The International Family Offices Journal

Editor: Nicola Saccardo

September 2022 • www.globelawandbusiness.com

STEP ADVISING FAMILIES ACROSS GENERATIONS

Globe Law and Business

The International Family Offices Journal

Globe Law and Business contacts
Sian O'Neill, Managing Director
(sian@globelawandbusiness.com)

To contribute
The Editor and Globe Law and Business welcome new contributions.

Proposals for new articles/material should be submitted to Sian O'Neill at sian@globelawandbusiness.com

Citation
This journal should be cited as IFOJ Vol 7 [2022]

To subscribe
Contact Susan Brushwood at sbrushwood@globelawandbusiness.com
Annual subscription:
Price for digital £695/$985/€945
For full details of our Founder Subscriber offer, go to: https://www.globelawandbusiness.com/journals/the-international-family-offices-journal

***The International Family Offices Journal* is published by**
Globe Law and Business Ltd
3 Mylor Close
Horsell
Woking
Surrey GU21 4DD
Tel: +44 20 3745 4770
www.globelawandbusiness.com

The International Family Offices Journal

Contents

Volume 7, Issue 1, September 2022

Welcome to the September 2022 issue of The International Family Offices Journal

Nicola Saccardo

Welcome to the September issue!

I am delighted to be the Editor of this Journal. I and all the editorial team at Globe Law and Business wish to express our deepest gratitude to Barbara Hauser, the Founding Editor of the Journal, for her leadership, knowledge and graceful guidance and support. Thank you Barbara!

We trust you will enjoy the broad range of subjects dealt with in this issue by prominent experts. Please remember we welcome contributions and comments, so do not hesitate to get in touch.

We start with an article on philanthropic collaboration by Donzelina Barroso. The author explains the different forms of collaboration between donors and the related benefits, supporting her analysis with a number of cases, and sets out recommendations as to how to approach collaboration with other donors.

In the following article, Dennis T Jaffe, Maya Prabhu and Carolina Cintra describe and comment on the five-generation 100-year journey of the Tavares de Melo family. The in-depth description of the family history is based on interviews with several family members. The article highlights the core family principles that helped the family to overcome several crisis points over such a long period by rethinking their business and family organisation to become stronger and more resilient. A special thanks goes to the Tavares de Melo family members for their valued involvement in this article.

Richard Grasby explains the benefits of offshore financial centres to family offices, ranging from privacy to political and economic stability, strict regulation and legal instruments that may not be available elsewhere, and highlights that, in each case, specialist advice is required to select the most suitable offshore financial centre.

The importance of financial education of family members is the subject addressed by Peter Brock. The author explains the importance of this education for the successful transfer of wealth across generations, how it should comprise both family structuring subjects and technical financial education and how it will benefit both families having their own single-family office and families relying on the services of external multi-family offices.

David Whittaker deals with the UK and EU sanctions regime insofar as they apply to Russian private clients and their assets-holding structures. The consequences of a breach of these rules are very severe so it is extremely important that advisers have a clear understanding of such rules.

Paul Knox provides a very 'entertaining' article. He describes some of the most interesting examples of estate planning in the entertainment world and provides his personal in-depth comments on the lessons to be learned from such cases. The article shows how the issues encountered by musicians are not that different from those encountered by wealth creators and others.

France recently introduced the Right of Compensatory Levy. Michael Khayat and Jeanne Marcilhacy explain clearly how this new legislation goes beyond the original intent of the legislator. It introduces additional forced heirship restrictions when the estate includes French assets, the succession has a qualifying link with the European Union and the applicable succession legislation does not provide for forced heirship rules. The authors point out the possible incompatibility with EU law. Practitioners must be aware of these new French rules.

In "Family offices and the art of investment", Mary Elizabeth Klein explains the current trends regarding investment in art. She describes the benefits and the risks of investing in art, as well as the different ways of investing (eg, art funds, NFT-based art and art lending). She stresses the importance of involving art professionals due to, among others, the market opaqueness and the lack of regulation and the fact that the type of investment depends on the objectives of the investor. For instance, an investor may prefer to invest in an art fund in order to avoid the responsibility of owning and maintaining the physical piece of art.

Jim Coutré explains how relevancy, ie, the connection between a family and its family office, is the key to success of a family office. The author highlights how important it is for both family office executives and family members to articulate the needs of the specific family. He sets out ideas and questions that may help family office executives and family members to identify these specific needs to ensure the success of the family office.

In the luxury corner, Eymeric Segard busts some misconceptions of flying private and explains the pros and cons of the four options for flying private (full ownership, fractional ownership, flight cards and chartering).

The Journal ends with the usual selection of news from STEP News Digests. Thanks to Helen Swire, news editor at STEP.

