



# ART AS A COMMON ASSET CLASS? **THE BANKER'S VIEW**

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# Art as an asset class: the debate is fierce

An **asset class** is a group of securities that have similar financial characteristics, behave similarly, and are subject to the same laws and regulations. The three main asset classes are equities, fixed-income, and cash equivalents.

*Wikipedia*

"Liquid Rarity Exchange says it has patented a method for turning rare objects into publicly traded funds (...) to create a whole family of art and collectibles mutual funds, ETFs or indexes"

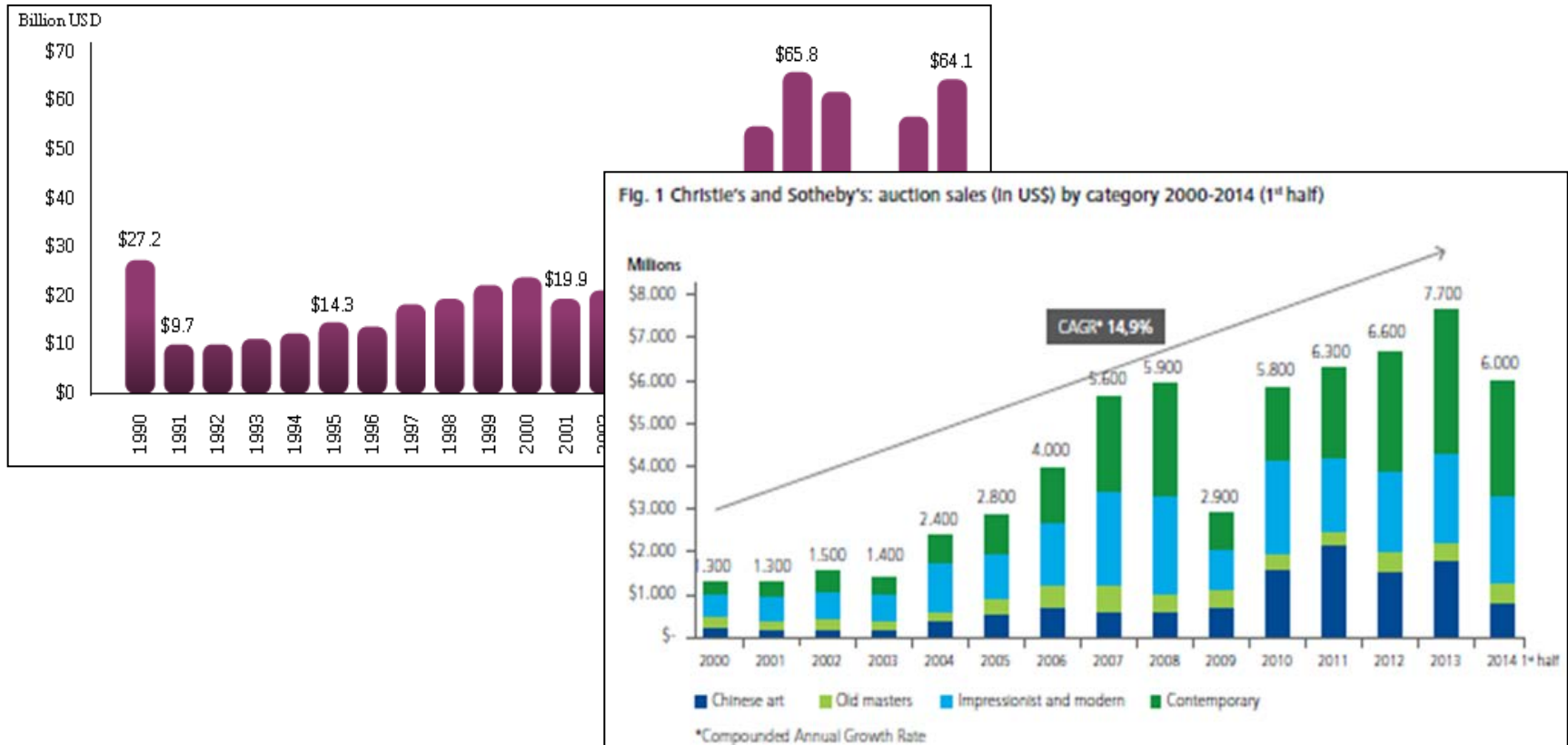
*K. Tully, Forbes Magazine*

"Making an investment and buying art are two mutually exclusive activities, because the first process is objective, liquid, transparent and mathematical, while the second is subjective, illiquid, opaque and speculative."

