. With fakes and forgeries threatening reputation and trust in the global art market, blockchain technology has clear potential to create a global immutable ledger of objects with immutable IDs.

Technology and art security: Art Guard announced its newest solution for protection of art and valuable assets with the introduction of the MAP Wi-Fi system, designed for private residences where over 50 percent of asset theft occurs. Based on the industry leading object-specific MAP (Magnetic Asset Protection) sensor, MAP Wi-Fi establishes Art Guard’s place in home automation by offering easy-to-use and affordable security for any valuable object. MAP’s unique capability is to provide museum-grade protection for both hanging and seated pieces, regardless of size, including art, jewelry, antiques, collectibles, wine, and memorabilia. The patented MAP sensor detects



© SUMO/Détail de *All That Glitters*, 2015, Acrylique & aérosol sur toile, 100x140cm

the movement of a tiny rare earth magnet, which can be safely and discretely attached to the surface of an object, whether a large painting or a small figurine. The MAP sensor is placed nearby—either behind a hanging piece or beneath the surface of a seated object. Both magnet and sensor are hidden from view.

i2M Standards: The Global Center of Innovation, a not-for-profit institution previously known as the SUNY Center of Innovation, based at the State University of New York at Albany, in the United States of America launched i2M Standards in October 2015, the identification and authenticity standards and independent technologies that aim to solve the problem of faked and forged art. The initiative follows a two-year global collaboration between artists, academics, scientists, and curatorial institutions across the world, led from the University at Albany’s

Center of Innovation (now renamed the Global Center of Innovation for i2M Standards, and sponsored by ARIS Title Insurance Corporation, a member of Argo Group International Holdings, Ltd.). The result is a core infrastructure of standards to support both the object-marking technologies and high security informatics and data management approaches required to solve art's authenticity crisis, against which first-generation solutions can be introduced into the industry. The first i2M-standards compliant system permanently embeds bio-engineered DNA elements into the surface of art objects through a specially created label that attaches to the object. It also results in first adopters stepping forward to begin using these advanced solutions to start the process of systemic change.

Condition reporting, documentation, and tracking:

the globalization of the art market means greater mobility of artworks as they are displayed at fairs and exhibitions around the world. This means artworks are subject to complex logistical operations with pieces transported and handled by various fine art logistics companies, exhibitors, and other custodians. As a result, artwork conservation and monitoring is becoming ever more necessary to assess condition, before, during and after logistical operations.

Examples of providers:

SGS is the world's leading inspection, verification, testing, and certification company. It is recognized as the global benchmark for quality and integrity. With more than 85,000 employees, it operates a network of more than 1,800 offices and laboratories around the world. Recent start-ups, such as Articheck, are also providing services in this area.

The blockchain is a distributed public ledger for tracking provenance in a way that is more robust and accessible than a paper trail



Interview with Robert Norton

CEO of Verisart

Blockchain technology and the application to the art market

Why blockchain and why now?

Blockchain is a universal, permanent, and distributed public ledger. The ledger is cryptographically secure with no central authority, and data records cannot be altered or revised after they have been timestamped and recorded. Blockchain provides a decentralized transaction protocol that allows trustless parties to create trusted records; this mix of encrypted anonymity with the security of consensus is specifically relevant today. Many people have heard of Bitcoin, a payment application running on the blockchain, but this is just one of hundreds of applications that leverage distributed public ledger technology or the blockchain protocol ranging from smart contracts, securitization, Internet of Things, digital identity, and anti-counterfeiting to art and ownership.

What issues do you think this technology can effectively address? Such as, fraud prevention, or fakes in the art market.

The technology has the disruptive potential to establish universal consensus over who said what at any given moment in time and to have that claim or statement encrypted and recorded on a distributed public ledger. If you look at the art market today, the lack of proper record keeping and the inability to run real-time verification of provenance have created a ripe environment for fraud. Interpol estimates that the size of fraudulent activity in art and collectibles will exceed US\$6 billion annually, approximately one tenth of the overall art market. On any given day, you can find some high profile litigation regarding disputed provenance and claims, and many of these problems can be solved if there was a way to demonstrate an indisputable proof of existence at a moment in time. Blockchain can establish the basis for secure and tamper-proof record keeping, which in turn can be

effectively used to reduce fraud and provide greater trust in the objects and statements at hand. Think of it like a new standard for the trusted transaction of art and collectibles.

What are the biggest challenges for adopting blockchain technologies?

Like with anything new, it takes time for people to understand the technology, to find ways to use it, and most of all to translate that into an easy user experience. When SMTP (Simple Mail Transfer Protocol) came out in 1982, it still took 13 years before Hotmail created an application that was easy for everyone to use, and this ultimately transformed the way we communicate. The Bitcoin blockchain protocol was first published in 2008 and new companies like Verisart are beginning to address opportunities and markets with free and easy applications. As blockchain technologies become more widely understood and implemented, they will change the very nature of record keeping and transactions.

What is Verisart’s approach to this problem/art market?

Verisart is the world’s first company to provide blockchain certification for the physical art market. Verisart’s initial product is a free app to generate a certificate of authenticity registered on the blockchain in two easy steps. These certificates offer benefits across the art industry, from artists looking for free inventory management systems, to galleries wishing to be informed when an object changes owner, and to collectors looking to virtualize their assets without exposing sensitive information like price and identity. Verisart has built its platform using the most widely accepted standards for cultural heritage documentation (CIDOC-CRM) and linked open data policies (LIDO). A Verisart certificate is Object ID compliant, meaning that it meets the international standard for describing art, antiques, and antiquities.

In addition, the Verisart certificate forms part of a broader metadata and semantic framework used by collections management systems and cataloging databases worldwide, ranging from insurers and museums to law enforcement agencies. In this way, a Verisart certificate is a permanent record that can be easily shared, discovered, and propagated.

For more information please visit www.verisart.com



Increasing confidence in technology and online art businesses and their role in the art market evolution: 73 percent of art professionals (up from 53 percent) and 69 percent of collectors (same as in 2014) believe that online art businesses will play an important role in the art market in the next two to three years, which signals that art stakeholders are increasingly waking up to the potential of technology and the online art market. New innovations, such as the use of blockchain technologies mentioned above, are an example of how technology and innovation could contribute significantly to the development of the art and finance industry.

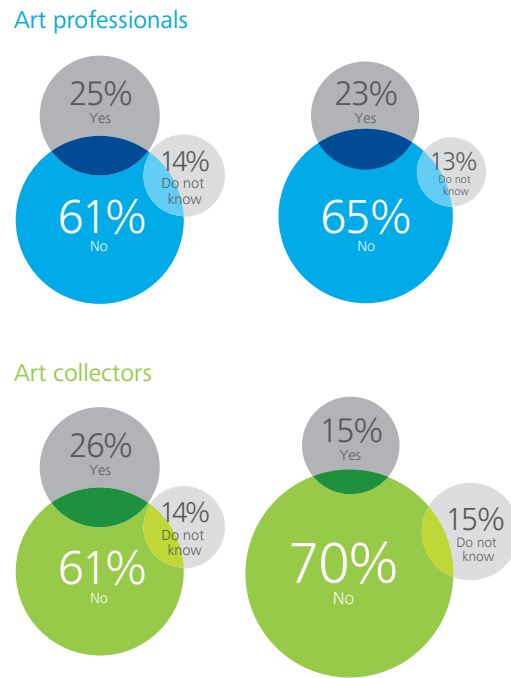
Online art businesses present a threat to traditional art operators, particularly those who fail to respond to technological advances: 25 percent of art professionals (up from 23 percent) and 26 percent of collectors (up from 15 percent in 2014) believe that online art businesses could replace traditional art market operators in the future. However, despite this increase, the majority of collectors and art professionals see online and offline art businesses co-existing and the online businesses more as enablers than predators.

