
FUND PROFILE

Investing in Bloodstock



William Sporborg, founder and Managing Director of Dazzling Capital PLC, a jewellery trading company, talks to Randall Willette about the world of bloodstock investing. In January 2011, William and his fellow directors will launch Breeding Capital 2011, the third fund to target returns from trading horses.

RW: William, at first glance, bloodstock and jewellery appear to have little in common? What is the rationale behind the two?

WS: Horses and diamonds do have huge differences but also some key, common characteristics. Both provide asset backing for your cash, are both readily realisable, and both share a degree of portability. And, most importantly, both have the ability to be traded profitably.

RW: Why did you launch Breeding Capital?

WS: Throughout my professional career, I have always had an interest in tax efficient investment vehicles. In 1993, in my mid twenties, we launched the first ever tax efficient private equity vehicle aimed at private individuals. Called, HUGs, it was slightly “avant garde”, with most potential investors saying “What is private equity?” HUGs performed very well, but raising money was hard work, because it was a new asset class, and there were, as with all unquoted businesses, liquidity issues.

In the mid noughties, I was a partner of an early stage venture capital firm, and we were looking at VCTs as a way to raise money for early stage technology companies. Following the changes to the VCT rules, investors - for a two year window only - were able to reclaim 40% of their investment upfront.

I thought the tax reliefs were much better suited to trading in hard assets as opposed to intellectual property so I set about developing Breeding Capital. In the end, the Enterprise Investment Relief, a first cousin to VCYs, suited us better from a structuring point of view, so that was the route down which we went.

RW: What is the thinking behind, and the benefits of your structure?

WS: There are major two benefits to the corporate structure we use. Firstly, we do not have to be regulated by any financial services authority as we would, were we a fund. Given the level of funds we typically raise – up to £5 million as a maximum – this is important as the regulatory costs, both in time and money, would make life difficult for us. Secondly, the structure allows us to qualify for the Enterprise Investment Scheme. This is an extremely attractive tax incentive for qualifying investors, as a 50% investor is only risking 40% of his capital, and all gains are free of tax. We target annual returns of around 10%, and while this may seem low, given the inherent risk in bloodstock, it represents a very attractive return on the “risky” assets.

RW: How did the business model evolve?

WS: We were keen to build on a tax efficient, low cost front end onto a proven winning formula. Simon Marsh had built up a fabulous bloodstock trading business for the Lloyd Webbers, and was keen to enable other HNWI to access the asset class, so we set up shop in late 2005.

The bloodstock world has some interesting characteristics that make it very different from other asset classes, and its performance over the last twenty years, when compared with the equity markets, demonstrates this amply. It is in many ways “non correlated”.

Initially, our trading was focused in the UK, but over the last few years we have expanded into the United States and Australasia. This is driven primarily by the changing nature of the international bloodstock market and enabled by the changing fiscal regimes.

RW: How many Breeding Capital funds have you raised?

WS: Breeding Capital 2011 will be our third fund, following our maiden offering in 2006, and a second fund in 2008. Whilst we think of the offerings as funds, they are in fact corporate vehicles, and we have eight Breeding Capital companies registered.

RW: What is your target market, and how do you access them?

WS: 99% of our investors are HNWI who pay UK tax, because of the favourable tax status of our structure. Virtually all of our investors either have an interest in racing or are known to the management team, or both. We tend to market directly – the wealth managers and IFA market has not been a very productive area for us.

PR has been a good avenue for us, and whilst not everyone wishes to invest in the sector, it seems to catch the imagination of the press, and we have been very well covered in quality publications – most of the coverage has been positive!

In terms of product offering, investors in Breeding Capital invested 33% of the funds raised for Dazzling Capital when we raised £1 million last year. It will be interesting to see how many of our jewellery investors have a crack at the bloodstock this time around. The average investment is £20,000, and the minimum investment is £10,000.

RW: Are people purely interested in the returns?

WS: We try and offer a little more than just a share certificate and an annual report. Whilst the primary focus has to be to deliver a profit to investors, we use the rather corny line that we try to provide “interest over and above the returns”. Given current levels of bank rates, this may not be such a good line, but I know our investors appreciate being involved in the business.

Every year, we have a couple of Open Days at the Lloyd Webber’s home in Berkshire, when we parade all the bloodstock, and have a glass of wine or two in June. Watership Down in late June is as good as it gets. On a more prosaic level, we update our investors monthly via email, and we have a very up to date website, with lots of photographs and pedigrees, if you like that sort of thing.

RW: How has the bloodstock market fared during the “credit crunch”?

WS: In terms of turnover, the top end of the market has been remarkably resilient. It stepped down significantly in 2008, but 2009 and 2010 has held up well, all things considered. However, profitability has suffered. The breeding cycle is protracted, and 2010 saw the highest number of expensively produced yearlings in the history of the thoroughbred. Since those horses were conceived in 2008, the number of horse being bred have dramatically reduced, and stud fees have softened, so any pickup in demand should assist with profitability.

RW: How do you see things panning out over the next few years?

WS: Racing in the UK is going through a tough time right now, and it is difficult to see an immediate solution to that thorny problem. However, high end bloodstock is much more international, and is not reliant on the 3.45 at Kempton.

Globally, prize money at the top level is very good, with richly endowed races in Dubai, Japan, Singapore, Australia and Turkey, supplementing the more traditional markets of the UK, Ireland, France and the US.

Bloodstock has always had the ability to attract wealthy “trophy” investors, who are prepared to pay good prices for quality bloodstock. Over the last couple of years, a number of significant players have started to enter the market, and the dominance of the Maktoum family is starting to be diluted, which I believe is healthy.

Trading bloodstock is certainly riskier than buying gilts, but the risk adjusted returns can be attractive, and you might have some fun too!

RW: How can interested parties participate?

WS: We will not have any product available until late January 2011, but interested parties can register their interest on our website, www.breedingcapital.com