

Art Fund Tracker

News and analysis from the global art & collectables investment market

In this issue

Interview

2 First professional body dedicated to art investment.

Enrique Liberman, President and Founding Member of the Art Fund Association (Art FA) introduces the first professional body dedicated to art investment.

Featured investment trends

6 Investing in rare violins and cellos

The merits of investing in rare 17th and 18th Century Italian stringed instruments.

7 Investing in bloodstock

Bloodstock has always had the ability to attract wealthy “trophy” investors, who are prepared to pay good prices for quality.

9 Ancient coins as an affordable investment

Unlike art works by great masters which are out of the reach of many investors, Numismatics allows one to enter the very top tier of the market.

11 Vintage watches as a timeless investment

The benefits of investing in exceptional timepieces that offer immense historical value and extraordinary refinement.

Art Market Research

13 Art market continues strong recovery

Robin Duthy of Art Market Research provides his quarterly commentary on the art market’s dramatic recovery.

Special Report

14 An Art Foundation – A Living Will?

Rosalyn Breedy, Managing Partner of Breedy Henderson Solicitors discusses how to leave a lasting legacy for your art collection.

EDITOR’S LETTER

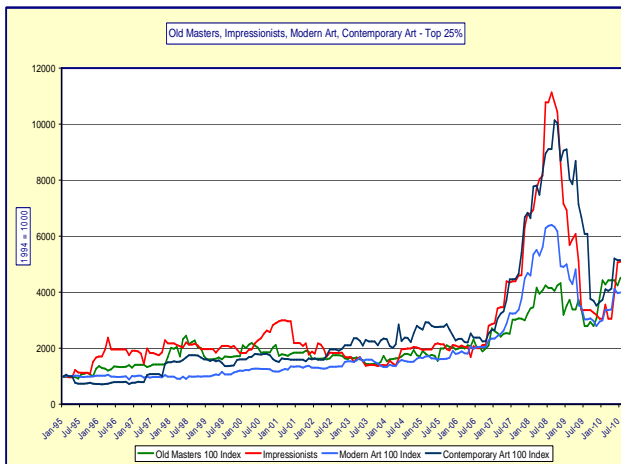
2010 – A Year for Investment Vehicles dedicated to Passion

As investor interest in real assets has continued to grow throughout 2010 so has the emergence of investment vehicles dedicated exclusively to luxury and passion. This year we saw the launch of several new funds focused on everything from wine and violins to vintage watches, rare letters and manuscripts, many of which were featured in the *Art Fund Tracker*.

There is currently a trend toward passion investment vehicles which could provide a highly fruitful avenue for investment strategies by HNWI’s particularly in the current difficult economic climate. HNWI’s are expected to increasingly explore the role that real assets can play in their portfolios in 2011 through opportunistic, tactical or strategic investment. While many investment professionals agree that these assets provide diversification benefits, there has been surprisingly little research into the appropriate allocation in an investment portfolio. For example, art and collectibles used in the right way can enable investors to better tailor their investment strategies to address specific financial and investment concerns (e.g. controlling volatility, boosting returns, or hedging against inflation).

There is ample precedent of the role of art, collectibles and other investments of passion as a refuge for investors during times of economic uncertainty. Bad news is good news for collectors and sellers, and so it has been for a very long time. Not only does capital flee the stock market, but economic uncertainty forces out into the market art and other passion investments that otherwise might never have changed hands. Now, as in past stock market crashes, certain sectors of the art market and collectibles can offer investors a safe haven.

The value of many collectibles actually rose during the Great Depression. During the oil crisis of 1979, coins and



© Art Market Research 2010

About Art Market Research

Art Market Research is one of the art world's leading index-providers with a full online service for site licensees. Art Market Research indexes have become the definitive measure of price-movements in the art and antiques markets. They are used by Christie's, Sotheby's, HM Revenue & Customs, as well as leading banks and insurance companies. For further enquiries, call 00 44 [0] 208 968 9999 or email artmarketresearch@easynet.co.uk

SPECIAL REPORT

An Art Foundation – A Living Will?



Rosalyn Breedy, Managing Partner of Breedy Henderson Solicitors examines the important issues surrounding the set up of a private art foundation.

It is a rather sobering thought that 271 Picassos may have been sat in a cardboard box in someone's garage for over thirty years, when in the south of France, a retired electrician and his wife have come forward with a collection of unknown Picasso paintings and drawings estimated to be worth at least £50mn.

The potential good news is that a historic and extensive collection is retrieved for the world. But, in the absence of clear documentary evidence, Picasso's heirs have embarked upon a protracted, undoubtedly expensive and public legal battle ahead of them. Just consider the cost of trying to authenticate each of the 271 works?

His son, Claude Picasso, disputes their origin on the basis that his father "dated signed and dedicated his gifts". Without the systematic cataloguing of an artists total works, how can such a situation be prevented?

Rosalyn Breedy, managing partner of wealth management solicitors Breedy Henderson, argues that successful artists should consider establishing an art foundation during their lifetime to protect their works, maximise their market value and protect their legacy.