Survey findings on the outlook for the online art industry

Figure 41. How important do you think online art businesses will be in the art market in the next 2-3 years

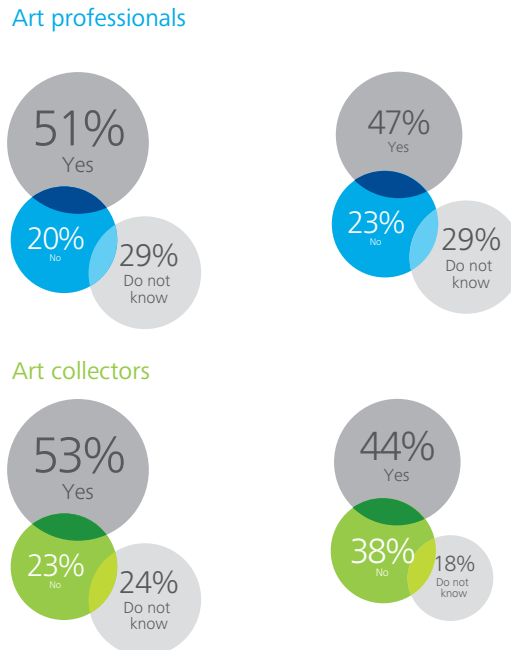


Figure 42. Do you think that the traditional operators in the art market could be replaced by new ventures



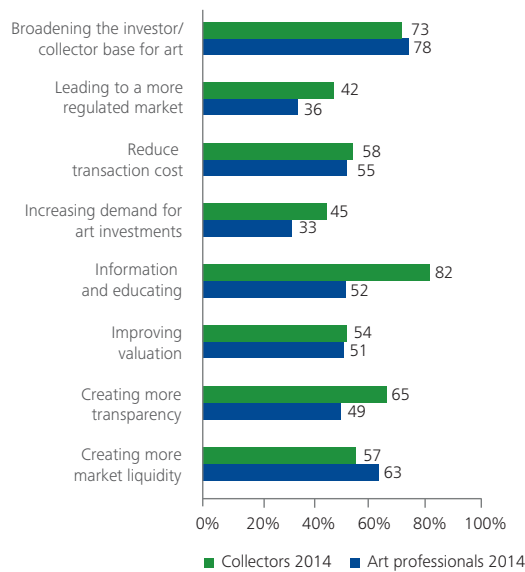
Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

Figure 43. Is the current boom in online art ventures/businesses sustainable in your view?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

Figure 44. Art professionals and collectors: How important do you believe online art businesses and new technology will be in the following factors?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

The majority believe the boom in online art businesses is sustainable: 51 percent of art professionals (up from 47 percent) and 52 percent of collectors (up from 44 percent as in 2014) believe that the tech boom in online art businesses is sustainable, and that many of these new business ventures address a real need in the market.

Overall there is an increasing perception that online art businesses and technology will dismantle many of the “hurdles” facing the art market. Only “broadening the investor base” and “creating more liquidity” have been given slightly less importance than in the 2014 findings. This trend is likely to facilitate the development of art wealth management services—a trend that corresponds with the feedback from wealth managers.

Art information and education is seen as the area where online business and technology could have a significant impact: 82 percent of art professionals and collectors (up from 52 percent in 2014) believe that the real potential for new online businesses will be in the information and education space. This significant

increase suggests that stakeholders in the art market see increasing potential in education and information, which can also be seen as a tool to broaden and educate art buyers and collectors (see the point below).

Online art businesses are seen as catalysts for broadening the art market: 73 percent of art professionals and collectors (down from 78 percent) stated that online art businesses have the opportunity to widen the collector base for art and collectibles. The combination of education, better information, and online art market places have the potential to tap into demographics that are currently not engaging with the traditional art market.

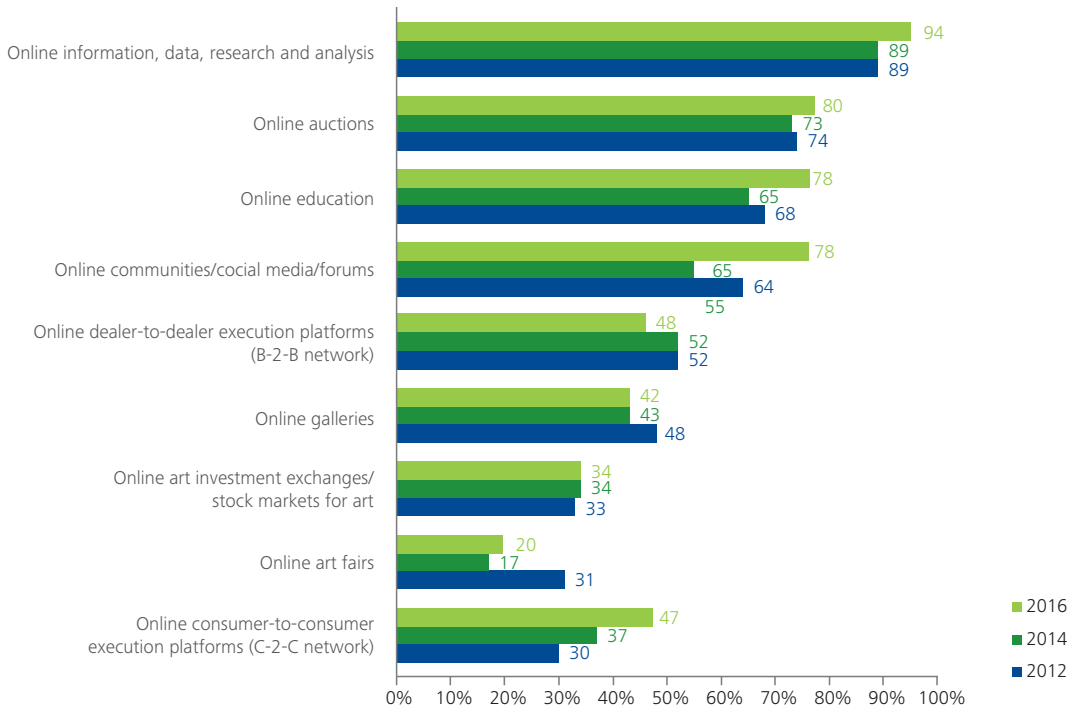
Increasing market transparency: 65 percent of art professionals and collectors (up from 49 percent in 2014) believe that transparency in the art market could be improved as a result of technology and the advent of the growing online art market. An increasing level of transparency in the art market would help to address one of the biggest hurdles and threats to the reputation of the art market.

Leading to a more regulated market: 42 percent of art professionals and collectors (up from 36 percent in 2014) believe that online businesses could push the art market towards a more regulated market place. The art market has already seen consequences of this, such as EU online consumer protection laws, which mean that online businesses have to offer return guarantees.

Reducing transaction costs: 58 percent of art professionals and collectors (up from 55 percent in 2014) believe that online businesses will be important in driving down transaction costs in the art market. The influx of online market places and online auctions are pushing down transaction costs (such as buyer and seller’s premium) for art and collectibles.

Online information, data, research, and analysis is considered by a large majority as an online business set to succeed in the future: 94 percent of art professionals and collectors (up from 89 percent in 2014) said that online business and technology companies focusing on improving the infrastructure

Figure 45. Which online business models do you believe will succeed in the future?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

for art information, data, and research will have the largest potential for success in the future. This highlights that both collectors and art professionals believe in increasing transparency—one of the pre-requisites of a well-functioning art and finance market.

Online auction market is gaining momentum: 80 percent of art professionals and collectors (up from 73 percent in 2014) said that online auctions are here to stay and will prove to be a viable alternative to traditional offline auctions. The growth in sales among online auctions and auction aggregators such as Invaluable, Auctionata, Heritage Auction, Paddle8, Artsy, Bidsquare, and others, suggests that people are getting increasingly comfortable buying art online.

Online art education is still seen as an untapped market: with the online education market exploding in recent years, 78 percent of art professionals and

collectors (up from 65 percent) said they believe online education businesses have great potential in the art market. However, online courses and education specifically tailored to the art and finance industry is lacking, and there is likely to be potential need for an online platform specifically targeting this industry.

Building online art communities: 66 percent of art professionals and collectors (up from 55 percent in 2014) said that online social platforms in the art market have significant potential to succeed. Already we see the art world embracing social media platforms such as Instagram and Facebook and art world focused platforms such as ArtStack. Social media platforms centered around specific art world skill sets or experience could become an important source in the development of the art and finance industry, where finding the right art expertise is seen as one of the key challenges for this market.



section 5

Regulation

To give context to the survey results, we asked nine professionals, of which seven were from international law firms to comment on these findings. In addition, we also offer the views from a representative from a dealer association in UK and one law enforcement agency in the US regarding regulation in the art market. Deloitte has also provided a fact-based account of the development of anti-money laundering rules in the art market.

