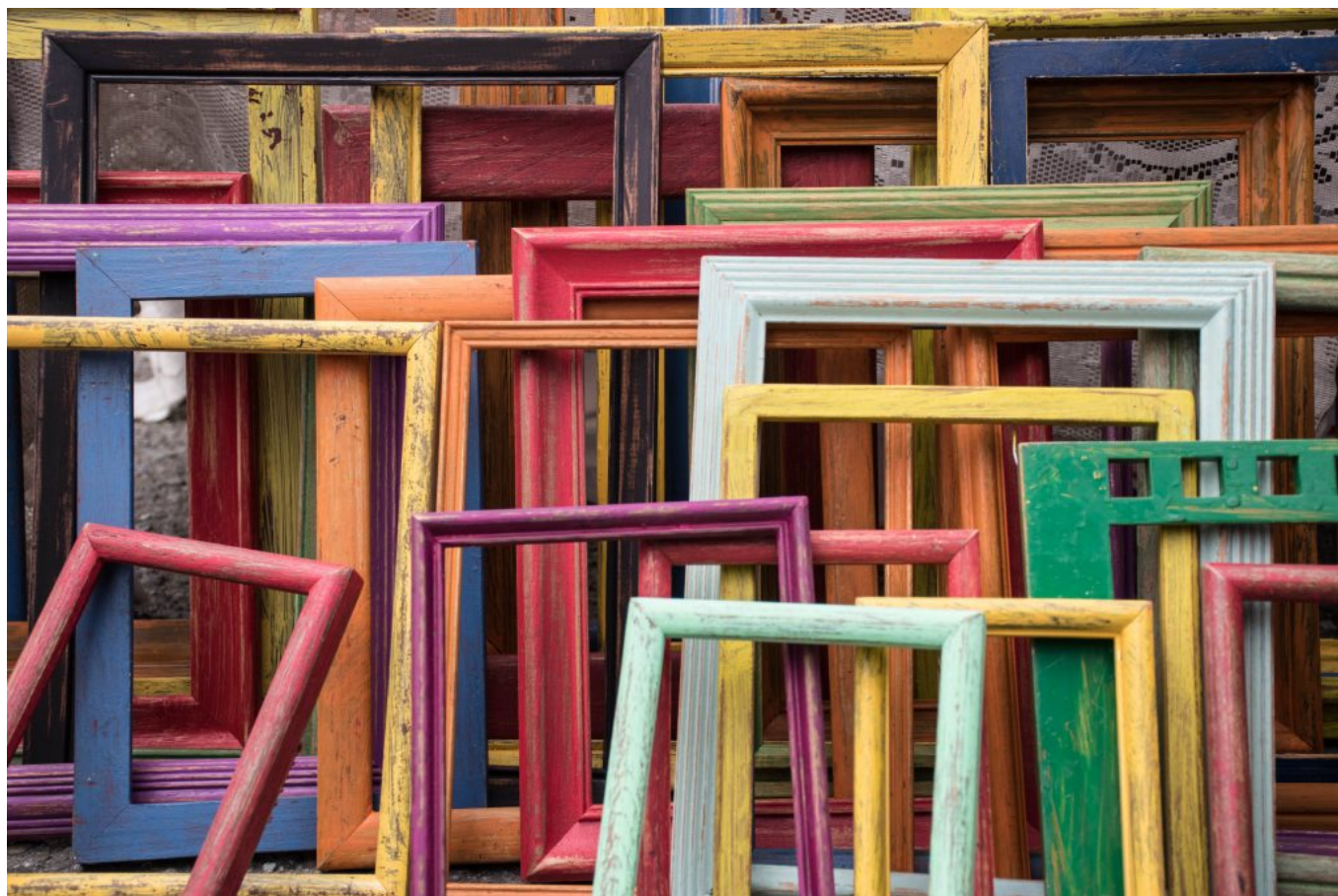


# **ART – COLLECTIBLES AND ASSET MANAGEMENT – THE EXPERT OPINION OF HERCULIS PARTNERS**



## **WHAT IS THE LINK BETWEEN HERCULIS AND THE ART MARKET?**

From their location in Porrentuy in the Swiss Jura, Herculis Partners SA, active in wealth management, and its sister company, Herculis Guardians SA, active in the storage of precious goods and the rental of individual safes, are privileged witnesses to the increasingly fierce competition in the sector of wealth management for wealthy clients and the protection of their assets.