Finally, we are planning to hold a reception in London. Further details will follow, so stay tuned.

Family offices and the art of investment

Mary Elizabeth Klein

Art is a jealous thing; it requires the whole and entire man.
Michelangelo

Introduction

The great pandemic has accelerated societal and economic trends, comparable to plagues of the past such as the Black Death and Spanish flu. The art world has experienced this effect through the exponential growth in the commercialisation and democratisation of art works. This article presents an overview of art investment fundamentals that family offices need to be aware of before engaging in the new frontiers of the art market.

Summary

With the value of privately held art estimated at more than $2 trillion,[1] art has evolved from a passion asset into an asset increasingly acquired for investment purposes. During the past 35 years, remarkable wealth creation exceeding $3.6 trillion by 917 self-made billionaires has occurred through technology and finance innovation, industrialism in Asia, consumer products entrepreneurship and international real estate investment.[2] The art market has been a beneficiary of this global wealth expansion.

Transactions through auction houses and dealers are the primary channels for selling art. Sales of art and antiques by dealers and auction houses were valued at $65.1 billion in 2021.[3] Collectors increasingly view art and collectibles as capital assets which can be managed speculatively, as a hedge for inflation, or as a store of value in times of uncertainty.[4]

Art and collectible assets are often part of family office wealth, and collectors may mistakenly draw parallels between principles of diversification in the equities market and art market. Effective diversification of art as an asset class is very difficult to achieve due to thousands of submarkets.[5] Further, art is complex to value, hold and manage as an asset class. Therefore, developing an understanding of the intricacies when investing in art is critical. Given that the art market remains the least regulated of the major asset classes in transactional matters and the art market is an opaque economy, extra due diligence

BENEFIT CONSIDERATION		
Art as a financial asset		
Long-term value	Acts as inflation hedge.	Due to illiquidity, it takes time to sell.
Portability	As a store of value, it can be moved easily.	The costs of maintenance are high.
Portfolio diversification	Offsets the negative effects of financial market downturns.	The supply of physical art is limited.
Arbitrage opportunities	Presents considerable financial returns.	Market timing is key.
Art as a collectible		
Passion purchase	Provides enjoyment and pleasure.	Family members may have different collection preferences.
Family unifier	Brings generations together over a common interest.	Family tastes change and disagreements can arise.
Philanthropy	Through tax planning, converts art collections into charitable giving.	Strategic tax planning is required to be ready for market opportunities.
Cultural uplift	Provides a form of environmental, social, and governance (ESG) investing.	Making the ESG investment impactful requires due diligence.

Due to the multiple and complicated factors to consider related to holding art, including market opaqueness and the lack of regulation, the involvement of art professionals in the process of investing in art is imperative to avoid inferior purchases, buying fakes and even avoiding fraudulent transactions.

when buying or selling artworks must be undertaken by the individuals engaged in those activities.[6] Family offices need to hire best-in-class professionals to develop specific strategies for stewardship of the collection as well as to have 'qualified'[7] appraisers and conduct periodic art appraisals as a critical component in managing their art collection as a financial asset.

Recent developments such as the commercialisation and financialisation of the art market through online sales, art lending, securitisation, and non-fungible tokens (NFTs) based art must also be considered when investing in art.

Art principles and market dynamics

Given the market and economic context presented for purchasing art, there are several benefits and considerations for collectors and investors to evaluate before engaging in an art transaction.

Due to the multiple and complicated factors to consider related to holding art, including market opaqueness and the lack of regulation, the involvement of art professionals in the process of investing in art is imperative to avoid inferior purchases, buying fakes and even avoiding fraudulent transactions.

As with any asset class, developing an understanding of valuation principles and market dynamics is important in the context of macro-economic developments. The following are some useful definitions.

Definitional guidelines

Any item could be classified as fine art, a collectible, or an antique.

Fine art

Flat or three-dimensional visual art comprising paintings, prints, posters, photographs, drawings, other works on paper, and sculpture, but also including conceptual art to the extent that there is a tangible component. Some increasingly use the term 'fine art' to include three-dimensional tangible personal property such as 20th-century design, but furniture and objects are normally considered to fall under the term 'decorative art'. The term 'fine' in fine art does not denote of greater value than 'decorative' as in decorative art. It is merely a term used to differentiate between the two areas of collecting.

Collectibles

Decorative art including such areas as Hollywood and sports memorabilia, stamps, coins, books, pens, classic cars, wine, whiskey, couture and accessories, minerals, fossils, and other collectible categories. A collectible does not necessarily have to be valuable or antique.

Antiques

Decorative art including furniture, objects, and other mostly three-dimensional items that were created at least 100 years ago, although exact dating is flexible.