Highlights

- **Issues that constitute a real threat to the reputation and functioning of the art market:** there is a consensus on a number of common themes across different stakeholders (collectors, art professionals, lawyers, and wealth managers) when it comes to price manipulation, conflicts of interest, lack of transparency, and secret commissions. In fact, nearly three out of four wealth managers, collectors, and art professionals share these views.
- **There is strong awareness and agreement on what the problems are, what is less obvious is how to best address these in a coherent and coordinated manner:** in January 2012, the Basel Institute on Governance produced a working paper called Basel Art Trade Guidelines. This laid the groundwork for an art industry-wide initiative to combat questionable business practices collectively and to ensure fair and efficient competition in a global art market. In principle, market operators agreed on the need to take self-regulatory actions under the condition that such collective action did not directly undermine the commercial interests of their trade. The paper goes on to suggest that it may have to be the role of legislators and judges to form the framework for better regulation of the art market.
- **Authenticity related issues are a unified threat to the art market:** around 75 percent of all stakeholders surveyed agree that “authenticity, lack of provenance, forgery and attribution” are the biggest threats to credibility and trust in the art market.
- **Government intervention or self-regulation?** According to our latest survey of wealth managers, art professionals, and art collectors, the majority (two thirds) of opinions are in favor of self-regulation of the art market. However, a significant minority (36 percent) of wealth managers call for more government regulation of this market.
- **Art market transactions are increasingly involving due diligence and written agreements:** as the value of art increases, so does the expectation of fair play. Art market transactions are moving from informal arrangements towards a market where careful due diligence and written agreements are becoming more common.
- **Lack of professional qualification standards for art market professionals:** the fact that there are few professional and qualification standards imposed on art market professionals means that they are often uninformed on the law. One way to improve the current situation is to invest in educating art market professionals on behavior that is illegal, and perhaps making it a requirement that they should inform themselves on the law.

- **Improving law enforcement instead of adding more layers of regulation:** litigation is hugely expensive and inconvenient for private individuals and businesses alike. An example of how to improve the current situation would be for governments to invest more resources to facilitate the enforcement of existing laws rather than invest in adding more layers of regulation.
- **Lack of transparency and secret commissions are major issues in the international private art market:** recently there has been a shift in the approach to resolving these issues because of the compliance requirements of the US Foreign Corrupt Practices Act and the UK Bribery Act 2010. These two acts are examples of how regulations not specifically meant to apply to activity in the art market are transforming the structure of international private art sales.
- **The regulatory landscape is changing as laws have been established or amended in several countries imposing anti-money laundering requirements on art dealers:** stakeholders in the art market can learn from regulated financial institutions and gradually implement essential measures to identify ultimate beneficial owners, understand customers (“know your client”), and monitor deal transactions. These measures will ultimately reduce the risk of abuse of the art market by money launderers and lower the risk of civil fines, criminal charges, and reputational damage to stakeholders.

Introduction

In the last couple of years, there has been an increasing focus on improving the various control mechanisms of the art market. Expanded regulation and tighter controls in the financial markets concerning tax evasion and money laundering are also increasingly affecting the art trade.

There have been attempts to bring together the key members of the art industry (galleries, dealers, and auction houses) to come up with a solution to this problem, and in 2012 the not-for-profit Basel Institute on Governance produced a working paper⁵¹ on governance of the art trade: *Basel Art Trade Guidelines*⁵². The working paper laid the groundwork for an art industry-wide initiative to collectively combat questionable business practices and to ensure fair and efficient competition in a global art market.

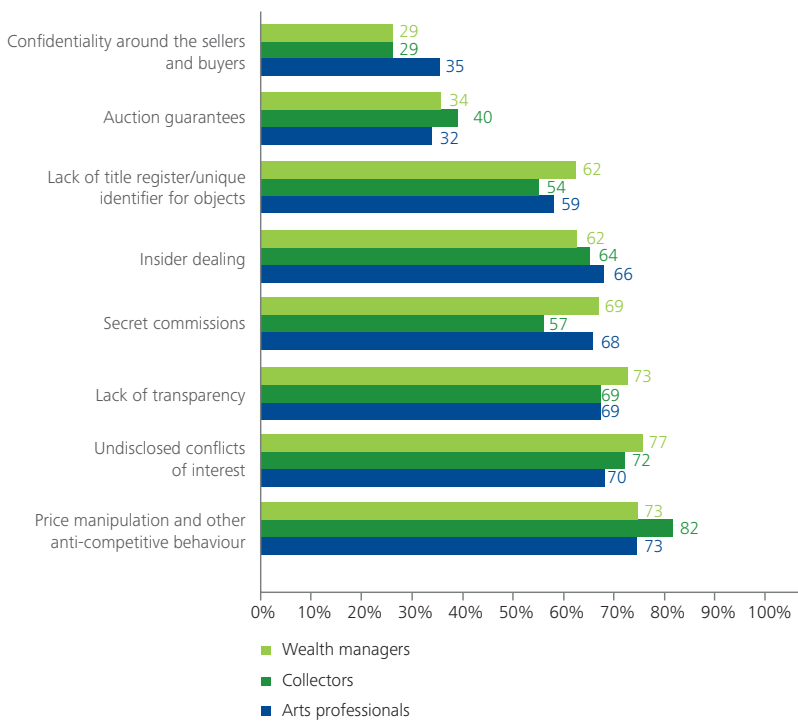
The paper concludes that despite positive feedback from key stakeholders in the art market, there is a possibility that the art trade is not yet ready for self-regulation. According to the working paper, in principle, market operators agreed on the need to take self-regulatory action on matters such as disclosure, due-diligence, conflict of interest, and money laundering issues, under the condition that such collective action did not directly undermine the commercial interests of their trade. They go on to suggest that it may have to be the role of legislators and judges to form the framework for better regulation of the art market.

The following new section is based on findings from surveys conducted among legal professionals, wealth managers, art professionals, and art collectors. The purpose was to identify a set of priorities among these stakeholders when it comes to issues that pose the biggest threat to the reputation and functioning of the global art market. These findings are complimented by opinions, comments, and suggestions from seven legal representatives working closely with the art market today.

⁵¹ https://www.baselgovernance.org/sites/collective.localhost/files/publications/biog_working_paper_12.pdf

⁵² The BAT Guidelines seek to self-regulate two matters that have not yet been sufficiently addressed at a global level, namely the provenance of an art object and the provenance of the funds

Figure 46. Which of the following issues do you feel are the most threatening/damaging to the reputation of the art market?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

Survey results

There is a consensus on a number of common themes across different stakeholders (collectors, art professionals, lawyers, and wealth managers) when it comes to issues that constitute a real threat to the reputation and functioning of the art market. These concerns notably include price manipulation, conflicts of interest, lack of transparency, and secret commissions, with nearly three out of four wealth managers, collectors, and art professionals sharing these views. There is clearly strong awareness and agreement on what the problems are, what is less obvious is how to best address these in a coherent and coordinated manner.

Price manipulation and other anti-competitive behavior: 73 percent of wealth managers, 82 percent of collectors, and 73 percent of art professionals see price manipulation and other anti-competitive behavior as a major damaging factor to the reputation of the global art market. This is a critical factor and has the potential to undermine the confidence and credibility of any price (and therefore also the data being used to assess risk and performance in the art market). Collectors in particular feel very strongly about this specific aspect of the market.

Undisclosed conflicts of interest: 77 percent of wealth managers, 72 percent of collectors, and 70 percent of art professionals see issues around undisclosed conflicts of interest as a serious problem in the art market. The role of intermediaries in the art market remains a grey and unregulated area. The relationship between intermediaries and the seller and buyer is often fraught with lack of transparency and potential conflicts of interest. With the art market still wedded to a commission-based revenue model, the problem of conflicts of interest will remain.

Secret commissions undermine confidence in the transaction: 69 percent of wealth managers, 57 percent of collectors and 68 percent of art professionals see this as a damaging issue. It is interesting to note that collectors seem to have less of an issue with secret commissions.

