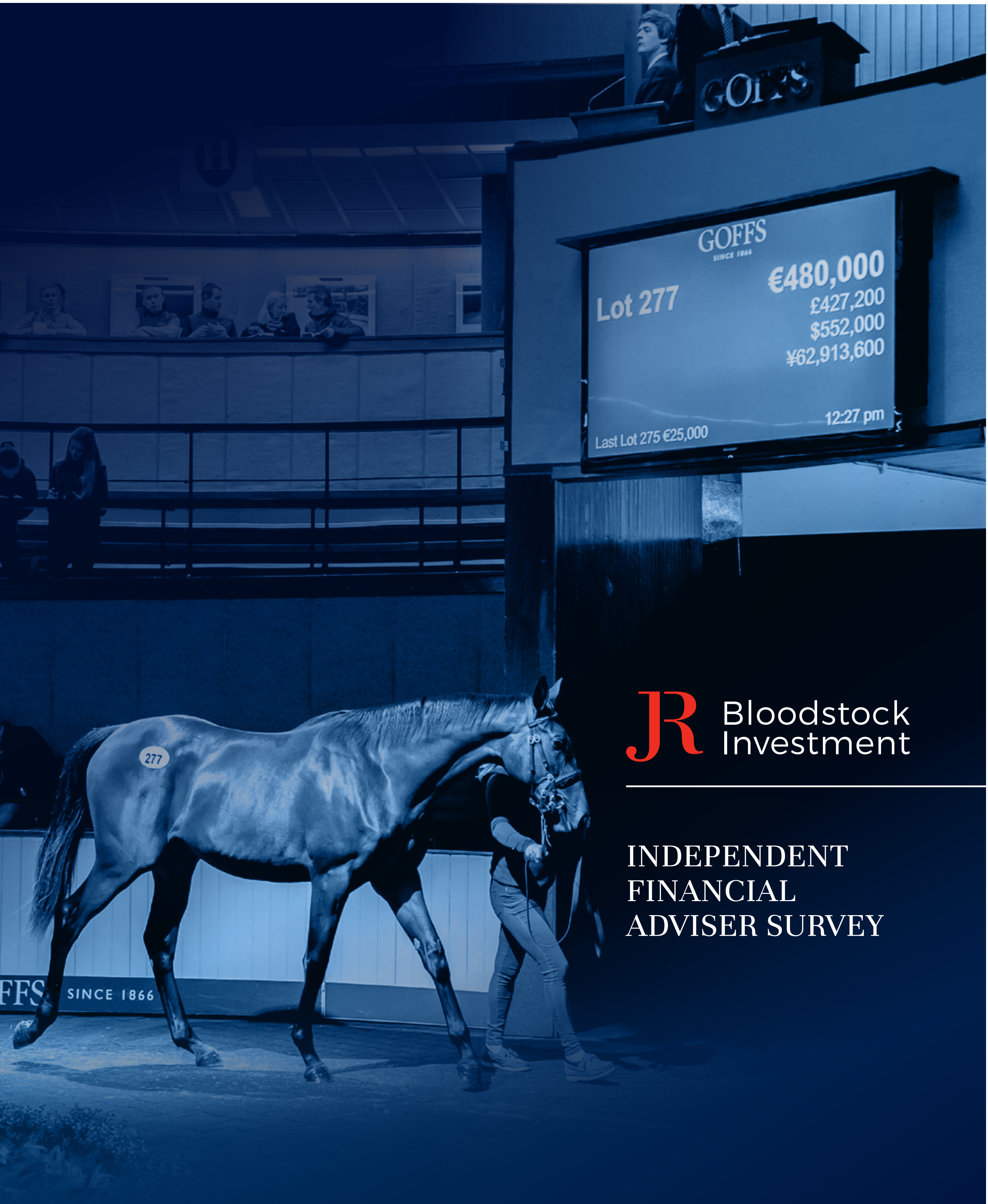


JR Bloodstock Investment

INDEPENDENT FINANCIAL ADVISER SURVEY

NOVEMBER 2019

CONTENTS

1. EXECUTIVE SUMMARY

Intermediaries are having to manage clients' investment return expectations against growing concerns about the outlook for mainstream asset classes. With investor sentiment suggesting that equity markets may have peaked and record low fixed income yields, advisers certainly have their work cut out.

