

The Interview - Michael Reichstein, Reichstein Trading & Asset Management: “Thoroughbred horses offer diversification to institutions, high net worth individuals and hedge funds”



Michael Reichstein, whose Maltese alternative fund business, Resco Funds Sicav, is preparing to launch the Thoroughbred Horse Fund, says that despite the risks inherent in an asset class whose performance is partly dependent upon race results, the fund aims to achieve stable and attractive performance through a strategy of diversified investments and the access to the knowledge of a broad range of industry experts.

GFM: What is the history and background of your company, principals and fund?

MR: The Thoroughbred Horse Fund is still a project but close to launch. I am the main manager, working with a range of agents/managers all over the world. The fund will start operations in France due to interesting owner and breeder premiums with a minimum of EUR5m. It will be closed for five-and-a-half years and then either liquidated or continued after consultation with the main investors in the fund. The launch is subject to prior approval from the Malta Financial Services Authority.

The investment committee consists of myself, based in Switzerland, as well as Ghislain Bozo and Nicolas de Chambure, who are both based in France and well connected to other important horse-racing countries such as England, Ireland, Germany, the US, Canada, Australia, Hong Kong, Japan and South Africa. We will also work with a strategic committee whose members include Erich Schmid from Switzerland and other leading industry figures from all over the world.

The Thoroughbred Horse Fund is comparable to a private equity or venture investment; a realistic expectation of its return is around 12 per cent a year. The reference currency of the fund will be euros but it will make investments worldwide also denominated in US dollars, sterling and yen. There is an annual management fee of 1.8 per cent and a performance fee of 2 cent levied at maturity.

The fund aims to profit from the EUR1.5bn global market for thoroughbred horses, which is uncorrelated to other asset classes and therefore an interesting diversification opportunity for institutional clients, high net worth individuals and hedge funds. We aim to achieve returns through an excellent worldwide network and a well-diversified investment strategy involving fillies at training, brood mares, foals, yearlings and shares in stallion partnerships, as well as geographical diversification.

I am an ex-banker and former gentleman rider who owns, breeds and trains racehorses. I have known the industry for around 20 years and combine horsemanship with a good knowledge of financial investments having built up Resco Funds Sicav in Malta together with a business partner.

GFM: What is the structure of your fund?

MR: The Thoroughbred Horse Fund is a Malta-domiciled Professional Investor Fund. It is part of an umbrella fund with several sub-funds.

GFM: Who are your main service providers?

MR: The fund's administrator is SGGG Fexco Fund Services Malta, the auditor is Deloitte in Malta and banking services are provided by UBS in Zurich.

GFM: What is your distribution strategy and targeted client base?

MR: The fund is open only to qualified investors with a minimum investment of EUR75,000 and assets of at least EUR750,000. We are seeking to attract a worldwide investor base. The launch is subject to prior approval from the Malta Financial Services Authority.

GFM: What impact has the recent global financial crisis and economic downturn had on your business?

MR: The crisis has had almost zero impact on our plans. Whatever the economic climate, good horses will be bought all the time.

GFM: Please describe your investment process.

MR: The fund uses a private equity-style investment process. Cash will be invested during the first one-and-a-half years, and the fund will be in cash at the end, with horses being sold through sales or private placements. Stallion shares will be liquidated.

The investment strategy rests on two fundamental factors. First is diversification of investments through acquisitions and sales on markets worldwide and participation in all asset categories. Secondly, we will concentrate on the top range, which is the least sensitive to the consequences of the economic crisis, attracts the largest volume of demand and has been quickest in picking up again following the last slowdown.

We are searching for performance in the short term through opportunity investment and possible reinvestment of liquidities, and in the long term via strong residual value assets.

GFM: How do you generate ideas for your fund?

MR: We have quite a large investment committee consisting of professional and very well-known people with a good reputation in the horse racing scene.

GFM: What is your approach to managing risk?

MR: The fund is certainly a high-risk investment, which offers the prospect of an attractive return. However, all the horses will be insured in the event of death.

Investing in a racehorse is by definition relatively speculative as its performance depends, among other things, on race results. It is not unusual for the value of a thoroughbred to grow tenfold within a few years. That is why our strategy of diversified investments is designed to achieve stable and attractive performance.

GFM: Are you looking at any particularly attractive opportunities right now?

MR: The market looks quite attractive at the moment but one should remember that it is a unique market that can be compared with exotic investments such as fine art and wine.

GFM: What differentiates you from other managers in comparable areas?

MR: What differentiates us is our knowledge of the sector and the extent and quality of our network.

GFM: How do you view the environment for fundraising over the coming 12 months?

MR: We have attracted surprisingly large interest from potential investors, but it is very difficult to predict how much we can raise as seed capital. However, EUR5m is the absolute minimum with which to launch the fund.

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