

The Art of investing in “Art”

By

Michael Nock

Background

- Started career as Security Analyst in Australia
- Set up Merrill Lynch institutional business HK in 1980
- Established a JV with the Man Group in 1982
- Took Man Pacific public in 1986
- “retired” first time when Man acquired in early 1990’s

Michael Nock as Artist



- Upon the sale of Man Pacific moved to L.A. to study art.
- Attended Otis Parson's and CalArts.
- Received a BFA and MFA
- Whilst a student started an animation production company, a software development business and a CD ROM game production company (so much for retirement!)

Investor

- Moved back to HK in 1995/6 to work with a local family office.
- Acquired strategic stake in Australia's largest dairy company and provided financial engineering advice.
- Started own hedge fund in 2000
- Currently managing total return fund and family portfolio's

Painter and Film Maker



- Thesis film, Quangle Wangle, winner of 7 awards for best short animation.
- Developed CD ROM game Creature Crunch
- Studio in Aberdeen.
- Try to paint 3 – 4 days per week.
- Rest of the time spent in front of the Bloomberg.
- Constant conflict of right versus left brain!

Collector

- Started collecting art at high school.
- First criteria was what could be afforded.
- Second criteria was the art itself.... Did I like it?
- Have an extensive collection of varying quality.
- Problem of where to put it all.
- Now try to focus on upgrading collection.
- Buy less but better quality.

Collecting art can be fun

- Continued collecting while at university.
- Mainly bought friends and other students works
- Only a very few of these paintings are worth even the small amount I paid at the time... But I have enjoyed them in the mean time
- In the early 80's brought a number of Australian artists to HK, set them up in Shek-O.
- Again these works have not really appreciated in value but did allow me to see HK through different eyes.

Getting serious about collecting

- Started to get serious about collecting as income and savings increased.
- Became friendly with a number of artists and dealers and attended many openings
- Some of the early names included Ju Ming, Louis Chan, Zou Wu Ki, Wang Guang Yi, Tang Zhigang and Chu Teh Chun.
- Bought out an entire show representing a cross section of Australian Sculptor's with some money left by grandmother and endowed a prize in her name.
- Started to research more deeply into relatively undiscovered but important artists like John Peter Russell.

Ju Ming, Zau Wu Ki, Louis Chan, Chu The Chun, Tang Zhi Gang, Wang Guang Yi





Field Trips with other artists

One of the great pleasures of collecting art and immersing oneself in the art world is meeting artists like Euan MacLeod, Elizabeth Cummings, David Asher and Leo Robba. (Artist's camp Central Australia)



Euan MacLeod



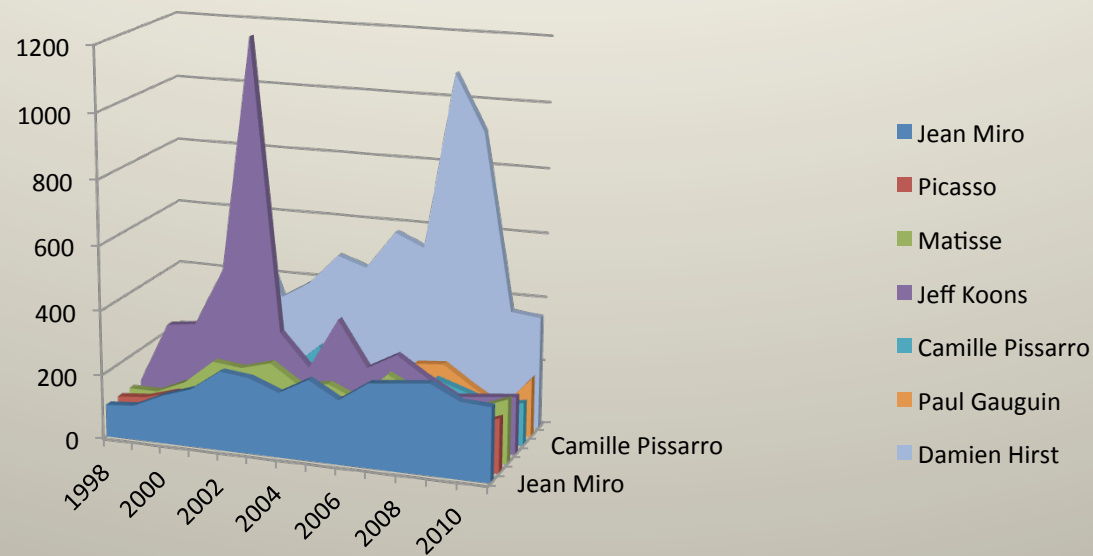
Elizabeth Cummings

Beware the Art Market

- Art market provides uncertain liquidity
- Limited transparency (but improving)
- Many forgeries (provenance important)
- Prices are manipulated (Auctions used to set price benchmarks)
- Art can be used to launder money and pay bribes
- Artists go in and out of fashion
- High transaction costs
- Market is unregulated (no SFC)

