CALAMOS® PRIVATE TRUST

Art: Buy Smart, Own Smart, Plan Smart

The following is being provided as a reference and in no manner should be considered a recommendation to hold art and collectibles as part of an overall investment strategy. There are deep considerations of holding art and collectibles that include illiquidity, marketability, carrying costs, insurance, transaction infrequency as well as other risks inherent to the art market. Consult professional advisors before making a decision to purchase art in the interest of investment.

Calamos Private Trust is pleased to present this topic in conjunction with Winston Art Group, an independent art appraisal and advisory firm that specializes in confidential and objective appraisal services and advice on the acquisition or disposal of all fine and decorative art, jewelry, and collectibles. Featured here are the perspectives of:

Geoff Sargeant - *CFP®, AEP®, Senior Wealth Advisor at Calamos Wealth Management*

David Sleeman - *Executive Director, Business Development at Winston Art Group*

Brian Ward - *Business Development and Senior Specialist, Fine and Rare Wine at Winston Art Group*

Background

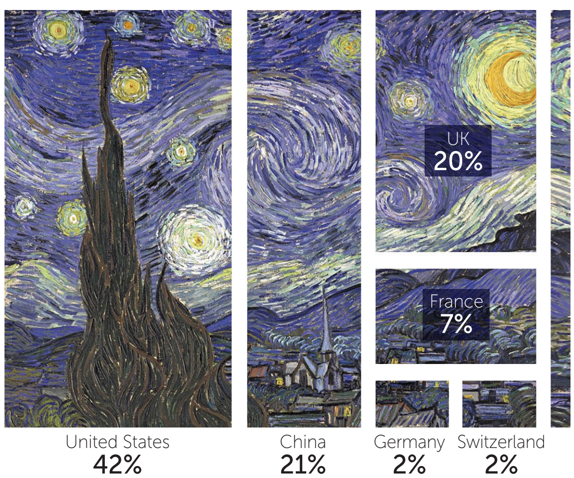
Art is undeniably an asset—it exists in a complex, though growing, market that, globally, sees $60 to $70 billion in market transactions in any given year according to Winston Group Executive Director, David Sleeman. We use "art" here to refer to the myriad mediums of expression: everything from fine art to fine wine to classic cars. The United States is the biggest player in the art market, representing over 42 percent of market share, followed by China and the United Kingdom at 21 and 20 percent respectively.

And all signs point to continued expansion. The Ultra High Net Worth (UHNW) population is expected to increase by 43 percent in the next decade[1] against the backdrop of the growing trend of buying art; sales at public auctions were up 27 percent year over year in 2017[2].

Though it is vast and diverse, according to a study, T*he Art Market 2018*, published by Art Basel and UBS, today's art market is dominated by post-war and contemporary art, which makes up about 46 percent; and modern art the next biggest share at 27 percent.

The art market, though sizable, remains unregulated, with many obscure and private transactions taking place each year. The growth of technology has increased transparency and market efficiency, as buyers can now do better research and self-inform on the value of certain pieces and market data. Online auctions have contributed significantly to the higher transaction volume. Art, as an investment, has the potential to appreciate but remains a very illiquid long-term asset with high transactional costs. Fluctuations in the art market can be much more severe than traditional investments.

Global Art Market Share by Value

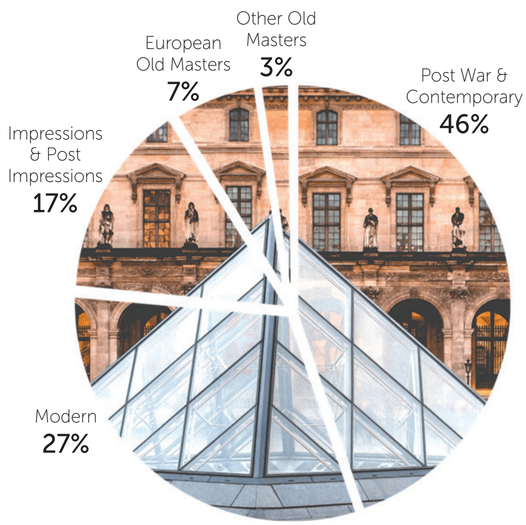


Source: Art Economics (2018) Note that the percentages that are cited in this chart and in several throughout the report are rounded to the nearest whole number. Shares may not add up to 100% due to rounding.

[1] Deloitte Art and Finance Report 2017

[2] Art Basel and UBS report 2018

Market Share (Volume) by Sector of the Fine Art Auction Market in 2017



Source: Art Economics (2018) with data from Auction Club and other sources.

While investing in art isn't new, the trend has been growing as a way to diversify portfolios toward alternative investments that are in alignment with buyers' passion or goals. Art is more and more common as part of estates and estate plans. The wealth management and estate planning industry has begun to meet the rising need of art planning. The Deloitte Art and Finance survey of wealth managers has seen a sharp rise in the self-reported awareness and engagement in art and collectibles as a category to which they follow and monitor. From 30% in 2012 to 60% in 2017.

