

# personal WEALTH

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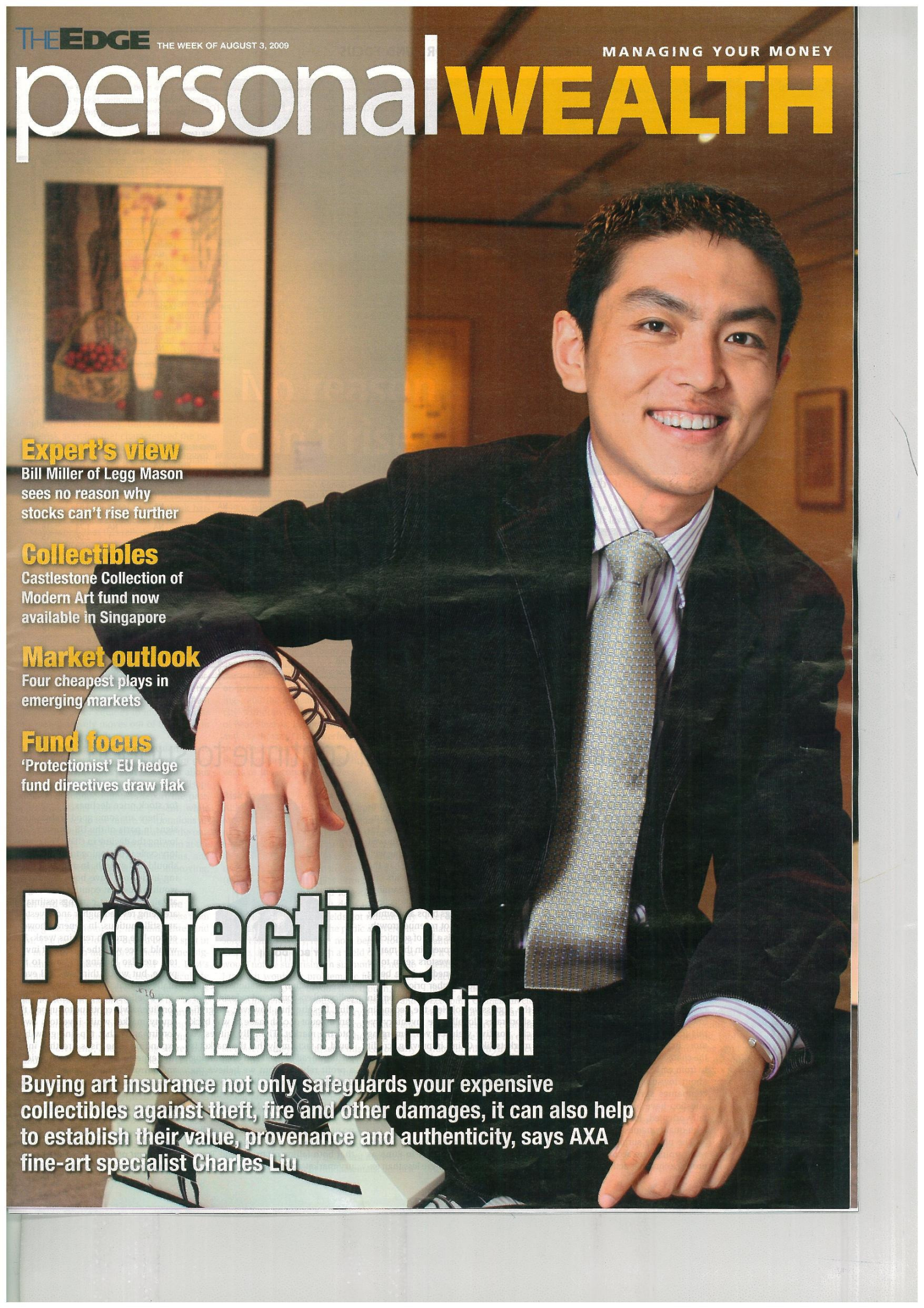
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# Protecting your prized collection