Art supply and demand

The premise that the art market is supply driven is a fundamental concept to understanding the economic framework of the art market and its impact on valuation. The total quantity of art supply is essentially fixed in the short run for nearly all artists (and in the long run for deceased artists). No matter what price someone may be willing to pay for more art, extra supply cannot, in most cases, be created simply to meet demand. It is primarily because of these limits on supply that prices for art can reach extraordinary levels. Rare or exceptional works of art with historical importance; art 'fresh to the market' from estates, major institutions or private collections; and the long market cycle, typically several decades, add to the scarcity value of art.[8]

Art valuation principles

The challenges in valuing art and collectibles, real estate and private equity are analogous in many respects and include the following:[9]

- Each asset is unique;

- Valuations can be challenging given that, in some cases, few, if any, direct comparables exist, or those that are similar must still be carefully interpreted by a competent and qualified appraiser;
- There are myriad indices that use diverse underlying calculations, and there is imperfect reporting of art sale price results, especially when printed catalogues are now less common and offerings and results can be purged easily from digital records;
- Both markets are illiquid;
- Buying, holding and selling costs are considerable; and
- Buying and selling are often infrequent.

Art involves additional nuances to evaluate (such as the quality of the art and artist, category or genre, provenance history, rarity, and condition of the object), and the value of a piece of art is based on these and many other variants.

Each piece is unique, therefore credible,[10] current appraisals are critical to effectively managing and valuing a collection. Authentication of a piece of art decreases risk. Lack of authentication in a case of no credible provenance or literature and exhibition citations can devalue art.[11] Credible and accurate appraisals that are consistently updated keep an art investment portfolio current, and ensure viable planning for estate tax purposes and gifting strategies; cover the work for current insurance purposes; and enable strategic planning of potentially saleable or collateralised assets.

As in real estate, art appraisals are used to provide an independent and expert view on the value of an asset and include the use of comparable sales analyses. Past auction prices can reveal trends in the art market, but due to relatively thin trading, and the many complex factors noted above, assessing the worth of a specific art piece requires considerable professional expertise and optimally the personal physical examination and analysis of the property.

An appraisal that will be scrutinised by tax authorities for such purposes as charitable donations, gifting, or estate purposes must be performed by a 'qualified' appraiser. A correctly prepared appraisal will include an analysis of an art object that will reflect economic conditions at the time of valuation, supply and demand in the market, scarcity or rarity of the item and specific characteristics of the object under scrutiny such as relative quality and condition.

Art market current trends[12]

For most of the 21st century, global art market sales values, as measured by aggregate sales through art and antiques dealers and auction houses, averaged around $60 billion, demonstrating its resiliency to market volatility and a fluctuation from a low of $39.5 billion in 2009 to a high of $68.2 billion in 2014. The volume of sales transactions tracked within the 37 million range during the same period. Since the art market is fluid and intricate, there is always a story behind what is happening rather than a generalisation that can be made.

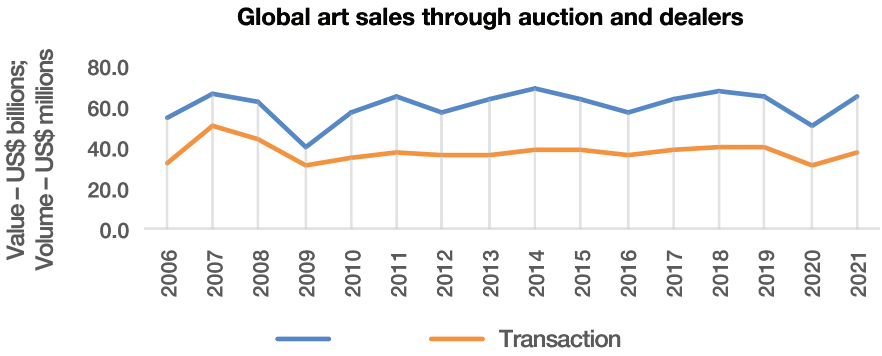
The global art market rebounded during 2021 following its greatest retraction in over a decade primarily due to the global pandemic with sales of art and antiques by dealers and auction houses valued at $65.1 billion, up 29% compared to 2020. High net worth (HNW) collectors primarily drove the increase in fine and decorative art and antiques, with an average expenditure of $274,000, double that of 2020.

During 2021, market share by value in the US edged up to 43%, followed by China (20%) and the UK (17%, a decline in position from 2020). Sales value in the US market increased by one-third to approximately $28 billion in 2021 recovering from almost a 25% decline in value during 2020.