Economists frequently warn of negative implications from the ongoing trade battle between the US and China. They have also flagged that European economic growth looks set to remain stagnant for the foreseeable future. Meanwhile, experts continue to debate the impact that Brexit will have on both UK and European mainstream assets. Research conducted for this report found that more than two thirds of advisers have been forced to lower clients' return expectations in the current economic environment.

As investors increasingly seek returns from asset classes that are uncorrelated to macro-economic events, many are keen to embrace alternative investment options. Intermediaries are finding that they are the ones being asked to research the available choices.

However, nearly half of those polled for this survey felt that their knowledge of alternatives was either "poor" or "average" at best. This acknowledgment was reinforced by many respondents admitting that they are not fully briefed on all of the options that are available to improve client returns.

While the majority of clients continue to be willing to set aside a portion of their portfolios to take greater risks, this knowledge gap means some advisers may not be putting this risk allocation to its best possible use. At present, less than one in five IFAs currently advise on bloodstock investments, despite around two thirds of the market claiming to be familiar with the asset class.

Their reasons for not doing so are predominantly down to a lack of familiarity with the investment process, the minimum investment amounts, and a lack of certainty about whether bloodstock investments would fit their client profiles. Nearly half the IFAs surveyed were unaware that bloodstock investments qualify for inclusion in tax-efficient Enterprise Investment Scheme structures.

When supplied with statistical data on the performance of bloodstock investments over consecutive annual periods, nearly half the advisers polled expressed surprise at the returns that were possible, after costs, sale charges and auction commissions had been deducted. Despite this, the majority felt that their lack of understanding of the asset class would prevent them from recommending these investments to clients.

Of those intermediaries who had recommended a bloodstock investment, the experience has been largely a positive one for both the adviser and the client. The IFAs polled who fell within this bracket said they felt their clients had achieved "good" returns from the cash invested with the majority giving positive ratings for customer service levels from their bloodstock agent. Intermediaries interviewed for this survey said their clients typically invested an average of £26,000.

2. METHODOLOGY

Between 30 August and 24 October 2019, researchers working on behalf of JR Bloodstock Investment interviewed 27 independent financial advisers from across Great Britain and Northern Ireland.

Intermediaries were invited to participate from across the United Kingdom to give a balanced perspective of investment attitudes, with different client portfolio sizes as reference points.

Research was primarily undertaken by telephone call, with supporting materials, such as questionnaires and performance data supplied to each interviewee prior to each call.

Interviews were undertaken on the proviso that participation was done on a completely anonymous basis. Intermediaries participated in the survey on a voluntary basis, with no financial incentive offered to those advisers who agreed to take part.

Once all interviews had been completed, the data from each call was collated by the research team and the accuracy verified by a third party.

3. INVESTMENT ENVIRONMENT

Over the past year, the US-China trade war and the ongoing Brexit saga have dominated headlines, providing the backdrop against which global equity markets have traded. In the fourth quarter of 2018, equities were in the grip of a bear market, but have rebounded since, despite rising concerns that a global recession lurks in the near future.

Moreover, slower growth globally saw the US Federal Reserve switch from a policy of hiking interest rates to easing. While global equity markets had remained buoyant, in spite of the challenging macro environment, they have been increasingly volatile as a result of the trade war.

Movements up or down in Asian stocks were largely triggered by any developments in trade talks between US President Donald Trump and Chinese President Xi Jinping. President Trump has been raising tariffs on Chinese goods throughout the year, placing a strain on many companies, and causing knock-on effects to other, seemingly unrelated, markets in other parts of Asia and even Europe.

While Europe's economic growth remains stagnant – just at the point European Central Bank President Mario Draghi steps aside to hand the reins to Christine Lagarde – European indices have made modest gains over the past 12 months.

