



Down to a fine art: 'Self-Portrait' by Andy Warhol will be sold at Christie's in London on February 16

AFF

# Banks move to keep their top clients in the picture

## Alternative assets

As art prices hit records, banks are urging wealthy clients to just hang the cost, writes **Tanya Powley**

Wealthy investors are returning to art as an asset class following a year of record auction prices and strong recovery in the art market.

This week, Christies International, the auction company, announced that sales in 2010 were the highest in its 245-year history, at £3.3bn, up 53 per cent on last year's £2.1bn.

Art prices rose 16.6 per cent in 2010, the first rise for three years, according to the Mei Moses All Art index, a barometer of art returns.

This growing demand for art investment has seen several private banks looking to expand their art advisory services or launch partnerships with firms that can provide art advice to their private clients.

On Wednesday, Emirates National Bank of Dubai launched a partnership with The Fine Art Fund Group, which will see the London-based firm provide art advice to the bank's wealthy clients in the Middle East.

The Fine Art Fund Group already has similar relationships with Banco

Santander, EFG Eurobank Private Banking and Banca della Svizzera Italiana.

The company, started by Philip Hoffman, a former finance director at Christie's, said 2010 was its busiest year to date. "What we're seeing is a huge number of individuals allocating money to art that have never touched art before," he says.

Last year, the Fine Art Fund Group launched a managed art portfolio service targeted at private families that want to build up an art collection for investment. Since July, it has set up 10 individual accounts, varying in size from \$2m to \$150m. The minimum investment for this type of fund is \$1m over three years.

The firm is also raising money for a five-year \$100m Fine Art Fund that invests in western art from Old Master paintings, to Modern, Impressionist and Contemporary art. It has a minimum investment of \$250,000, charging a 2 per cent management fee and a 20 per cent performance fee.

Some private banks are now considering launching their own art funds to meet client demand. A spokeswoman for Deutsche Bank says it is an area of the art market currently being researched by the bank.

The strength of the art market has also seen more wealthy clients using their existing art collections as collateral for loans.

Michael Darriba of Deut-

sche Bank Private Wealth Management says that interest in borrowing against art has increased enormously in the past year. "In the current climate where liquidity is king, to be able to monetise some of those assets without having to sell them is really attractive," he says.

Deutsche Bank will offer rates of between 2 to 5 per cent over the three-month interbank rate, with an arrangement fee of between 1 to 2 per cent. It typically offers clients loans to value of between 20 to 50 per cent.

Citi Private Bank has

**'To be able to monetise some of those assets without having to sell them is really attractive'**

experienced a similar increase in activity over the last quarter of 2010. Suzanne Gyorgy, head of art advisory and finance at Citi Private Bank, says wealthy individuals have begun looking at their art collections and realising that they have held up very well in price, providing a good basis for a loan.

"During the downturn we had a number of people that had margin facilities in trouble who had unencumbered art collections," she says. "We quickly valued the art and transferred the collateral so that they

weren't sold out of their stock positions."

Gyorgy believes a growing number of private banks are now seeing art as a hook to engage more clients. In 2009, Société Générale Private Banking recognised that investing in art was of interest to its clients and teamed up with 1858 Ltd Art Advisory to provide art advice to them. Lombard Odier, the Swiss private bank, has a custody platform which integrates deposited assets such as equities and bonds, with non-deposited assets such as private equity, artwork, yachts and aircraft.

However, Gyorgy says investors should seek specialist advice when buying art because of the opaque nature of the market.

"Art is problematic as a financial instrument because although you can certainly look at auction results and see the tremendous gains made by certain pieces of art, there is really no way to accurately measure the market," she explains.

She says as much as 60 per cent of the market is estimated to be traded privately, which makes it harder for indices to paint the real picture of returns.

Viola Raikhel-Bolot of 1858 Ltd agrees. "With an unregulated market, inflated prices and counterfeit works, a good adviser will ensure clients avoid the many pitfalls and potentially unpleasant surprises."