Dealers ($34.7 billion in 2021, up 18%) and auction houses ($30.4 billion in 2021, up 45%), both public and private, are the major distribution channels for fine and decorative art and antiques. Auction houses have exceeded 2019 sales in value, while the dealer segment continues to be below its 2019 level. The Coronavirus disease pandemic further accelerated downward sales trends signalled in 2019.

Sales at public auction of fine and decorative art and antiques increased 47% from 2020 to $26.3 billion in 2021. The strong sales trend continued into the first quarter of 2022 as shown by Sotheby's and Christie's sales of $1.2 billion compared to $1.0 billion during the same period in 2021.[13]

The Post-War, Contemporary, and Modern art sectors drive the fine art market and constituted over three-quarters of the value of fine art auction sales in 2021. In 2021, Post-War and Contemporary fine art



auction sales value increased 42% to $6.7 billion. The Modern fine art auction market has experienced volatility over the past decade as shown by 2021 sales value of $2.7 billion (23% increase from 2020) compared to its peak of $5.4 billion in 2011.

Online art sales of $13.3 billion, which are included in auction and dealer sales of $65.1 billion were more than double the level of 2019.

Art-based non-fungible tokens (NFTs)[14] are a notable new development which has existed outside the traditional art market. The boom in sales of art and collectibles NFTs from $4.6 million in 2019 to $11.1 billion in 2021 has occurred due to rapidly rising prices and high immediate returns. 74% of HNW collectors purchased art-based NFTs in 2021.

Art investing

Individuals may choose to invest in art directly or indirectly. Since the 2008 financial crisis, family offices have become significantly more interested in making direct investments in art.[15] They may do so by directly purchasing a work of art or an art NFT. Loans on existing art may be used to provide the cash liquidity embedded in the art object. Proceeds from art loans can be used for myriad reasons – such as to purchase additional art, to acquire non-art assets, to make investments, to finance privately-owned businesses, to purchase real estate and to refinance other loans.