At the same time, the UK's flagship FTSE 100 index lagged all the major global and regional indices, up just 6.5% over the same 12-month period, as Brexit negotiations rumbled on. While the 31 October departure deadline came and went, the FTSE 100 finished October down at 7,248.38 as fresh worries about the US-China trade spat hit markets globally.

In fixed income, yields have declined to record lows, or are negative, in many areas of the global bond market. But bond funds have been pulling in UK retail investors during the past 12 months to the end of October, as they have been shunning equity funds.

Investors' frustration with the ongoing low yield environment and concerns about the investment outlook for traditional asset classes has led many intermediaries to explore the potential that exists in alternatives.

Many of those advisers polled by JR Bloodstock Investment said they have now started to explore more esoteric asset classes to ensure that their clients have every opportunity to meet their return requirements. In fact, more than a third of advisers polled (37%) said they had expanded their search to more exotic asset classes in the past year.

4. ASSET ALLOCATION ATTITUDES

Clients, it seems, are expecting more from their advisers, as the ability to easily achieve stellar returns becomes more difficult. In May 2019, research group Cerulli Associates published a paper[1] stating that 62% of retail investors, and 61% of fund managers said they thought equities markets had reached the top of the current cycle. Many said they were now looking at alternative asset classes to diversify their portfolios.

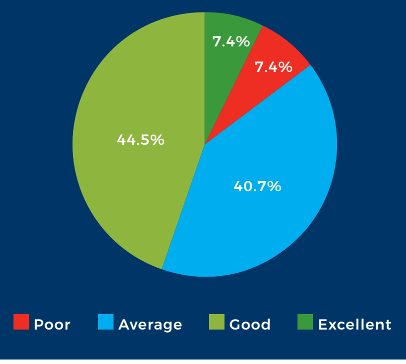
Despite this lack of faith in traditional asset classes, many clients still expect their intermediaries to be able to hunt out good returns. More than two thirds (67%) of advisers interviewed for this report said they have had to "lower clients' return expectations" in the past year due to the likely return profile of mainstream investments.

However, our researchers found that some clients may be having their return expectations lowered because their advisers are not yet fully aware of the all available investment options that exist in the alternative investment market.

When asked about their levels of understanding of what is on offer in alternative asset classes, 48% of advisers said that their knowledge of them was either "poor" or "average". Of those interviewed, just 7% said they considered their knowledge of available alternative investments to be "excellent".

Of the IFAs interviewed for this report, nearly all of them (96.3%) said their clients had a portion of their portfolio dedicated to higher risk assets. But, with many intermediaries acknowledging a lack of familiarity with alternative assets, it could be argued that the percentage of portfolios allocated to higher risk assets might be able to perform better elsewhere.

How would you describe your knowledge levels of alternative asset classes? %



References:
1. https://www.cerulli.com/about-us/press/2019-may-the-cerulli-edge-european-monthly-product-trends-edition/

5. KNOWLEDGE SHORTFALLS

For a large proportion of qualified financial advisers, bloodstock investments have passed them by. When asked how familiar they were with bloodstock investments, one third of those polled said they had very little knowledge of them.