Listening to the market, Herculis managers have seen the global art market fluctuate in the wake of the financial crisis at its peak in 2016. “Thanks to our relationships and the experiences of our clients, we are privileged to be confronted with the latest commercial and technological developments, and sometimes to be ahead of the trend. This is true both for technological innovations and for services for high net worth individuals to meet their needs. “according to Claude Gaudin, Director at Herculis Guardians SA.

## **WHAT ROLE DOES HERCULIS PLAY IN THIS DYNAMIC?**

In an ever-changing global economy, art is now more accessible to a new public, through new means. It is in this context that we must consider the global art and finance industry – the crucial intersection between culture and wealth. One of the services of the Herculis group is to respond to these new demands of our clients, to value and secure them. To do so, we have developed expertise, gathered the right personnel and built a high-security area to store, exchange or simply share these items, which can also benefit from a port free zone -excluding VAT-.

## **WHAT, IN YOUR OPINION, ARE THE MAIN UNDERLYING TRENDS IN THE ART MARKET ?**

As in finance, transparency, regulation and technological trends will play an important role in the future in the field of art. In this respect, a collaborative approach between all stakeholders (art professionals, collectors – young and old – and asset managers) is essential if we are to respond to the pressing issues and challenges facing these players, particularly regarding the growing confidence in the art market today and in the coming years.

## **WHAT DO YOU THINK CHARACTERIZES TODAY’S COLLECTOR?**

The main characteristics usually agreed upon to define investments in art can be summarized as the following : high-risk, illiquid, opaque, unregulated investment, with high transaction costs, at the mercy of erratic public tastes and ephemeral trends. Works of art do not generate cash flows that can be discounted (except to the extent that income can be earned through loans and by incurring expenses in the form of storage, insurance and associated costs). Investments in art are also, at the moment, virtually “unhedged”.

This brief description of art investments and art markets may be enough to dissuade many people from taking an interest in them.

Today, collecting art is an art in itself, an act that can be a challenge for dealers, experts and other industry players. At Herculis Guardians, we have seen a significant change in collectors’ choices.

New collectors – young and from emerging areas – tend to use the services of others to help them with their art purchases. Private and commercial art dealers, art advisors, auction house representatives, private banks, financial and insurance institutions offer their clients in-depth expertise and essential networks that connect collectors with art and artists with collectors. While most collectors tend to buy what they like, others acquire it as an asset class. And many do both.

## **WHAT THEN IS HERCULIS’ PERCEPTION OF THE EVOLUTION OF THE ART MARKET?**

Despite the crisis in the art markets in 2008, such an environment has stimulated the emergence of new types of collective investment vehicles dedicated to art or other collectibles around the world. The advice and risk analyses offered by the management services are increasingly accessible to investors who wish to build up a collection of works of art.

With the emergence of financial products related to the field of art, one might wonder whether art might not be ready for a transformation similar to what happened to 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.

In addition, investing in young and little-known artists is very similar to venture capital financing.

## **DO YOU THINK THAT THE EXPANSION OF FINANCIAL TOOLS RELATED TO ART MAKES IT AN ASSET CLASS IN ITS OWN**

## RIGHT?

Although a relationship between art and finance has existed for centuries, today we are seeing a development of services dedicated to art among financial institutions and small management boutiques such as Herculis. There is a growing interest from the financial sector in this field. From an investment point of view, art, of course, is taking advantage of its attraction for diversification, especially in a period of low – or even negative – interest rates in our part of the world. The offer consists mainly of three categories of art related services:

Art advisory services, the most common in the financial sector, tend to complement the traditional range of banking services to offer “lifestyle-related non-financial services” in order to provide a comprehensive approach to wealth management. In general, art advisory services include :

- Art research: authenticity – art historical analyses
- information on the art market – price studies
- Artistic transactions: buying and selling – representation of interests
- Management of works of art: appraisal – insurance – storage
- transport – advice and collection management
- Structured solutions: succession planning – art foundations and trusts – philanthropy
- Lending of works of art: Organize the loan of parts of private works of art or corporate collections.