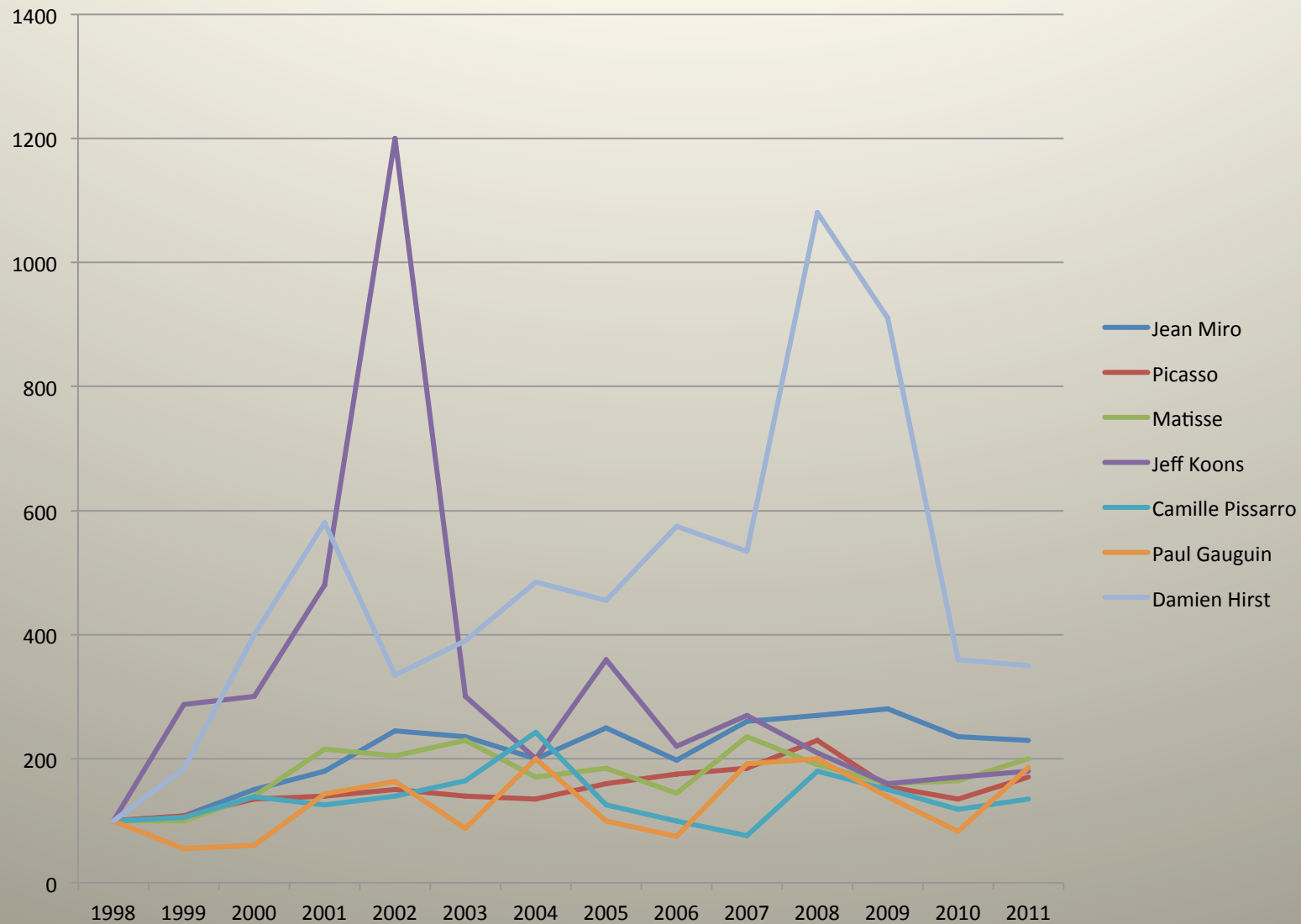
Art as an investment

- Works of art in general do not tend to increase in value
- If you took every single painting that was sold for the first time in 1910 or 1940 most have simply vanished
- The Economist noted that a favorite English painter called Landseer sold for \$2,257 in 1875 but was only worth \$38 in 1928.