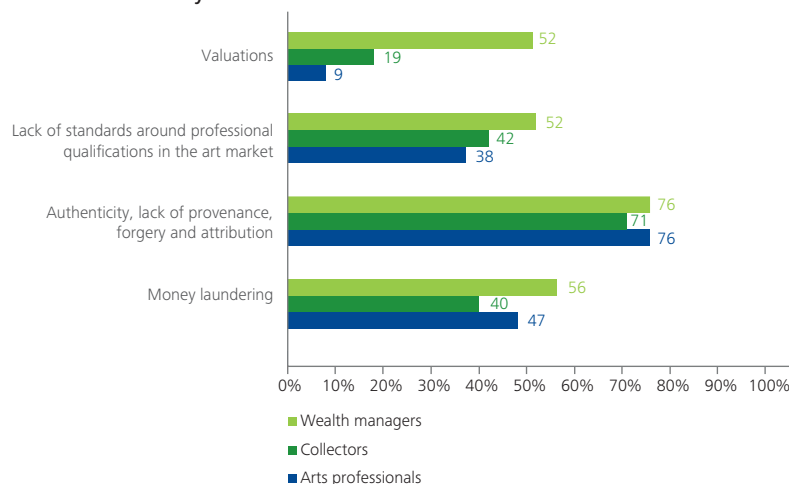
Lack of market transparency: linked to the above is the issue of lack of transparency in the art market. In fact, 73 percent of wealth managers, 69 percent of collectors and 69 percent of art professionals see this issue as one of the key issues within the art market. Most of the problems outlined above boil down to the fact that the art market remains opaque and non-transparent, and the duty and obligation to be transparent have largely been unchallenged up until now. However, high profile court cases and legal disputes have put this issue to the top of the agenda.

Other issues affecting trust

Authenticity related issues are a unified threat to the art market: around 75 percent of all stakeholders surveyed agree that “authenticity, lack of provenance, forgery, and attribution” are the biggest threats to credibility and trust in the art market. There has been a series of recent developments in this field (see page 131) aiming to create a register, as well as tagging and tracking mechanisms for individual artworks.

Lack of standards around professional qualifications in the art market: 52 percent of wealth managers feel that the lack of standards around professional qualifications in the art market is a great problem, as it complicates the process of finding and selecting people with the appropriate knowledge and skills. However, different art industry associations, such as The Association of Professional Art Advisors (APAA), The Association of Art & Antique Dealers (LAPADA), Le Comité Professionnel des Galeries d’Art, and The Appraisers Association of America, have all been set up to raise standards and create a code of ethics among their members. It is important for these associations to improve dialogue with the wealth

Figure 47. Stakeholder analysis: What are the other important issues affecting trust and credibility in the art market?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

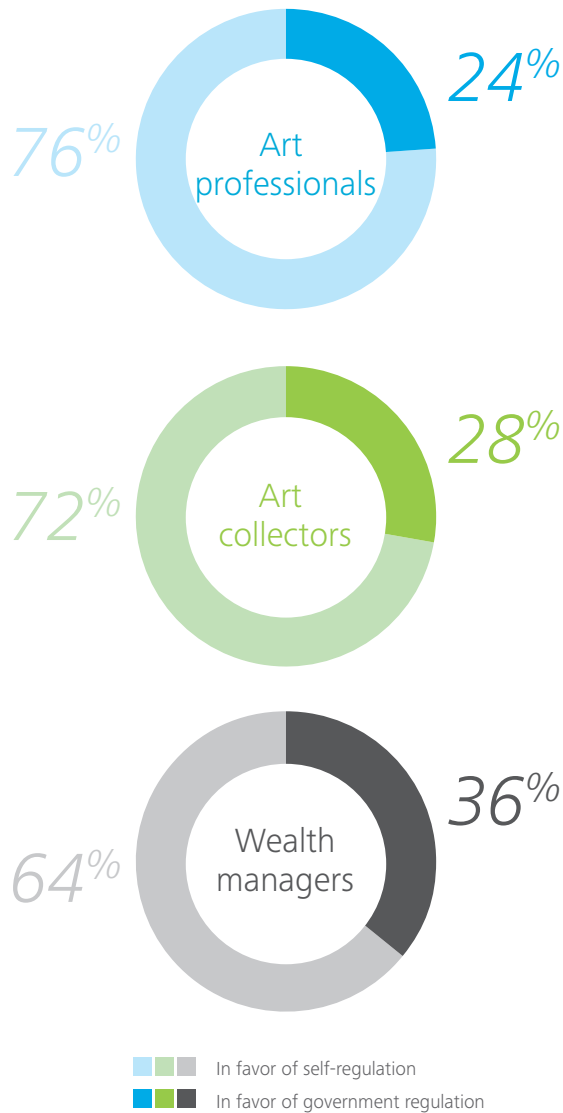
management community. This will ensure that their members are part of the process of creating a common platform for the art and finance industry. The Clarion List mentioned in the Art & Technology section is also an interesting initiative and platform for vetted art professionals.

Money laundering: 56 percent of wealth managers felt that money laundering was a serious threat to the credibility of the art market, and 47 percent of art professionals and 40 percent of collectors felt the same. However, the art world will be forced to comply with tighter anti-money laundering rules being implemented around the world⁵³ (see article page 151).

Pricing and valuation of art: the subjectivity and lack of standards often surrounding the pricing and value of art and collectibles are cited by 52 percent of wealth managers as one of the threats to the trust and integrity of the art market. It is interesting to note that valuation is of much less concern to art professionals (9 percent) and art collectors (19 percent), and clearly signals an area of potential development, to better communicate best-practices in the art market and reconcile these with standards required by wealth managers.

53 As of January 1, 2016 the Anti Money Laundering law of Switzerland (AMLA) will also apply to traders, i.e. individuals and legal entities that commercially trade in movable goods and in this context accept payment of cash (source: <http://www.caplav.ch/2015/anti-money-laundering-implemation-of-the-revised-fatf-recommendations/>)

Figure 48. Government intervention or self-regulation?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2016

According to our latest survey among wealth managers, art professionals, and art collectors, the majority (two thirds) of opinions are in favor of self-regulation of the art market. However, a significant minority (36 percent) of wealth managers call for more government regulation of this market. The same trend is echoed by both arts professionals and art collectors, who believe that threats to the art market are best addressed from within the art industry itself rather than through government intervention.

Self-regulation is an essential part of today's global economy, and is widely adapted across industries, such as health care, fashion, advertising and professional sports, as well as the art market. These industries rely on self-regulation to address a range of issues, from establishing industry standards, to developing and applying codes of professional ethics, to ensuring consumer confidence. However, in recent years the art market has been hit by a number of highly publicized scandals. This raises issues among art industry members as well as law and policy makers about the efficacy of self-regulation when it comes to protecting consumers and the reputation of the art market itself.

On the other hand, the case for government regulation or intervention is also not clear-cut, as many would question whether regulation could effectively deal with many of the intricacies of the art market, let alone its global nature. As has been seen in other industries, more regulation inevitably imposes higher costs on companies, forcing them to shift resources towards meeting compliance requirements, arguably at the expense of other activities. This might not be a problem for the biggest and most financially powerful operators in the art market, but for the thousands of smaller companies and individuals, increased government regulation could make their business unviable.

1 General view on regulation

The subject of art market regulation (or presumed lack thereof) has been a hot topic for decades now. But why? From my experience in auction houses, blue chip galleries and now a trade association, I can attest first-hand to the great swathes of regulations that apply to the market as a whole.

In fact, if we want to look at the art market in comparison to any other retail market (from clothing to widgets), you will find that ours has to contend with far more regulation than many others. On top of the standard-issue laws surrounding consumer contracts and business practice, we are blessed with Artist Resale Right, export controls, cultural goods regulations, etc.

And yet, we also have a rich history of self-regulating organizations in the form of trade associations. The UK alone has three major bodies—LAPADA, BADA and SLAD—all of which hold their members to account via Codes of Practice, Conduct, or Ethics. We find that reputation and competition are powerful motivating forces for sustained proper behavior.

Self-regulation allows for more diversity in methods of compliance with rules and regulations than may be possible for a statutory regulator to provide. This allows for a framework that is sufficiently flexible to permit market participants to respond to inevitable change in an innovative, timely and sensitive manner.