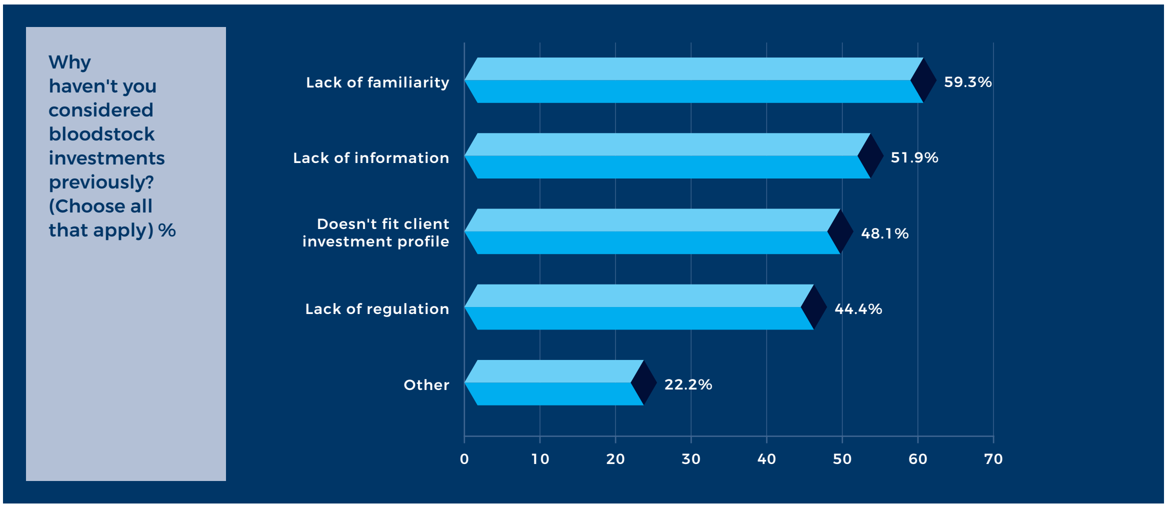
The potential for new clients to benefit from the asset class, therefore, is substantial. Advisers were also asked whether they had actively advised on bloodstock investments before. The number that had was surprisingly low, with just less than one in five (19%) advisers saying yes, but nearly 81% saying they had not.

The reasons for not doing so underscore misconceptions that exist in the market. Some of these are understandable. Much of the media coverage dedicated to equine investments focuses on the multi-million pound transactions that take place at auction houses, with little focus on the smaller investment amounts that allow clients to test the market for the first time.

For example, in June 2019, *The Financial Times*[2] documented the vast profits made by billionaires such as George Soros and members of the Qatari royal family in its report about the "super wealthy". While these articles make for interesting reading and illustrate the return potential, they don't illustrate that the market is also accessible to adventurous retail investors.

The assumption that bloodstock investing is purely for an elite set of ultra-high net worth investors was relatively common among the intermediaries interviewed for this survey.

In one of the most surprising findings, a "lack of familiarity" and "lack of information" were the two main reasons cited by those advisers who had yet to recommend bloodstock investments to their clients, with many explaining that they didn't realise it was an option for more modest sums of money.



References:
2. https://www.ft.com/content/a4218620-4009-11e9-9499-290979c9807a

During the round of interviews, many advisers were also surprised to learn that bloodstock investments can take place within tax efficient wrappers like the UK government's Enterprise Investment Scheme. Launched back in 1993, Enterprise Investment Schemes offer investors a series of tax advantages for investments in eligible assets, which explains their appeal to IFAs and their clients.

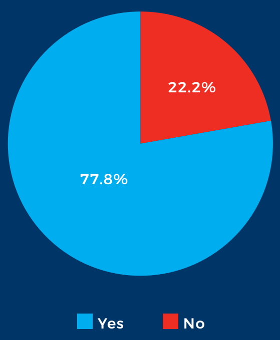
When used appropriately, they can reduce income tax bills by as much as 30%, depending on the clients' circumstances, with the relief applied in the tax year in which the investment is made. In addition, any gains made on EIS investments do not attract capital gains tax. And, should an investment in an EIS-eligible investment underperform, it is possible for the investor to offset losses against gains made elsewhere in the investment portfolio.

According to official figures[3] from the industry body, the Enterprise Investment Scheme Association, some 33,605 investors claimed EIS tax relief in the 2017/2018 tax year, which is estimated to rise to 37,350 when figures are released for the subsequent 12-month period.

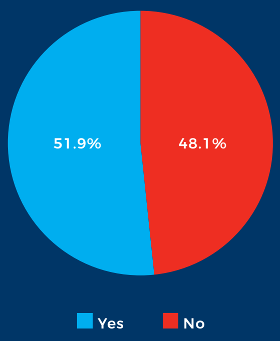
While the majority of intermediaries polled for this survey acknowledged they had advised on an EIS scheme previously (78%), nearly half of all advisers had no idea that bloodstock investments qualified for these tax-efficient wrappers.

Of those advisers polled, just 52% said they were aware that bloodstock investments were eligible, with the remainder saying they didn't know.

