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{ Rashid Rana's Red Carpet 4 fetched Rs 1.37 cr at Christie's }

Hedging the bet hasn't paid off

Indian art funds have not yet delivered their promise of fantastic returns. In many cases, art fund managers exaggerated their own expertise. The year ahead though, looks promising for the Indian art market

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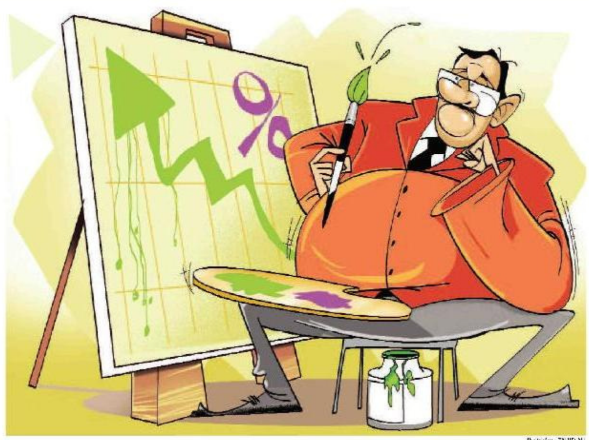


Illustration: ZAHID ALI

ART FUND CRISIS

THE ABSENCE OF MONITORING SYSTEMS & A LACK OF CLEAR CHECKS & BALANCES VIS-À-VIS FINANCIAL DUE DILIGENCE, HAVE ALL PLAYED A ROLE IN PRECIPITATING THE SITUATION

Some **weeks ago, a financial** daily finally came out with a strongly worded story that was fairly common knowledge within art circles: The great Indian art fund—and there are too many to list—as per available figures, has proved (as yet) to be anon-performerin-so-farasde-liverables go: the promise of fantastic returns used by fund managers waved at the naive and occasionally hapless investor remains, till this day, just that. But, say trade experts, it's not all as bleak as it sounds.

Placing the current situation within a larger, 'markets' perspective, financier and art collector, Nandan Maluste analyses the scenario thus: "An ideal investment market trades identical items, is liquid, transparent and well regulated so that only what is unfair is illegal, known to all, and infringements are punished rapidly. Nevertheless, even investing in an ideal market cannot be risk free. In reality, no market meets this ideal. Imperfections are seen as opportunities by the shrewd and patient, but are obstacles to the naive or hurried."

Having advised an art fund, Maluste adds, "It's obvious that no art market can match the above ideal, and the Indian art market does not, on any count. In spite of this, most art fund promoters (when they set out) promised liquidity and returns within a short time or even regularly. They also exaggerated their own expert -ise. People believed that the bull-run, just like the bull-run in the equity market, would persist longer than it did."

In short, what we are witnessing is a cumulative fall-out of a collision between larger recessionary trends and the specific peculiarities of trading that exist within the Indian art market. A portion of the dismal picture, opine experts, is also mired in the irregularities of trade practice. As is known, this market is in the early stages of development. The absence of monitoring systems and a lack of clear checks and balances vis-a-vis financial due diligence, have all played a role in precipitating the situation.

Founder and chairman, Osian's and chief advisor, Osian's Art Fund, Neville Tuli, continues however to believe that there is no 'Art Fund Crisis' as such. He describes the current situation as"... only a low moment in the larger historical journey which cannot be short-circuited into success." He adds, "You have to see the present problem in the context of transforming the art object into a credible capital asset in a cash driven economy, without basic financial infrastructure, sufficient public awareness, regular institutional flow of authentic art financial information, and a host of other financial facilities (eg Ml discounting, collaterali-sation of art fund items, underwriting framework) that are just not available."

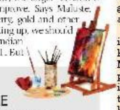
Mukesh Panika, director, Religare Arts Initiative opines:" One would not say that there is a crisis really, but the art funds floated in 2006-08, when the art market was booming, have found themselves facing difficult times due to the downturn in the global market which has had an impact on the Indian art market as well. Another contributing factor is that this asset is not as liquid. The art fund which we are advising is in the nature of a Private Trust which operates for the benefit of the beneficiaries." He holds that there is a chance of getting better returns in the coming years and the "same would earn reasonable returns by 2010-11."