## ART LENDING

Still underdeveloped, mainly supported by specialized boutiques that seek to make art a working asset, art financing, “art secured lending”.

Herculis Guardians has also obtained the right to issue negotiable certificates of merchandise guarantee for goods stored in our vaults (paintings, gold, precious stones, etc.) for which the client can obtain a credit/loan or transfer ownership of the goods stored at Herculis Guardians.

The main services are as follows

- Term loan: borrowing against art
- Acquisition financing
- Revolving lines of credit
- Dealer inventory financing
- Bridging loans, advances and tendering guarantees
- Arranging loans to museums and exhibitions

The third category, art investment services, is still in its infancy. It is rooted in the growing recognition of art as a new alternative asset class and supports the development of art investment products, the role of art in positively diversifying investment portfolios and the integration of art in the analysis of asset portfolios. No major bank has successfully entered this area to date. Initiatives have come mainly from the academic world and from individuals or groups of individuals who combine strong expertise in the field of art and finance.

The main art investment services are as follows

- Art Investment Research
- Portfolio management
- Monitoring and selection of arts funds
- Structuring of art investment funds, art fund of funds and art investment clubs
- Securitization of works of art

Many factors are tending towards a more structured art market, thus with an interest as an investment vehicle.

## **HOWEVER, YOU MENTIONED OPACITY AND ILLIQUIDITY, WHICH STILL RAISED SUSPICIONS IN THIS AREA, CAN WE SEE ANY IMPROVEMENT?**

Yes, there are a number of trends that are increasing transparency, starting with the increasingly stringent requirements of the authorities and the dissemination of data. Thus, on the fringe of the Art Geneva fair, the “Responsible Art market – RAM” collective, which has been bringing together lawyers, experts, gallery owners and auction houses for the past four years, has initiated a series of recommendations aimed at drawing the attention of collectors and gallery owners to the legal threats they face, while all items sold for more than 10,000 euros are in the crosshairs of the new anti-money laundering directive that came into force in Europe at the beginning of January. Gone are the days when a client could fall for a painting at the FIAC in Paris, pay for it and leave with it.

In France, galleries must prove that they have checked the risks linked to the provenance of the work or verified the real identity of the buyer. In Switzerland, too, the legislation is changing, even if with its ceiling of CHF 100'000 for cash payment, Switzerland still seems to be a haven for art dealers. While it seems that today no serious art dealer would accept CHF 90,000 cash, Swiss galleries are resisting, as they are not yet subject to the same procedures as their Parisian or Londonian counterparts.

## **TECHNOLOGICAL INNOVATION IS PROMOTED AS A FACTOR OF TRANSFORMATION, PRODUCTIVITY GAINS AND ACCESSIBILITY IN MANY SECTORS. WHEN SHOULD IT APPLY TO ART?**

To some extent technology, whether through the internet or more recently through the blockchain, is now helping to alleviate these issues of transparency, traceability and accessibility. Technological evolution also strongly supports art as an asset class, while also making it more accessible. We are witnessing a democratization of this field. In 2018, for example, a number of living artists whose works were sold at auction for more than \$10 million, 68% of the lots sold were sold for less than \$5,000.

The blockchain is open and decentralized, which means that all members of the network can see the work and make direct contact with the seller, thus reducing the need for intermediaries. With the blockchain, artists do not need galleries to present their work and attract buyers.

With the emergence of new business models such as online auctions, online data, artists creating online and on the blockchain, the possibilities seem endless.

This technology has seen its use reinforced in the current health crisis and the cascading cancellation of fairs and other major art events. Like museums, players have turned to online exhibitions and exchanges. Certainly this is a fundamental trend that will undoubtedly continue, as will teleworking or video-conferencing.

## **BUT THEN, JUST AS PHOTOGRAPHY IS STORED IN THE CLOUD, IT WILL NO LONGER BE NECESSARY TO STORE ONE'S PAINTINGS IN SUPER-SECURED AREAS?**

For any collector or art lover, the pleasure of possession is as great as the power of contemplation.

Whether you have just bought your first painting or have already devoted a lifetime to amassing a collection, nothing can prepare you for the loss or damage of a painting. Adequate insurance can ensure that you will be financially compensated, but this will not erase the sense of grief, as the owner often develops a passionate connection with his property.

