Consumer Duty

Product & Services Review

Blackfinch Adapt IHT Portfolios

Product Details

Description of the product

The objective of this service is to mitigate Inheritance Tax (IHT) (above the tax-free threshold) after two years by investing in Business Relief (BR) qualifying trades, through unquoted company shares. Investee firms are focused on capital protection and reliable revenue streams.

The Adapt IHT portfolios are a discretionary managed service with a focus on trading activities that qualify for BR. Blackfinch can choose to invest in one or more companies on a client's behalf. Each trading company focuses on a specific trading activity in one of three key sectors: Asset backed lending, Renewable energy and Property lending. Investors can choose from four different portfolios to suit their plans and beliefs from within these three key areas to create a blended, well diversified portfolio of investments. Each portfolio has a different return target, ranging from 3% to 5% plus, depending on its composition. We have developed this range to help meet investors' needs, with an Environmental, Social, Governance (ESG) focus.

Describe the key features and benefits of the product

Wealth Preservation
An investment into the Adapt IHT portfolios could reduce the 40% inheritance tax payable on an investor's estate upon death. This applies if assets are worth more than the current IHT nil-rate band of £325,000, and the residence nil-rate band of £175,000 (where applicable). The IHT nil-rate band and residence nil-rate band have been frozen until 5 April 2026.

Reassurance
The trading activity of the investee companies focuses on capital preservation and risk mitigation. We only invest in what we believe to be BR-qualifying companies where we either hold security over assets or secure revenue streams are available.

Swift IHT Mitigation
Investments into the Adapt IHT Portfolios attract 100% relief from IHT after two years, as long as they are still held at the time of death. In contrast, gift and trust arrangements can take up to seven years to achieve full exemption.

A Simple Solution
Unlike some other IHT solutions, the Adapt IHT Portfolios have no complex or expensive legal structures, age restrictions or medical requirements and just one application form to complete.

Maximise Growth
Providing upside potential, we only take our Annual Management Charge (AMC) of 0.5% plus VAT after achieving the minimum target return for an investor and only on amounts in excess of the target return.

Flexible Withdrawals

Investors can take a regular payment from their investment (payable quarterly, semi-annually or annually), or leave the capital invested to maximise growth.

Access to Capital

Investors retain access to their capital. This includes being able to make full or partial withdrawals if circumstances change. Please note that any withdrawals made will no longer qualify for IHT relief and are subject to available liquidity.

Blackfinch ESG-Approved Portfolios

We select investments based on their potential for delivering a positive impact as outlined in our ESG policy. We then work with the businesses that we invest in overtime and closely monitor their ESG-related performance.

Describe the limitations of the product

The product invests in shares in unquoted companies, these may not be as readily realisable as other equities. Furthermore, the product is only exposed to 3 underlying companies, whilst this provides adequate diversification for an IHT service, this may be seen as less diverse than other investment alternatives e.g., investing in an AIM BR service. Therefore, it should be used as part of an overall IHT planning strategy.

The service is geared towards capital preservation as opposed to high growth, again whilst this is ideal for an IHT service, it may not be a preference for some investors who are looking for high growth in their investment terms.

The investment has been classified as 'high risk' by the FCA, meaning there's a risk of loss of capital. Whilst we try to steer towards capital preservation, the risk remains as it does with most investments.

Events

Has there been an event which could result in the product posing a risk to customers?

Event = any concerns identified during review about the product or its literature that may be perceived as a consumer harm.

No risks to customers were identified during this review.

Needs and Objectives

Describe the needs and objectives [including financial objectives] of the target market for the product [include vulnerable customers].

Clients' objectives and needs

- Those who have large amounts of capital and are looking to mitigate IHT through the use of BR
- Those who are expected to require IHT mitigation sooner than is possible with traditional methods such as gifting and trusts
- Those wanting a faster, more cost efficient and simpler process to the traditional methods
- Those wanting to keep control of their capital
- Those with no direct descendant(s) or not wanting to pass down their residence to their direct descendant(s)

Vulnerable customers will be initially assessed and screened by their financial adviser, any specific needs will be raised and we will cater for these to the best of our ability, for example, we currently provide forms with bigger text for those with poor eyesight. The needs and objectives of vulnerable customers should not inhibit them using our product, due to staff training and policies we have in place.