I strongly believe that we should be pushing towards more self-regulation and less government intervention. Bureaucracy simply results in poorer regulation, increased costs and reduced competition. If we are seeking to bolster the trade and support fair, efficient, and transparent markets, then we should be looking towards self-regulation.

The subject of art market regulation (or presumed lack thereof) has been a hot topic for decades now



Rebecca Davies
Chief Executive
LAPADA, The Association
of Art and Antiques Dealers



Karen Sanig
Head of Art Law at
Mischo de Reya LLP

1 General view on regulation

To the uninitiated, the art market seems opaque. In many ways it is, and more so than financial markets. Many accepted practices of the trade have existed within the market itself for a long time and new ones become quickly integrated. Nevertheless, such practices are still bound by the law and failure to adhere to the law will result in penalties, both civil and potentially criminal. The risks of operating outside legal confines have become more obvious in recent years through a plethora of high profile legal decisions involving art. The exposure of widespread forgeries has highlighted the danger for buyers of failing to carry out adequate due diligence. Financial penalties imposed on intermediaries for taking unauthorized commissions has exposed a distinct lack of understanding of the fiduciary duties owed by an agent to his principal. These include duties not to make a secret profit and to act in the best interest of the principal, which are sometimes overlooked.

During the author's 20 plus years of advising on high value art transactions, patterns of problem areas have emerged, most of which are reflected in the survey. Recent years have seen a proliferation of complaints about discrepancies between buying and selling values. A lack of clarity surrounding many art deals fuels many of the areas of concern expressed in the survey. For many, art is first and foremost an investment of passion. It does not necessarily follow the rules and expectations of traditional asset classes. However, as prices rise so does the expectation of fair play. A reluctance to commit to writing, even a short written agreement,

has to some extent enabled the eccentricities of the market to abound. A slightly more rigid approach to doing deals is starting to appear and ought to help solve some of the anomalies of the market that threaten its reputation. The advent of online sales makes tighter rules unavoidable. Buyers and sellers ought now to require certain written warranties in relation to artworks as part of any transaction. The myriad of intermediaries claiming a connection to the ultimate buyer or seller are now treated with more suspicion than previously or else they themselves now insist on written agreements. This is essential to ensure that parties to an art transaction do not fall foul of bribery laws or international money laundering regulations.

The perceived threats to the art market are in many ways surmountable by exercising careful due diligence in art transactions and committing to written agreements. The Latin maxim "caveat emptor" (buyer beware) resonates loudly in the art market and applies equally to sales at public auction and private sales. Sellers must beware too. Independent expertise is not hard to obtain and the prudent seller or buyer ought to rely on more than one source and obtain the advice in writing. Passion often comes before a fall in the art world and the usual rules applied to the acquisition of large value assets—like checking ownership or the right to transfer ownership—are often forgotten. Granted it is not that easy, as there is no central database of art ownership, but this makes checking all the more necessary.

1 General view on regulation

The five threats to the reputation of the art market identified by the survey are rooted in behavior displayed by art market participants, and to that extent, they are self-inflicted. Having said that, there is significant pressure not to eradicate them, because the market thrives on these behaviors, and they contribute to the generation of significant wealth, particularly at the top end of the market. From a legal perspective, a line should be drawn between legal and illegal behavior. If the behavior is legal, it may be undesirable, even unethical, but there is little incentive to change it especially if it brings significant economic benefit. Insider dealing, for example, is not unlawful in the art market unless it amounts to anti-competitive behavior. It often does, but as a rule, it is not illegal to use “insider” information when buying and selling art with a view to profit. But some of the threats identified by the survey are rooted in unlawful behaviour, for example abusing your market dominance, fixing prices with competitors, taking unauthorized commissions and evading taxes. The lack of professional qualification standards in the art market is an issue: art market professionals are often uninformed about the law. For example, the fact that taking unauthorized commissions is illegal often comes as a surprise to art dealers. One way to improve the current situation is to invest in education art market professionals on illegal behavior, and perhaps making it a requirement that they should inform themselves on the law. There are, of course, art market professionals who are well aware that their behavior is illegal, yet they are prepared to take the risk because they think that they will not be found out, or if they are, they will avoid a civil claim or criminal prosecution. There are well-publicized examples of this approach to risk. One of the reasons why it is more widespread than it ought to be is due, in part, to weakness in our law enforcement. Litigation is

expensive and inconvenient for private individuals and businesses alike. The law courts are overwhelmed. Law enforcement authorities are under-staffed and under-resourced. For these and other reasons, unlawful behavior is allowed for longer than is desirable. It would be wrong to suggest, of course, that law enforcement in other markets is more robust than in the art market. That is not the case. However, law enforcers must prioritize and the art market may not be an obvious priority because it is often perceived as a fancy market for the privileged few, and therefore less worthy of attention. The current situation would be improved if governments invested more resources in enforcing existing laws, rather than in adding more layers of regulation. This would include making the court system more accessible and less expensive and providing significantly more resources to organizations such as the Competition Authority, Trading Standards and the police. An industry regulator could be appointed to oversee the art market, like the Conseil des Ventes in France which oversees the French auction market. However, recent experience shows that industry regulators are not particularly effective – banking and financial services are cases in point. It is possible to envisage a regulator appointed from within a particular industry. Whilst it is difficult to see how an industry-appointed regulator could impose sanctions on industry members, this might be preferable to doing nothing at all. One of several models could be adopted, such as introducing a form of licensing system, excluding the infringing industry member from a trade association, or introducing a seal of approval such as the Which? Trusted Traders scheme.



Pierre Valentin
Partner
Constantine Cannon LLP

2 Transparency and authenticity

The US Foreign Corrupt Practices Act—A Model for the Art Market

Lack of transparency and secret commissions are major issues in the international private art market. Recently, however, there has been a shift in the approach to resolving these issues because of the compliance requirements of the US Foreign Corrupt Practices Act and the UK Bribery Act 2010.

The US Foreign Corrupt Practices Act is fundamentally an anti-bribery and anti-corruption statute. The US Foreign Corrupt Practices Act makes it unlawful for certain individuals and entities to make payments to foreign government officials to assist in the procurement of business. The UK Bribery Act 2010 is the British anti-bribery and anti-corruption equivalent. These two acts are examples of how regulations not specifically meant to apply to activity in the art market are transforming the structure of international private art sales.

As the art market becomes ever more global, the US Foreign Corrupt Practices Act and the UK Bribery Act 2010 have triggered a rise in private sale due diligence, which has in turn created more deal transparency.

An example of this due diligence can be seen in transactions involving US and Chinese parties. To comply with the US Foreign Corrupt Practices Act, the identity of all Chinese parties and any commissions such parties receive should be disclosed because making payments or sending funds to any undisclosed party who could be deemed a foreign government official could constitute a violation of the statute. In order to comply with these requirements, private sale agreements with Chinese parties should now disclose the commission structure on both the buy and sell sides of the deal and the identities of the buyer and seller, and include explicit representations and warranties regarding compliance with the anti-bribery and anti-corruption provisions of the US Foreign Corrupt Practices Act.

The transparency created from private sale compliance with the US Foreign Corrupt Practices Act and the UK Bribery Act 2010 is of a level rarely seen in the global art market. Parties who have experienced such transparency in these transactions may feel comforted by the openness and demand that such transparency be implemented in their private sale agreements with parties in other parts of the world.



Diana Wierbicki

Partner and Global Head
of Art Law



**Amanda A.
Rottermund**

Associate
Withers Bergman LLP

2 Transparency and authenticity

The lack of transparency in the art market has been of great concern to buyers and sellers of fine art, as well as, and increasingly, parties lending against art as collateral. Lack of transparency in art transactions may create a more hospitable climate for money laundering, forgery, and other illegal activities that threaten the value of any given work of fine art. Opacity related to pricing, in particular, may encourage insider trading and conflicts of interest in ways that are not apparent to the market, or to a good faith purchaser. Of course, the art market has always had a culture of secrecy, which in many ways contributes to its identity and uniqueness as an industry. Yet despite the allure of secrecy to some market participants, an increasing number of players in the art market see their fine arts investments as part of an extremely valuable asset class that they need to protect.