*K. Tully, Forbes Magazine*

The debate is fierce because:

(i) the art market's size is large and growing

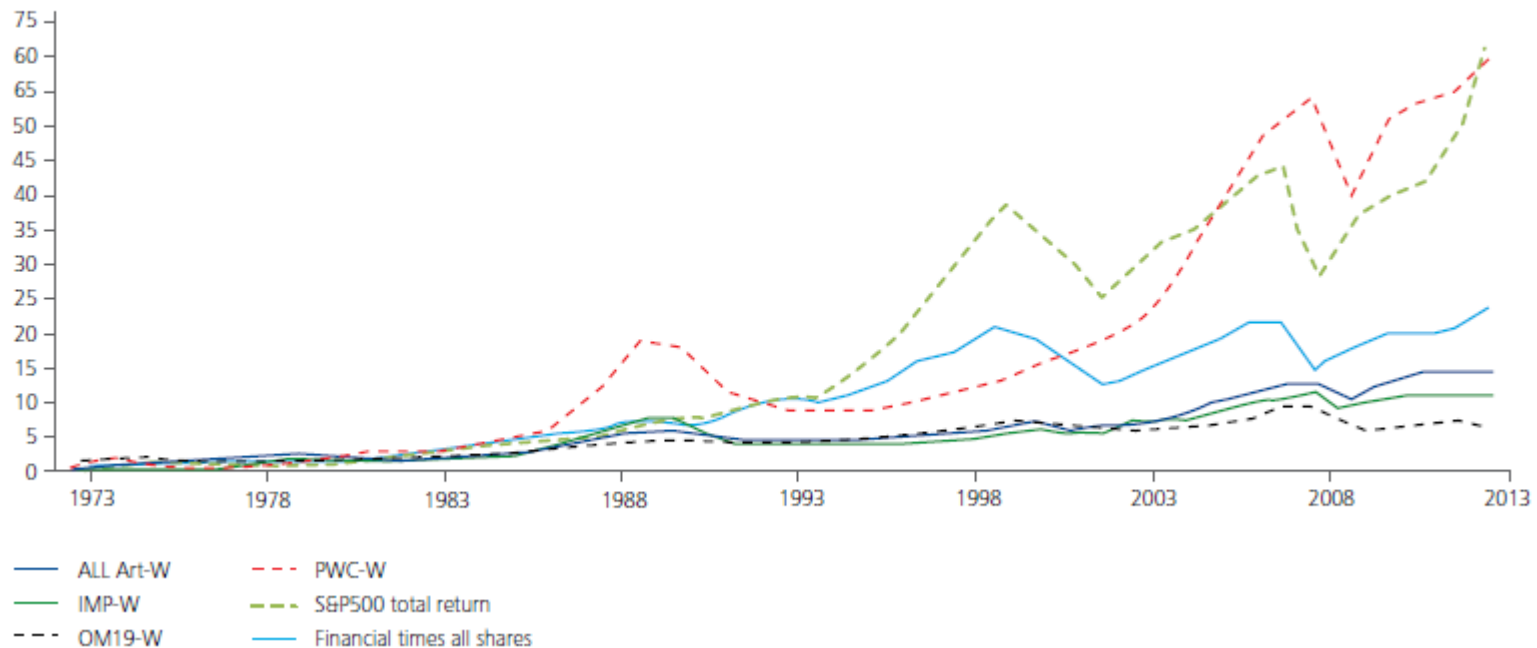


The art market exists to convert intangibles and cultural capital into fungible value. It has been growing for decades.

The debate is fierce because:

(ii) the historical returns are largely positive

*Mei Moses® world collecting category art indexes vs. S&P 500 total return and FTAS indexes since 1973®*



For the last 40 years, World All Art index was up 6.9% p.a., S&P500 equity index 10.9%, Post-war and contemporary art 10.8%; BUT these figures are challenged because of (i) indices construction methodology and (ii) selection bias

# Art as an asset class: the arguments for

1. Art is a means of value storage
2. Art has historically generated positive real return
3. Art is a global market
4. Art represents a sizeable and growing part of the UHNWI's assets (10% according to some research\*)
5. Some financial tools are available (advisory, funds, credit, exchanges, etc.)