Buying art insurance not only safeguards your expensive collectibles against theft, fire and other damages, it can also help to establish their value, provenance and authenticity, says AXA fine-art specialist Charles Liu







# Protecting your prized collection

[BY KELVIN TAN]

The fine-art market, devastated by the global economic slump and wealth erosion of the rich, has lost nearly a third of its value in 1H2009, according to the Mei Moses All Art Index. But business has never been better for Charles Liu, a Singapore-based fine-art specialist at AXA Art Insurance — the biggest fine-art insurer in the world with a third of the global market share.

Since AXA Art Insurance set up its Singapore branch in September last year, deals to insure art have been brisk, says Liu, who is seeing a growing pool of serious art collectors in the country. "There has been a big increase in our Singapore portfolio because a lot of Singaporean art collectors want to buy art insurance. So, even in an economic downturn, we still find our business increasing," beams the China-born fine-art specialist who is an accomplished ink and oil painter.

Expensive contemporary paintings are the most common art objects insured by AXA Art Insurance's Asian clients, especially those from Singapore and Hong Kong, Liu tells *Personal Wealth*. Indeed, after a steep fall in prices over the past year, contemporary and Post-War artworks are now among the most sought-after collectible items by private collectors and art investment funds such as **Castlestone Collection of Modern Art** fund, which is now available to accredited investors in Singapore

through internet fund distributor dollarDEX.com. (See story on next page).

Coverage for fine wines is also gradually growing as more of the local affluent gain a taste for the most expensive clarets, especially those from Bordeaux and Burgundy. "For Singapore collectors, they would mostly insure their contemporary art collections, some of which are worth \$5 million to \$10 million. We also have clients that insured fine wines, but the value [of coverage] wasn't very high."

According to Liu, art insurance (which covers valuable collectibles based on an agreed value against the perils of theft, fire, water damage, accidental breakage, spoilage and item lost during transit) is a must for any serious art collector who wants his prized possessions protected. "If clients want to send their paintings to New York or Hong Kong for auction, we cover that as well. Even if the painting is not sold, and is delivered back to Singapore, all that is automatically covered in our policies. We call it worldwide coverage," he says.

Buying art insurance for your collectibles also indirectly helps to establish the value, provenance and authenticity of valuable art pieces as careful scrutiny and evaluation will be conducted by specialists such as Liu before any underwriting takes place. "At times, I found out that the items were actually fakes. But collectors are usually very passionate about their collections, so, I won't say to their faces that their art piece is a fake item. I would just tell

**Buying art insurance not only safeguards your expensive collectibles against the perils of theft, fire and other damages, it can also indirectly help to establish the value, provenance and authenticity of your valuables**

them that I can't insure it," he jests.

Founded in 1987 and headquartered in New York, AXA Art Insurance does tailor-made insurance underwriting for art pieces like paintings, rare books, fine wines, antiques, jewellery, vintage vehicles, rare stamps, coins and ancient weapons. "Recently, we even insured a dinosaur [fossil] exhibition in China," Liu proclaims.

## Policy mismatch

Although buying insurance is common to Singaporeans, niche policies such as those for art is still "relatively new" to many locals, even for art collectors, says Liu.

Often, those with valuable art pieces would cover their collectibles as part of their household items with general home insurance policy, he observes. "The terms and conditions of home insurance are very limited and the coverage is not as good as fine-art insurance." General insurance companies that offer home insurance policies would not dare to underwrite art pieces worth millions but stored at home as the risk is too high for them, says Liu. "Even if the collection is worth \$10 million, it is still very comfortable for us," he adds. AXA Art Insurance is capable of underwriting art insurance of up to \$400 million per location.