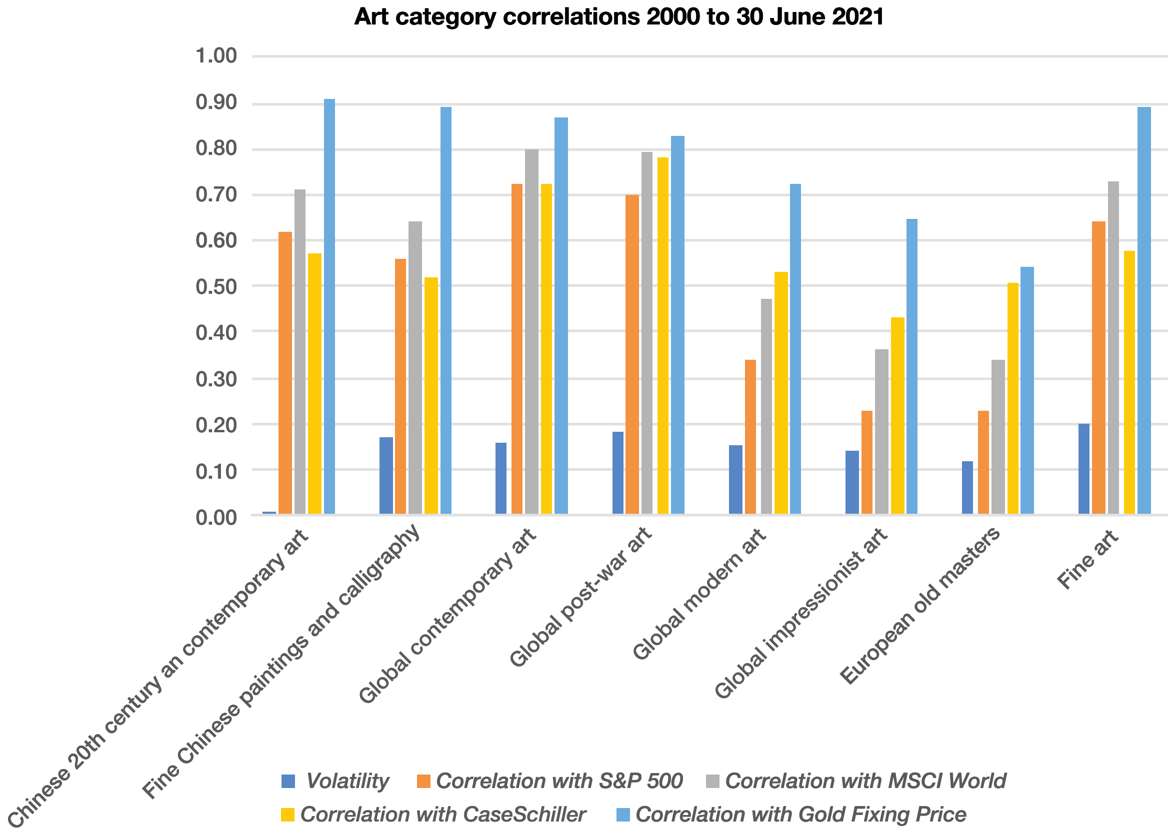
Art investing

The desire for control, concern about other alternative asset “2 and 20” percent management and performance fees and need for transparency, underlies the intention to directly invest in art. Family offices are uniquely positioned to engage in art transactions due to their flexible access to proprietary capital and ability to leverage market opportunities quickly. As with other asset classes, art has an illiquidity premium and is subject to volatility.

Art funds

Art funds are generally privately offered investment funds dedicated to the generation of returns through the acquisition and disposition of works of art. They are managed by a professional art investment management or advisory firm which receives a management fee and a portion of any returns delivered by the fund. Art funds effectively democratise the ownership of higher priced art, allowing interested and vetted parties to invest in a small portion of an expensive work.

Members of the investment community believe art has effectively served to hedge against the effects of inflation and offered potential economic benefit in addition to being an investment of passion.[16] During stagflation and economic downturns, equity risk exposures are concentrated to asset alternative beneficiaries which offer value, quality and dividend



Investors may decide to indirectly invest in art to avoid the responsibility of owning and maintaining the physical piece. Art funds are a structure that can achieve this objective.

growth.[17] Art may provide a means to mitigate such equity risk.

This is illustrated by a brief discussion of the first modern art fund started in 1974 when the approximately US$2.4 billion British Rail Pension Fund (BRPF) invested in over 2,500 works of art. The fund's decision to invest in art was motivated by global financial and economic conditions spurred by the OPEC-led oil crisis at the time. Sharp stock market declines (UK and US Dow Jones Industrial average were down 70% and 40%, respectively) existed. High UK and US inflation rates persisted at 30% and 12%, respectively. These economic conditions were exacerbated by currency devaluations and a weak housing market.[18] Ultimately, the BRPF reported an aggregate return of 11.3% per year compounded from 1974 to 1999 related to its art investments.[19]

Since 2000, including art in a diversified portfolio has offered risk-adjusted rates of return that are superior to portfolios without art.[20] The art category selected for the diversification strategy is important as shown by varying degrees of correlation between different art genres and gold, other indices, and their respective volatility. Since 2000, there has been a strong correlation between gold and art except for European Old Masters. European Old Masters and Global Impressionist art works have the lowest correlation with the S&P 500 and MSCI world indices during this period.[21]

Investors may decide to indirectly invest in art to avoid the responsibility of owning and maintaining the physical piece. Art funds are a structure that can achieve this objective. Art funds, which are structured like investment funds, allow investors to partially own pieces of art. Masterworks, a New York firm founded within the past five years, is a fund manager that acquires blue-chip art at auction on behalf of its investors. Masterworks buys artwork, places it in a special-purpose vehicle registered with the US Securities and Exchange Commission, and then offers shares in the work to the public. Masterworks holds artworks until they find a good opportunity to sell them to collectors. Proceeds, net of fees, are then distributed to investors holding shares in the artworks. Masterworks offers a platform for secondary market sales open to US citizens who have a bank account with a US-based bank.[22]

Other firms have joined in the art fund space over the last few years, including Yieldstreet, Artemundi Global Fund and Artory/Winston. Masterworks, Yieldstreet and Artemundi funds have a simple concept of fractionalising works of art so that investors can invest in one or more works with a small ownership in each work of art. Those funds hold the art until the managers determine a sale is optimal, then sell. Proceeds are distributed at the end of the life of the fund. Artory/Winston has an alternative strategy. The Artory/Winston funds are the first funds to both fractionalise and also tokenise physical works of art. Tokenising the works allows investors to trade their tokens independently and prior to the end of the fund's life.

In all cases, it is important to investigate the depth of art market knowledge, contacts and expertise of the team purchasing the works of art in the funds. Traditionally, art funds have not been successful when the art expertise is external, creating an inherent conflict of interest. When external experts are relied upon, the fund may not be obtaining the choicest and most desirable works, given the perception that the external experts may wish to sell those works themselves, and populate the funds with works that may be less easily traded. It is also important to review the purview of the fund. Some funds invest in a basket of artworks across collecting categories. Others invest in Contemporary art. The future will likely include more funds with unique themes or threads that homogenise the funds, such as Latin American art, works by female artists, works from a specific geographic area, works by African American and African diaspora artists, and so on.