\* Deloitte, Barclay's



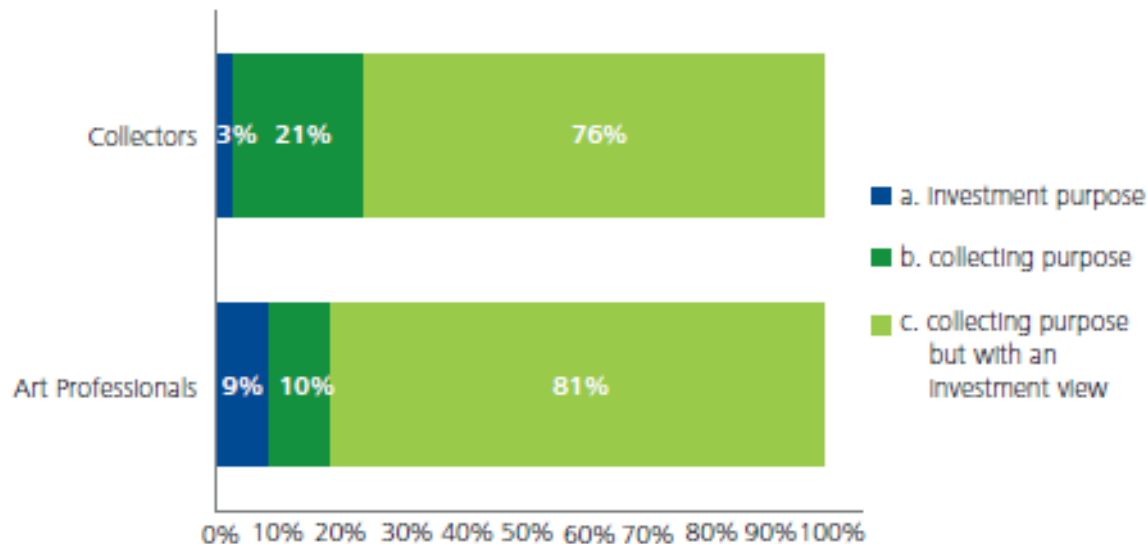
# Art as an asset class: the arguments **against**

1. There is an asymmetry between art sellers and buyers
2. Market transparency is low (price, supply, demand)
3. Market liquidity is low
4. Transaction costs are high
5. The price equilibration process is weak (elasticity of supply and demand is low)
6. The art market is subject to tax and regulatory uncertainties
7. The purchase of art entails an important social and emotional component



# Art as an asset class: the collector's point of view

- Most collectors consider their work of art as a special financial asset within their total wealth
- This is especially true for the younger generations and the «new market» buyers

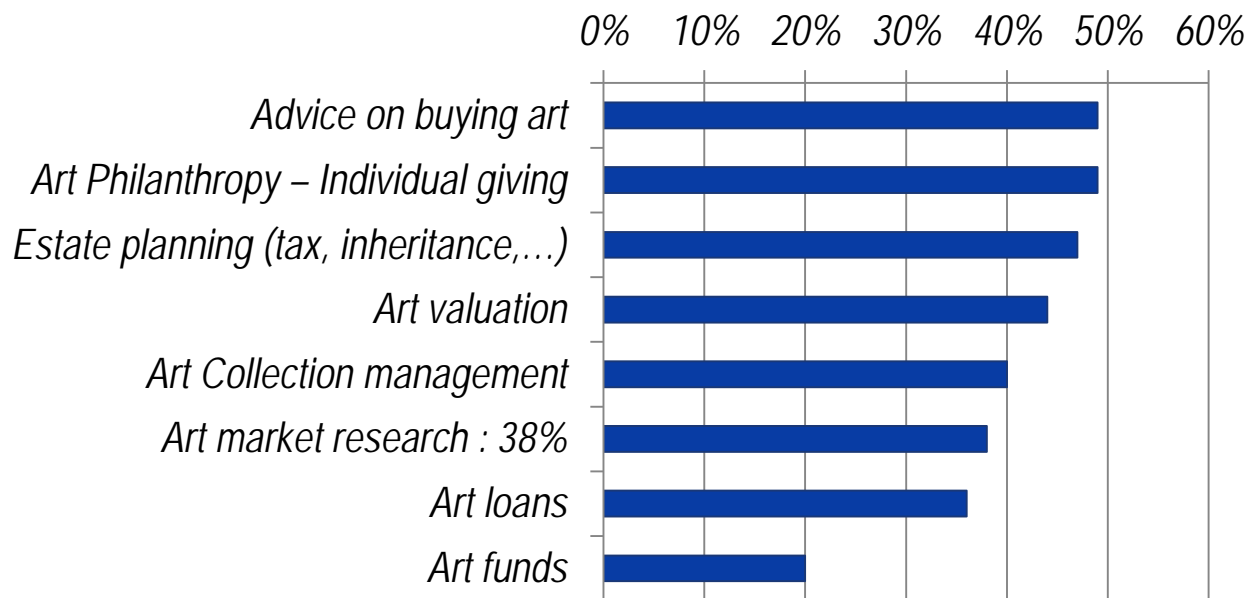


Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2014

# Art as an asset class: the private banker's point of view

"Capital goes where it's wanted, and stays where it's well treated." (Walter Wriston)