Furthermore, home insurance doesn't cover art pieces that are not stored in a house. Even if general insurance is purchased for fine wines and paintings stored in temperature-controlled

warehouses on the recommendation of storage facilitators, Liu observes that the coverage will unlikely match the true value of the collectibles.

There are many collectors who store wine in public cellars and pay general insurance coverage for their bottles. Not reading the fine print and exact details about claims in such insurance policies, collectors may assume that if one of their wine bottles breaks during cellarage, a total amount that reflects the worth of the wine can be claimed. "That may not be the case," warns Liu, adding that these policies usually have a limit. The policy may insure each bottle of wine for \$500. So, in the event of any damage or breakage, the maximum that can be claimed is \$500 even though the wine might be worth \$2,000, he explains. "If you don't have the correct insurance, the policy may only cover partial loss."

**Valuating art**

Art insurance policies underwritten by AXA Art Insurance, on the other hand, are based on an agreed value, which is the specified amount — determined by an art appraiser from AXA Art Insurance and agreed by the insured — that reflects that worth of the art item.

## Valuating art

"Many of our clients buy art insurance without knowing how much their collections are worth. On our part, we will evaluate and try to find out the market value of their collections," says Liu, whose firm employs over 50 full-time art historians around the world with networks to curators, appraisers and other art experts.

"Recently, there was a case of a hotel that wanted to buy insurance for its art collection. It provided its inventory list and the value it wanted to insure. After going through the information, I found out that the art pieces, especially those from a particular artist, have appreciated a lot," recalls Liu, who adds that he backed and validated his evaluation of the art collection with auction price records and gallery selling prices. In the end, the client, which initially wanted to insure the art items for \$500,000, increased the coverage to an agreed value of \$2 million, he tells *Personal Wealth*.

To give clients up-to-date valuations of their collections, appraisals on the value of their art items are done every year upon the renewal of their AXA policy, whose coverage generally lasts for 12 months. "During renewals, we will do the valuation for the paintings or art pieces again," says Liu. "For 2009, [because of the downturn in the global art market], some clients who used to insure their collections for \$1 million in the previous year, may now buy coverage worth \$900,000. We will suggest a reasonable market value for the clients' collections."

Liu, who has been evaluating the worth of art pieces for the past six years, says the valuation method adopted by AXA Art Insurance uses a combination of in-house estimates as well as auction prices of renowned houses such as Christie's and Sotheby's and galleries' selling prices of similar art pieces from the same artists.

"We use the annual ceiling price and auction prices of Sotheby's and Christie's as benchmarks to determine the value of an art piece."

## Determining the risk of coverage

Generally, an expensive art item with proper documentation of provenance and which is well stored and maintained in a secured location will command cheaper insurance premium compared with less pristine pieces that are stored in an insecure environment that lacks the necessary safeguards.

For Liu, there are many factors influencing the decision to take up insurance underwriting and the level of coverage premiums.



Besides evaluating the worth of the art piece, the security, environmental conditions and legitimacy of the item need to be looked at during the site inspection. "Premiums depend on risks: How risky it is, how fragile the item, and how secure the place is. The more secure, the cheaper is the premium," says Liu, adding that there are times when he rejected insurance applications because certain conditions were not met.

The way an art collector protects his art piece is an important factor for Liu as an appraiser. "When we visit clients' collections, we will look at how they display their paintings or art work and how they keep their items in storage," he says. From this, he would be able to ascertain whether they are careful and knowledgeable collectors. "If he hangs a painting worth half a million dollars on a wall exposed to the sun or near the window, then we will know that this collector isn't really serious or knowledgeable as paintings can easily lose colour when exposed to sunlight."

Liu will also evaluate the security of the location where the art pieces are kept to determine the risk of theft. "If it is a condo, we would want to see how good the security is. Are there CCTVs in the lobby and indoor areas?"

In addition, Liu will ask the collector to produce documentation and receipts of his purchased art pieces to validate their authenticity and rightful ownership. "Lots of questions will be asked" if potential clients do not have a proper "inventory list" to prove ownership of their art items, says Liu.