Identify the risks posed by the complexity or nature of the product

- Strategy and sector risks
- Economic and Political Risk
- Tax Risk
- Key Person Risk
- Counterparty Risk
- Country and Currency Risk
- Natural Events Risk
- Dilution Risk
- Exit Risk
- Conflicts of Interest Risk
- Performance Risk
- Market Risk
- Competition

Explain how these risks are mitigated

Blackfinch has a risk committee that currently looks at key risks within our products. Individual monitoring and management of the investment companies also helps to reduce inherent day-to-day operational risks.

Strategy and Sector Risks

All loans are verified internally, and the strategy of the borrower is given significant consideration, as well as their ability to repay loans and the method by which this will happen. All loans are made in adherence to our credit policy. LTVs are expected to be no higher than 75%, which we feel provide some room for any slippage in property prices. In regard to Renewable Energy assets, we are now targeting subsidy free projects as well as those which qualify for FITs & ROCs, meaning that we will have already built up a strong pool of assets when the subsidies are no longer available.

Market Risk and Competition Risk

The Service will invest in specific sectors and under specific mandates, and all activities accessed via individual portfolios require formal approval from the Investment Committee. New activities including individual development loans or renewable energy sites will undergo a more stringent due diligence process, which will be undertaken by external solicitors and backed up by the Investment Committee. We will constantly monitor sectors currently not invested in on order to potentially enlarge the scale and breadth of the Service, as well as to reduce sector concentration risk.

Economic and Political Risk

We feel that it would require a 40% decline in the property market before investor portfolios would suffer sustained capital loses. In the event that housing development and construction projects are delayed. We feel that we have a diversified source of deal flow that it would still be able to match investment inflows.

Tax Risk

IHT relief is retrospective, and therefore cannot be guaranteed. However, by limiting asset classes to individual companies, the risk that certain activities no longer qualify is mitigated somewhat.

Key Person Risk

Blackfinch is wholly owned by its Chief Executive and Chief Investment Officer meaning the risk of key departures is low. However, given the depth and experience of our investment team, a replacement can easily be found should a senior member of the team become unavailable.

Counterparty Risk

All property development loans are secured on a first charge basis against land and buildings (in most instances), and we will step in where necessary, bringing in developers to bring projects to completion. As most Renewable Energy sites benefit from government subsidies, counterparty risk is low. However, operational and maintenance contracts with third parties will minimise the risk of outages.

Country and Currency Risk

As all assets are held in country, this risk is non-existent at present

Natural Events Risk

All development sites are reviewed for flooding risks as part of the initial due diligence process, and we must be made aware of all risks contractors insurance policy before a loan is provided. Renewable Energy sites are insured against fire and flood damage.

Dilution Risk

All investee companies will receive funding based on their NAV and will continue to add assets in order to account for any additional capital. In addition to this there is an assumed capacity for up to £1 billion for the current trading activities, and we will use its discretionary mandate to deploy funds into additional sectors if necessary.

Exit risk

As investee companies are unquoted, they are not readily realisable. However, in order to meet any liquidity requests on the death of an investor, we maintain a liquidity buffer of 10% in cash across the portfolio. To date, all withdrawal requests have been met via matched bargain from the inflows of new investors.

Conflicts of Interest Risk

We have a Conflict of Interest Policy in place for dealing with such risks which include the allocation of shares within an individual portfolio, as well conflicts which may arise within investee companies.

Performance Risk

We intend to follow the same model irrespective of performance, and expect to benefit from economies of scale, and reduced costs as the Service grows in size.

