CADELL + Co

ART RISK MANAGEMENT

Cadell+Co: Bringing professionalism to art transactions

1. Risk and Opportunity

Context:

- 25-40% of works offered for sale fail to sell
- Unsold works are “burnt” and lose 31% of value
- An extra bid is worth 10%
- Competitive bidding can drive prices to multiples of the pre-sale estimate
- Choosing the correct sales channel for your client is critical to reducing risk - and requires truly independent expert advice

2. Conflicts of interest

- Auction houses and art dealers are ***art traders***, they are <u>not</u> advisers:
  - Art dealers – buy low, sell high
  - Auction houses – their advice is in their own interest
- Securing supply is critical
- Strategy. Ignore conflicts of interest and make ***personal connection with clients***
  - Becoming a personal adviser yields a better financial return
  - Creates obligation
  - Squeezes out competition
  - Ultimate ambition: become a “trusted adviser”

3. To maximize your outcome, our focus is to:

- Understand the relevant sale channels (auction houses and dealers)
  - They look the same on the outside
  - But performance of different sectors/offices can vary significantly
  - The best sales track record can be established.
  - And existing Client interest (in artists/sectors) can be established
- Create competitive tender process to drive:
  - Financial terms (on commissions, costs etc.)
  - Marketing promises
  - Understanding of differing historical performance of each bidder
- Sale strategy is critical - to include the options of Private Sales
- No short cuts: Expertise + Process deliver the best outcomes

Cadell+Co Ltd

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4. **Regulation: Cadell is the only art advisory firm to fall under Financial Conduct Authority regulation.**

- Art Sector is unregulated, consequently very poor standards of professional behavior (transparency/conflict of interest) are the norm.
- Professional clients value advisers who are held to the same high standards
- FCA Principles:

Financial Conduct Authority obligations:

- **Integrity** – A firm must conduct its business with integrity.
- **Skill, care and diligence** – A firm must conduct its business with due skill, care and diligence.
- **Management and control** – A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.
- **Financial prudence** – A firm must maintain adequate financial resources.
- **Market conduct** – A firm must observe proper standards of market conduct
- **Customers' interests** – A firm must pay due regard to the interests of its customers and treat them fairly.
- **Communications with clients** – A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.
- **Conflicts of interest** – A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.
- **Customers: relationships of trust** – A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment.
- **Clients' assets** – A firm must arrange adequate protection for clients' assets when it is responsible for them.
- **Relations with regulators** – A firm must deal with its regulators in an open and cooperative way, and must disclose to the appropriate regulator appropriately anything relating to the firm of which that regulator would reasonably expect notice

5. **Cadell contacts:**

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