



Interview with Javier Lumbreras: The current state of the Art Fund Industry

What is your view of the current state of the art fund industry?

The industry is developing with trepidation, but we are convinced of the efficiency of Art Funds when it comes to economies of scale, portfolio diversification, asset protection, reasonable transaction costs and financial long-term solvency. External input from financial academia as well as our own experience provide us with the tools we need to prove the soundness of such statement. In spite of the market inefficiencies that characterize the art world, art investment funds are able to adapt and use those inefficiencies in their favor. Most of the art funds that exist today would be characterized as boutique investment vehicles because of their size; however according to the Art and Finance Report 2014 published by Deloitte/ArtActic, "...art investment funds have the potential to become one-stop art service platforms for the wealth management industry, offering vetted and tested expertise, transparent and professional reporting, and operation within a regulatory framework."

What factors are influencing it?

A very important issue in the art market during the last decade has been transparency. Information that was previously difficult or even impossible to grasp for the average market participant has become available through online public databases. This information has also triggered academic research from both the financial and art worlds. Art funds navigate the world of compliance, thorough due-diligence process and fiduciary responsibility like no other professional in the art investment industry. Reporting and accurate valuations are not simply obligatory, they are sine-qua-non.

As a consequence of market transparency and specialization, the financial sector has become interested in art as an investment asset because it demonstrates uncorrelated advantages over traditional financial instruments and offers an attractive alternative-alternative to portfolio optimization.

Why did some early players fail?

Probably because they launched their art funds too soon without considering the overall conditions of the market, or because they didn't have a solid understanding of the asset class, including the information necessary to project their M&A (management and administrative) costs with accuracy and the difficulties encountered in raising money without a track-record.

What misperceptions are there as to the intentions and purposes of art investment funds?

For the wealth management industry, art is a difficult asset to quantify, while not considered so for the experienced art fund manager. For the art industry, art funds are quantifying the value of art and assessing its investment risks with transparency and objectivity, defying the opaque traditional art market status quo. The old saying of "buy what you like and never mind the price" becomes an obvious trap for the art investor. Some will say that art funds don't care about the intellectual component of the artworks and are only worried about the return that they achieve, which is not true. Not understanding the emotional value of art would be like not understanding the underlying investment asset at all; art instincts trump financial experience. Some complain that funds will try to corner markets or re-sell without concern for an artists' career. Other observers may complain that the artworks will be stored in a bank or safe for an extended period of time while depriving others the pleasure of enjoying them. These statements are false since we do not buy contemporary art, as it is the most volatile sector in the market, and neither do we interfere in their carriers (that is the business of the galleries dealing in the primary market). We acquire artworks mostly from deceased masters that carry many years of solid quantifiable sale records. On the other hand, it is critical for an Art Fund to add value to the artwork, which is accomplished primarily through constant care and improvement of its condition (if necessary), and by loaning items to major museums or institutions. Finally, it is also critical to engage in-depth academic research and curatorial expertise of all inventories.

Are people wary because of the limited operating history of art funds?

Art Fund history is considerably short compared to other financial instruments, however new financial vehicles are constantly



created because there is a demand for them. Additionally, most successful Funds are building solid track records to prove the business model.

[What is the appeal of investing in an art fund? What do you get out of it?](#)

Each fund is different, but a few of the benefits enjoyed by Strategic Investors include Most Favored Status, Access to Premier Events, Recognition and Acknowledgment, Access to Buying Opportunities, Receipt of Comprehensive Art Advisory Services, Rights to Display Fund's Artworks and Advisory Committee Representation, among others. Furthermore, each of the Strategic Investors have the right to serve or designate someone to serve as their representative on the Advisory Committee and have Special Withdrawal Rights. There are funds which incorporate some of the more attractive reasons why an art collector collects in the first place, and others such as those aimed at institutional collectors which are not looking to fulfill any emotional factors. It all depends on the size and focus of the particular fund.

[Do investors get a say in or any use of the art purchased?](#)

In acquisitions exceeding two million dollars, particularly in Artemundi Global Fund, strategic investors are not only permitted, but encouraged to review the investment protocol and request the loan of artworks for their personal enjoyment as long as they guarantee that they will meet the required safe custody and optimal environmental conditions for keeping the art.

[Do some investors set up their own art fund rather than buying into an existing one?](#)

Possibly, but if you are serious about your money, we do not recommend it. For more than a decade before 2007 we did just that, but the lack of an institutionalized investment vehicle brings inherent risks of poor management decisions, questionable arm-length transactions derived from weak controlling mechanisms and a lack of the manager's fiduciary duty. Moreover, entry costs are high and a team of well-trained art and financial experts are required to build and manage an optimal art portfolio suitable for investment.

[Is it helpful to have a level of art knowledge to participate?](#)

As an investor it's helpful in order to understand and enjoy your participation in a Fund but it's not required at all. The same way you don't need to be an expert in real estate to invest in REITS.

[What are the risks?](#)

As with any investment there is market risk and management risk. However, the art market is less volatile than most stocks in our experience.

[What factors do you need to consider if investing in an art fund? How do you choose a fund and/or manager?](#)

For starters, investors should look for the Fund's track record, the management's history and experience, the investment requirements, the fees and commissions, the investment horizon, the exit strategy and the Fund's investment protocol; then determine the manager's ability to control M&A costs and ability to keep transactional costs at a minimum. A competent manager will understand well the underlying asset as well as the intrinsic risks of investing in art, such as Authenticity Risk, Title Risk, Investment Risk, Casualty Risk, Currency Fluctuation Risk and macroeconomic uncertainty.

Javier Lumbreras

CEO

Artemundi Management Limited, manager

Artemundi Global Fund