ART AS AN ALTERNATIVE INVESTMENT

Presented by
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CEO
for
Ben Enwonwu Foundation
Lagos, Nigeria
November 15, 2014
<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>UHNWI</td>
<td>105,641</td>
<td>162,968</td>
<td>167,669</td>
<td>215,113</td>
<td>59%</td>
<td>3%</td>
<td>28%</td>
</tr>
<tr>
<td>Centra-Millionaire</td>
<td>22,958</td>
<td>37,104</td>
<td>48,473</td>
<td>48,473</td>
<td>62%</td>
<td>35%</td>
<td>31%</td>
</tr>
<tr>
<td>Billionaire</td>
<td>934</td>
<td>1,682</td>
<td>2,315</td>
<td>2,315</td>
<td>80%</td>
<td>2%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Wealth creation and conservation can materialize even when political, fiscal and economic headwinds buffet world economies.

- Emerging economies, which have been the engines of growth since the 2008/2009 financial crisis, faced upheavals in 2013 which took a toll on total global growth;
- But equity markets sprung back to life, helping boost wealth across many regions – MSCI World Index +23%, S&P 500 +30%, FTSE 100 +14%, and NSE ASI +47%; and
- Investors in gold felt the impact of a sharp drop in prices – the first annual decline since 2000.
- **Nevertheless, some wealth managers feel that “the biggest opportunity for global wealth creation is investing in emerging markets, such as Africa.”**

### REGIONAL UHNWI WEALTH TRENDS

<table>
<thead>
<tr>
<th>Wealth Region</th>
<th>2003</th>
<th>2012</th>
<th>2013</th>
<th>10-Year Forecast</th>
<th>10-Year Growth</th>
<th>1-Year Growth</th>
<th>10-Year Forecast Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>813</td>
<td>1,844</td>
<td>1,868</td>
<td>2,858</td>
<td>13%</td>
<td>1%</td>
<td>53%</td>
</tr>
<tr>
<td>Asia</td>
<td>21,753</td>
<td>40,116</td>
<td>41,114</td>
<td>58,588</td>
<td>89%</td>
<td>2%</td>
<td>43%</td>
</tr>
<tr>
<td>Australasia</td>
<td>1,527</td>
<td>37,911</td>
<td>3,828</td>
<td>4,526</td>
<td>151%</td>
<td>1%</td>
<td>18%</td>
</tr>
<tr>
<td>Europe</td>
<td>42,007</td>
<td>58,549</td>
<td>60,504</td>
<td>73,396</td>
<td>44%</td>
<td>3%</td>
<td>21%</td>
</tr>
<tr>
<td>Latin America</td>
<td>3,934</td>
<td>9,635</td>
<td>9,677</td>
<td>13,771</td>
<td>146%</td>
<td>0%</td>
<td>42%</td>
</tr>
<tr>
<td>Middle East</td>
<td>3,258</td>
<td>6,891</td>
<td>7,052</td>
<td>9,498</td>
<td>116%</td>
<td>2%</td>
<td>35%</td>
</tr>
<tr>
<td>North America</td>
<td>32,349</td>
<td>42,142</td>
<td>43,656</td>
<td>52,536</td>
<td>35%</td>
<td>4%</td>
<td>20%</td>
</tr>
</tbody>
</table>

### LEGEND

- **UHNWI – Ultra High Net Worth Individual**: Person with investable assets of at least US$30 million, excluding personal assets and property such as one's primary residence, collectibles and consumer durables.
- **Centra-Millionaire**: No definition for Centra-Millionaire. Centimillionaire – Person with investable assets of at least US$100 million.
- **Billionaire**: Person with investable assets worth at least US$1 billion.

Source: The Wealth Report 2014
Everyone wants more money.
- People invest to increase their personal freedom, sense of security, and ability to afford the things they want in life.
- The responsibility of planning for retirement is shifting away from the state (and children), back towards the individual.
- Globally, the days when you work the same job for 30 years and then retire to a nice fat pension are gone.
- Old-school pension programs are no longer safe, with most likely to disappear over the next 20, 30 and 50 years.

How can I keep growing my wealth?
I want to retire & maintain my lifestyle
What should I invest in?

The practice of investing

1. Diligence (100%)
2. Patience (100%)
3. Risk Tolerance (100%)
4. Creativity (<20%)

WEALTH CREATION AND CONSERVATION
Typical Investment Portfolios

55-Year Old Empty Nesters
- Stocks: 55%
- Bonds: 28%
- Alternatives: 15%
- Cash: 2%

50-Year Old Couple with 2 Children in University
- Stocks: 50%
- Bonds: 30%
- Alternatives: 10%
- Cash: 10%

60-Year Old UHNW Couple with Potential Heirs
- Stocks: 45%
- Bonds: 40%
- Alternatives: 10%
- Cash: 5%

30-Year Old Professional Planning for Grad School
- Stocks: 45%
- Bonds: 30%
- Alternatives: 10%
- Cash: 20%

Source: MarketWatch.com, SmartMoney, 2012
Alternative investments comprise many types of assets, including real estate (i.e., commercial and residential property, land), businesses, and almost anything one can conceivably securitized.