Price movements of individual artists

Some artists can see considerable volatility in prices, and fall quickly in and out of fashion. Witness Jeff Koon's fall from grace after 2002, and Damien Hirst who was particularly hard hit after the GFC and hedge fund buyers pulled their horns in.



- The Stalwart's like Jean Miro, Picasso, Matisse show a steadier progression although all were affected by the GFC to varying degrees. Miro seems to have shown the steadiest progression.



Wang Guang Yi "Materialist's"

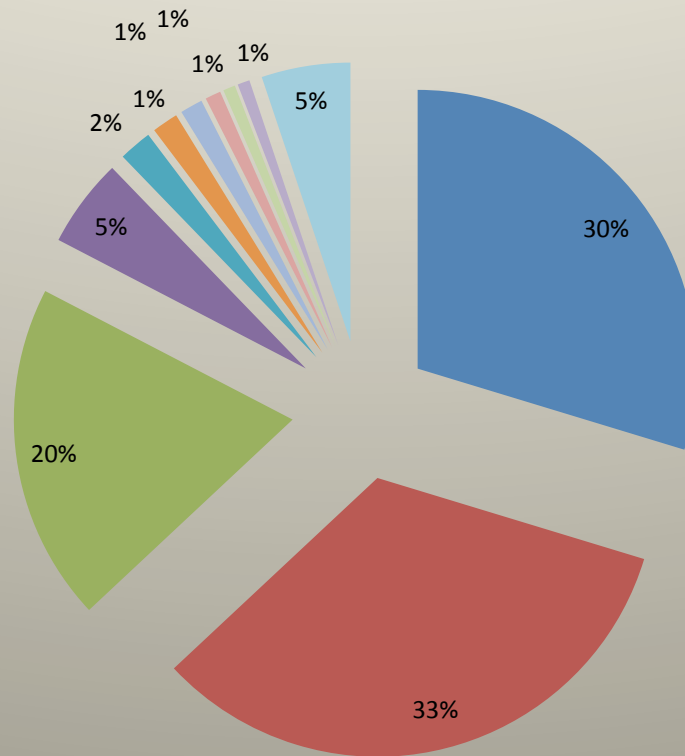
China has been the big story of the past decade

Art Trends – China

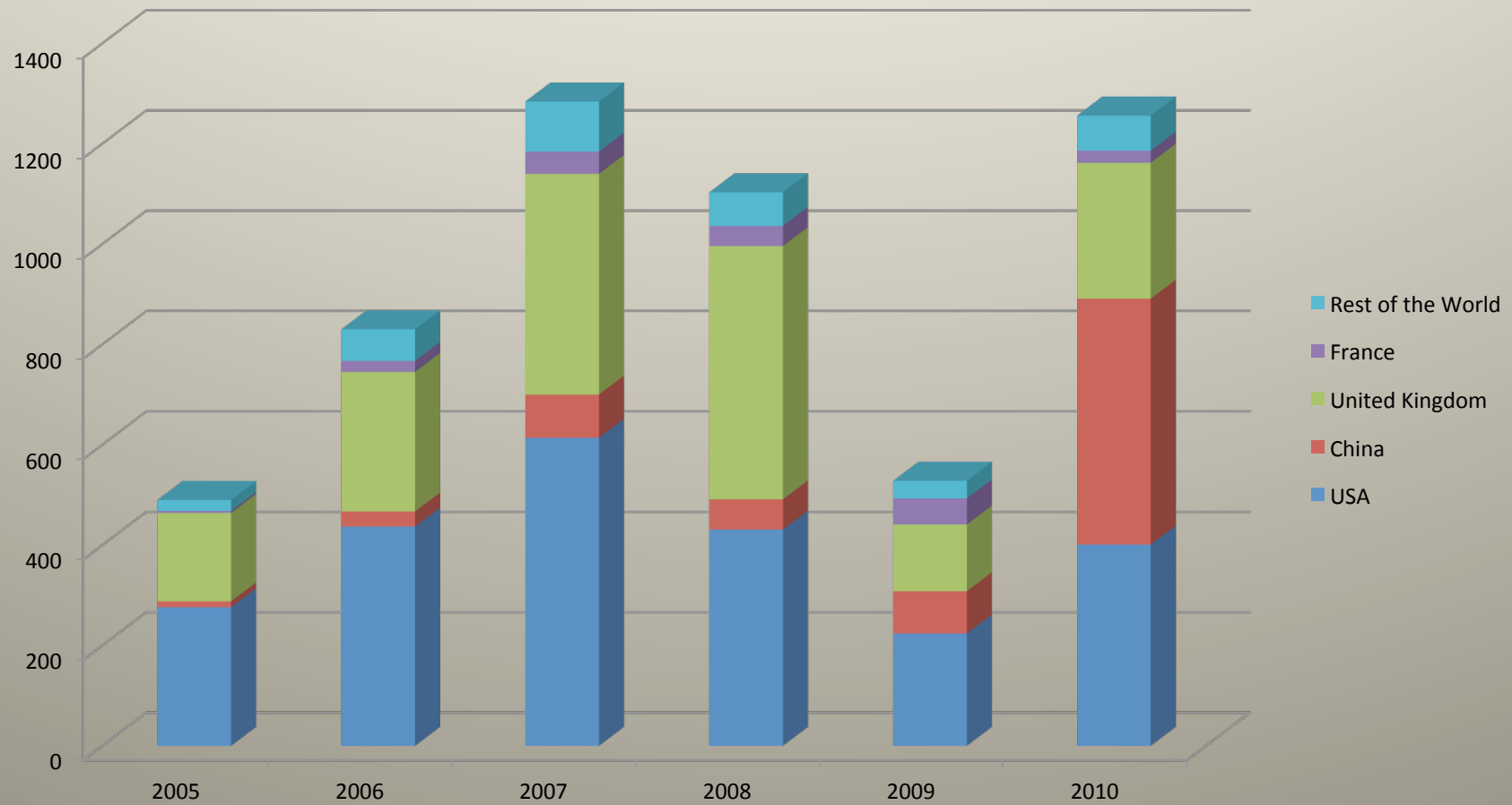
- China's accession to leading position
“electroshock in the history of the global art market” ... (Thierry Ehrmann @ Artprice)
- Took just three years for China to jump from third place (previously France) in 2007 to first place in 2010.
- China has overtaken the US and the UK as the world largest auction marketplace for fine art (Artprice 2010)