Even with proper documents, a collectible item with good provenance will be checked against the Art Loss Register, an international database of stolen works. Established in 1991, the Art Loss Register has helped to recover more than 1,000 stolen objects worth a total of US\$100 million (\$144.42 million).

To insure items that are to be transported to another location, Liu says he will carefully evaluate the expertise of the handlers, packers and transporters hired by his clients. To transport a piece of expensive contemporary painting like a household appliance with bubble wrap in a cardboard box is simply unacceptable.

"Art is a fragile item. If you don't pack it properly, there is a higher risk of damage during transit. And if the transporters and packers are not professional at art handling, we will not underwrite that insurance," he points out. To help clients move their collectibles around the world in a secure manner, Liu says his company will hire trustworthy art handlers and experts in packaging techniques and transportation of fragile art pieces if necessary. "If it is very fragile like antique porcelain and if it is very big, we will assess the risk and if necessary, we will fund the vehicles and packers to do the job."

### Booming business

Given that the art market generally lags the stock market by six to 18 months, it is unlikely that fine-art prices will continue to slump in a big way going forward (equities around the world have rebounded significantly off their lows in early March). With the art market on the recovery mode, the prospects are looking bright for Liu and his team at AXA Art Insurance.

Already, Liu says he is getting a lot of business referrals from insurance brokers and agents, especially those serving high-net-worth individuals who are into art collection.

Not surprisingly, Liu himself is an art lover who owns several contemporary art paintings. He says he wants art collectors in Singapore to recognise the importance of having proper art insurance. Clients with a lot of expensive art shouldn't insure their collection with a home insurance policy, he stresses. "If you are insuring your home and home content, you buy home policies. But not for art."

Furthermore, Liu points out that the premium paid on art insurance isn't as costly as some would assume it to be. For instance, a fine wine collector can easily insure his cases of Château Pétrus worth more than \$100,000 with a minimum premium of \$650 per year, while a piece of painting worth \$1 million and kept in a secured location could be insured at an annual premium rate of \$3,000 to \$4,000, says Liu. For wealthy owners with collections worth millions, these premiums are simply small change, he quips.

# Art fund now available to wealthy investors in Singapore

BY KELVIN TAN |

Said to be the world's first real retail art fund, the **Castlestone Collection of Modern Art** fund, which was launched on May 31, is now available to accredited investors in Singapore through internet fund distributor and financial advisory firm dollarDEX.com.

The eight-year tenured art fund with a minimum investment of US\$10,000 (\$14,434) is managed by New York-based alternative investment firm Castlestone Management. It buys into impressionist, post-war, contemporary and urban art paintings, as well as other artworks including sculptures and collectible photographs. After eight years, the art collection held by the fund will be sold at an auction.

The Castlestone art fund recently bought a number of paintings at the London summer art auctions, which include post-war artworks of deceased artists such as Pablo Picasso, Andy Warhol, Keith Haring, Yves Klein and Arman. They were added to a collection that already includes works by Jean Michel Basquiat, Lucio Fontana, Jasper Johns and Willem de Kooning. The fund aims to create a diversified portfolio of artworks by about 26 artists.

### Opportunity to snap up bargains

With art prices 20% to 40% below their peak in 2007-08, coupled with a fall in auction sales volumes, Castlestone Management, which manages assets in excess of US\$600 million, sees a good buying opportunity in fine art.

"We saw a good level of bidding activity for museum-quality pieces. It looks like there's still demand in the market, but like us, buyers are taking a more considered approach. We're very pleased with our acquisitions and will continue to seek high-quality post-war art, but only at the right price," says Constanze Kubern, a former art specialist at Sotheby's, who now advises Castlestone Management on the art market.

According to Kubern, post-war art is becoming "more interesting" as an investment due to its decreasing supply. "We intend to buy post-war art from deceased or non-producing artists with established reputations, rather than contemporary cutting-edge art which has been subject to speculative buying in recent years."



