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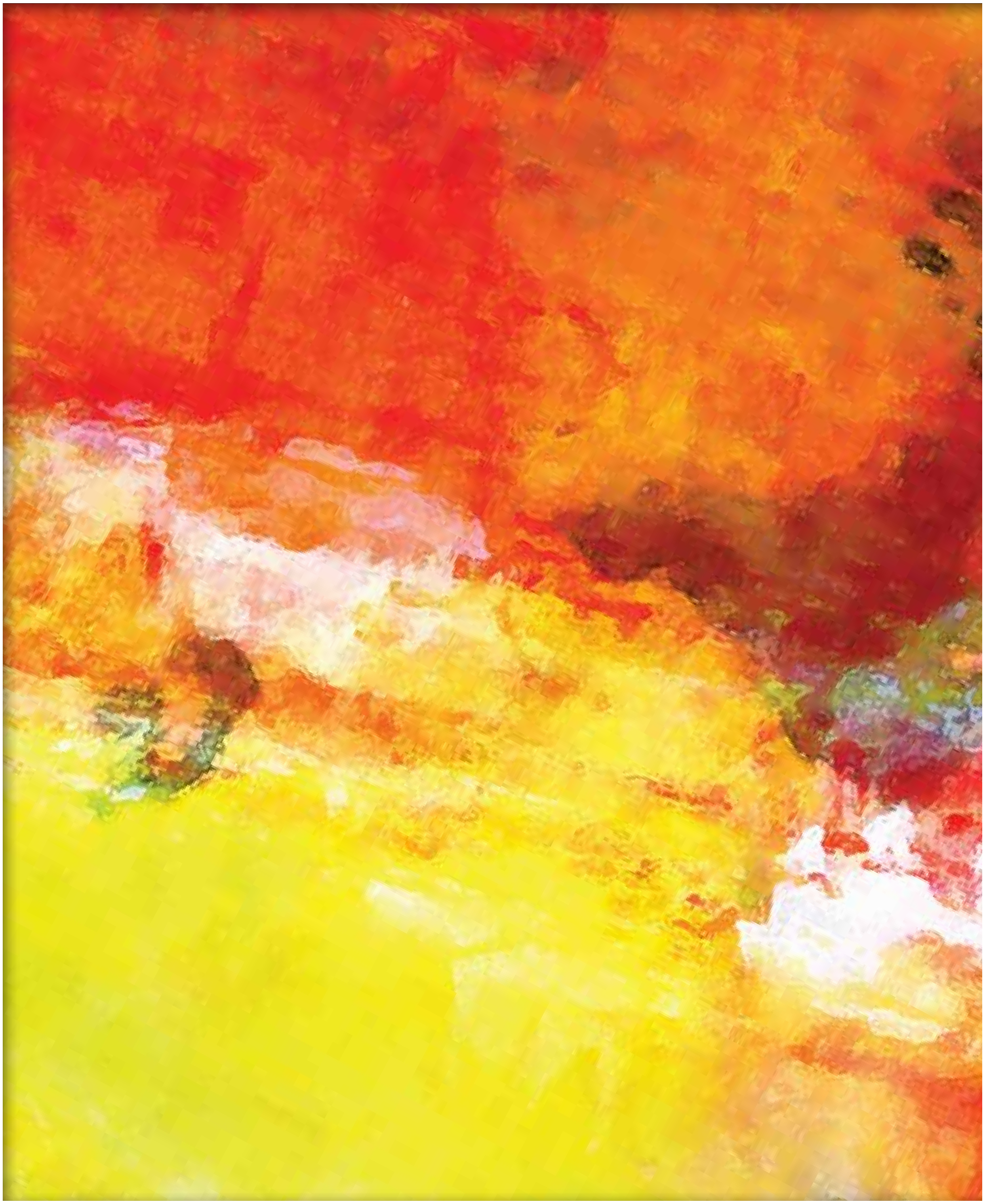


RISK MANAGEMENT
INDIVIDUAL COLLECTORS

Risk Management
for Individuals

In today's increasingly complex and rapidly changing art world, it has never been more important to manage fine art and other important collectibles as an asset. This means not only protecting one's passion for art and other important collectibles but protecting oneself and one's family, today and tomorrow, against legal liability and financial loss.

What does "risk management" mean for ownership of fine art and other important collectibles?