2010 Fine Art Auction Sales

■ USA ■ China ■ United Kingdom ■ France ■ Germany ■ Italy ■ Switzerland ■ Austria ■ Japan ■ Sweden ■ Others



Million Dollar Auctions by Country



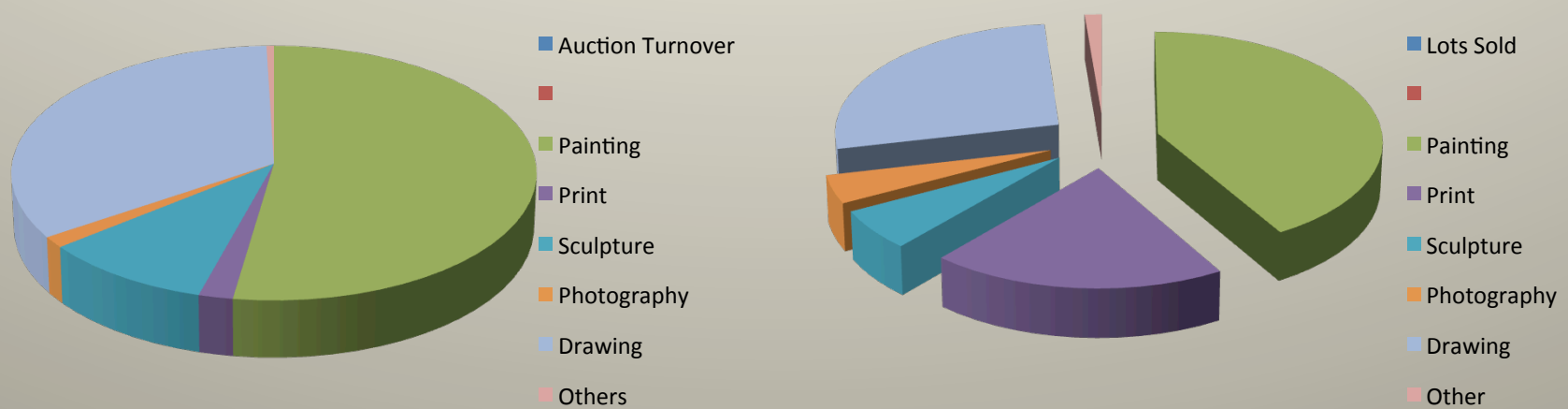
Changes in the market

- Since the 1950's Fine Art market was dominated by USA and UK
- China was almost a non factor in 2000
- "Old Europe" the biggest loser.
- In 2003 Europe was 80% of global lots sold and 55% of global annual revenue. By 2010 only 66% of lots sold and 33% of value.
- Asia now 36% of global sales with China 33% alone.
- US has been relatively stable over the decade with 14-16% of lots sold, but value down from 47% to less than 30% in 2010.

