Expert voices

IT IS STILL POSSIBLE TO INNOVATE IN THE ART LENDING INDUSTRY

Aymeric Thuault & Aude Lemogne
Co-founders and managing directors of LINK Management

Xavier Ledru
Deputy head of corporate advisory & structuring, REYL & Cie

In June 2017, bank REYL & Cie and art wealth management firm LINK Management teamed up to launch Griffin Art Partners (GAP), a securitization platform structuring non-recourse art loans.

Please could you start by introducing your companies and explain why Griffin Art Partners was created?

AT: LINK Management is an art wealth management company founded in 2009, based in Luxembourg, Germany, and France. In addition to the classic advisory approach of analyzing a work of art from an aesthetical and historical point of view, we integrate the notions of in-depth due diligence, market timing, and risk management as well as asset allocation strategies for those individuals eager to consider their art as a means of diversifying their wealth.

We first became involved in art financing long before Griffin Art Partners was launched; as LINK Management had been providing funding directly to a number of art market professionals in the form of co-investments in works of art. In light of various constraints, our ambition was to be able to simultaneously address substantial financing needs and to design a new finance structuring model. We had a long-standing relationship with REYL & Cie, and as we had both identified an opportunity in the art lending space in Europe, we decided to launch Griffin Art Partners together.

XL: Founded in 1973, REYL is an independent banking group that manages assets in excess of CHF 15 billion (including minority affiliates) and has offices in Switzerland (Geneva, Zurich, and Lugano), Europe (London, Luxembourg, and Malta) Singapore, Dubai, and the United States. Having developed an innovative approach to banking, the group serves a clientele of international entrepreneurs and institutional investors through its *Wealth Management, Entrepreneur & Family Office Services, Corporate Advisory & Structuring, Asset Services*, and *Asset Management* business lines.

REYL & Cie has been active in the art world for some time through its Entrepreneur and Family Office Services. On the investment side, we had identified the need for innovative services in relation to art as an investment and were therefore keen to position ourselves in this market segment. We then looked for a tool with a lower risk profile than art funds. By using the bank's various skills, particularly in terms of legal and financial structuring, we partnered with

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LINK to focus on devising a fixed return instrument (5 percent to 10 percent per annum), fully backed by the borrower's art collection. Such fixed income products are particularly attractive for investors looking to diversify their portfolios and de-correlate their asset allocations from other, more traditional asset classes, as a complement to more liquid positions.

How does GAP differentiate itself from other art lending solutions?
XL: Like a traditional art lender, GAP is involved in non-recourse loans; however, our structure is unique because we offer a proprietary securitization setup. GAP issues art-backed notes for each new loan, which is thus financed by a limited pool of institutional and private investors interested in generating a high return over a short- to medium-term horizon. Each loan is structured by issuing notes with an international ISIN code and cleared through the leading clearing houses. Art-backed notes are an innovative alternative to an art fund, as they provide exposure to art with much lower risk, through a maximum loan-to-value of 50 percent, while generating a fixed return.

AL: One of our aims was to set up highly transparent procedures as well as a flexible structure that can be adapted, when possible, to the borrower's specific needs. We can operate in all European jurisdictions and have the ability to permit some of our clients to keep their art at home, thus avoiding dispossession. It is worth noting that there are no conflicts of interest in the event of default as GAP will never take possession of the collateral itself at a discounted value. It will sell the asset in a public sale and return any amount outstanding after repayment of the loan to the borrower. Furthermore, we will not proceed with credit due diligence on the borrower and we will not require the latter to provide any personal collateral or assets under management.

XL: I would also add that, as a Luxembourg platform, GAP does not have cumbersome documentation processes. Our agreements are simple and straightforward. Besides strict due diligence on the collateral itself, KYC and AML procedures have been delegated to REYL & Cie in order to ensure maximum investor protection.

What do you see as the biggest challenges when providing art-secured lending to your clients?
AL: I would say that the two main challenges are artwork valuation and documentation quality.
In order to establish an accurate valuation, you need to pick suitable points of comparison from auction data, but that is not sufficient to identify price trends early on. Too often auction data confirms an existing trend that has already built up over a certain period in private dealings. If you rely solely on auction data, you run the risk of missing key elements. As LINK Management is active in private art transactions, we leverage the information flow to build up our proprietary price databases and to track price developments before they crystallize at auction. This allows us to manage the collateral on our loans much more efficiently. Regarding the documentation accompanying artworks, we observe a wide spectrum of completeness. Some collectors have painstakingly archived all certificates, invoices, insurance documents, and literature references related to their artworks. This facilitates our due diligence process and ultimately increases the chances that the works are deemed eligible. But we still come across some collectors who have failed to hold on to their full documentation, which negatively affects the marketability of the works. And, of course, there is the not-so-unusual case of extremely abundant authentication files that are a compilation of unknown art experts. These have to be rejected systematically.

What is the demand in terms of borrowing and investing?
AT: Europe is still a relatively untapped territory, especially compared with the United States. But leveraging an art collection is not for everybody, and there are cultural differences that make the appetite for leverage more developed in certain countries than in others.

XL: Nevertheless, the load quantum has increased since our launch two years ago and, as an example, we are currently looking at various transactions presenting a collateral value of between €25 million and €40 million.