Individuals, whether they buy, sell, donate or receive fine art through gift or inheritance, need to know that they own the fine art and other collectibles that they possess. This knowledge is critical to future planning and dealings with one's art and other objects.

Because of the unique nature of the art world, "possession is [not] nine-tenths of the law" and does not necessarily mean ownership under the law. The greatest legal and financial risk in today's art world is the risk of defective legal title, that is, the risk that one does not legally own the art or other collectibles that they possess.

Best practices mean managing one's art and collectibles in the same way that one manages other investment assets.

Good faith and best belief, which are important from a due diligence and reputation standpoint, are no longer enough to protect oneself from a legal and financial standpoint in today's art world.

I thought there was only a small risk of defective title in the art world?

In the art world, the title risk is different in character and complexity than in the real estate industry, where in the United States nearly all 50 states regulate repositories of local real estate records and title insurance has been sold by insurers for more than 125 years.

The art market title risk is a high severity risk that crosses all genres and periods and impacts all industry participants.

The reason is buyers and their advisors routinely cannot find out who owns the art or collectible offered for sale. Historically, the art market has always considered this information to be confidential, and the true owner is generally not the art dealer or gallery offering the work for sale. Because buyers often do not know who owns the work, buyers cannot begin to manage the ownership risks.

Even in the unusual case where a buyer learns the identity of the current owner, (assuming the art is not being sold from the artist's studio) each prior owner most likely did not know who owned the work before them, making it very difficult to manage the legal title risks.

For example, when it is time to sell the fine art or other important collectible, all buyers and related intermediaries such as auction houses, galleries and dealers require sellers to guarantee in writing (for the benefit of the next buyer) that the seller has clear legal title to the object.

The same legal title guarantee is often imposed on donors gifting art to museums and other entities because donees are aware of their legal liability for the art market title risk and the potential personal exposures of museums' officers and trustees.

Because sellers and donors most often do not have the facts to make this contractual guarantee with objective certainty, they unnecessarily assume an open-ended legal and financial liability for themselves and their family.

The non-transparent nature of the art and larger collectibles markets creates legal title risks not only for fine art but also for other important, valued objects such as vintage automobiles, rare books and manuscripts, rare stringed instruments and estate jewelry.

But my fine art has a good provenance.

Traditional provenance-related due diligence is a good starting point for every collector.

However, there are many misunderstandings about what a provenance investigation does and does not show from a risk management standpoint and how provenance differs from legal title.

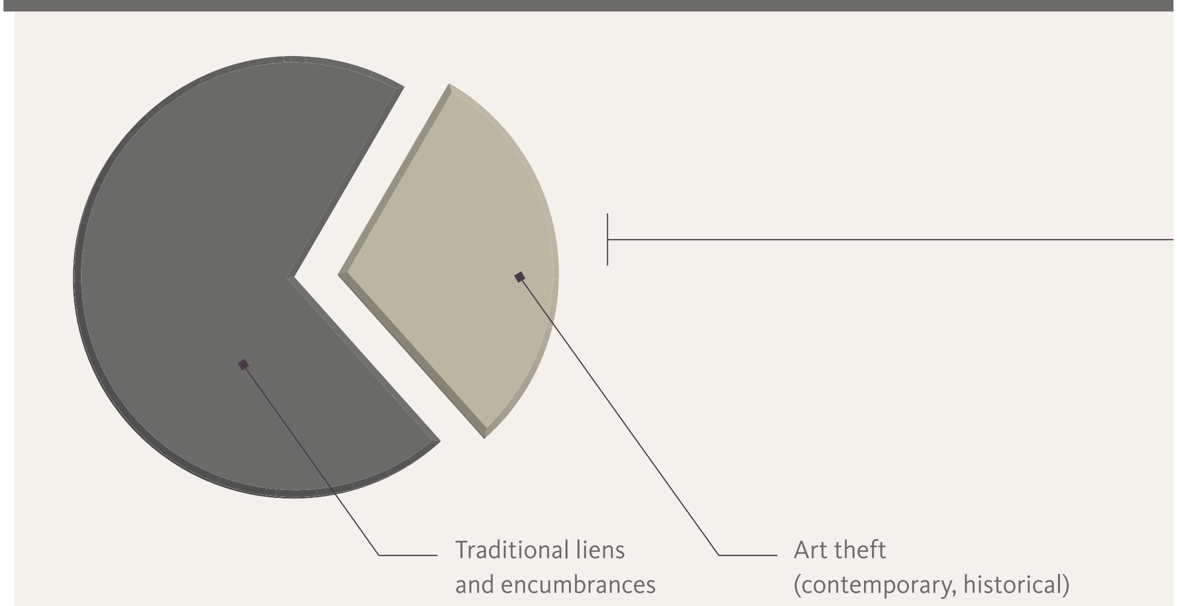
Provenance is the history of physical possession of a work from the date the artist created it to the present day. Legal title is the past and present full right, interest and ownership of the work, which may or may not overlap with physical possession of the art.

