

Advisors to the Ultra-Rich Try to Treat Art as Just Another Asset

By Katya Kazakina

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Gerhard Richter's *Düsenjäger*. SOURCE: PHILLIPS

A small conference in New York this spring brought together two secretive, expanding industries serving the wealthy: the art market and the family office. It was part of the Armory Show, a contemporary-art bazaar that sprawled over two Hudson River piers for five days in March. Attendees were pitched products ranging from art funds to derivatives linked to art prices. Nearby, a massive cube of what looked like concrete, priced at \$350,000, defied gravity as it rotated in midair.

A family office is a firm set up to run a single fortune that's too lofty to be left to the usual private bankers and wealth managers. Among the 185 attendees at the conference were representatives of the office of billionaire investor Steven Cohen and an executive working for a family of U.S. oil heirs who have about 900 pieces of Western and cowboy art in their portfolio. "Art is on the agenda of every sophisticated family office," says Philip Hoffman, chief executive officer of the London-based Fine Art Group, which advises 125 families around the world.

The global art market has more than tripled in value since 2003. Many family offices are finding a large portion of their balance sheet taken up by a collection that may have once been the founder's hobby. They have to "stop looking at the pretty pictures and start looking at the numbers," says Von Sanborn, a partner at Day Pitney LLP, a law firm that works with family offices. He says offices are hiring art advisers, curators, and lawyers specializing in art transactions.

"Buy it. Put it away. Don't fall in love with it"

Some advisers are deliberately working art into their asset allocation strategies, says Phillip Ashley Klein, U.S. art and finance leader at Deloitte LLP, which put on the event at the Armory Show. Art is pitched as an investment that doesn't move in step with stocks and bonds. It can be purchased in secrecy and stored outside the owner's home country. Loans backed by art make it possible to extract cash from what had been an illiquid asset. "There are opportunities to plan around art that don't exist around other asset classes," says Dan Desmond, executive director with the Blue Rider Group at Morgan Stanley, which provides financial services to the art community.

None of that makes art a slam dunk for a portfolio. The market is opaque and complex. A recent case in point: Dmitry Rybolovlev, a Russian billionaire, spent \$2 billion acquiring art through

Swiss dealer Yves Bouvier. A legal dispute over the transactions is now in its third year. Rybolovlev has claimed Bouvier, acting as his agent, overcharged him by as much as \$1 billion. Bouvier has said he was a seller, not an agent. Recently the trusts set up by the Rybolovlev family office sold four of those paintings at a \$150 million loss.

The art market is “fraught with peril,” says Pablo Schugurensky, founder of Meta Arte, an art-consulting company that works with a dozen wealthy families. “You have to know how to navigate it.” In a previous job, Schugurensky spent seven years building and managing the collection of billionaire Paul Allen, a co-founder of Microsoft Corp. Allen buys and sells art through his family office, Vulcan Inc.

Vulcan manages both Allen’s business and charitable interests. Its website says it has commissioned more than 20 public artworks in Seattle, and it also handles a valuable collection for Allen. Vulcan’s staff includes 15 art experts. In November, Allen’s Gerhard Richter painting of a jet fetched \$25.6 million at auction, more than doubling the purchase price of \$11.2 million in 2007.

The Duncan Family Office in Denver, which works for the oil family, operates on a smaller scale. Founder Ray Duncan, who died in 2015, began building what would become a multimillion-dollar collection of cowboy art in the 1960s, says Leon Bailey, the company’s chief financial officer. The collection is part of a portfolio that includes California vineyards and a Colorado ranch with 800 head of bison. “For the founder it was a very significant investment percentage-wise,” Bailey says. “But it was a passion.”

As art moves from avid collectors to professional money managers, people are trying to make it work more like a conventional investment. Some family offices have teamed up with dealers and art-world insiders to invest in art through fundlike structures. Evan Beard, a national art-service executive for U.S. Trust, a wealth-management unit of Bank of America Corp., says he knows of more than a dozen funds formed by families with at least \$100 million worth of art in

each. “An art fund gives you a scale of negotiating power with auction houses,” he says. It can also have tax advantages and spread out some of the costs of buying art.

A Kansas City-based company, the Collectors Fund, acquires postwar and contemporary art on behalf of investors who get to own a part of each work held within a fund. It charges an annual management fee of 1.5 percent to 2 percent of assets and 20 percent of profits. Steven Halliwell, the company’s managing director, has been approaching family offices but not yet gained much traction with them. They want the kind of historical data about art they’re used to seeing for other investments. “That data is beginning to develop through various indices, but it’s still in very early stages,” he says.

Roszell Mack III, president of Mack & Co., which advises a dozen family offices on alternative assets, says investors should be unsentimental. “Buy it. Put it away. Don’t fall in love with it,” he says. But even people from the investment world can be reluctant to think of art merely as an asset. “Like investing, collecting is about pattern recognition; it’s about doing your due diligence, it’s about assessing intrinsic value, and it’s about knowing what and when to sell,” said Anne Dias, a trustee at the Museum of Modern Art and the Whitney Museum trustee and former hedge fund manager who now runs her own family office, speaking at the Deloitte conference. “But there’s a far greater purpose to collecting than financial gain.”

The bottom line: Family offices are finding a large portion of their portfolios’ value taken up by their founders’ art-collecting sideline.

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