NFT-based art

NFT-based art has recently emerged as a new way to invest in art outside the traditional art market dominated by auction houses and dealers. NFT artworks and collectibles are non-physical, digital forms of art which have unique property certificates. Title to an art NFT is registered on the blockchain, and there is only one owner of the original artwork. This form of digital art is therefore shielded from copyright piracy. NFT art can be purchased or sold from auction houses such as Christie's or Sotheby's or other marketplaces such as Open Sea, Foundation, and Super Rare. The sale of Mike Winkelmann's (known as the artist, Beeple) *Everydays: The First 5000 Days*, at

Christie's in March 2021 for $69 million marked the first multimillion-dollar price point for digital art. Prior to October 2020, the highest value paid for his digital art was $100.[23] Sotheby's has also become active in the NFT art space by creating its own metaverse.

Although there are significant arbitrage profits being made, the current NFT art market is relatively small and subject to rampant speculation. In 2020, over 70% of art-related NFT transactions were generated from primary sales, while in 2021 over 70% of sales values came from resales. On average, art-based NFTs are bought and resold within a month (versus the average art market resale period of 25 to 30 years). Demonstrating the popularity of art-based NFTs with influential investors, almost 90% of HNW collectors plan to purchase NFT-based artworks in the future.[24]

As a sign of market developments in NFT-based art, Artemundi recently released a series of NFTs featuring the work of Spanish master, Francisco Goya. NFT-related technology also enables indirect investment in art through tokens to buy limited partnership interests in the form of digital tokens or to trade fractional ownership of fine art masterpieces through art security tokens (ASTs).[25]

Before purchasing NFT art, it is important to become familiar with the risks and rewards of owning such an artwork or collectible.

As interest in buying and selling NFTs has boomed with an estimated NFT marketplace greater than $40 billion,[26] bad actors have perpetrated various scams on unsuspecting buyers. 'Wash trading', 'rug-pulls' and 'free minting' scams are not uncommon.

In wash trades, the value of an art NFT is superficially increased by being on both sides of the transaction.

'Rug-pulls', which cost investors hundreds of millions of dollars annually, occur when initial NFT collections are sold and the individuals promoting the

Perspective of buyer	**Benefit**	**Consideration**
	Provides accessibility to new form of art and artists given low price points and ease of buying/selling.	Encourages speculative influence on art market values.
	Earns quick profits through resale market, particularly collectibles.	Illegal NFT conversions and 'wash trading' cases reported.
	Eliminates buyer holding costs.	Energy consumption to produce NFTs is high.
Perspective of seller	**Benefit**	**Consideration**
	New product offering increases auction and dealer sales.	Majority of sales occurring on NFT platforms (Ethereum, Flow and Ronin blockchains) rather than through dealers.
	Raises valuations for art-based NFTs.	'Wash trading' abuses reported as an unregulated asset class.
	Expands art supply.	Oversupply of unappealing art products generated.
Perspective of artist	**Benefit**	**Consideration**
	Sell art through a new channel.	'Rug-pull' scams may occur.
	Exert more price control.	Immediate rewards for popularity may be short-lived.
	Produce NFTs free of minting charge.	Fraudulent replication incidents reported due to lack of 'know your customer' requirements.
	Increases artist income.	Artists relinquish ownership on host platform.

As the NFT art market grows, it will likely need to come under appropriate regulation and anti-fraud rules.

collections cut and run leaving the original NFT purchasers with worthless NFTs. As an example, early in 2022, two 20-year-olds allegedly scammed investors in their NFT project, Frosties. They face criminal charges in Manhattan federal court for purportedly collecting $1.1 million from NFT sales and then abandoning the project.[27]

On many platforms, anyone (or a bot) can easily mint an NFT (without right to the content) by doing the following:

- create a file;
- turn it into an NFT; and
- put it up for sale (without showing proof of original ownership of the image).

Due to the misuse of free minting of NFTs, one of the largest NFT platforms – OpenSea – temporarily imposed limits on the number of NFTs that could be minted in 2021 (to five collections and 50 items per collection).

As the NFT art market grows, it will likely need to come under appropriate regulation and anti-fraud rules. A former employee of OpenSea was recently charged with the first-ever digital asset insider trading scheme. The individual was responsible for selecting NFTs to be featured on OpenSea's homepage. OpenSea kept confidential the identity of featured NFTs until they appeared on its homepage. The former employee used OpenSea's confidential business information about what NFTs were going to be featured on its homepage to secretly purchase dozens of NFTs shortly before they were featured. After those NFTs were featured on OpenSea, the individual sold them at profits of two- to five-times his initial purchase price. To conceal the fraud, these purchases and sales were conducted using anonymous digital currency wallets and anonymous accounts on OpenSea.[28] When people are concerned about 'insider' trading in stocks, it is because they believe insider trading undermines confidence in the stock market. Arguably, no one was deceived about the fundamental value of 'Spectrum of Ramenfication Theory', the subject NFT art piece. If it was purchased for aesthetics and sold to another collector, it does not change the basic nature of the transaction.[29]