Auction Houses

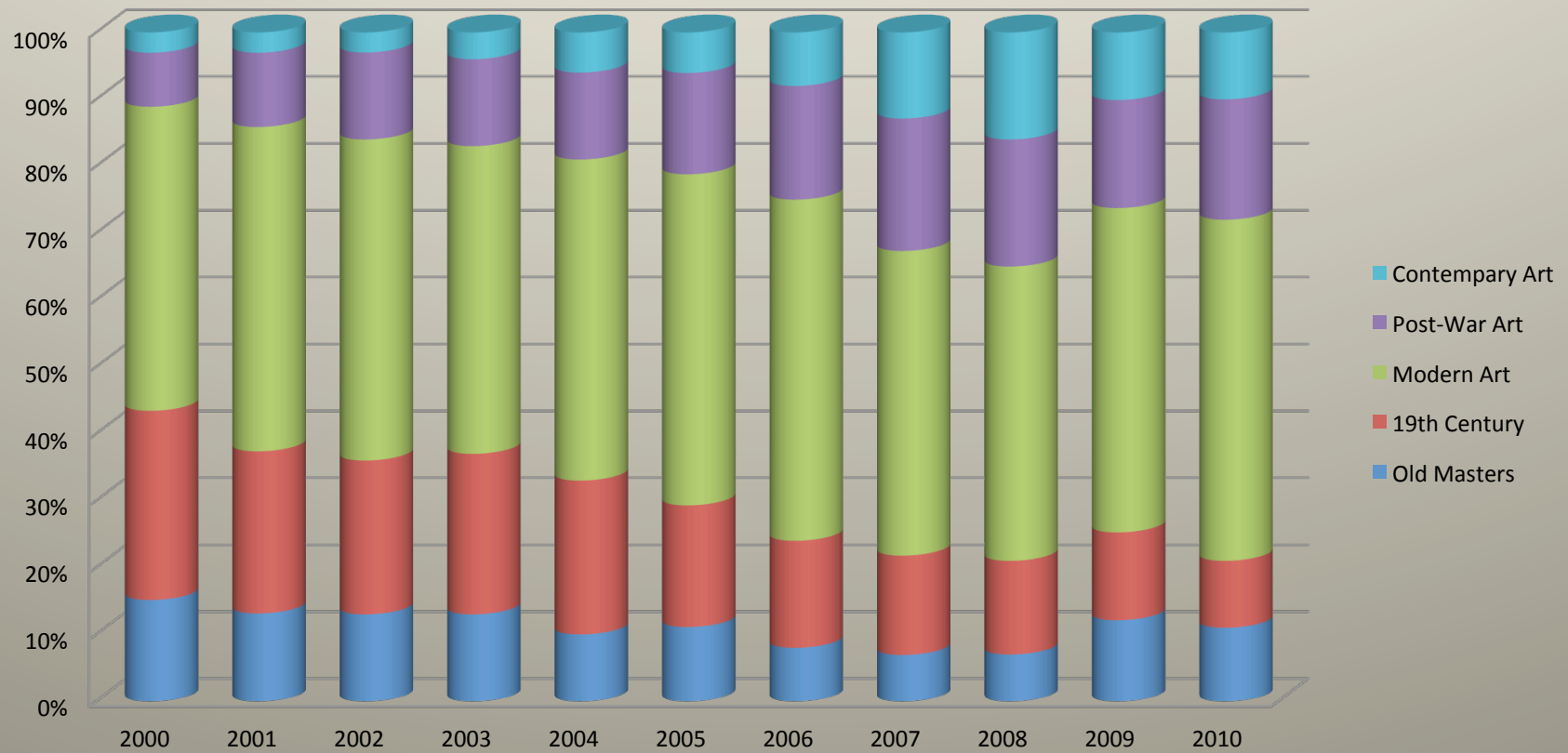
- Christie's and Sotheby's hold top positions at \$2.47b and \$2.41b respectively.
- 10% comes from HK branches.
- Next is China's Poly International at \$678m.
- Behind Poly, 2 more Chinese firms, China Guardian @ \$498m and Beijing Hanhai @ \$256m.
- Phillips de Pury in 6th place with \$226m
- Next are Chinese. 7 out of the top 10 auction houses are Chinese
- Beijing is now 2nd in the world behind New York. US \$2.3b vs NY @\$2.7b.