At Herculis, with specially equipped vaults we offer a safe storage solution in a high security environment while making the collector's life easier by providing him with the elements he needs to fully enjoy his precious objects.

This is also why, in addition to bringing together experts, dealers and collectors, at Herculis Guardians we offer a secure meeting space-showroom- adapted so that appraisal and commercial operations can take place without making the paintings travel – most accidents happen during transport- and also avoiding the associated costs.

We also offer a dedicated showroom, within the highly secured perimeter, at the disposal of our clients in order to spare the art the risk of travelling while ensuring the confidentiality of the actors. The facility is welcoming and comfortable to organize sales or simply contemplate one's treasures in complete security.

## **YOU MENTION THE HIGHLY SECURED WAREHOUSES, IT IMMEDIATELY EVOKES THE MYSTERY AND DOUBT ABOUT THE FREEPORT WAREHOUSES. WHAT IS THE REALITY?**

Yes-yes! Following a series of scandals, the Swiss government has tightened anti-money laundering controls. The Federal Customs Administration (FCA), requires systematic identification of goods, as well as strict authentication of the objects deposited in these warehouses and a control of the identity of the owners of the objects. This is the case for Herculis Guardians, which offers an EDO-FREEPORT area – an open customs warehouse – in its highly secure vault area in Porrentruy.

Quote “In order to ensure traceability, we are subject to regular monitoring and control by the Federal Customs Administration. We also offer our international customers the possibility of buying and selling precious metals (on request). These alternative investments are in great demand both nationally and internationally”, adds Jean-Paul Periat, Managing Director.

Freeport zones simply allow the time when taxes are paid to be postponed, while waiting for the goods to be delivered to end customers around the world, in the meantime they are kept safe. Customers benefit from lower insurance premiums, tax-free storage space and easy access to the nearest airport.

## SO HOW WILL THE ART MARKET EVOLVE IN THIS NEW DECADE?

The biggest news for the art market in 2019 has not come from the sale of a work, but from the proliferation of access to art. Traditional methods of buying and selling have fragmented considerably, with options ranging from Instagram to high-end art consultants. There are more choices – more art fairs, more online auctions – while at the same time, buyers are increasingly difficult to find. For many gallery owners the plan is to focus more on fairs closer to home as most gallery owners continue to re-evaluate the efforts and expenses associated with more distant events. The last Art Basel Miami Beach fair was less dynamic than usual. Perhaps the first signs are that a concern about its economic developments is weighing on the market?

This trend of “think global – consume local” also corresponds to the current zeitgeist: the preservation of the planet! Art fair organizers know that it is their responsibility to make the events they organize sustainable – or at least as sustainable as possible. Producing and hosting an art fair is like building a small town that only exists for five days. Improving their efficiency and reducing their footprint seems to appeal to collectors. A recent UBS survey of wealthy U.S. collectors found that 86% of the 368 art buyers surveyed were willing to pay more to own art with more sustainable methods.

Lastly, **the coronavirus epidemic is of course somewhat mortgaging the market**, particularly in Asia, a region that has certainly been key to the growth in demand for art.

## WHAT ADVICE(S) WOULD YOU GIVE TO A POTENTIAL ART BUYER?

At this stage of the cycle, selectivity is paramount, especially in avoiding funds. And perhaps most importantly: follow your instincts, buy works of art that speak to you. Beyond purely speculative considerations, they could stay in your possession longer than you think.

## ABOUT HERCULIS GROUP

Herculis Group, founded in 2009, consists of 3 companies (soon 4) with Herculis Guardians in Porrentruy (canton of Jura), Herculis Trustees in Zurich, Herculis Partners and its branch in Geneva. The Herculis Group offers a high level of service to its clients, favouring confidentiality in a discreet environment.



Herculis Partners is a multi-family office that offers asset management and observes the values of ethics and transparency in its performance proposals. The company offers its high-net-worth clients easy access to specialized investment vehicles, including hedge funds, private equity and special situations in its dedicated areas such as real estate.

Herculis Guardians SA aims to protect and enhance the value of its clients' precious objects by offering safes for rent as well as vaults for the arts (painting), wine and precious stones, some of which are operated under the Freeport status. Recently Herculis Partners launched the possibility of processing crypto currencies on its premises.