There has been increased attention paid by the market and courts of law to the diligence efforts conducted by parties to a transaction prior to sale regarding title, provenance, and authenticity. Our best advice to our clients, therefore, is to do as much research as possible before entering a transaction involving a work of fine art, such as a sale or a loan. Purchasers and lenders should run UCC lien searches, review

all available provenance information, ask for chain of title documentation, ask for import or export documentation, review prior sales history where available (or ask for it), and consult artist foundations and other experts to learn about the history of a work and to inspect it. Parties should also be alert to red flags that signal the transaction is too good to be true or not as it seems. Where the purchase price or value asserted is far below market value or where the manner of deal negotiations differs from those typical on the art market, there may be hidden harmful information. This may also be true where a seller or borrower has current or regular financial difficulties or prior known ethical misconduct.

In the current climate, players in the art market have a greater awareness of the need to use a private agreement to guarantee all legal protections and avenues for recourse possible in the event the work is later found to be fake or otherwise not as originally represented. Consulting a trusted legal advisor is the first step to thinking through the steps one can take to maximize the transparency of any deal, and feel secure that the risks of bad title, forgery, and hidden claims are mitigated.



Steven R. Schindler
Partner
Schindler Cohen & Hochman LLP



Stephen D. Brodie
Herrick
Feinstein LLP

2 Transparency and authenticity

Authenticity/forgery: there is simply no satisfactory way to deal with this problem. I am not especially bothered by the closing down of authentication boards, and do not think US law should adopt the European approach, which gives great credence to authentication boards controlled by friends and family of deceased artists. The conflicts of interest are simply too great, too often. However, at the same time, buyers and lenders (at least those who are truly lending against art as collateral, as opposed to those effectively making unsecured loans to ultra-high net worth individuals, where the art is really abundance of caution credit support) have no reliable way to minimize this particular risk. With this in mind, I strongly support legislation (although not necessarily the kind proposed in New York State) to better protect professional authenticators from frivolous lawsuits. I also think that the new initiatives involving synthetic DNA markers could prove valuable in the future, for newly created artworks; but presently this is one of those problems without a good solution. The best advice I can offer a buyer or an asset-based lender is to hire experienced and sophisticated professionals, including art advisors and lawyers, when engaging in an important transaction.

Lack of transparency/trust: the lack of transparency clearly leads to title problems and, arguably, reduces trust and depresses values in the long run. However, it is hard to see how this can change without the support of the big stakeholders in the art business. I also don't see where they have a sufficient incentive to support such a change, as the current system appears to primarily benefit the big auction houses and the major dealers. Short of regulation (which seems improbable as a political matter), title insurance would be a solution because it offers a true transfer of risk, rather than the mere promise that the auction house or the gallery did their homework well and would stand behind the buyer if there were a problem. I believe that these big stakeholders have superb resources and that their diligence platforms are generally excellent. However, actual risk transfer is what most buyers and lenders truly want, and only insurance can offer that. One problem, of course, is that insurance costs money and these big stakeholders would generally prefer to receive it themselves than to share it with an insurer. As a result, title insurance is much discussed at seminars and symposiums, but has not attained widespread acceptance in the market. It may also be that it is presently too expensive to be utilized with enough frequency to bring the price down. In any event, absent title insurance, my advice to a purchaser or lender is to hire top quality lawyers and art advisors to help navigate in this still remarkably opaque environment.

3 Money laundering

Art and money laundering risk: how lower public tolerance shifts regulatory expectations

Valuable and transportable, fine art is exposed to the risk of money laundering. Corrupt foreign officials can purchase a piece of art with bribe money. Drug traffickers can move a piece of art in lieu of cash. Stolen or looted goods can be trafficked from one country to another. In September 2015, Michael Martin, head of forensic and anti-money laundering services at Deloitte Luxembourg, explained to the London Art Business Conference that “art is one of the asset classes that obviously lends itself to money laundering”.

Despite such exposure, the art market has little regulation to prevent money laundering. As of now, the Financial Action Task Force (FATF) anti-money laundering recommendations do not address the risks specific to the art sector. Anonymity still prevails as the ultimate beneficial owners can hide their identity without being exposed to or monitored by the authorities. In April 2015, the Belgian mutual evaluation FATF report cited antiquities and art merchants as being “particularly exposed” to money laundering risks, alongside precious metals and stones. The Swiss national evaluation report of June 2015 dedicated five pages to free ports and the art business, describing money laundering risk in art as a “worrysome situation”.

However, the situation is changing as the increasing global transaction volume lowers tolerance by authorities and the public towards potential money laundering. *The TEFAF Art Market Report 2014 – The Global Art Market with a focus on the US and China*⁵⁴ indicated that “total sales in the international art and antiques market reached €47.4 billion in 2013, an increase of 8 percent on the previous year. This is only slightly below the all-time record figure of €48 billion achieved in 2007 just before the global economic crisis shrunk the market to €28.3 billion by 2009.”

“There must be a real regulation of the art market, if only to protect the honest traders” said Stiliano Ordilli, Head of the Swiss Money Laundering Reporting Office, when speaking to Swissinfo on 1 June 2015. This quote portrays a potential regulatory shift towards more anti-money laundering supervision for the art market.

The regulatory landscape is changing as laws have been established or amended in several countries imposing anti-money laundering requirements on art dealers. At European Union level, the fourth EU Anti-Money Laundering and Counter Terrorist Financing Directive (2015/849 EU) requires dealers in high value goods to undertake protective measures for payments in cash over €10,000. In Luxembourg, regulators published a law on 24 July 2015 requiring the operators of the newly launched Luxembourg Freeport to comply with national anti-money laundering laws and regulations. Switzerland is also changing its anti-money laundering laws requiring increased due diligence requirements for cash payments exceeding 100,000 Swiss francs in relation to the sale of movable and immovable goods.

A similar trend of increased risk awareness is also foreseen in the Far East, which remains for now a less regulated environment. Since China established the China Anti-Money Laundering Monitoring & Analysis Centre (CAMLMAC) in July 2004, the art and antique market has become a preferred emerging tool as a substitute for traditional banking money laundering, which is now regulated by national laws. Meanwhile, the Chinese government has made continuous efforts to promote cooperation between finance and culture. As a result, the art market in China has boomed over the past decade. The TEFAF



Michael Martin
Partner
Forensic & Restructuring
Deloitte Luxembourg

David Heurtevent
Senior Consultant
Forensic & Restructuring
Deloitte Luxembourg

Sherry Xueyun Liu
Senior Consultant
Forensic & Restructuring
Deloitte Luxembourg

54 <http://www.tefaf.com/DesktopDefault.aspx?tabid=15&tabindex=14&pressrelease=16079&presslanguage=1>



© SUMO/Détail de *I've Got The House In Check*, 2015, Acrylique & aérosol sur toile, 190x100cm

Art Market Report 2014 shows that in 2013, China's share (€11.5 billion) of the overall global art market (€47.4 billion) reached 24 percent, second only to US, which accounted for 38 percent of international market volume. Although transactions in the art market are not yet monitored or regulated by sector-specific laws in China, recent publicly exposed cases where the art market was used to launder money have raised national awareness of this risk⁵⁵.

Prevention is usually cheaper than remediation. "An apple a day keeps the doctor away". Stakeholders, such as art dealers, collectors, and operators in the Freeport, may benefit from taking a step ahead of future laws and regulations. Sanctions and remediation in the banking sector show that prevention is less costly than remediation. Thus, stakeholders in the art market can learn from regulated financial institutions and gradually implement essential measures to identify ultimate beneficial owners, understand customers ("know your client"), and monitor deal transactions. These measures will ultimately reduce the risk of abuse of the art market by money launderers and lower the risks of civil fines, criminal charges, and reputational damage to stakeholders.

3 Money laundering

Money laundering in the Spanish art market

Money laundering is an important issue for most of our countries. In Spain, the current Law on the Prevention of Money Laundering (Law 10 of 28 April 2010 on the prevention of money laundering and the financing of terrorism) imposes obligations on persons professionally trading with works of art and antiques. These include gallery owners, antiques dealers and auction houses, as well as foundations and associations whose purpose is related to the world of art.

Art collectors are not “obligors” according to the Law, but they deal with economic operators who are.