Turnover by category - value versus lots sold



Fine Art Sales by category

Chart Title





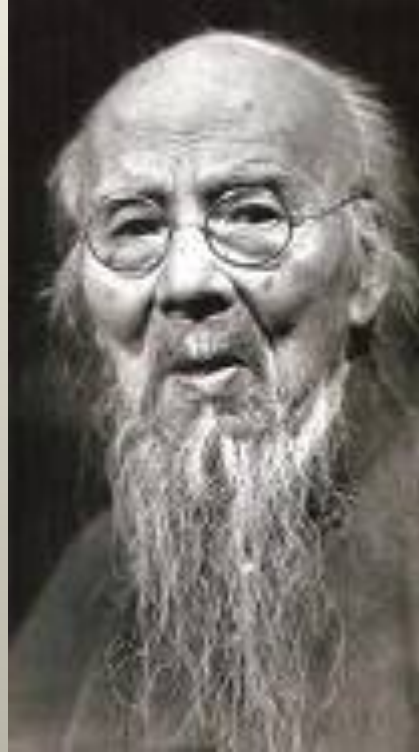
Picasso is the top artist by revenue in 2010 with total sales revenue of US\$361.5 million



Picasso Nude Green Leaves and bust,
record US\$95m in 2010



- Picasso's price is double the best Auction result for an old master in 2009. Raphael's Head of a Muse US\$42.9 million



- Qi Baishi is number two artist in 2010 and only top 10 artist whose revenue did not flag during GFC.



Auction record for Flowers and insects US\$12.4 million. Total revenue US\$339.2 million



- Andy Warhol is number three with total revenues of US\$313.5 million



Best result for Warhol in 2010 was
“Men in her life” which sold for US
\$56.5million



Total revenue for Zhang Daqian was US\$304.3 million with over 800 works sold in 2010. Temple at the mountain peak fetched US\$6.95 million.



Highest price for a Modern Sculpture. Over 2001 -2011 sculpture rose 50%. Alberto Giacometti price index rose 380%.



In 2010 Giacometti's "L'Homme qui marche" achieved a price of US\$93 million



Xu Beihong was 6th highest in revenues with US \$176 million. 55% of sales were in China and 43% were in Hong Kong



- Xu Beihong 3 meter Landscape painting set a record of US\$23 million at Hanhai Art Auction.



- This compares to a painting that was twice as big that sold in 1994 for just US \$30,000



- In 2010 Henri Matisse posted five 8 figure results (over US\$10 million).
- Bouquest de fleurs sold for \$25.5 million and Danseuse dans le fauteuil sold for \$18.5 million



“Nu de dos 4 etat “ sold for \$43.5 million versus estimate of \$25-\$35 million on 3rd November 2010



- Modigliani sold \$139.8 million worth of paintings in 2010 with “Nu assis sur un divan” fetched an incredible \$61.5 million



Fu Baoshi

Fu Baoshi generated revenues of US\$125.2 million including Song of the Red Pipa player sold for US\$9 million (HK\$70.1 million) though Christies in Hong Kong



Zhang Xiaogang

The rise in price for Contemporary Chinese paintings has been nothing less than astonishing. Led by Zhang Xiaogang.



Bloodline. The Big Family No. 3

Sold in Hong Kong on April 2008
for US\$5.4 million.

Zhang Xiaogang – Superstar!

- Lithograph of “My Daughter” sold for US\$289 in July 2003 at auction in France (Litho’s have multiple copies so easier to track price... comparing like for like)
- October 2006 same Lithograph sold for US \$2985 in UK
- December 2006 US\$2902 in Paris
- May 2007 sold for US\$11,848 in UK





Zhen Fanzhi

Another relatively young Contemporary Chinese artist who recently changed his style with scratch like brush strokes.



Zeng Fanzhi - Mask Series

- Sold for US\$1.35 million on October 4th 2010 at Sotheby's in Hong Kong



The one that got away...purchase price HK\$80,000, didn't take it. Three years later sold in Auction for HK\$3.8 million!!!

Ai Wei Wei



Beware Art Fund's

- This Richard Prince "Tender Nurse" painting was purchased
- on May 13, 2003 for \$95,000 and sold on November
- 16, 2006 for \$2,256,000 at the Philip's auction.



- This Takashi Murakami "Lonesome Cowboy" sculpture was purchased on
- September 21, 1999 for \$19,100 and sold on May 21, 2008 for
- \$15,161,000 at the Sotheby's auction.