- As investors take a more hands-on approach to wealth management and portfolio diversification, the world’s wealthiest are looking to find adventure in new territories.
- Heightened exposure to alternative investments is building acceptance.
- “Investments of passion,” as an alternative to more mainstream asset classes like equities, has grown significantly.
- Pleasure is reported as the main motive for spending on collectibles or “investments of passion,” and investment – for capital growth or as a “safe haven” – is reported as the second motive.

Source: The Wealth Report 2014
The role of art is changing.

- Art is no longer just appreciated for its aesthetic value and the expression of its lofty ideals; it is now, more than ever before, considered an investment.
- Prices paid for certain art pieces have gained international publicity, and art as an object of investment has become particularly alluring, e.g., Ben Enwonwu’s “Seven wooden sculptures” sold for £361,250 and “Mystery” for £300,000, and Edward Munch’s “The Scream” for nearly $120 million.
- Art has become the new hip, must-have investment.

<table>
<thead>
<tr>
<th>KNIGHT FRANK LUXURY INVESTMENT INDEX (KFLII)</th>
<th>Art</th>
<th>Cars</th>
<th>Stamps</th>
<th>Coins</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 4 (10-Year Growth)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-Year Change</td>
<td>-3%</td>
<td>28%</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>(Q3 2012 – Q3 2013)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-Year Change</td>
<td>193%</td>
<td>456%</td>
<td>250%</td>
<td>227%</td>
</tr>
<tr>
<td>(Q3 2003 – Q3 2013)</td>
<td></td>
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</tbody>
</table>

“Although the overall art market is slightly down from its 2011 peak, according to figures from Art Market Research, contemporary and post-war works achieved some record auction results last year, proving that buyers are still prepared to pay a premium for the most desirable works. ‘The sheer range of buyers is helping to drive up prices. ...In the first quarter of 2013, Christie’s reported registered buyers from 128 countries.’”

Source: The Wealth Report 2014
The art industry is now worth over $3 trillion and has an annual turnover of $30 billion.¹

- Art as an investment has an increasing demand, coupled with an absolutely limited supply, and the ability to survive the economic downturn.

- Art as an asset is in a class all of its own.

- As assets are grouped together based on the characteristics of their underlying companies, art is grouped based on the *period in which it was made*, the *artist* (whether they are living or dead), *style* and *medium*.

- Art acts as an asset because it is owned and holds monetary value, and it can be exchanged for such a value.

- The main attraction and the prime reason for the resurgence of art as an investment is its low correlation with other financial assets.

¹ R Mamarbachi, M Day, G Favato, *Art as an Alternative Investment Asset*, Henley Management College

Source: The Wealth Report 2014

15-Nov-2014

The Nigerian Stock Exchange
Putting money into art is not as straightforward as investing in property, land, bonds, equities or precious metals (e.g., gold). What you should know...

**NINE (9) PRECEPTS TO ART INVESTING**

1) Art is a heterogeneous product, artworks are unique.
2) Loyalty to an artist is low, and the perceived value of the product very much depends on an art dealer’s taste.
3) There is a lot of competitive pressure in the industry, and barriers to entry are high due to high fixed costs.
4) Costs of exiting the industry are also high, as it is difficult to liquidate assets.
5) There is a clear mutual interdependency between firms, dealers and art fund managers. (Note: The big three auction houses – Christies, Sotheby’s, Philips – are said to be price-makers and not price-takers.)
6) The art industry tends to compete on uniqueness of artwork, not on price.
7) The price of art within art markets is affected by uniqueness of product (the work of art), limited supply of works by the artist, production and sales costs, the market, and the macroeconomic environment.
8) The issue of value is often subjective, because of its heterogeneous nature.
9) There is an inelastic supply for art, since most tradable art is trapped in private collections.

*Source: Art as an Alternative Investment Asset*
“In practice, perfect knowledge of markets does not exist. ...The art market can be characterized as highly uncertain, and knowledge is scarce. The imperfections in the market, thus, become a tool of competition.” – Art as an Alternative Investment Asset
Art Investment Funds

- **Benefits** of art funds: Access to art expertise, insider knowledge of the art market, low transaction costs if you are an investor in the fund, due diligence services, good advisory services, and the potential for higher returns.
- **Disadvantages** in art investing: Liquidity, pricing, performance, costs, track records and conflict of interests.