If the market grows larger and valuation and prices increase, more wealth could potentially be allocated to art, forcing a proactive planning approach centered on art assets. No matter the motivation for amassing a collection, buyers and stewards of art need to buy, own and plan smart, ideally surrounding themselves with a team of legal, financial and art experts to facilitate every step of the process.

Buy Smart

Before immersing yourself in the art market, consider your goals. Is the desired art intended as an investment, and if so, lifestyle or monetary? Is the purchase philanthropically motivated? There are tax and cost considerations that may resonate distinctly with different goals.

Considering the opaque and unregulated nature of the market, buying art at a fair value can be difficult. This is where a trusted expert's advice can be invaluable. You might have a personal affinity for, say, Nineteenth Century American paintings, but a qualified advisor would make sure you understood that that particular category has had exceptionally lackluster appreciation over the last few decades. You may still elect to acquire that Winslow Homer for your cottage in Maine, but you will at least do so with your eyes open with respect to its outlook as an investment. Perform due diligence as you would when acquiring any other asset. Art, like real estate, is tangible, and should be appraised as such. Make sure the artwork is in good condition, taking steps like performing a title and lien search and getting certificates of authenticity. Understand the value of the piece(s) you intend to add to your collection, especially in context of the market.

Art can be purchased through auctions, dealers, and private sales. Today, more auctions have shifted into the digital world online. And private transactions abound in the art market, where niche collectors often gather to converse about and admire their shared interest. For example, in the classic car market, where the biggest collectors attend rallies and are familiar with each other, private sales are common.

Own Smart

Owning artwork and collectibles can carry a hefty maintenance cost, as properly maintaining art is essential and usually rewarded with appreciation in value. This can include coordination of conservation, any necessary restorations, storage, framing, installation, and relocation. And as a (generally) tangible asset, art is uniquely susceptible to exposure—think of the thriving art market in LA at risk of earthquake or forest fire damage—and so requires tailored insurance. Getting the right coverage will mean regular appraisals for retail replacement purposes, which has the added benefit of keeping you informed on your overall financial picture for estate planning purposes. Most collectors work closely with experts and advisors to ensure that proper preservation techniques are implemented.

Beyond tangible upkeep, proper art ownership involves legal protection. Collectors need to decide what entity the collection should be placed in:

> Personal ownership

> A limited liability company (LLC) can provide a tax-efficient way to hold art. LLCs can effectively reduce estate taxes for your beneficiaries and allow you to distribute gifts during your lifetime without coming up against hefty gift taxes.

> Charitable Trusts are attractive choices for art & collectibles. They avoid estate tax and probate and present an opportunity to pass on collections to heirs. Appointed trustees may be tasked with actively growing, managing

and maintaining the collection for the benefit of stated beneficiaries. Donating pieces to a trust during the benefactor's lifetime can lessen the future tax burden on the collection and beneficiaries.

> **Private foundations** are another popular entity in which to hold or donate art. Deloitte's 2017 Art and Finance report says that 13 percent of collectors signaled that their collections would be left to their private foundation. While an attractive option for some, private foundations are up against unique challenges and need to take care of funding for the organization, collection maintenance, and other tax and legal considerations.

As you consider legal vehicles for the preservation of your collection, be thoughtful of taxes such as capital gains incurred from selling or gifting art investments. Art and collectibles held less than one year are taxed at personal income rates, just like the short-term capital gains taxes on stocks and bonds. Those held longer than one year are taxed at 28 percent. This can be significant, as buying a piece for $100,000 in 1980 and selling for $20,000,000 in 2015 would mean you owe $5,572,000 in capital gains.

As many art owners make the decision to gift pieces of their collection in their lifetimes, be sure to take lifetime and annual gift tax exemptions into account. For 2019, the annual gift tax exclusion is $15,000 per year, with the lifetime exemption at $11.4 million.

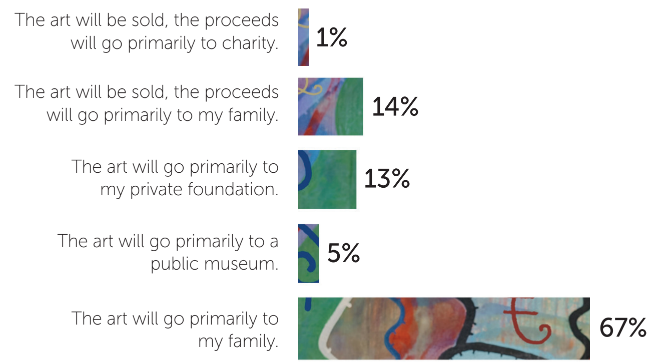
Plan Smart

As the massive transfer of wealth from baby boomers to millennials looms, estate planning around art is likely to become an increasingly important focus in the wealth management industry and should be at the forefront of any collector's mind.