Terms of Investment

- 5-year lock-up with a 2-year extension provision.
- Minimum investments of \$250,000.
- Target close of \$100 million.
- Target returns of 3x ROI and a 25% IRR.
- 2% management fee with a 20% performance fee.
- Management fee will cover shipping, storage, and insurance cost.

What deeper digging revealed

- The promoter's took a buying and selling commission or shared with auction house... between 20% - 30% per transaction.
- Profit share was paid to promoter's every time a work was sold at a profit, not on the successful liquidation of the entire portfolio.
- This begs the question of what happens to the work that goes down in value.
- No transparency on who is the buyer or seller of the art into and out of the fund.

Art Exchanges and partial ownership

A&F Markets's [Art Exchange](#) opens today in Paris with a few more details on how the exchange will work. The company is offering fractional ownership of two works:



The very first works available will include a major piece, the sole trace of his performance at the Guggenheim museum in 2007, by Francesco Vezzoli – an internationally recognized Italian artist – *The Premiere of a Play That Will Never Run*, and a painting by Sol LeWitt – the father of conceptualism – *Irregular Form*. Vezzoli's work will be introduced at an initial value of 135,000€ with shares available at 10€ (total of 13,500 shares). *Irregular Form* will be introduced at 110,000€ with shares worth 10€ (11,000 shares in all).

A&F Markets will organise viewing sessions for its clients in order to see these two artworks which are being sold by the international gallery Yvon Lambert in Paris. "Via Art Exchange, we hope to encourage people to become collectors," added Olivier Belot, director of the gallery.

The idea behind the exchange is that each work is sold at a set share price of 10€ but subsequent trading will establish a higher or lower value for the work.

Art Exchanges

- In return for a 5% commission, the exchange has the exclusive right to sell shares in a work over a period of three to six months, but if it does not sell 20% of shares within six months, the gallery recuperates what has already been sold and retains the work of art. If one collector amasses 80% of shares in a work, they have the option to buy it outright and remove the work from the exchange.

Tianjin Cultural Artwork Exchange

(Reuters) - China's maiden "art stock exchange" has halted trade in its top two paintings after their share prices soared 1,700 percent and ignited concerns that a new bubble was bursting.

Clear signs of yet another bubble in China!

- The Chinese art market was also seen by many critics as a bubble in 2008 when auction prices soared. But the boom in art shares was something entirely new.
- The Tianjin art exchange, which opened in January, operates by listing works of art and then offering investors fractional ownership.
- The two paintings yanked from trade were Roaring Yellow River and the Autumn in Fortress.
- Exchange data showed that on its last day of trade this week, shares in Roaring Yellow River traded at 17.2 yuan (\$2.62), compared with their issue price of 1 yuan.
- That valued the canvas by modern Chinese painter Bai Gengyan at 103 million yuan (\$15.7 million), nearly 52 times the highest price that Bai's paintings had ever fetched in a public auction.