Because there is no standard mechanism in the art industry to record and track both sides of a sale-purchase transaction, every provenance carries the inherent risk of being inaccurate or incomplete including the provenance information stated in catalogues raisonnés and auction catalogues.

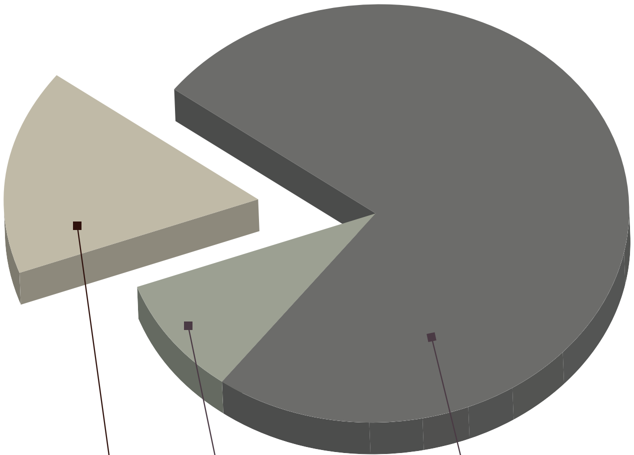
Provenance review initially arose in the art market to address connoisseurship and was not designed and does not manage transactional risk. It later evolved to address the risk of theft in the context of WWII Nazi-Era stolen art. The majority of the art industry's legal title risks are unrelated to theft and ordinary burglaries.

Even under the best of circumstances, when it comes to managing the art industry title risks for fine art and collectibles, no provenance or chain of title is perfect.

Art Theft as Subset of Art Title Risks



Art Title Risks Overall



75% traditional liens and encumbrances (outside the sphere of traditional art industry due diligence)

9% most likely not covered by stolen art databases

16% potentially covered by stolen art databases

- Theft (both historical and ordinary burglaries) makes up 25% of risk.
- Other liens and encumbrances (e.g., divorce and family or estate disputes, creditors' claims, unpaid federal or state taxes, bankruptcy proceedings, illegal or unauthorized sales, illegal export and import violations, bankruptcy-related seizures or challenges) make up 75% of risk.
- Stolen art databases address only approximately 16% of global art title risks.

- Art theft is a $6-billion-a-year industry on the rise.
- 20%-30% of thefts unreported to law enforcement.
- Only a 5% recovery rate of stolen art.

- Global art market (in which over $50B in art and collectibles are traded annually) is the largest lawful, unregulated global market.
- As baby boomers age, approximately $181 trillion in global intergenerational wealth – that includes fine art – will transfer in the next 50 years.

Doesn't my homeowner's insurance policy already cover the legal title risks of my art collection?

Only a licensed title insurance company may offer true title insurance.

Recently, several property insurers have recognized the art title risk and collectors' need for protection against the ownership risk by adding free-of-charge endorsements to their policies, which reimburse collectors for a small portion of the costs incurred in defending legal title to one's fine art.

For a number of reasons, these floaters fall short of providing adequate protection. They provide minimal reimbursement dollars; the collector must incur the cost and then seek repayment; the value of the work is not covered when a work is surrendered; and generally there is no coverage if the insurer determines that the collector "should" or "could" have known about the title defect when the collector acquired the artwork.

These endorsements are part of annually-renewable homeowner policies. The collector must remain with the insurer in order for the endorsement to continue. The endorsements have not been tested, and they likely do not provide any protection if and when the homeowner consigns art, for instance, to a dealer for sale.

The nature of these fine art floaters reflects the fact that homeowner insurers do not actually underwrite legal title risks in the art world, and they cannot soundly insure against these risks.

Title disputes in the art world are very complex. Underwriting the title risks for art and other important collectible assets requires unique expertise and defending against these risks is expensive and complicated.