The main obligations imposed on art professionals by the Regulation on Money Laundering include: requiring identity documents from clients; keeping the documents of any operations carried out; examining any operation, regardless of its amount, that may be linked to money laundering and, if applicable, communicating it to the SEPBLAC, the Spanish Executive Service of the Commission for the Prevention of Money Laundering and Monetary Infringements (www.sepblac.es); refraining from carrying it out and cooperating with the “Executive Service”; and establishing internal control measures.

According to data published by the SEPBLAC in relation to operators in the art and antiques industry registered in the census of obligors, in 2010 there were 41 persons registered, in 2011 there were 49 and in 2012 the figure had increased to 52. The 2013 report does not contain specific data on these operators. The 2014 report is yet to be published.

These data reveal that the level of adaptation to the regulations and, therefore, compliance with the established obligations is still very low in the Spanish art market. Obligor should be made aware of the consequences of failing to comply with the regulations, not only in relation to the sanctions imposed by the law, but also because of the negative social repercussion and negative effect on the art market itself, which is already considered to be lacking transparency.

Art collectors are not “obligors” according to the Law, but they deal with economic operators who are.



Beatriz Niño

Partner
NIAL Art Law

M. Isabel Niño

Partner
NIAL Art Law

Lawyers specialized
in the art market



Catherine Cathiard
*Avocat au Barreau
de Paris et de
Luxembourg*

Dr. Eric Perru
*Director - Avocat à
la Cour*

WILDGEN
Partners in Law
founding member
of LAFA

4 Cultural good

The illegal trafficking of cultural goods

The illegal trafficking of cultural goods comprises every movement and every transaction of cultural goods stemming from robberies, non-authorized excavations, and illegal exports. Such trafficking therefore covers a large variety of practices for which the approach varies in accordance with the national and international legislation in force.

The trafficking of cultural goods is not a recent phenomenon; however, it has taken on new proportions in the context of the conflicts in Africa and in the Middle East where certain actors use it as a source of financing. The CIA estimates that Islamic State has gained revenues of more than US\$6 billion through the trafficking of archeological goods in Iraq and Syria. Large portions of universal heritage are therefore threatened, damaged, or destroyed. As well as the destruction of the site of Palmyra, illicit excavations are an additional means to nurture the trafficking. According to satellite photos, there have been up to 14,000 of these undertaken at the site of Apamea in Syria, known for its colonnades on either side of the main road for over two kilometers.

The network, intermediaries, and operational practices evolve and are subject to constant change. The actors combatting the trafficking—international institutions, national authorities and professional art dealers—must become involved and adapt to shifting practices.

International fora have adopted measures aimed at prohibiting the trade of certain cultural goods. For example, UN Security Council Resolution 2199 of 12 February 2015, which asked states to prohibit the trade of cultural goods from Iraq and Syria with archeological, historical, cultural, scientific, or religious value, and which have been taken illegally from Iraq since 6 August 1990 and from Syria since 15 March 2011, was transposed at EU level by Regulation no. 1210/2003 (for Iraq) and no. 36/2012 (for Syria).

Apart from those binding standards, the development of ethical rules applying to market participants is essential. The recognition of international standards defining the due diligence to accompany each transaction constitutes definite progress in this regard, whereas disparities between the rules and national practices are by their very nature beneficial to trafficking. From this perspective, international organizations—such as ICOM for museums or UNESCO for dealers in cultural goods—have developed a corpus of international ethical rules. National legislation in some jurisdictions imposes similar ethical rules, particularly with regard to checking the origin of the goods sold. This means that a range of ethical rules are imposed on auction houses in France. The rules effectively apply to the professionals directly. This is the case for rules imposed internally by the big auction houses for international sales (Sotheby's, Christie's, etc.), and those applicable to members of trade federations (Syndicat national des antiquaires et Comité des galeries d'art in France, The British Art Market Federation in the UK). This may be achieved in cooperation with private institutions (Basel Art Trade Guidelines).

Such required due diligence aims to guarantee the origin of the cultural goods sold and compliance with legislation on their movement. It is, at the very least, a consolidation of the legal market and limitation of the expansion of trafficking. Ultimately, the effectiveness of such measures requires the mobilization of all public and private actors in the art market. This should become more concrete, on the one hand through reinforced cooperation between countries and harmonization of regulations and, on the other hand, through increased vigilance on the part of professionals and the strengthening of ethical requirements for all parties involved.



Thwarting con-artists in the art market: a view from the FBI

Interview with Laura Patten

Senior Analyst for Art and Antiquities Crime, FBI

Laura Patten is the Federal Bureau of Investigation's senior analyst for art and antiquities crime. She is an international affairs and art market expert, who supports federal and international law enforcement investigations into significant cultural property thefts and frauds. She also conducts extensive outreach and relationship management on behalf of FBI's Art Theft Program. Laura previously served as a Central Intelligence Agency operations officer. She has received numerous academic and professional commendations, including a federal Special Act Award. Laura holds a Master of International Affairs degree from Columbia University, and is pursuing a degree in Art Business at Sotheby's Institute of Art.

What types of criminal activity does federal law enforcement investigate in the art market?

The FBI sees two basic types of crime in the art trade: theft and fraud. In the United States, theft of artwork is usually a crime-of-opportunity, such as when a house burglar grabs what looks like an expensive painting, along with the family silver and jewelry. There are exceptions, of course, such as the 1990 Isabella Stewart Gardner Museum heist—which at an estimated value of US\$500 million remains the highest value property theft in US history. Likewise, some criminals engage in cultural property theft and trafficking as a criminal enterprise. Still, to date we have rarely seen pre-meditated art heists from museums and collectors in the United States. By contrast, we see pre-meditated fraud at all levels of the art market, from the storefront and online vendor who knowingly sells inauthentic “masterpieces” as genuine, to fake investment schemes.

What is the scope of crime in the art market, and what is its monetary value?

That's a good question. People sometimes claim that art-related crime generates the third-highest level of criminal wealth in the world, just behind narco-trafficking and weapons proliferation. Maybe, but I have yet to see a methodologically sound way of measuring these claims. What I can say is that the FBI investigates multiple millions of dollars worth of crime in the art market each year. I can also say that we receive so many credible complaints that we triage our responses to address the most egregious cases. Toward that end, white-collar fraudsters typically follow the money, so as the legitimate art market grows, so too does criminal interest grow in the market.

If that's the case, what can art market participants do to mitigate their risk and protect themselves from such criminals?

When it comes to the physical security of art objects, collectors and tradespeople would be wise to keep updated inventories, including photographs of each object, as well as deploy modern alarm systems. As we just discussed, however, the greater risk is probably transactional.

Art evokes passions. It is sometimes difficult for even the most cool-headed financial professional to remain emotionless when he or she is about to acquire what could be the final cornerstone of a personal art collection. Fraudsters know this, and exploit marks' emotional vulnerabilities, as well as systemic vulnerabilities in the largely unregulated art trade. The FBI frequently investigates cases in which the victims are sophisticated individuals who are well versed in both financial markets and the art trade. Indeed, it is precisely because of their finance and art interests that a con artist will target a particular victim. I therefore suggest that art market stakeholders employ robust due diligence, anti-money laundering practices, and common sense, just as they would in any other business transaction.

These are some, but not all, of the due diligence steps readers may take:

- Engage qualified and unbiased third-party entities to conduct due diligence on the objects and counterparties in question, even if doing business with someone you think you know. Unfortunately, many criminal frauds are perpetrated by trusted insiders. That is why I always suggest engaging someone outside your inner circle to vet even your most trusted advisors' counsel. Also, if buyers don't authenticate an object and its title prior to purchase, they won't learn they've been victimized until they try to sell the object years later. By then the investigative trail may be cold and legal options limited.

- Do your own research through public sources such as the FBI's National Stolen Art File⁵⁶ and don't be afraid to ask questions, even if doing so might be perceived as gauche in the traditionally hand-shake culture of the art trade. If someone drops a deal because you wanted more documentation or greater transparency, is that a deal that is in your best interest?
- Finally, ask yourself if the deal makes logical sense for all participants. If it seems too good to be true, it is. A criminal is a criminal, whether he has jailhouse tattoos or a US\$50,000 watch.

What should people do if their art is stolen?