Ask yourself if your current estate plan clearly defines and accomplishes your wishes for your collection. Keep your finger on the pulse of fair value to help inform your decision on succession planning – this may include regular appraisals. Seek out independent, objective advice on how to receive the highest return for your assets.

Consider both sentimental AND market value of your art assets as you create your estate plan. Look at the overall picture of your art and collectibles—don't neglect those binders of baseball cards in the closet or the family heirloom jewelry passed down for generations. No matter what path forward you choose for your collection, ensure you have proper documentation to direct it.

If you have made formal arrangements for your collection in your estate plan, where will the art go?



Source: Deloitte Luxembourg & ArtTactic Art & Finance Report 2017

I. Bequeath to beneficiaries

Have a frank conversation with your intended beneficiaries and advisors to ensure your expectations for the collection are clear. Does the family want to manage the collection after you're gone? Do they understand and agree with your wishes surrounding the collection?

A well-defined plan protects the intended legacy of your collection as well as eases the potential burden on your beneficiaries. Historically, people have died with art assets and allowed executors to handle the rest. This can leave the fate of the collection subject to complex family dynamics and expensive legal battles, with the ultimate outcome potentially far from the decedent's original wishes.

Default tangible property provisions in estate plans typically pass tangible assets (often furniture) to heirs in a specified order—likely surviving spouse first, and if none, surviving children. This may not be in accordance with the deceased's wishes for a sizable and valuable art collection. As always, we suggest keeping your estate plan up-to-date to address any changes in the value of your estate or life situations.

II. Donating and Lending Art

Many collectors will choose to donate to a charity or institute of learning. The tax environment in the United States heavily favors philanthropy and gifts to museums. In some jurisdictions, there are tax deductions for certain donations. Many collectors use art as a tax-efficient strategy; for example, if major liquidity event occurs in a professional career, those gains may be offset by donating a work of art. However, the tax laws around charitable contributions are complex, and potential beneficiaries must be fully vetted to ensure the donation is maximized tax-efficiently.

Amidst concerns of oversaturation of donations to museums (and consequent fears of works being left in storage instead of displayed), donors are increasingly looking to higher education—where works are more likely to be displayed and engaged with—as an option. When evaluating potential recipients, donors may want to ask certain questions beyond tax considerations to ensure their desired legacy is protected:

> How often will the collection be on view?

> Will the donated pieces be kept and exhibited together?

> Will the museum create an exhibition specifically for the works or are they likely to be split apart or left unexhibited?

> Will courses taught at the university focus on the objects in the collection?

Ensuring artwork is properly valued is crucial in charitable giving. The IRS has been known to challenge and litigate appraisal conclusions.

Appraisal can also play a significant role in protecting art during periods of lending. Loaning art to museums and other institutions can increase its provenance and, consequently, monetary value. If you decide to lend pieces of your collection, do proper due diligence on potential borrowers to avoid reducing the value of the artwork by selecting a dubious or poorly-run institution. Draft a detailed and well-tailored loan agreement to properly safeguard the works – in most cases, the museum assumes responsibility for wall-to-wall insurance (the second it leaves your wall to the second it's returned), but a thorough agreement will leave no doubt the works will be taken care of. Getting the works appraised is a crucial step to ensure the insurance amount is sufficient for the value of the work. Legal and art experts can be invaluable in facilitating this process.

III. Selling art

Some collectors choose to sell pieces of their collection during their lifetime in order to enjoy the resulting exhibitions and funds raised. This is an increasingly likely outcome as millennials come into the market. The 2018 U.S. Trust study *Insights on Wealth and Worth* shows that millennial art owners are twice as likely to view art as an asset with financial value[3] and more likely to sell as value appreciates[4]. This reflects a different value set than previous generations, who often practiced "buy, own and die." Consider how you want the collection to be sold—should it remain whole or are certain pieces okay to auction off individually?

Again, ensure you're aware of capital gains and other applicable taxes before making the decision to sell. If selling in Europe or China (where certain markets may be more lucrative for specific types of art) for example, there may be import/export or Value Added Tax (VAT) in the EU to consider.

Conclusion

As art is increasingly used as part of a larger asset strategy—and may represent substantial wealth—it should be carefully considered as part of a broad financial plan.

One is only ever a custodian of art—a keeper and protector of a piece or collection before its next destination, wherever that may be. Retaining good lawyers, wealth advisors, investment managers, accountants, and art experts on your team ensures you'll have the right approach to own smart, buy smart and plan smart.

[3] https://news.artnet.com/market/art-wealth-survey-women-millennials-1309265

[4] https://www.artmarket.guru/le-journal/market/millennials-changing-art-world/

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