Today, the following services are considered important by clients of private banks:

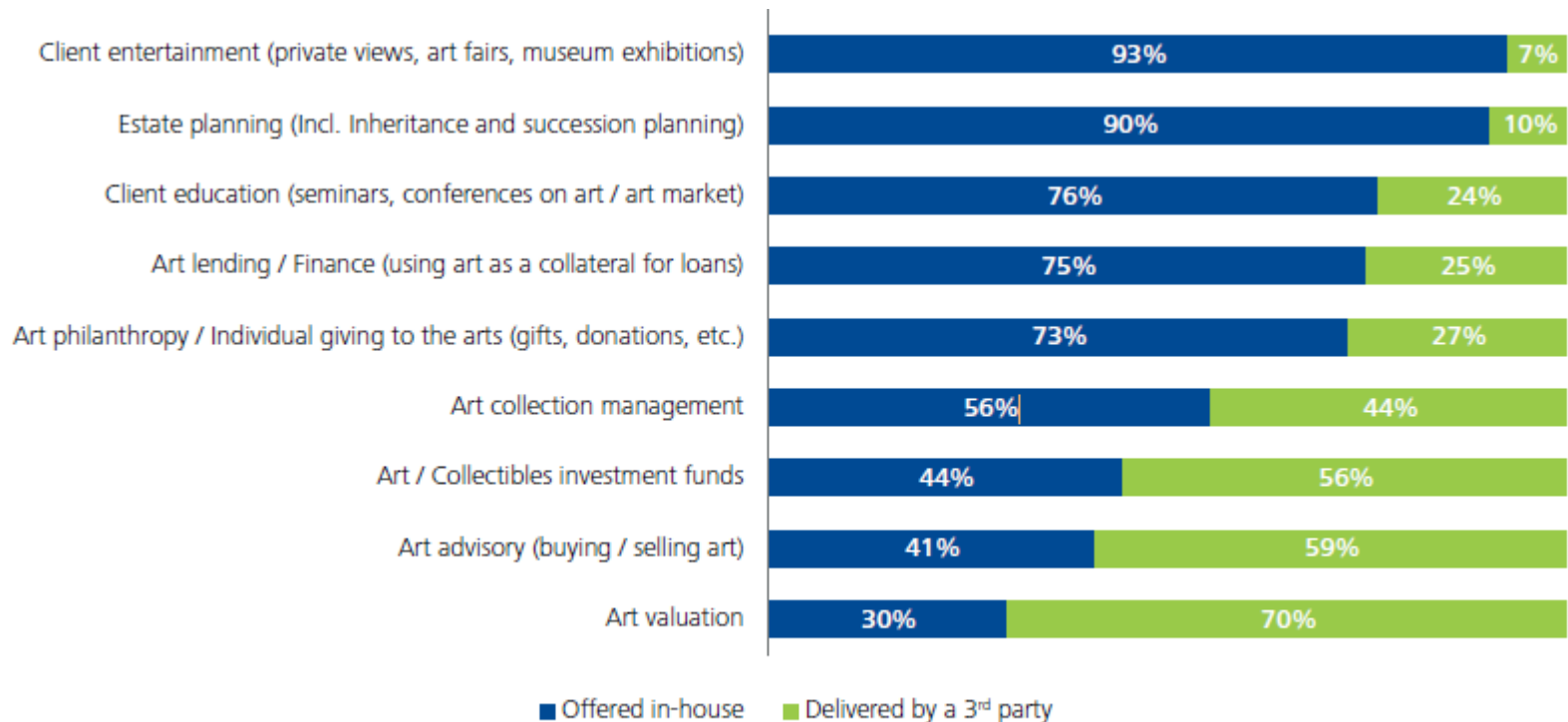


Source: Deloitte Luxembourg

Financial vehicles (art funds and structured products) have not yet gained an important market share.



# Art services within private banks: where is the expertise?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2014

# Art as an asset class: conclusion

In my opinion:

- Art is not an asset class *per se*
- Art is an important and growing part of our clients' assets
- Art deserves our bankers' attention at every stage: transaction, retention, transmission, preservation
- New services will gain in importance, especially structuring and credit
- But above all:

ART IS LIFE !