Typically art foundations are thought of as being set up in memorial to an artist, such as in the case of Andy Warhol, or with the purpose of encouraging art such as with the Sovereign Art Foundation, sponsors of major Asian and European art prizes, or the Julius Baer Foundation, which was set up by the Swiss private bank to promote creative individuals and institutions from every branch of the arts.

However, an artist enjoying commercial success needs to take a commercial approach to their business affairs and planning for future security and your eventual legacy is important. Rather than waiting for your heirs to set up a foundation or charitable body in your memory, you might find that you would capture some other additional benefits in the short term by doing it yourself.

For example, as well as creating a proper catalogue for your work and a mechanism for controlling the authentication process depending on the structure of organisation that you choose, you may also benefit from the ability to control the supply of and demand for your work. If, like Andy Warhol whose will dictated that almost his entire estate, be used to create a foundation dedicated to the "advancement of the visual arts", you wish your legacy to be a philanthropic one then it would also be sensible to set out your wishes in advance and prepare the ground legally and financially. Furthermore, if you actually execute your strategy whilst you are the darling of the art world, then you are likely to maximise the value of that legacy. Consider how Bill and Melinda Gates are leveraging their foundation to get other individuals and organisations to contribute to and collaborate with their goals.

There is a wide variety of legal structures that might be suitable for meeting your objectives and your choice of entity will depend upon a number of factors, not least where you live as different jurisdictions differ in the flexibility and protection they offer.

When working with artists, or any entrepreneur, we find that the most critical issue is to uncover their primary motivation? Maximising lifetime wealth will entail a wholly different approach to fulfilling somebody's philanthropic objectives. If you decide that you wish to benefit financially then one area that requires specialist expertise is that of tax planning. It is vitally important to engage professional advisers who have experience in the art world to ensure that you do not manage to economically alienate yourself from the sale proceeds, which can be a risk if the complex law and regulations are not adhered to correctly. Similarly, this is a highly specialist area of law and you will need legal advice from someone who understands art and the laws of trusts and charitable foundations.

If you want to give your legacy away, then you need to decide whether you wish your legacy to be charitable or for the benefit of your heirs. Charities are generally highly regulated and you will need to adhere to the laws and compliance obligations in the country of your choice. If you wish to give to your heirs, then a tax efficient gifting strategy is called for. One reason why few successful artists have taken this step is that it is a relatively complex and time consuming (often tedious) process. Whilst enjoying being in demand, it is not something that you would normally want to set aside your creative activities to undertake. It requires attention to detailed implementation from the choice of structure, drafting of documents, selection of service providers, staffing and documenting of policy, governance processes and

procedures. You need also to think ahead about what might happen when you die. For example, who and what mechanisms need to be put in place to ensure your legacy?

Of course there are also costs to such an undertaking – both set-up costs and then ongoing costs associated with managing your art works. Here, a key to success will be finding a team that share your objectives and that you can really trust. The operational aspects are also critical. Where will the art works be held or exhibited? Consider the logistics and necessary insurances. Has each piece been properly catalogued and referenced to provenance documentation? How will conflicts of interest be managed? By taking control of the market for your works, you need to ensure that you achieve the potential return on investment.

Whilst setting up a charitable trust or foundation is really only an option to be considered for a saleable artist who has a sizeable income already, for those darlings of the art world it is something that is worthy of serious consideration if you have long term ambitions for your legacy. It may also be a route worth exploring for a small like-minded group, where the benefits in executing a clearly articulated strategy could well result in the difference between firmly assured success and a significant dissipation of value.

Anyway, I must go and check that cardboard box at the back of the garage...

About Fine Art Wealth Management

Fine Art Wealth Management (FAWM) is the first wealth management consultancy dedicated exclusively to art, collectibles and other investments of passion as an alternative asset class and the disciplines required to analyse this complex field of investment. We are wealth structuring specialists in art assets and the leading provider of intelligence on art investment funds.

Disclaimer

Any unauthorized use or disclosure is prohibited. Reproduction or transmission of the publication, by either electronic or mechanical means, including photocopying, recording or any information storage and retrieval systems, is prohibited without prior written permission of the publisher. Subscribers must agree to the Terms and Conditions of Fine Art Wealth Management as posted on the website www.fineartwealthmgt.com. The information provided in this publication is intended for information only and is taken from various sources; as such we do not guarantee its accuracy or completeness. No statement in this publication is to be construed as an invitation to invest in art funds. The information provided must not be taken to be investment advice and we make no recommendations or advice relating to any particular fund, fund manager or fund performance. Accordingly, we do not accept any liability for any investment decisions you or any third party takes in relation to the information provided in this publication. Such information does not constitute an offer to sell or a solicitation of an offer to buy any securities, investment products or investment services.

Published by Fine Art Wealth Management Ltd
2–4 Great Eastern Street
London EC2A 3NT
For more information contact Randall Willette
E. info@fineartwealthmgt.com
T. 44 (0)20 7565 1878
W. www.fineartwealthmgt.com

FINEART
WEALTH MANAGEMENT