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ART NOT DRAWING WEALTH ARTISTES

Private deals, assessing worth, clunky assets considered a problem

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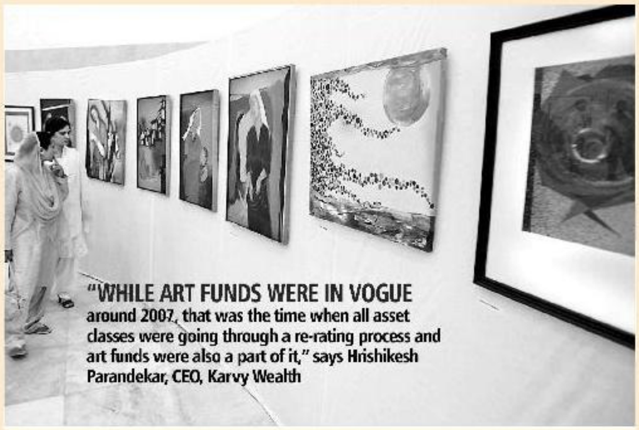

Art as an investment avenue appears to be losing sheen. Most wealth planners are advising clients to stay away from third-party art funds, even as equities and other commodities are in the midst of extreme volatility. Factors like absence of an industry benchmark to measure performance, the illiquid nature of assets and lack of transparency are plaguing the niche asset class.

Art funds, as the name suggests, are investment vehicles formed to invest in paintings and also, at times, in amateur painters. They are similar to collective investment schemes wherein people invest money in the fund and the fund manager either buys paintings of established painters or funds amateur painters.

In India, this space is dominated by art galleries and funds like Osian's, Copal Art, Crayon Capital, Yatra, Indian Fine Art Fund and Religare Art Initiative.

Investment advisors say the overall market crash saw most asset classes, including art, see a significant drop in their value. Incidentally, there have been reports that a couple of funds were not able to meet the redemption pressures.

"This could be coming, since most art funds were launched around three years back, but the crash left many investors stuck in these funds," says Amit Sarup, president (private equity & strategic initiatives), Religare Enterprises. "The fear of not able to get out if a wrong decision is taken looms large on the investor mindset."

But, it is not only the market crash that has made wealth advisors wary of art funds. They attribute investor scepticism to factors like the illiquid nature of art pieces and transparency issues. "Given the lack of transparency and corporate governance issues, we are not comfortable recommending third-party art funds," says Satyanarayan Bansal, chief executive officer, Barclays Wealth.

Evaluation issues

As mentioned earlier, art funds do not always invest in paintings of renowned painters. At times, they fund amateur painters, with an obligation that the creations would become a part of the fund. Later, fund houses can profit by selling the paintings. The valuation of art pieces, however, depends on the art fund manager, typically, a trained and qualified professional, well versed in the nuances of art. There are neither any set rules nor a benchmark to value the paintings or appreciation in their value.

"The assets are illiquid and there are no real benchmarks to measure performance," says Hrishikesh Parandekar, CEO, Karvy Wealth. "While art funds were in vogue around 2007, that was the time when all asset classes were going through a re-rating process and art funds were also a part of it. Opaqueness is also a major concern. We do not think people currently have any appetite for art funds," he says.

Interestingly, some experts feel the sector could see the inflow of many more investors if there is some regulation and more clarity on the structure of the deals.

"If you look from a macro perspective, art is now a recognised asset class, which has a good risk-reward ratio. It is a longer-term asset. But, to take it to the next level, some amount of regulation is required. Currently, the deals are also structured in a very private manner," says Sarup.