Have you advised on an EIS scheme previously? %



Did you know that bloodstock investments can be made within an EIS tax wrapper? %



References:
3. *https://eisa.org.uk/about-eis/facts-and-figures/*

6. INVESTMENT APPEAL

All advisers participating in this year's survey were given details of the returns achieved by JR Bloodstock Investment in recent years. In the 2017/2018 season, investors with JR Bloodstock Investment received net profits of 12% after the deduction of costs, sale charges and auction commissions.

Intermediaries were also advised that JR Bloodstock Investment had generated positive net returns for clients every year for the past eight years, with some particularly noteworthy seasons. In 2016/2017 season, investors saw a 23% net return and in 2015/2016 made a 30% return after fees and charges were deducted.

For most IFAs, the return profile of bloodstock investments did not come as a surprise, with 56% of those polled saying these returns were in line with their expectations. However, most of those interviewed (59%) did not feel they knew enough about the asset class in order to advise their clients in the correct manner.

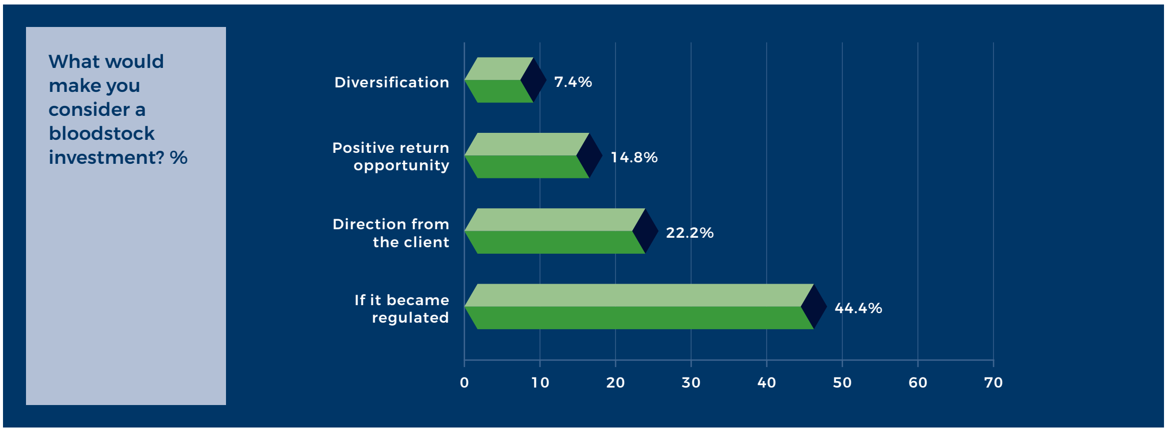
When asked what would entice them to learn more about the risk/return profile of bloodstock investments, nearly half of advisers (44%) said greater levels of regulation would encourage them to take a closer look, while just over one in five said that they would be keen to do so if they were directed by their client.

SATISFIED CUSTOMERS

Of those advisers who had previously recommended a bloodstock investment, all of them said they would be happy to do so again.

When they were asked to rate their client's assessment of the asset growth they received from their investment, the same advisers said their clients had experienced "good" returns. The majority of intermediaries (60%) also rated the level of client service that they received from their bloodstock agent as "good" or "outstanding", with the remainder describing service levels as "average". The average amount invested by those clients surveyed was around £26,000.

Experienced bloodstock advisers were also asked whether they thought there was sufficient education about the asset class, given that many intermediaries said they were not aware of bloodstock investing, or the risk/return profile. 80% of those polled said levels of awareness were insufficient, and that more information should be made available to advisers.



7. ABOUT JR BLOODSTOCK INVESTMENT

JR Bloodstock Investment is run by Jamie Railton. Following a successful career as a professional jockey, Jamie set himself up as bloodstock agent and consignor of horses to the sales.

Having been a passionate horseman from a young age, his natural eye for a racehorse soon gave him plenty of success in the sales ring. He now has 25 years' experience in the industry and a reputation built on integrity and trust.

Jamie is a co-investor in the portfolio and consequently bears the same exposure to risk as other investors.

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