Art lending

As an asset class, art can be used as a form of collateralised borrowing and for strategic estate or tax planning. Benefits of art lending include:[30]

- Liquidity – provide liquidity without the necessity of sale of the artwork due to unexpected life or other events;
- Investment – obtain loan on existing art to fund other art purchases or investments;
- Bridge to sale – provide funds on an artwork until sold at auction;
- Tax efficiency – sale of art can trigger capital gains tax;
- Transaction costs – may be lower or equitable as compared to selling the art;
- Continue to benefit from upside price potential – selling too early can diminish returns in a rising art market;
- Estate planning tool – proceeds from an art loan can be used to establish and fund various trusts and other estate planning structures;
- Equitable distribution of assets – an artwork cannot be physically split between parties in situations such as divorce. However, funds borrowed against the artwork can be used to compensate a party who prefers cash instead of the artwork.

From a philanthropic perspective, art loans are a means to be charitably active through sharing a family collection with a museum. Passive income may be generated, and potential tax benefits received.

Summary and conclusion

While technology has facilitated new art sales channels, products and connections to a wider global audience, the fundamentals of the art business remain the same. A growing younger demographic of digital natives are increasingly comfortable trading and buying 'sight unseen' at international auctions from Hong Kong to Paris to New York. The major auction houses –Sotheby's, Christie's and Phillips – have invested enormously in the pre- and post-sale processes to make them as seamless as possible. This expenditure has reaped a user-friendly viewing experience that has cultivated a new generation of art enthusiasts. Still, collectors must be mindful that the art industry is opaque, complex, unregulated and dominated by those savvy in navigating through it.

An unintended consequence of the pandemic has been the accelerated adoption of e-commerce in the art world. In 2020, the growth in online art sales led to its share of e-commerce exceeding that of aggregate global retail for the first time, at 18%. Online art sales could reach an estimated $7.4 trillion by 2025 and comprise 24% of all retail sales.[31] Online art sales will offer new types of challenges since oftentimes there is no opportunity to physically inspect or validate the authenticity or calibre of the art.

The expansion of the NFT market will likely continue in 2022. Value traded in art-related NFTs in January 2022 was 15 times higher than the total sum of both 2019 and 2020.[32]

With these new technological entanglements affecting the art world, engaging trustworthy art professionals is even more vital to making prudent decisions before an individual or family member buys, sells or borrows on an art investment.

Mary Klein is a global chief financial and operations officer with a strong skillset acquired as a Big 4 senior partner and family office executive. She serves as the chief operations and financial officer of a privately-held boutique global law firm and on several advisory boards such as RiskBridge Advisors LLC, an outsourced chief investment officer.