Identify the risks posed to the target market by the Product	Capital is at risk; the investment is made into small unquoted companies and values may go down as well as up so investors may get back less than they originally invested Changes to the taxation environment or HMRC practice may affect investment returns (tax rates, benefits and allowances are personal to investor and they depend on personal circumstances) Companies which are invested in may alter and so no longer qualify for BR legislations, this could result in the repayment of any tax rebate. Blackfinch looks to invest in companies that we believe will qualify for Business Relief however this is not guaranteed as the relief is assessed by HMRC on a case-by-case basis at the time of death of the investor Investment must be held for at least two years to qualify for BR, there is a risk that the investor dies before completing this holding period Assets may be hard to sell so investors may not be able to retrieve the proceeds from the sale of the shares immediately or in full, due to the investment being in small unquoted companies.
Explain how these risks are mitigated	Blackfinch will only invest in companies that we expect will qualify for BR and we will always obtain professional opinion from our third-party tax advisers. Blackfinch have a built in 10% buffer for cash drag in all returns and furthermore Blackfinch will not stretch its risk criteria to chase return and will always seek to preserve capital over generating returns. Each Adapt IHT portfolio we offer contains holdings in 2-3 companies. Whilst this gives a limited diversification in terms of number companies held, it should be noted that the companies diversify their underlying exposure to many deals within each trading activity. For example, the renewable energy company comprises over 65 different energy assets.
Identify the risks posed to vulnerable customers by the Product	Vulnerable customers could be easily exploited due to having a vulnerability that could possibly make it more difficult for them to make informed investment decisions. There could be possible barriers that inhibit them from fully understanding the risk or consequences of an investment.
Explain how these risks are mitigated	We have a Vulnerable Customers policy in place and all staff are trained on how to identify and deal with vulnerable customers.

Testing

Is the product meeting the needs and objectives of its target market and vulnerable customers?	Yes.
Has a value assessment been completed, and does it demonstrate good value? (separate review document)	Consideration to our prices has been shown when our products were initially manufactured and ongoing monitoring of these is conducted to ensure fairness to the end consumer whilst remaining competitive within the relevant market. Under the Consumer Duty requirements, a review on the fairness of the fees of our products was completed as part of the outcomes review. The review highlighted that the costs of the service are in line with the industry norms and the benefits of the services should outweigh the costs for the majority of investors.
Has the product been distributed in accordance with the value assessment findings?	Yes, the product is being distributed according to the value assessment and third party reviews.
Are communications being used as detailed within the product approval?	Yes.
Does data demonstrate the communications are effective in allowing the target market to understand the key features and benefits of the product and make effective decisions?	Blackfinch Investments Limited as the manufacturer of these types of solutions will distribute predominantly to registered Financial Advisers and professional intermediaries such as Solicitors and Accountants. This is done on the understanding that any advice given to the client has passed a rigorous due diligence process and an assessment has been made on the suitability, considering the clients attitude to risk and volatility.
Does testing demonstrate the communications are clear, fair and not misleading?	Yes.

Are customers adequately supported after the point of sale?	Yes, customers will have access to a Business Development Manager who is personally assigned to their case. We also have a dedicated client excellence team and technical team who are on hand to answer any ad-hoc queries. We provide customers with quarterly valuations and annual tax statements, as well as making monthly factsheets and quarterly performance sheets available on our website.
Have testing of the actions of distributors been undertaken?	No.
Where testing identifies the product is not meeting the needs of some or all of its target market [including through identified issues with communications] has the following action been taken: *- Cease distribution* *- Mitigate failures* *- Inform distribution chain*	The product is meeting the needs of the target market

Consumer Support

Has the product been designed to support retail customers such that it meets the needs of retail customers, including those with characteristics of vulnerability?	Yes, the product has been designed with the needs of retail customers, who have taken appropriate financial advice, in mind. The product is designed to be of benefit to retail clients who have large amounts of capital and are looking to mitigate IHT through the use of BR, who are expected to require IHT mitigation sooner than is possible with traditional methods such as gifting and trusts, who want a faster, more cost efficient and simpler process to the traditional methods, who want to keep control of their capital and those whom have no direct descendant(s) or not wanting to pass down their residence to their direct descendant(s). Vulnerable customers will have the same needs as the target market but may have a characteristic that could possibly inhibit them, we have put policies in place and ensured that staff have appropriate training to ensure no barriers should exist to prevent vulnerable customers benefiting from the product.
Is there evidence demonstrating that retail customers can use the product as reasonably anticipated?	To date, we are aware of 168 Business Relief claims (which allows the investment to be exempt of Inheritance Tax) and have yet to be made aware of any unsuccessful claims.
Is there evidence demonstrating appropriate friction in the customer journeys to mitigate the risk of harm and give retail customers sufficient opportunity to understand and assess their options, including any risks.	The client's adviser will undertake suitability tests on the client before any investments are made. All our product literature contains warnings that advise the client of the potential risks of the service, we also produce a Target Market Assessment for our products which outlines suitable clients and the negative target market (this also includes risks, rewards and product testing.