A senior art critic though is skeptical. Citing reasons of aesthetic judgment, he explains, "Not all fund managers are necessarily qualified to assess the aesthetics of every/all work. Selecting art for collections/funds is a specialised task. In fact it's an unwritten rule that seasoned collectors are familiar with: every work of art by even established artists is not likely to appreciate. An assessment of works acquired for the purpose of appreciation within the collection of the many art funds may reveal that almost 30-40 % are not likely to make the grade." A well known art collector, who chooses not to be named adds, "In the case of some art funds it's all a case of insider trading at its worst!"

Assessing the situation in more candid vein, Swapan Seth, managing partner, Henry S Clark, an art house, says: "We had it coming. It was greed on the part of fund houses that wished to over leverage their grandiose ambitions and make apile of cash, and naivete on the part of the investor, who had little knowledge of the intricacies of the art business, that made it all topple like a pack of cards in the wind."

But to give the devil its due, certain funds are taking onus and quick steps to rectify the mess. Speaking for Osian's, Tuli claims, "We have almost completed the redemption of 8 5 % of the capital to all Unit Holders. Five out of the 11.72 income were paid 18 months ago. Thus for every 100 unit invested 15+6.72 needs tobe repaid to close the Fund, which will be completed within February 2010."

In months to come, the larger scenario is only expected to improve. Says Maluste, "With stocks, property, gold and other commodities all picking up, we should see better prices for Indian art in 2010 and 2011. But



WHEN OTHERS ARE GREEDY BE CAREFUL. WHEN OTHERS ARE CAREFUL, BE GREEDY. IF YOU'VE BEEN CAREFUL BUY MORE NOW AS THERE'S NO BETTER TIME

whether those will yield attractive returns for those who bought in 2006 or 2007, at peak market prices and bore the whiplash of the 2008-2009 slide remains to be seen."

Seth adds, "While correction has taken place, much remains to be done. I see the punters losing steam, strangulated by the money they had invested and cannot get back. On the other hand for the serious investor/collector, I see light at the end of what will be a tenuous tunnel. At the end of three years, the wheat will be separated from the chaff. But about one thing I am sure. Art as a market will be chastened after having realised as Richard n did, that its ".. .rash, fierce blaze of riot cannot last."

For the future, Seth touts a Buffet Eke perspective to investing. Laconically, he urges, ".. .when others are greedy be careful. When others are careful, be greedy. So if you have been careful buy more now since there is no better time. If you have been greedy, Oliver Twist like, wait in line for your gruel. To those seeking to invest, do it because you want to invest and not speedily divest. Invest because there is intrinsic value in art. Not prodigious returns, perhaps. If you view from an equity perspective and see it through the lens of short, mid-term and long term investment, you will see potential in it. If you view it from The Golden Goose perspective, then your goose is cooked and on your table already."

Maluste's advice to the already invested is, "Be patient. Imagine you have invested in Indian real estate. Modern and contemporary art still holds potential as an asset class provided one is not thinking short term. The rich throughout the world, including India, have always patronised art, with a variety of motives. Over the long run, they have done amazingly well. I think the market is heading for continued growth over the medium and long terms. Not only are Indians becoming more affluent and appreciative of our art and artists, but foreigners are increasingly getting interested. Essentially, as has passed into the popular idiom since the 2002 Goldman Sachs report, the BRIC countries will be economically ascendant, in case of India at least till 2050. Financial and cultural attention will therefore focus upon us. This will make it economic to improve and educate the entire chain, from artist to collector."

The last word, ironically enough, could come from Tuli, who holds that: "There are very few guidelines for leaders, and so we must absorb all lessons with equanimity." Indeed the art fund 'situation' in India affords a useful primer for those who have singed their hairs, and for those aspiring to enter a market, nay a world, that holds the potential to yield several sweet returns, many of which cannot be meas -ured in commercial terms.

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