The slide is a presentation from Lombard Odier titled "Art et biens de valeur". It features a dark background with white text. The title is at the top right, followed by the subtitle "Un accompagnement personnalisé dans la gestion de votre patrimoine". Below this, the name "Frédéric-K. Dawance" is listed. The main content is a table with four rows: Transaction, Détention, Transmission, and Préservation. Each row has a list of services provided. At the bottom, the Lombard Odier logo is on the left, and a small disclaimer is on the right.

Un accompagnement personnalisé à chaque étape Avec l'appui de spécialistes du réseau international de Lombard Odier	
Transaction	<ul style="list-style-type: none"><li>• Représentation en toute confidentialité lors des opérations d'achat/vente</li><li>• Stratégies de vente</li><li>• Estimation de la valeur de vos collections</li><li>• Accompagnement lors d'achat/vente (enchères, marchand d'art, pré-égre)</li><li>• Gestion de trésorerie (avant/après transaction)</li></ul>
Détention	<ul style="list-style-type: none"><li>• Conditions de conservation</li><li>• Impact fiscal de la détention</li><li>• Inventaire, estimatif</li><li>• Structuration</li><li>• Consolidation avec le patrimoine global</li></ul>
Transmission	<ul style="list-style-type: none"><li>• Planification patrimoniale et successorale</li><li>• Analyse de l'impact fiscal de la transmission et minimisation des charges</li><li>• Donations et donations</li></ul>
Préservation	<ul style="list-style-type: none"><li>• Authentification des œuvres</li><li>• Assurances, protection et conservation</li><li>• Optimisation internationale des assurances</li><li>• Dépôts à la banque</li></ul>

Validez les informations importantes en fin de document  
Art et biens de valeur - F. Dawance - 6



# APPENDIX

Frédéric-K. Dawance, Directeur  
Lombard Odier, Genève

# Art value chain

- Artists work to get established with artworld credentials
- Galleries validate work in shows
- Media attention creates the buzz factor
- Private collectors and institutional collections validate work in high-visibility purchases
- Museums validate artists' status and collectors' collections
- Auction houses validate ultimate cash value

*All circulate  
the objects  
and construct  
them as  
desirable,  
scarce, and  
signs of  
cultural,  
symbolic and  
financial  
capital*

# Global art market share over 20 years

Winner (China) and loser (US / Europe) of the global art market as observed in the auction world :

Country	France	Germany	Switzerland	Italy	UK	US	China	Rest of World
1990	17%	3%	2%	2%	23%	46%	<0.4%	7%
1992	9%	2%	5%	3%	28%	42%	0.4%	12%
1995	6%	4%	2%	2%	26%	52%	0.8%	7%
1997	6%	3%	1%	1%	27%	57%	<0.4%	5%
2000	6%	3%	2%	1%	26%	55%	0.4%	7%
2002	9%	3%	2%	3%	29%	43%	1%	10%
2006	6%	3%	2%	3%	27%	46%	5%	9%
2008	6%	2%	1%	3%	34%	35%	9%	10%
2009	10%	3%	2%	2%	23%	31%	18%	11%
2010	6%	2%	2%	1%	22%	34%	23%	10%
2011	6%	2%	3%	1%	22%	29%	30%	7%

# Investment bankers: the new financial actors in the field of art

## Selling

Capitalize on our expertise and experience to maximize value and minimize expense when selling privately or at auction.

## Borrowing

Art loans and advances to generate liquidity prior to the sale of collections and individual works of art.

## Buying

Purchase, placement and financing for collections, estates, and individual works of art valued up to \$300M.

## Guarantees

Innovative financial arrangements to minimize the risk and uncertainty of selling at auction or by private treaty.



## Investment Banking

Mergers and acquisitions advisory and financing for businesses operating or forming in the art space.


## Behind the Sale

With a third-party guarantee, an outside person promises to buy a work of art for a specific price should it fail to sell for more. While a small percentage of works sell with these types of guarantees, they are often the most expensive. [Related Article »](#)

### Christie's contemporary art auction, Nov. 14

	Third-party guarantee	In-house guarantee	No guarantee
No. of lots sold	9	15	43
Avg. sales price	<b>\$16.6 mil.</b>	\$2.1 mil.	\$5.4 mil.
Pct. of lots sold			
Pct. of total sales			

### Sotheby's contemporary art auction, Nov. 13

	Third-party guarantee	In-house guarantee	No guarantee
No. of lots sold	7	2	49
Avg. sales price	<b>\$15.6 mil.</b>	\$8.1 mil.	\$5.1 mil.
Pct. of lots sold			
Pct. of total sales	