Is there evidence demonstrating retail customers do not face unreasonable barriers (including unreasonable additional costs) during the lifecycle of the product, such as when they want to:

(a) make general enquiries or requests.
(b) amend or switch the product.
(c) transfer to a new product provider.
(d) access a benefit which the product is intended to provide.
(e) submit a claim.
(f) make a complaint; or
(g) cancel a contract, agreement or arrangement or otherwise terminate their relationship

All clients of the IHT product are able to contact Blackfinch and make general enquiries as well as specific queries to their investment.

Any switches between models will incur dealing fees of up to 1% (up to as there will not be a requirement to transfer 100% of the investment due to the model allocations). Transfers out will only incur a dealing fee on exit as well as the AMC if model targets have been exceeded.

The benefit which the product is intended to provide is Business Relief, as this is only applicable on death, there will be no cost to the client but instead, the beneficiaries will receive the value of the investment less any dealing fees and AMC which is all explained in the brochure.

There are no costs to the clients/beneficiaries for dealing with any claim.

Blackfinch has a complaints procedure in place, allowing retail customers to make a complaint, which will be appropriately investigated and resolved.

If monies are yet to be invested, then there will be no cost to the client in order to return their initial investment. After investment has happened, then any withdrawal will be subject to the dealing costs as well as the initial and dealing costs from inception.

Findings

Is the product demonstrating a clear set of benefits for its target market [including vulnerable customers]	Yes, the benefits of the product are clearly defined in the literature and there is evidence that clients have been able to access and benefit from these.
Does the product provide fair value for the target market [including vulnerable customers]	Yes, the costs of the service are in line with the industry norms and the benefits of the services should outweigh the costs for the majority of investors.
Have identified risks of the product been reasonably mitigated and distribution strategies designed to significantly reduce such risks	Yes, Blackfinch Investments Limited as the manufacturer of these types of solutions will distribute predominantly to registered Financial Advisers and professional intermediaries such as Solicitors and Accountants. This is done on the understanding that any advice given to the client has passed a rigorous due diligence process and an assessment has been made on the suitability, considering the clients attitude to risk and volatility. All our product literature contains warnings that advise the client of the potential risks of the service, we also produce a Target Market Assessment for our products which outlines suitable clients and the negative target market (this also includes risks, rewards and product testing.
Is the product allowing identified groups of customers to pursue their financial objectives?	Yes- there is evidence that customers have been exposed to the target returns of the service and have been eligible for BR claims upon their death.
Have customers been able to use the full benefits of the product?	Yes- there is evidence that customers have been exposed to the target returns of the service and have been eligible for BR claims upon their death.
Is the product design avoiding foreseeable harm as set out in PRIN 2A.2.10 G?	Yes.

Consumer Duty

Price & Value Assessment

Blackfinch Adapt IHT Portfolios

Target Market

Identify the target market	Retail and professional clients who are looking to mitigate a potential IHT liability.
Detail the characteristics of the target market	Those who have large amounts of capital and are looking to mitigate IHT through the use of BR Those who are expected to require IHT mitigation sooner than is possible with traditional methods such as gifting and trusts Those wanting a faster, more cost efficient and simpler process to the traditional methods Those wanting to keep control of their capital Those with no direct descendant(s) or not wanting to pass down their residence to their direct descendant(s)
Explain why the target market has been selected	The main objective of the product is to enable investors access to an investment that should qualify for BR and in turn will mitigate any potential IHT liability, that would have occurred if the money had not been invested.
Identify any characteristics of vulnerability in the target market which may impact the value received by those customers	Given that the product is used to help clients undertake IHT planning it naturally attracts investors from the following groups. However, this is because they can actually receive the benefits from the service, which is a more advantageous IHT position. • Elderly clients • Dealing with clients who have recently suffered bereavement • Clients who are deaf or hard of hearing • Language Barriers • Mental health issues • Clients whose welfare could be put at risk (financial, metal or physical)
Identify the drivers of vulnerability in the target market	• Health • Life Events • Resilience • Capability

Could the customers vulnerabilities impact full/value use of the product?	No, all staff are trained in how to deal with vulnerable customers, their vulnerabilities should not play a negative factor in how they use the product.
Do cognitive or behavioral biases of customers impact on the value of the product to the customer?	They could impact the clients perception of value.

