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Pundits wait for art funds to show profit in 2010

Swarup of Religare (above); artwork by MF Husain (left) and Sanchayan Ghosh

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AS the New Year rolls around, there are some gifts best left unopened. The advice to investors in art funds from all the pundits in the business is to wait and watch for a better year ahead before cracking it open.

Some art funds have cleared their debts from the profits they made. Others have made marginally lower profits than estimated. While the future seems uncertain, a finger on the pulse reveals signs of life. "The issue around art funds is that it's an emerging asset class," says Amit Swarup, President of Private Equity and Strategic Initiatives, Religare Enterprises Ltd. In lay terms, that means art funds in India had just begun to emerge in 2005-06 during the boom time, when every banks and insurance company showed interest in offering art as collateral against loans. However, the market was hit in the subsequent two years and art funds suffered: investors had over-estimated the value of the art they were investing in.

"During the boom, there was much excitement that led to price inflation, speculation and valuing of the art fund above the intrinsic value of the art," reports Swarup, whose number crunching has revealed that currently the art fund market is running at a loss of minus 16 per cent. "When the economy hit a downturn in 2008, art funds were one of the worst affected. This was because art is not a liquid asset class and it has a lock-in period of three to five years before it can bare fruit," says Swarup. In other words, it's harder to sell art than other equity. While the equity market has seen rapid recovery there is a lag period for art.

Big players like Osian's Auction House and Connoisseurs of Art, have reportedly "exited the market at a low," to quote Chairman Neville Tuli. He is tightlipped about the actual losses of Osian's Art Fund as the online disclosure reports are of June 2009. It indicates a fall from a 123.13 to a 120.27 NAV. Rumours abound about the status of Osian's art fund. A former employee who spoke *ta The Indian Express* on conditions of anonymity said that some investors have exited the fund in panic, while many are awaiting returns on their investments.

In January 2007 Gaurav Karan and Amit Vadhera of Crayon Capital Art Fund had announced a Rs 40 crore investment in art funds. The two have decided to stick out the rough times and wait for the market to improve. "We have extended the fund for a year—originally the fund was for three years and was due to close in December 2009 but to ensure better returns we've extended it," says Vadehra, managing partner of Crayon Capita Art fund.

"In the first two years we had wonderful sales and profits so we've returned 30 per cent of the capital to the investors and we're not reusing it for liquidity. We will be publishing an annual report explaining changing prices, assuring our investors that we've bought the best artists though there's been a drop even in high-end artists," he says.

Swarup admits it's hard to switch to prevailing tastes. "Art funds try to adapt to the existing preferences, but switching is difficult since most funds are locked in for a five year period." Perhaps it is for this reason that Copal Art Portfolios CAP does not have any lock in period for their art fund and has diversified their purchases, mixing the Contemporaries with the Moderns. "In 2010 we will announce a global tie-up and our ready art bank allows our investors to choose their own artists, even if we advise a three-year lock-in period," says Ajay Seth, Chief Mentor of the fund.

Meanwhile SEBI has not issued any directive on art funds while many of the companies had filed their applications in 2008 to make art funds more transparent. Without SEBI's directives things continue to remain opaque, which is dicey for Indian art.