**BRITISH RAIL PENSION FUND**

One of the most prominent examples of art investing

- Began investing in art in 1974
- Invested 2.9% of fund portfolio in art
- From 1987 to 1999 bought: Old Masters, Impressionists, Chinese porcelain, medieval works of art and antiquities
- Portfolio of artworks sold for ~$30m
- Reported CGR of 11.3%

Examples of art funds:

- 2000: Fernwood Art Investments
- 2000: Falk Art Management
- 2000: ABN AMRO Art Fund
- 2004: The Fine Art Fund, owned by Philip Hoffman (private, closed)
- 2005: The Art Trading Fund by Justin Williams (private)
- 2005: Collectors Art Fund
Portfolio Diversification

Participating in an art fund gives access to co-investment and adds diversification to a portfolio. But due to the high volatility of art’s value, it is necessary to invest over a longer period to adequately hedge.

Considerations:

- Understand international factors affecting art such as exchange rate movements, cultural factors affecting art and market preferences.
- Rising demand for artworks and increasing prices are driven by increasing global wealth.
- Artwork in the lower price categories react negatively to economic slowdown – demand drops while supplies increase, thus forcing selling.
- Artworks in the top price categories hold up well during weak economic environments.
- Art prices tend to have a positive correlation with inflation.
- When the stock market is in a downturn the art market booms – investor appetite shifts to tangible investments.

Source: Art as an Alternative Investment Asset
Unlike other markets, the transparent sales of the art market are only held at auctions, on set dates, and in specific seasons.

Art indices only work in the secondary art market and not the primary market – they are based only on auction results, not on private sales.

Investing in art disregards the traditional benchmarks of financial analysis as art does not generate an income stream, such as dividends.

Assessing a value by calculating future cash returns based on estimating future inflation and interest rates cannot be used to value a work of art. It is a bet on the price appreciation of something whose value defies financial logic.

Art incurs a negative income in the form of storage, insurance, transportation and other associated costs; and not all art works earn a positive rate of return.

Art is very volatile; it has performed in some decades and not at all in others.

**Measuring Art Market Performance**

- Mei Moses All Art Index
- Artprice
- Art Market Research
- artnet Price Database

Source: *Art as an Alternative Investment Asset*
"Is it important that the collection stays together, that it gets displayed? Should it be sold or stay within the family?"

Art purchases should be carefully and properly administrated from the onset.

1) The more documentation a collector/investor has, the more the art is an asset. Documentation also enables heirs and potential exhibitors to reconstruct the significance and value of the art in the future. Documentation should include:
   – An invoice from the gallery or auction house,
   – A fact sheet and photograph for each piece, and
   – Any publications about the artist or the piece itself.

2) Museum quality works of art should be displayed in museums. A collector/investor may execute a contract with any interested museum to guarantee exhibition space for the future.

3) Tax implications and/or inheritance issues should be mitigated well in advance by planning for a generational change. Planning should be done by the entire family to:
   – Eliminate the chance of a collection getting split up, thus, weakening its overall value,
   – Safeguard the cost of maintaining, storing and exhibiting a collection, and
   – Ensure children are well-advised on how to value and sell a collection, and on how to build a new collection that may better reflect their personal tastes.

Chief Joe Musa, former director general of the National Gallery of Art (part of the government’s Ministry of Tourism, Culture and National Orientation) believes in the economic potential of Nigerian art. ...[He] expects the art market to boost Nigeria’s economy by N50 billion over the next couple of years. - “State of the Art,” Arise Live Web site

The Nigerian Art Market

- Emergence of a formal secondary market
- Steady growth in the visual art sector
- Focus on production
- Rise of young artists

- Lack of documentation by artists
- Dearth of art historians and professional valuers
- Lack of transparency and confidence in auction houses
- Professional specialization
- Conflicts of interest

- Sustainable, credible art auctioneering structure
- Securitization of artworks, leading to art financing
- Availability of new sector-specific products and services, e.g., Market Research, Art Valuers, etc.
- Development of local and regional art funds

Art Galleries & Auction Houses in Lagos

- African Artists’ Foundation
- Arthouse Contemporary
- Baroyet Art Studio
- Ben Enwonwu Foundation
- Nike Art Center
- Omenka Gallery
- Ovuomaroro Gallery
- Pendulum Art Gallery
- Quintessence
- Red Door Gallery
- Sogal Auction
- Terrakulture
When measured against spending on rapidly depreciating alternatives, art is a great asset and provides valuable portfolio diversification. There is a value of putting a portion of one’s asset into art, as the art market has echoed the stock market over extended periods. Different kinds of art investments offer radically different risk return profiles – determine your risk appetite before investing (i.e., high risk/potentially high reward tolerance level).

How long the contemporary art market will continue to rise is unclear – it is linked to the taste and interest of the wealthy. How long the contemporary art market will continue to rise is unclear – it is linked to the taste and interest of the wealthy.

Carefully administrate any works you invest in. Invest in what you love (i.e., what you can live with looking at everyday on your wall).

Do your homework. Don’t chase “the next big artist”.

Final Thoughts

15-Nov-2014

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