

AGRIPODS - BREEDING CAPITAL CAPITALISING ON SUCCESS

By Sally White, Friday 11th January 2008

Given shares' roller coaster performance, the tipsters are heavily advocating "alternatives" for 2008. One that seems an absolute cert, to judge by its track record, is also as green as they come. This is Newmarket-based Breeding Capital, which for the last two years has been operating a portfolio of bloodstock assets for private investors and is just opening two new funds.

The numbers would definitely turn most stockbrokers green! With envy! Its overall bloodstock portfolio since the first fund was launched in March 2006 is showing an internal rate of return of 45 per cent. There has been a 61 per cent return on all sold bloodstock. What's more, shares in the funds qualify for Enterprise Investment Scheme tax reliefs.

Trading news in December, as it cashed in on some of its assets, was absolutely excellent. Three fillies, which had been bought for a total of 605,000 guineas in 2006, sold for 2,070,000 guineas. The star was Leto, a half-sister to 2007's Oaks winner Light Shift. She had been bought for 250,000 guineas and went for 900,000 guineas. Madura, half-sister to Manduro, cost 170,000 guineas and sold for 710,000 guineas. Bloodstock sales overall last year more than doubled the initial cost less than twelve months before.

The aim of the first Breeding Capital fund was to wrap up the portfolio in 2010, with regular sales meanwhile to provide income as well as capital gain. William Sporborg, its managing director, was quoted in European Bloodstock News witnessing this jackpot, as saying: "We did not buy them to sell this year – but we've had such luck with updates to their pages we had to strike while the iron was hot."

The industry press, has, of course been full of plaudits. Even though it is now a large diversified sector, US and European bloodstock auctions grossing US\$2 billion last year, everyone loves a winner. The record of the board and management team has also drawn a good few followers.

There is a whole herd of well-known names here, from both the horse world and the City. Chairman is Christopher Holdsworth Hunt, co-founder and previous managing director of stockbrokers KBC Peel Hunt. William Sporborg was a successful point to point jockey before retiring through injury in 1994. His day-job has been investing in and managing unquoted companies. He is also a director of Huntingdon Steeplechases.

Bloodstock director is Simon Marsh, co-founder of Lord and Lady Lloyd-Webber's Hampshire Watership Down Stud, one of the UK's leading studs in terms of value of bloodstock. The Breeding Capital horses are stabled here. Watership Down holds the record of breeding and consigning the yearling that has achieved the highest price ever in a European Sales ring. Simon also has strong global relationships, particularly in the US and with Lanes End, Kentucky, one of the most prestigious and successful stud farms in the world.

Consultants are Charlie Gordon-Watson, a bloodstock agent whose name appears consistently among the UK's top five yearling buyers and who has bought eight Classic winners in his time, and Michael Youngs, a pedigree and mating expert. He has an international list of top-notch owners and breeders and advised Prince Khaled Abdullah's studs.

The original fund, the brainchild of William Sporborg, raised £3.25 million. The new funds, which are planned to total up to £4 million, will be spent on more broodmares, foals and yearlings acquired for resale, and other bloodstock assets. These could be fillies out of training or racehorses for sale abroad. Establishing two funds maximises the tax advantages.

The UK and Irish bloodstock market has been strengthening over the last ten years. The average selling prices, numbers of yearlings and sales value has increased significantly. Breeding Capital also participates in the "breeze up" market – the resale of yearlings as two year olds. (These are so-called because the horses canter or gallop before the sale for prospective vendors' inspection.)

While a "breeze up" market has been long established in the US, it only really took off in the UK two years ago. Then Coolmore Stud, John Magnier's vast Ireland-based stud paid a world record US\$16.1 million for an unraced two-year old – Green Monkey. That electrified the whole industry and the number of UK sales increased, although a rising supply of horses cooled the market as 2007 progressed.

A placing for the new Breeding Capital Funds II and III is now open to individuals who can certify that they are either a sophisticated investor or a high net world individual, in line with the terms of the Financial Services and Markets Act 2,000. Their minimum investment is £40,000. A public offer will be open to all UK individuals from early next month, and they can invest a minimum of £10,000.

While the breeding industry is not without its risks, so, as we all know, are financial markets.