1 Robert Frank, "The Wealthy are Borrowing Billions Against their Art Collections and Lenders are Reselling the Debt", CNBC.com, 25 February 2021.
2 UBS/PwC 2015 Billionaire Report.
3 "The Art Market 2022", An Art Basel and UBS Report, prepared by Dr Clare McAndrew, founder of Arts Economics, p14.
4 James Rickards, "The Three Ways 'Old Money' Holds on to Its Riches", *US News*, 16 April 2012.
5 Andy Augenblick, President of Emigrant Bank Fine Art Finance, "Managing Significant Wealth: Art as an Investment Class", Morgan Stanley (https://advisor.morganstanley.com/team-581/articles/managing-significant-wealth/art-as-an-investment-class).
6 Elizabeth von Habsburg, managing director, Winston Art Group.
7 A qualified appraiser follows the standards and practices of the Uniform Standards of Appraisal Practice (USPAP) and meets the education qualifications issued by The Appraisal Foundation (TAF), a congressionally-authorised organisation. The three personal property associations (Appraisers Association of America, International Society of Appraisers, American Society of Appraisers) are sponsors of TAF which requires members to produce appraisals in accordance with USPAP and meet the educational requirements set by TAF. In addition, they are required to follow the Association's Code of Ethics.
8 Elizabeth von Habsburg, Rachel Goodman, Gurr Johns and Dr Clare McAndrew, "Art Appraisals, Prices, and Valuations" in Dr Clare McAndrew (ed), *Fine Art and High Finance: Expert Advice on the Economics of Ownership*, Bloomberg Press, 2010, pp19–20.
9 Sarah D McDaniel, Eliana Greenberg and Liz Gully, "Art as an Asset", Morgan Stanley Private Wealth Management, June 2018.
10 A credible art appraisal is a legal document that fully describes: the artwork(s) being appraised; the value of art work for a specific purpose (estate tax, charitable donation, insurance, financial and estate planning, and family division, including divorce); and a specific type of value (such as fair market value, retail replacement value, market value, or marketable cash value).
11 Nancy Harrison, partner/senior fine art specialist, Emigrant Bank Fine Art Finance/Fine Art Management, March 2021.
12 "The Art Market 2022", An Art Basel and UBS Report, prepared by Dr Clare McAndrew, founder of Arts Economics, pp15–17, 25, 28, 159.
13 "The Calm before the Storm?", *Mutual Art*, 12 April 2022.
14 Bastien Alleaume, "All You Need to Know About NFTs", Artmajeur.com, 16 April 2021. Non-fungible tokens (NFTs), which are registered by identification codes and metadata (such as name of author, signature, date) are unique and non-interchangeable. They are non-fungible because they cannot be automatically replaced by an equivalent of the same value. Like artworks and collectibles, NFTs may be exchanged or replaced by goods of the same value after first being sold or liquidated. The amount of money corresponding to the value of the sold work can be exchanged for another collectible or artwork of the same value. The artwork sold and the artwork acquired will be different, although of similar value. Although transferable, NFT cannot be traded because it has a unique value and cannot be duplicated. Blockchain functions to guarantee the uniqueness and authenticity of an NFT.
15 Randall Willette, "Expert View: Why Family Offices Prefer Direct Investment in Art", *Wealth Briefing Asia*, 2 May 2013.
16 Nouriel Gino Yazdinian, Forbes Councils Member, "The Emergence of Art Collection as an Investment Against Inflation", 3 August 2021.
17 William Kennedy, RiskBridge Advisors, "When the Bill Comes Due", 4 May 2022.
18 Jeremy Eckstein, *Fine Art and High Finance: Expert Advice on the Economics of Ownership*, Bloomberg Press, 2010, pp138–139.
19 The Art Fund Association LLC, www.artfundassociation.com.
20 Jeremy Eckstein, *Fine Art and High Finance: Expert Advice on the Economics of Ownership*, Bloomberg Press, 2010, p136. The Sharpe ratio was used to measure risk-adjusted performance or the excess return of a portfolio per unit of risk it takes on. It is calculated by subtracting the risk-free rate (eg, a 10-year US Treasury bond) from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns.
21 Art & Finance Report 2021, 7th edition, Deloitte Private and Art Tactic, p236.
22 David Rodeck and Benjamin Curry, Forbes Advisor, "Masterworks Review 2022", 20 April 2022.
23 Jacob Kastrenakes, "Beeple Sold an NFT for $69 Million through a First-of-Its-Kind Auction at Christie's", 11 March 2021.
24 "The Art Market 2022", An Art Basel and UBS Report, prepared by Dr Clare McAndrew, founder of Arts Economics, pp22, 33, 40–48.
25 "Artemundi with BridgeTower Capital Partners, Innovator in Connecting Blockchain Markets Globally, to Release NFT Series of Spanish Master Goya", Artemundi.com, 24 March 2022.
26 Allyson Versprille, "NFT Market Surpassed $40 Billion in 2021, New Estimate Shows", www.bloomberg.com/news/articles/2022-01-06/nft-market-surpassed-40-billion-in-2021-new-estimate-shows, 6 January 2022.
27 Zack Abrams, "How the FBI Made its First NFT 'Rug Pull' Bust – Just in Time to Save other Would-be Victims", 28 March 2022.
28 Department of Justice, US Attorney's Office, Southern District of New York, "Former Employee of NFT Marketplace Charged in First Ever Digital Asset Insider Trading Scheme", 1 June 2022.
29 Matt Levine, Bloomberg Opinion, Money Stuff, June, 2022.
30 Li Jun Xian, partner, Emigrant Bank Fine Art Finance, May 2022.
31 "The Art Market 2022", An Art Basel and UBS Report, prepared by Dr Clare McAndrew, founder of Arts Economics, p38. The source of statistics on general retail is E-Marketer (2022), "Global E-Commerce Forecast 2022", emarketer.com.
32 "The Art Market 2022", An Art Basel and UBS Report, prepared by Dr Clare McAndrew, founder of Arts Economics, p267.

How to subscribe to
The International Family Offices Journal:

Email Susan Brushwood on
sbrushwood@globelawandbusiness.com

For full details of our Founder Subscriber offer, go to:
https://mailchi.mp/globelawandbusiness/familyofficesjournal

ISSN 2398-5402

STEP ADVISING FAMILIES ACROSS GENERATIONS

Globe Law and Business