Bai Gengyan - Roaring Yellow River

Fun with collecting

- John Peter Russell - Belle-Ile



- John Peter Russell - Nice



Monet influenced Russell

- John Peter Russell



- Monet



Russell influenced Van Gogh

John Peter Russell

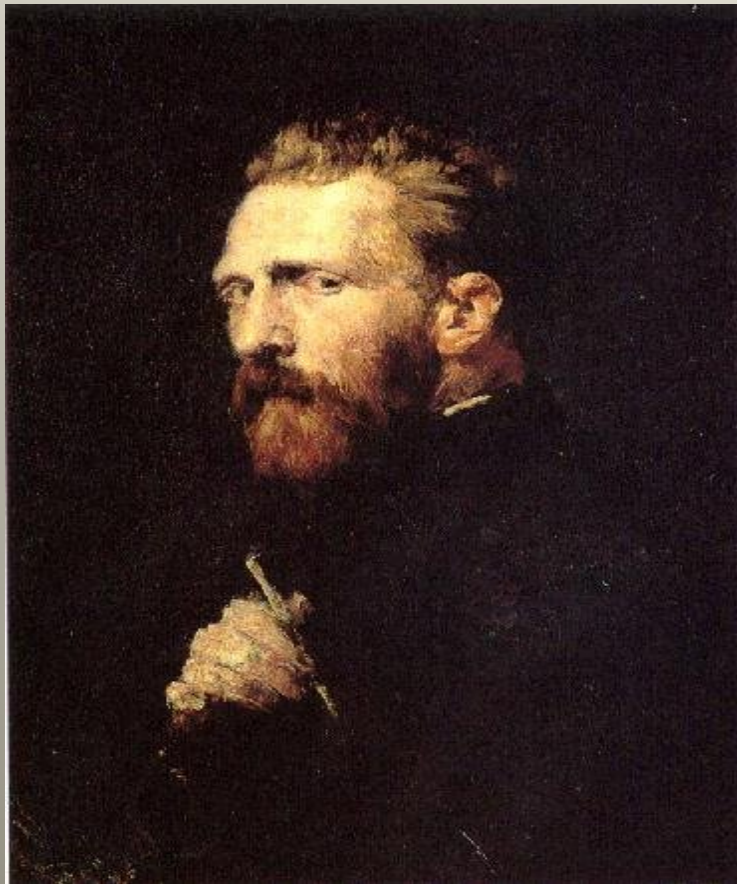


Vincent Van Gogh



Russell as friend of Van Gogh

- Russell's portrait of Van Gogh



- Strong use of colour

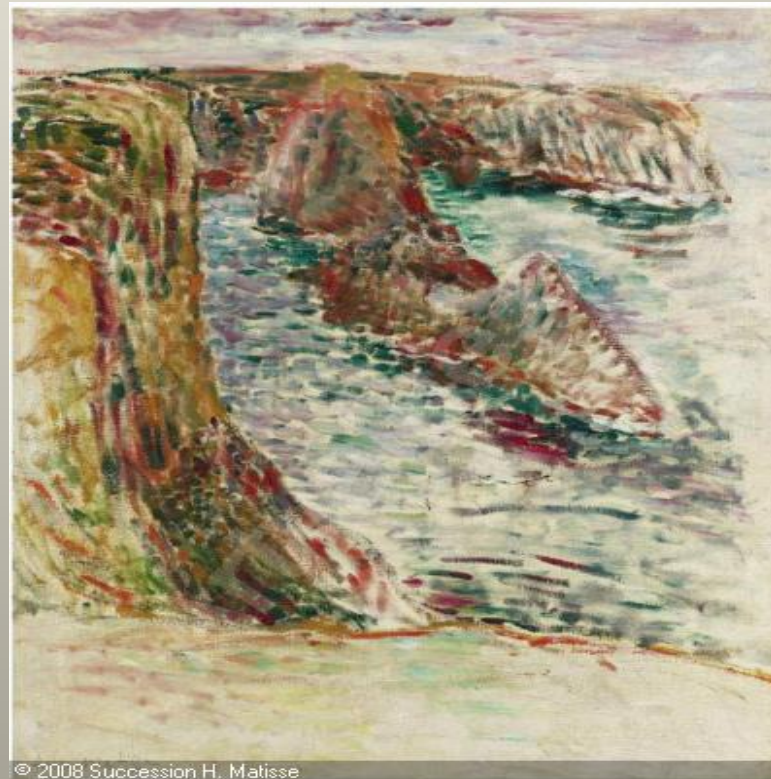


Influence on Matisse

- Matisse in Belle Ile 1896



- Matisse in Belle Ile 1897

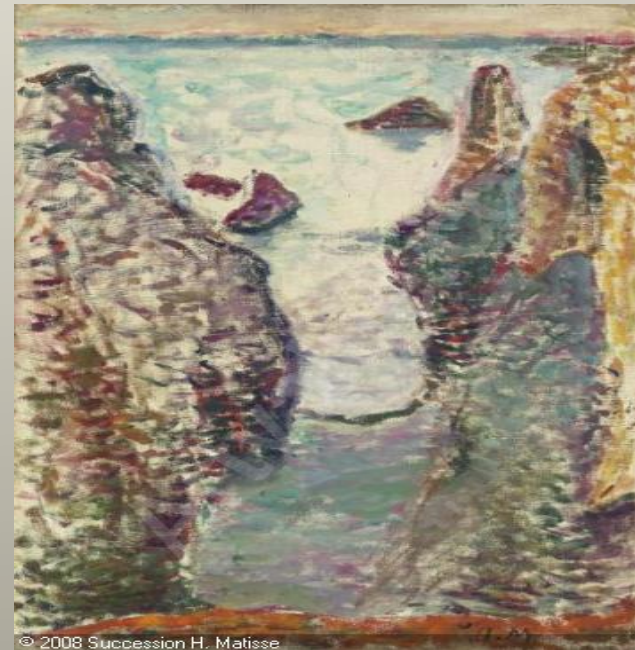


Matisse lightened palette after staying visiting with Russell in Belle-Ile

- 1896 – first visit



- 1897 – second visit





Thank you !!!