



Art funds on display at Armory Show

By David Gelles in New York

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At the Armory Show, America's largest art fair, connoisseurs last week flocked to the piers of western Manhattan to pick over the latest offerings from galleries around the world.

"People are coming to the armory, it is the biggest show in the world's biggest market for art," said Sergey Skaterschikov, founder of art market research firm Skate's. "Most of the buys are on contemporary art. People are clearly trying to find the next Basquiat."



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Reflecting the broader economy, dealers struck a note of cautious optimism, while buyers were being selective about their purchases, and looking for deals. "There are sales happening," said one American dealer who asked to remain anonymous. "But we're still taking a wait and see attitude."

But in addition to the prototypical art collectors, who often motivated by an emotional love of art, there was another type of buyer out in force, **with economic, not aesthetic aims** – the art funds.

Art funds – which take investments from wealthy individuals and pool the capital to buy artworks in hopes of a return over five to seven years – have operated in the shadows of the global art market for decades.

Today, however, they are making a bid for legitimacy as they seek to repair their status after several prominent funds fell apart during the recent economic crisis. At the Armory Show, panel discussions analysed the merits and risks of art funds, sparking participants claims of a "the resurgence in the art fund industry".

But the increasing prominence of art funds has many in the arts community uneasy, saying that they are an unsuitable model for investing and a sign of additional speculation in an already frothy market.

Part of their strategy involves being forthright about their aims. "Art is an alternative asset class, it's not a collectible," said Enrique Liberman, president of the Art Fund Association, which launched last month. "It is an important inflationary hedge and can produce significant returns, often better than the market."

The new Association is seeking to establish best practices for the industry, such as developing ways to protect investors, and formalising the acquisition process for funds to ensure purchases are well-vetted.

For art fund managers, part of the process involves taking a more strategic approach to their investments.

"You have to diversify your portfolio the way you diversify in any other type of asset," said Xavier Lumberras, chief executive of the Artemundi Global Fund, a roughly \$30m fund based

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in the Cayman Islands with a minim. "Some assets are more liquid, some are less liquid; some have more volatility, some have less. Some are cheaper, some more expensive."

Additionally, certain genres of art, such as Old Masters, are more suitable investments. "The contemporary market is very volatile and hard to predict," said Mr Lumberas. "That's not something I would recommend for someone as an investment."

Many in the art market, however, express reservations about art funds. "One of the problems with a fund is the lack of liquidity," said Georgina Adam, editor at large for the Art Newspaper. "It's not like a share, you've got a 24/7 trading platform."

Transaction costs, including insurance, transportation and storage, can also be high. Mr Lumberas said auction houses that sell works from his fund routinely take 50 per cent of his profits.

Art funds took a beating during the latest downturn. At the industry's peak in 2006 and 2007, there were more than 50 funds globally, holding more than \$600m, according to Stake's, an art market research firm.

But in "The Art of the Deal" a book about the global art market by Noah Horowitz, the author lists 30 funds established in during those years, and notes that by Jan 2009, 20 of those were abandoned, dissolved or on hold.

"The enthusiasm for funds is always when the market is very high, and everyone knows you shouldn't buy at the top," said Ms Adam.

Mr Skaterschikov said that despite the industry's false start, new art funds, particularly in **India** and Russia, were emerging quickly. "There is some innovation coming to the space, and it is inevitable that there will be more attention paid to collective investment vehicles in the art world," he said.

A sea change, he predicted, would occur if established investment banks began introducing art funds as products for their rich clients. But so far, no such institutional funds exist.

Meanwhile, art funds are moving forward cautiously, with even some proponents of the industry acknowledging that art as an asset class can be a tough sell.

"We must never forget that art cannot be treated exclusively as a commodity," said Mr Lumberas. "We're talking about an asset that is intrinsically illiquid, intrinsically volatile, and we're talking about an emotional asset."

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