**A Safe Haven: Art Lending**
By Alan Snyder

Several recent art market research reports, weighty tomes, highlight the attractiveness, durability and opportunity for lending against this hard asset that enjoys global appeal.

"The Art Market 2020," a recent Art Basel and UBS report of 383 pages prepared by Dr. Clare McAndrew, founder of Art Economics, corroborates our own enthusiasm. Basically, we lend against museum-quality art with our current results delivering an average portfolio duration of five months, loan-to-value ratio of 40%, a net investor yield of approximately 7% (unlevered) and the collateral under our control. Highlights follow:

Global art sales were $64.1 billion in 2019, down 5% last year as a result of a lower supply of inventory due to fewer major collections on offer. Jewelry, gems, watches, fine art and decorative art vie for the most purchased categories with classic cars, yachts and jets only half as large. The most frequently used purchase channel was galleries/dealers, with auctions second. "Portfolio diversification," "expected return" and "hedge against inflation" were the leading purchase motivations.

Interestingly, high-net-worth collectors hold an average of 76 pieces with 30% of their collection in storage, indicating that a lender possessing artwork (like us) is not an insurmountable issue. Silicon Valley strikes with Millennials accounting for the largest number of purchases, averaging $3 million in purchases over a two-year period.

We like the dealer channel, the largest segment, because the attachment point between the dealer and lender is a strong one. If there were to be an unscrupulous act by a dealer, his or her reputation and entire business are at risk. Large dealers, with annual sales over $30 million, which account for most of our borrowers, gained market share and are optimistic about the market over the next five years.

Contemporary art had the greatest increase in transactions although Modern art bought had the highest average prices.

A plus for us is that higher-end galleries/dealers seek external inventory financing even as their overall debt levels remain modest. Moreover, their median sales-to-inventory for more than two years is 20%, indicating vitality. Further buttressing the attractiveness of this market segment is that the average years-in-business was 23, indicating gallery/dealer longevity and high survival rates.

As the second largest distribution channel, auctions provide great visibility to market pricing. Key segments offer illumination.

| Share | Segment |
|---|---|
| 53% | Post-war Contemporary, artists born after 1910 |
| 25% | Modern, artists born between 1875 and 1910 |
| 22% | Other: Impressionist, artists born between 1821 and 1874 including Old Masters, artists born between 1250 and 1821. For sizing, Old Masters had sales of $843 million. |

Other sale channels include art fairs (high growth) and online for art worth less than $5,000.

A robust market with transaction frequency, alternative sales channels and capital needs (i.e., not a crowded trade) makes an attractive lending opportunity for lenders like Shinnecock Partners and our Art Lending Fund plus an attractive investment for all our investors, including us.

**Portfolio Belt and Suspenders? Coronavirus: Equity Bear Market and Treasuries near Zero Yield versus Art Value Durability**

The novel coronavirus is extracting its pound of flesh on most financial assets and threatening to tip the U.S., if not the world, into recession. Quarantining, sheltering in place and social distancing creates consumption challenges (70% of the U.S. GDP). Supply chain interruptions are not easily or quickly repaired. Fear has taken hold as a pandemic is declared and the CDC notes that the death rate is, at least, 10x of influenza.

We believe art values will not escape unscathed in the short term. Coronavirus knock-on effects will slow transaction frequency in the art world. Attendance at art fairs, galleries and auctions will decline as events are canceled and/or attendance thins. Furthermore, financial market volatility will trigger collector reluctance to spend whether in purchasing more art or making contributions to museums for them to expand their collections. On the other hand, loan opportunities at attractive rates and LTV ratios might well increase.

In a possible worst case, during the Great Recession, equities declined approximately 56% (S&P) whereas art, as measured by the Mei Moses index, declined 22.5%.

***HOWEVER***:

1. With our portfolio loan-to-value ratio of 40%, collateral coverage enjoys a significant safety margin. Art price declines would have to be slightly less than 300% higher than during the Great Recession to cause loan impairment.

2. As a lender, interest is deducted from the loan proceeds in our structure, minimizing the monthly administrative burden which simplifies our disaster recovery plan for remotely working at home if quarantined.

3. We are hard asset lenders. Unlike a loan to a company that could go bankrupt and leave insufficient assets to pay its debts with possibly no ultimate recovery as a going concern, the art will still exist and its recoverable value is substantially more than the loan based on any historical experience. We hope that the coronavirus impact will not be as bad as the Great Recession or even approach its impact. In sum, there is much room to be wrong as an art lender.

4. As we survey places to deploy capital to earn a return, art lending seems to be a compelling and relatively safe place versus most other alternatives today. Here is a place to weather the current turmoil.