Only a true title insurer actually underwrites and assumes legal title risks.

What if I only collect post-war or contemporary art?

The risk of defective legal title impacts all periods of art, not just older or secondary-market fine art. The basis and type of the risk varies across different segments of the art and collectible market, but the existence and severity of title risks does not discriminate against only certain genres of art and collectibles.

With contemporary art, which includes primary-market works sold directly from the artist's studio, the legal title risk has nothing to do with the risk that the art might have been "stolen" during WWII.

Financial liens and encumbrances often impair clear legal title to contemporary and primary-market fine art. Common scenarios involve a creditor claiming a security interest in the art because the seller used the art to secure financing but did not pay back their debt to the lender; the seller failed to disclose a right-of-first-refusal clause in the bill of sale between the first dealer and the first buyer either intentionally or because the seller did not know that the clause existed; or the seller entrusted the work to a dealer or gallery for sale and the dealer sold the consigned artwork without paying the seller the proceeds.

Collectors should consider the benefits of acquiring title insurance for primary-market works, especially at the point of the initial purchase. Not only are the risks relatively lower and hence so are the premiums at that time, but the policy will continue to protect the artwork and pristine chain of title until the collector or their heirs are later ready to sell or gift the work.

Contemporary and primary-market art as well as older or secondary-market art should be treated as an asset with proper risk management best practices.

Am I not already protected because I only purchase art at auction and from reputable dealers?

Auction houses – both international houses and regional auctioneers – as well as galleries and dealers including those that are members of ADAA (the Art Dealers Association of America) attempt in good faith to reduce the legal title risks in the global art market. However, they are not able to avoid these risks any more effectively than individual collectors can avoid them.

Because auction houses, galleries and dealers are not in the business of insuring legal title, they do not actually assume the legal title risks. To do so for countless sales each year, year after year, is not part of their business models. Even the best, largest auction houses cannot and do not undertake the necessary due diligence to identify and prevent exposure to all title risks.

The law imposes on auction houses, galleries and dealers the obligation to guarantee legal title of the objects they sell for a limited number of years. However, these intermediary sellers instead rely on the representations that their sellers or consignors (which might be another dealer) give about the legal title of the work. When a title problem arises, the intermediary looks to their seller or consignor for recourse, placing the buying collector in a “downstream” or “upstream” fight with other parties against which the collector has little or no effective recourse. The seller or consignor might be judgment-proof for any number of reasons, for instance, deceased or no longer in business, located in another country or have no money.

Auction houses also retain by contract the right to unwind or “rescind” an auction sale without time or other limitation if in their opinion a real or potential title claim later arises. This auction house right is based on the auction house’s reliance on the consignor’s representation of clear legal title and its role of being only an intermediary.

Ultimately, traditional art transactions and art industry practices leave collectors at financial risk, because no one except a title insurer is in the position actually to assume the risk of defective legal title.

This means that collectors can lose their precious fine art or other collectibles long after buying them and relying on the assumption of clear legal title including for tax and estate planning. Their only recourse may be to secure reimbursement of the purchase price through costly and time-consuming litigation. Collectors who have sold art may have to refund the proceeds from the sale long after the money has been spent or defend the clear legal title to their art.

How can I best use title insurance and when should I raise its use with my legal and financial advisors?

Title insurance for fine art and other important collectibles mitigates legal and financial risk and increases asset value.

Collectors should consider using title insurance in each of their art-related transactions. The sooner collectors raise this issue with their legal, art or financial advisors, the better collectors can manage the art market title risks and protect their assets and their family's interests now and in the future.

Introducing title insurance at the start of any acquisition benefits the collector because at that time the title insurer has access to the most current legal title information available, which generally means a lower cost of the insurance.

When a collector is asked to lend a work for exhibition or for inclusion in scholarly literature, this exposes the work to the title risk.

Collectors should consider obtaining title insurance for their existing collection of fine art and other important collectibles. Being proactive will help to protect against future uncertainties and the loss of precious objects due to defective title. It is also advisable to act promptly in order to preserve information and to prevent the next generation many years later from having little to no information about the ownership of the works.

Collectors should secure title insurance when planning or implementing charitable gifting or other tax strategies such as transferring the collections to a trust or private operating foundation or engaging in a tax-deferred "like-kind" exchange of fine art.

