

From The Business

Horses are for fun, not stable income

Tom Burroughes, 24th January 2007

THE sport of kings has always attracted money – and the more successful your horse, the bigger the sums. Take Sheikh Mohammed bin Rashid Al Maktoum, for instance, the ruler of Dubai and a renowned owner of thoroughbreds. He bought the 2007 Derby winner, Authorized, last year for an estimated £15m (\$29.2m, E20.2m); Authorized was originally sold as a foal in 2004 for 95,000 guineas (around £99,750 – guineas are still the traditional unit in which horses are traded).

Horses don't just have to win races to see their values rocket, however; siring or giving birth to a winner will do the same, in the hope they do so again. The pregnant Halland Park Lass was sold for 12,000 guineas in 2005 by the Trickle-down Stud; a year later, the foal was sold for 280,000 guineas while Halland Park Lass fetched 710,000 guineas. The prices rocketed because, in the intervening time, another horse mothered by Halland Park Lass, the two-year-old Dutch Art, won a clutch of races, including the Prix Morny in France. If you do not have your own stables, the most common way of owning a racehorse is through a syndicate. There are dozens in Britain, run by various specialist companies, such as Highclere. Each of Highclere's syndicates has 20 "shares", with prices starting from £14,500 per share. Most syndicates typically own just one horse.

Syndicate members share the profits of the sale of horses, but the main income is from prize money. The amount generated by a win can, at smaller courses, be just a few thousand pounds. That moves to bigger sums for more established races, such as the £60,000 pot at the Sussex National jump held in January at Plumpton. But the biggest, most prestigious races have far bigger prizes; the Cheltenham Gold Cup winner trotted off with £200,000 last year, while a total of \$31m is up for grabs at the 11-week Dubai Carnival racing festival, which started last week. For syndicate members, profits are dependent on the number of shares they hold. Investors are tied in for minimum periods, of say three years, as they are at Highclere. This ensures the syndicate has enough money to train and stable each racehorse, which normally costs around £25,000 a year.

Buying into a syndicate has a number of perks, such as access to the owners' area at race courses. But the investment reality is that some will barely break even, because the chances of backing a winner every time are low. Do not consider buying into a syndicate if you are not also doing it for the joy of following your horse.

Alternatively, try an investment fund that owns several horses. A number have been set up in recent years by bloodstock agents and investment professionals. There are no minimum investments, though most insist that cash is left in for at least one year. These funds typically issue shares via private placement, giving investors a percentage share of returns. Bloodstock funds differ from syndicates because the latter are clubs that aim to profit from prize money and so tend to own already well-established horses. Funds tend to own breeding horses or very young bloodstock.

An example is Breeding Capital. It was launched in 2005 by a team of City financiers and bloodstock buyers, including Christopher Holdsworth Hunt, former chief executive of KBC Peel Hunt, and managing director William Sporborg, who is director of Midlands racecourse owner Huntingdon Steeplechases. The fund invests in broodmares (a horse used only for breeding), foals and one-year-olds. As at 31 December, it had an internal rate of return (IRR) of more than 40%. (IRR takes account of the complex timings in funding the acquisition and sale of bloodstock.) However, there is no industry benchmark for investment returns in bloodstock, so it is hard to compare performance.

The Breeding Capital fund is structured as an enterprise investment scheme (EIS), a government programme aimed at encouraging growing business. For investors, this structure offers two tax benefits. If held for at least three years, any profit on the disposal of the investments is exempt from capital gains. Individuals who sell bloodstock do not pay capital gains tax, because it is treated as a wasting asset under tax law, but investors in companies – like Breeding Capital – do, hence why it has opted to structure as an EIS. The other advantage is that EISs provide income tax relief at 20% on the amount invested. So for example, a £50,000 investment receives a £10,000 cut in income tax on any earnings from the fund.

Breeding Capital is now raising cash for two more funds, Breeding Capital II and Breeding Capital III. The firm believes investor demand is strong and is looking for £2m per fund. The minimum investment will initially be £40,000. Other examples of bloodstock funds include the Kingwood Partnership, run by the Kingwood Stud in Berkshire, and the Tweenhills Breeding Enterprise Investment Scheme, managed by David Redvers Bloodstock.

Bloodstock investing is not, and will never be, just about returns. There is money to be made, but profits are near impossible to compare and judge, especially if you are not a deep-pocketed, full-time member of the industry, with your own stables, stud or trainers. Instead, enjoy being part of the sport of kings – and count any winnings as an added bonus.