

MANAGING MASTERPIECES: THE FUTURE OF ART COLLECTION MANAGEMENT

From the city of Porrentruy, in the Swiss Jura, Herculis Partners (wealth management) and Herculis Guardians SA (storing precious goods and renting individual safes) have a front-row seat to the increasingly fierce competition in the wealth management sector and alternative investments. In particular, Herculis managers have seen the global art market fluctuate in the wake of the financial crisis.

In an ever-changing global economy, art is now more accessible to a new public, through new channels. Art and finance are now considered two fingers of the same hand – the union of culture and wealth. So Herculis Group has gathered the right personnel, developed its employees' expertise, and built a high-security area to store, exchange or simply to share these valuable items.



As in finance, transparency, regulation, and technological trends play an important role in the art market's future. Therefore, a collaborative approach between all stakeholders (art professionals, collectors - young and old - and asset managers) is essential to respond to the pressing issues and challenges in the years to come.

COLLECTING ART IS AN ART BY ITSELF

Today's art market is full of forgeries and the forecast is grim. But people are making a more proactive effort to mitigate the risk. It is a challenge for gallerists, experts and other industry players. At Herculis Guardians, we have seen a significant change in the choices made by collectors. New collectors - young and from emerging regions - tend to use the services of others to help them with purchases. While most collectors tend to buy what they like, others acquire it as an asset class. And many are doing both.

Nikolay Karpenko head of Herculis Guardians SA underlines, "our clients expect nothing less than perfection and know that they can count on us for unparalleled security and confidentiality to protect their most precious assets".

The general public believes investing in art is usually a high-risk, illiquid, opaque, unregulated investment, with high transaction costs, at the mercy of erratic public tastes and short-term trends. This misconception may be enough to dissuade many people from taking an interest in the art markets and related investments.

The 2008 crisis stimulated the emergence of new compliance policies and new collective investment vehicles dedicated to art or other collectables around the world as well.

RESPONSIBLE ART

There are a number of trends pointing to better transparency, from authorities' increasingly strict requirements to much more accessible data. Actually, on the fringes of the Geneva Art Fair, the Responsible Art Market (RAM) collective has been bringing together lawyers, experts, gallery owners and auction houses for the past four years. The RAM collective initiated a series of recommendations aimed at drawing the attention of collectors and gallery owners to the legal threats they face. For instance, any art piece sold for more than €10 000 must submit to the new anti-money laundering directive that came into force in early January across Europe. Gone are the days when a client could fall for a painting at the FIAC in Paris, buy it on the spot and walk away with it!

To some extent, technology, whether that's the internet or the more recent example of blockchain, is now helping to alleviate these issues of transparency, traceability and accessibility.

Technological evolution strongly supports art as an asset class, while also making it more accessible.

We are witnessing a democratisation of this field. While some living artists can sell their works at auction for more than \$10 million, 68% of the lots sold in 2018 went for less than \$5000.

Blockchain has opened and decentralised the market. All network participants can see the artwork and all relevant information. Should they want to, they can go on to make direct contact with the seller, reducing the need for intermediaries. Thanks to blockchain and the internet, artists do not need galleries to present their work and attract buyers.

With the emergence of new business models such as online auctions, for artists creating and selling in the digital space, the possibilities seem endless.

This technology has been given a boost by the current health crisis and the cascading cancellations of fairs and other major art events. Like museums, actors have turned to online exhibitions and exchanges. This is a fundamental trend to emerge from the pandemic that will undoubtedly continue, just like teleworking or video-conferencing.

ART AS A NEW ASSET CLASS

New financial vehicles make art an asset class by itself. Of course, the relationship between art and finance has existed for centuries, but today we are seeing a development of art services among financial institutions and small asset management boutiques such as Herculis.

From an investment point of view, art is taking advantage of its attraction for diversification, especially in a period of low - or even negative - interest rates in developed countries.

Advice and risk analyses offered by the asset management companies are increasingly accessible to investors who wish to build up a collection of works of art. Although art items do not usually generate cash flow and are also virtually "unhedged", we have seen the emergence of financial products linked to the art domain.

THE ADDED VALUE OF COLLECTION MANAGEMENT.

One might wonder whether art might not be ready for a transformation similar to what happened in real estate 40 years ago. Real estate today is a widely accepted investment class, accessible to many, and is generally included in portfolios for diversification purposes. Investing in young and little-known artists is very similar to venture capital financing.

We can distinguish three categories of art-related services: art advisory services, art secured lending, art investment services. Herculis Group supports its customers in all these categories.

At Herculis Guardians, we offer a safe storage solution in a high-security environment with specially equipped vaults while making the collector's life easier with a secure dedicated showroom. Here, the collector might simply enjoy the work to the fullest or arrange for appraisal and commercial operations without making the paintings travel, saving both money and reducing risk - most accidental damage to artwork occurs during transport.

“It looks more like a museum of contemporary art than a warehouse,” says Claude Gaudin, Director.

We can store precious good in our EDO-FREEPORT warehouse, allowing the postponement of VAT, while waiting for the goods to be delivered to end customers anywhere in the world. Customers benefit from lower insurance premiums, tax-free storage space and easy access to the nearest airport.

POST-PANDEMIC

Naturally, COVID-19 is weighing on the market, particularly in Asia, a region that has certainly been key to the growth in demand for art in recent years and it will probably urge the fair organisers to review their models.

Our concluding suggestion to a potential art buyer: at this stage of the cycle, selectivity is paramount. But most importantly: follow your instincts and buy works of art that speak to you. Beyond purely speculative considerations, they could stay in your possession longer than you think!