Any transaction involving fine art or other important collectible – whether buying, selling, lending for exhibition, using it as collateral or gifting – involves the question of clear legal title, because every art transaction turns on whether the collector will acquire or already has clear legal title to the work.

CLOSING-IN-ESCROW – AN ADDED BENEFIT OF ART TITLE INSURANCE.

A dramatically increasing risk in today's art market is the risk that an owner of artworks who consigns the works for sale to a gallery or dealer is not paid when the gallery or dealer sells the works. This risk affects the owner-consignor in obvious ways; it also affects innocent purchasers who can face a claw-back claim from the consignor or the consignor's property insurer owning the work through subrogation.

Upwards of 90% of all artwork that galleries or dealers sell today is not owned by the gallery or dealer (except perhaps for the instant when a gallery or dealer, once it has a sale at hand, simultaneously buys the work from the consignor and sells the work to the buyer). This risk of a consignment-gone-awry has impacted major U.S. art museums and some of the most prominent private collectors in the art world, who consigned works to dealers and galleries which then faltered economically after the sale of their artworks.

When title insurance is part of a purchase or sales transaction, in addition to the fundamental benefit of insuring against the many title risks due to past events, ARIS will close the transaction in escrow, providing the escrow service free-of-charge.

Closing art transactions in escrow with a licensed title insurance company assures:

- **Owner-consignor is fully paid, which protects all parties to the transaction.**
- **Safety and security of the funds.**
- **Greater certainty that the pending transaction will close.**
- **Better disclosure of underwriting information and often lower title insurance costs.**

Closing in escrow transactions involving fine art and other important collectibles is a no-cost, added benefit of acquiring art title insurance and creates true transactional transparency. This is good for everyone and is of utmost interest to leading art galleries and dealers in today's market.

WHAT DOES ART TITLE INSURANCE COVER?

The one-time premium is paid when the policy is issued and covers the collector for the lifetime of ownership of the work.

Coverage automatically extends through the life of ownership of the collector’s heirs-at-law and for the duration of the ownership of any tax-based entity which the collector has formed and to which the collector transfers the art assets as part of estate management.

Purchasers receive the benefit of full defense of title in addition to the financial guarantee of the value of the work plus the ability to demonstrate best-in-class practices, which can be important for reputation and legal reasons.

There are two types of policies: an Owner’s policy for pending sales or existing collections and a Lender’s policy or endorsement for lenders facilitating clients borrowing against their art.

Title insurance for fine art and other important collectibles covers four general risk categories:

- Contemporary and historical theft;
- Import and export defects;
- Liens and encumbrances; and
- Illegal or unauthorized sales.

There is no exclusion for legal title risks of which an insured “should” or “could” have known. There are certain exclusions which are standard with real property title insurance policies.

We invite you to contact ARIS to ask for a copy of our title insurance policy form for you and your advisors to review. Please see the specimen policy form for all controlling policy terms, conditions and exclusions.

When I have works appraised, doesn't the appraiser ensure that I have clear legal title to the subject object?

An appraisal of fine art or another important collectible does not address the legal title of the appraised work.

Appraisals should comply with the Uniform Standards of Professional Appraisal Practice called "USPAP" to meet industry standards and IRS requirements for donation and estate purposes. Generally, rendering an opinion on clear legal title is outside the scope of work of an appraiser under the appraiser's professional liability policy and USPAP. An appraiser must specify in writing matters such as provenance, ownership interests and other restrictions or encumbrances that can affect the value of the object and must specify the assumptions the appraiser has made in rendering an opinion including assumptions about clear legal title.

In 99% of all tangible personal property appraisals, the appraisal does not comment on clear legal title but simply assumes without investigation that clear legal title exists.

Does title insurance increase the value of art?

Guaranteed legal title of fine art and other important collectibles increases the value of the object.

The value of any asset including fine art and other important collectibles is a direct function of the marketability of the object.

What makes a work of fine art marketable is its desirability in the marketplace. After connoisseurship – including considerations such as the artist and the selected piece – the single most important factor to increase value is clarity of the legal title to the object.

Certainty of legal title to the important collectible eliminates the common friction in the transaction among the buyer, seller and intermediaries over questions about clear legal title.

There is increasing statistical evidence in the art and collectibles market that works which carry title insurance and guaranteed clear legal title sell for (or can be charitably gifted at) higher prices than similar works which do not have title insurance.

Does title insurance cover the authenticity of works?