Murray: Whenever the value of money falls, the value of real assets rises, whether it's art or any commodity such as gold

According to Castlestone, art as an investment not only provides diversification due to its lack of correlation with stocks and bonds but also respectable gains. Academic research by New York University professors Jianping Mei and Michael Mosses (who created the Mei Mosses fine-art index) shows that art delivered an average annual return of 7.7% a year between 1875 and 2000, compared with a return of 6.6% from US equities. The most recent five- and 10-year compounded annual returns for art averaged 11.7% and 9.5% respectively, exceeding the returns of stocks, which averaged -2.2% and -1.4%. Last year, the Mei Mosses All Art Index fell almost 4.5%, compared with the 37% slump in the S&P 500 Index.

### Good as gold

Art, like gold, is an "irreplaceable, unleveraged real asset", which will respond well in periods when central banks are printing money, notes Castlestone's CEO Angus Murray, in a July press release. He adds that massive monetary stimulus packages implemented by global central banks over the past year are flooding the global economy with cash and the real purchasing power of money will fall, leading inevitably to inflation in the future.

According to Murray, post-war art from deceased or non-producing artists, along with real assets such as gold and other commodities, will be the best bets during the coming period of inflation. "Whenever the value of money falls, as it is doing now, the value of real assets rises, whether it's art or any commodity such as gold. Gold and art are running in parallel, both driven by the falling real value of money," says Murray, whose firm also offers a broad range of alternative funds that invest in gold bullion, precious metals, commodity and stock indexes, currencies, hedge

funds, and property.

The Castlestone Collection of Modern Art fund currently charges a 1% annual management fee and a 20% performance charge on the fund's gains. Castlestone's funds, which are registered and authorised by the Monetary Authority of Singapore, are sold to local accredited investors who have a net worth of at least \$2 million or an annual net income of \$300,000.



A work by Pablo Picasso entitled *Dog at the Henri II*. The Castlestone art fund recently bought a number of paintings at the London summer art auctions, which include post-war art works of deceased artists such as Picasso.

# Lehman mounts art bargain auction

BY LINDSAY POLLOCK |

Roy Lichtenstein's 1982 print *I Love Liberty*, once wall candy at Lehman Brothers Holdings Inc, is expected to contribute about US\$30,000 (\$43,328) to the bankrupt company's coffers when it's offered for auction in November. Lehman will begin selling its multimillion-dollar corporate art collection in a series of three sales at Freeman's Auctioneers in Philadelphia this winter.

Lehman is shedding 650 lots, projected to fetch a total of US\$1 million. They include modern and contemporary paintings, prints and drawings, along with a smaller group

of American and European paintings and prints from Lehman's New York, Boston and Delaware offices. Sales are scheduled for Nov 1, Dec 6 and Feb 12, 2010.

"We tried to price things consistent with what they will bring in the current market," says Anne Henry, Freeman's vice-president of modern and contemporary works of art. "There's a lot of really attractive work at affordable levels."

Lehman filed the biggest US bankruptcy on Sept 15, 2008. Proceeds from art sales will benefit creditors. Lehman CEO Bryan Marsal has said the firm owes as much as US\$250 billion. (In the beginning of July, Lehman began selling on eBay Inc items

originally produced as freebies for clients and employees.)

Items in the November sale range from an abstract 2007 black-and-blue collage by Venezuelan artist Arturo Herrera, estimated to sell for as much as US\$15,000, to a surreal 1997 Louise Bourgeois print of an undulating bed with lips for as much as US\$1,500.

Lehman owns more than 3,000 artworks, and some of those aren't being sold, such as art that hung in Lehman's New York headquarters. The building is now occupied by Barclays plc, which acquired Lehman along with a one-year option to buy the art. That option expires in September. — Bloomberg LP