First, report the theft to local police, and ensure that they pass the incident report to the FBI, for inclusion in the National Stolen Art File (NSAF). Although only about 7 percent of all stolen art objects are recovered, providing law enforcement with a photograph of the object will greatly increase the chance of recovery. The NSAF is an electronic database of stolen art and cultural property that has been reported to the FBI by law enforcement agencies throughout the world. To be eligible for entry into the NSAF:

- The object must be uniquely identifiable and have historical or artistic significance. This includes fine arts, decorative arts, antiquities, ethnographic objects, archaeological material, textiles, books and manuscripts, clocks and watches, coins, stamps, musical instruments, and scientific instruments
- The object must be valued at least US\$2,000, or less if associated with a major crime
- The request must come through a law enforcement agency accompanied by a physical description of the object, a photograph of the object if available, and a copy of any police reports or other information relevant to the investigation

56 www.fbi.gov/about-us/investigate/vc_majorthefts/arttheft/national-stolen-art-file

And if someone feels they've been the victim of fraud?

Again, report the crime to law enforcement. I cannot underscore this enough. White-collar criminals often target victims they believe will be too embarrassed, ashamed, or concerned about the impact on other investments to report being victimized. It is a sort of emotional blackmail. While these fears may be understandable in the short term, in the long-term the legitimate art trade would be better off if participants refused to be blackmailed by con artists, who experience tells us depend upon victims staying quiet.

What is the FBI doing to address crime in the art market?

Over the last 10 years, the FBI has investigated more than 100 major art market cases that led to successful prosecution; recovered for repatriation more than 17,000 cultural objects; and trained scores of international counterparts to investigate crimes involving cultural property. Special agents and intelligence analysts on the FBI's Art Crime Team include a physical anthropologist, art historians, artists, collectors, materials experts, and archaeologists, many of whom speak relevant foreign languages. In addition to investigations, recoveries, and training, the Art Crime Team routinely holds public events to try to raise awareness and educate collectors about how to protect themselves against unscrupulous criminals.

Also, in 2015, the FBI launched the Cultural Property Action Group (CPAG), which is a federal interagency effort to improve information sharing and address emerging threats in the art market. Under CPAG, the FBI's Art Crime Team investigates both "traditional" theft and fraud crimes, as well as emerging threats associated with the art market. For example, CPAG provides a mechanism to bring seemingly disparate entities together to address national and international criminal justice challenges, such as the Islamic State's use of antiquities as a threat financing mechanism. Readers might be interested in seeing a public awareness message that the FBI published a few months ago⁵⁷.

What sort of emerging threats do you see to the art market?

First, the industrial scale destruction and looting of cultural heritage sites in Syria and Iraq present immediate and long-term challenges for the antiquities segment of the art market. Historically, there has been a lag between the time objects are illegally looted, covered with fake provenance documents, and sold in major art markets such as Paris, London, and New York. We expect the same will happen with objects being trafficked out of warring regions today. Regardless of the timing, dealers and collectors need to scrutinize with greater attention any object that could have come from regions under terrorist control. Aside from the reputational damage associated with handling cultural property trafficked by terrorists, trading in certain categories of looted antiquities carries criminal penalties.

Second, I anticipate new permutations of fraud will emerge as the art market adapts to new technologies and expands to new markets. It is difficult to know exactly what this will look like, but if history is any indication, cyberspace and investment vehicles are particularly vulnerable to exploitation by skilled con artists. Apply the best know-your-client, anti-money-laundering, and other business practices to all transactions in the art world, but especially those that are online or associated with art purely as an investment.



⁵⁷ www.fbi.gov/news/stories/2015/august/isil-and-antiquities-trafficking/isil-antiquities-trafficking

Contacts

ArtTactic



Anders Petterson
Managing Director
+44 778 866 1049
anders@arttactic.com

Art & Finance



Vincent Gouverneur
Partner - Art & Finance Leader
+352 451 452 451
vgouverneur@deloitte.lu



Adriano Picinati di Torcello
Director - Art & Finance Coordinator
+352 451 452 531
apicinatiditorcello@deloitte.lu

Deloitte USA



Vincent Gauthier
Deloitte Consulting LLP
National Wealth Management Leader
+1 203 905 2830
vgauthier@deloitte.com



Julia Cloud
US Private Wealth Leader
National Investment Management
Tax Leader
+1 630 841 9579
jucloud@deloitte.com



Phillip Ashley Klein
US Art & Finance Coordinator
+1 212 618 4906
pklein@deloitte.com

Deloitte UK



Tony Cohen
Vice Chairman |
Global Managing Director
- Private Company Services
+44 2 070 073 65 0
tonycohen@deloitte.co.uk



Paula Higgleton
Partner Tax – Private Client Services
+44 1223 259 572
phiggleton@deloitte.co.uk

Deloitte Austria



Gernot Schuster
Partner - Tax Services
+43 1 537 006 900
gschuster@deloitte.at

Deloitte Belgium



Frederik Swennen
Professor of Law -
Of counsel Greenille by Laga
+32 2 738 06 50
fswennen@laga.be

Deloitte Luxembourg

560, rue de Neudorf
L-2220 Luxembourg
Grand Duchy of Luxembourg

Tel: +352 451 451
Fax: +352 451 452 401
www.deloitte.lu



Mathieu Ex
Partner - Tax and attorney-at-law
at Greenille
+32 477 96 16 09
maex@laga.be

Deloitte China



Jennifer Qin
Partner - Asia Pacific Investment
Management Leader
+86 21 6141 1998
jqin@deloitte.com.cn

Deloitte Italy



Riccardo Motta
Partner – Financial Services Leader
+39 028 332 2323
rmotta@deloitte.it



Barbara Tagliaferri
Director - Communications
+39 028 332 6141
btagliaferri@deloitte.it

Deloitte Monaco



Sébastien Prat
Senior Manager - Head of Deloitte
Monaco
+37 797 772 741
sprat@deloitte.lu

Deloitte Netherlands



Rudolf Janssen
Director - Tax
+31882883182
rujanssen@deloitte.nl

Deloitte Poland



Adam Mariuk
Partner - Tax
+48 22 511 0557
admariuk@deloittece.com



Ewa Suszek
Manager- Clients & Markets,
Innovation Services
+48 22 511 0437
esuszek@deloittece.com

Deloitte Spain



Gloria Hernandez
Partner - Financial Regulation
Department
+34 914 381 075
ghernandezaler@deloitte.es



Ana Andueza
Partner - S&O - SP
+34 944 228 801
aandueza@deloitte.es

Deloitte Singapore



Mohit Mehrotra
Executive Director - Global
Wealth Management Group Leader
+65 623 274 76
momehrotra@deloitte.com

Deloitte Switzerland



Anna Celner
Managing Partner - Clients & Markets
+41 58 279 68 50
acelner@deloitte.ch

Deloitte United Arab Emirates



Walid S. Chiniara
Partner - Tax
+971 4 506 4910
wchiniara@deloitte.com

D.Law Luxembourg



Ingrid Dubourdieu
Partner
+352 270 47 7405
idubourdieu@dlaw.lu

©2016 Deloitte Luxembourg and ArtTactic. All Rights Reserved. The services mentioned herein as well as the respective logos of Deloitte Luxembourg and ArtTactic are trademarks or registered trademarks of their respective companies. All other company, product and service names mentioned are the trademarks of their respective owners and are used herein with no intention of trademark infringement. No part of this document may be reproduced or copied in any form or by any means without written permission from Deloitte Luxembourg and ArtTactic.

The material herein is for informational purposes only and is not directed at, nor intended for distribution to or use by, any person or entity in any country where such distribution or use would be contrary to law or regulation. This is not intended to be either a specific offer by any Deloitte Luxembourg or ArtTactic entity to sell or provide, or a specific invitation to apply for, any particular product or service.

The information contained herein is general in nature and is not intended, and should not be construed, as professional advice or opinion provided to the user, nor a recommendation of any particular approach. This document does not purport to be a complete statement of the approaches or steps that may be appropriate for the user, does not take into account the user's specific investment objectives or risk tolerance and is not intended to be an invitation to effect a securities transaction or to otherwise participate in any investment service. Rather, this document is meant solely to provide potentially helpful information to the user and is provided on an "as-is" basis.

Deloitte Luxembourg and ArtTactic disclaim any and all warranties of any kind concerning any information contained in this document.