Title insurance does not insure authenticity or attribution; however, because legal title and authenticity are regarded as first cousins of each other, the fact that a title insurer has guaranteed clear legal title to a work can add to a collector's comfort about the authenticity of the insured work.

Collectors who seek out the professional advice of art advisors can identify in most cases before a purchase transaction outright fakes and forgeries, which also can have a fake or forged provenance history. Because title insurance is fact-based and attribution is often a matter of divergent opinion, title insurance does not insure authenticity.

What about the cost of title insurance for fine art and important collectibles?

The cost of title insurance for fine art and important collectibles is very low compared to other standard art industry transactional costs including sales tax or VAT; fees of art advisors, lawyers, dealers and galleries; and auction house buyer's premium costs.

It is also low when compared on a percentage basis to the cost for property insurance covering art in general or while stored pending an auction sale because property insurance is an annually renewable cost whereas title insurance is a one-time cost covering the life of ownership of the work.

With the purchase of art title insurance, collectors obtain a financial guarantee of the fair market value (or the purchase price) of the object for their life of ownership plus the benefit of full defense costs. The indemnity amount is the value set at the time the policy is issued, but this amount can be increased as a work appreciates in value through an endorsement to the policy for a proportional additional premium.

Most title insurance policies for fine art and important collectibles cost 2% to 3% of the value of the insured work. The insurance for many contemporary works and Lender's policies can be as low as 1% of value. On a percentage basis, the cost is generally a bell curve across the full range of market values. Some title risks, particularly in the WWII Nazi-Era context, can be higher than 3%.

There is no deductible under the policy unless a deductible is requested.

There are cost-effective structures to insure an entire collection at once.

The cost of title insurance generally goes to the tax basis in the art or collectible for capital gain tax purposes. The insurance can be part of a charitable gift for charitable gift deduction purposes. The cost is reduced on a net after-estate-tax basis as a deductible estate administration expense when an estate purchases title insurance as part of selling estate assets. Other added tax efficiencies may apply to the title insurance cost based on the particular circumstances of the taxpayer.

For private sales transactions, who pays the premium for the title policy is often a negotiated term; and premium costs are often split between the buyer and seller (or intermediaries) involved in the transaction.

Argo Group Presence

Argo Group Financials

Balance Sheet

(in millions, except per share data)	12/31/13	12/31/12
Investments & Cash	$4,236.6	$4,296.5
Receivables	1,611.9	1,681.9
Other Assets	742.5	710.5
Total Assets	**$6,591.0**	**$6,688.9**
Total Shareholders' Equity	**$1,563.0**	**$1,514.1**
Debt to Total Capital Ratio	**20.5%**	**20.9%**
Book Value per Share	**$58.96**	**$60.75**

Financial Strength Rating

A.M. Best	A (Excellent)
S&P	A– (Strong)

RATING INFORMATION: Argo Group is a publicly-traded company whose principal underwriting subsidiaries are each A.M. Best-rated 'A' (Excellent) (third highest rating out of a 16 rating classifications) with a stable outlook, and Standard and Poor's-rated 'A-' (Strong) with a stable outlook. As a member of Argo Group, ARIS Title Insurance Corporation operates as a separate statutory insurance company and mono-line title insurance underwriter in tandem with Argo Group's full line of products and services.

About ARIS

ARIS Title Insurance Corporation is the recognized global authority on the subject of legal title risks impacting the global fine art market. ARIS is the only insurer that underwrites title insurance for fine art and other important collectibles. ARIS manages art market title risks utilizing underwriting protocols and proprietary tools based on assuming the financial risk of defective legal title, which is in contrast to the traditional art industry practices where the risk is not assumed. ARIS's tools include the only art title plant in the industry, ownership of or access to which is required by law in the U.S. in order to be a licensed title insurance company. ARIS Title Insurance Corporation is a member of Argo Group International Holdings, Ltd. (Nasdaq:AGII).

ARIS Title Insurance Corporation is based in New York, New York, and Denver, Colorado.

Argo Group is an international underwriter of specialty insurance and reinsurance products in the property and casualty market. Argo Group offers a full line of products and services designed to meet the unique coverage and claims handling needs of businesses in four primary segments: Excess & Surplus Lines, Commercial Specialty, International Specialty and Syndicate 1200. Argo Group's insurance subsidiaries are A. M. Best-rated "A" (Excellent).

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