Nature and costs of the Product

Does the design of the product [i.e.the key features] enable use by the target market ensuring they are able to pursue their financial objectives?	Yes, the product is designed so the investors should be able to benefit from the potential tax benefit, whilst retaining control of their capital and potentially growing their investment.
Do any aspects/limitations of theproduct prevent the average target customer from fully enjoying the product?	No, the limitations of the product should have no impact on the target customer as they will be investing for the intended purpose of the product.
Does the product allow for comparison to other products in the market?	Yes, comparisons are available through third party reviewers.
Does the product allow for easy switching to another provider or product?	Yes, requests can be facilitated within our liquidity timescales.
Total maximum cost, including all fees / commission payments	Dealing Fee - 1% Annual Management charge (AMC) - 0.5% + VAT Initial Fee - 2% Service fee (charged to underlying companies) - 1.5% + VAT Over 5-year period clients are projected to pay the following fees Ethical 3.69%, Balanced 3.60%, Balanced Growth 3.55% and Growth 3.51%. (These figures are based on an initial investment of £100,000 and we have used actual performance figures from our published Q3 2022 performance sheet, to calculate the performance. The percentages have been calculated as follows total costs/ (total value of investment at exit- any fees applied)).

Maximum possible cost of contingent charges [i.e. late payment fees]	N/A
Non-financial costs [i.e. data use by the firm]	We do not share data or cross market on any of our financial products.
Will the product have a finite lifespan? If yes, explain the relationship between the lifespan and the price to the customer. Explain why the overall price is good value.	The product does not have a finite lifespan, it is an evergreen investment. The product targets returns for long term inflation whilst preserving capital against Inheritance Tax.
Is it likely the customer will renew at the end of the contract period? If so, explain why the overall price is good value [must factor in any price increases at renewal].	N/A
Taking all of the above into account, explain why the product offers fair value to the target customer	The product offers the target market a swift 2-year route to IHT exemption, which is the main purpose of the product. Investors will make a huge saving by offsetting any potential IHT liability, as this is taxed at 40%, this will significantly outweigh any costs incurred in investing their money into the Adapt IHT portfolios. Furthermore, investors should also see their investment grow between 3%-5%+ per annum, which should again outweigh any costs that are incurred annually. Finally, the costs incurred will be in line with the industry norm, for the majority of investors.
Taking all of the above into account, explain why the product offers fair value to vulnerable customers	Vulnerable customers can benefit in the same way as the target market and should have no barriers inhibiting them from doing so, due to the policies and training within the company.

Costs

Total costs for manufacturing the product per unit sold	The total cost of the Blackfinch Adapt IHT Portfolios, including salaries, legal, operational and support functions is currently circa £4million. This is against annual fees of around £5.13million. Therefore, for each £1 sold in terms of overall income, the cost is 78.0 pence.
Identify the market rate for the product	Over a 10-year period, the industry average for fees payable is 21.7%. As a comparison Blackfinch Adapt IHT fees payable over the same period is 20.61%. (This has been calculated by MI Capital Research Ltd)
Is the final price paid by the customer significantly higher than either the total cost for manufacturing and distribution or above the market rate? *If so, is there an added benefit to the service which means the customer is receiving fair value?*	The majority of customers will experience fees that are in line with the current industry average. We also defer our AMC until the end of the investment & these will only be payable if the target return for investors has been achieved.

Pricing

Is differential pricing used by the firm and if so explain the objective and justifiable reasons for doing so?	No premium or discount is applied to share prices.
List each group where the pricing is different and explain why the value is fair, factoring in cost and market rate for that group of customers.	N/A
Is there another product offered by the firm which offers similar benefits for a lower cost? *Explain the reasons for the difference [i.e. enhanced customer service]*	No.

Distribution Arrangements

Does the distributor have access to all appropriate information from the manufacturer to be able to understand the value that the product is intended to provide for the customer?	Yes, all literature that would be needed to make an informed decision is either available in our IHT packs, that are sent to IFAs, or is available via our website. We also have teams that are readily available to deal with any queries that should arise and strive to provide a quality service to customers.
Does the distributor understand: • *Intended benefit of the product* • *Value to be provided to customer by the product* • *Characteristics, financial goals and needs of the target market* • *The level of pricing set* • *Quality of service required to represent good value* • *Potential impact of distribution arrangements*	Yes, as above everything is communicated to distributors through either our product literature or our internal distribution channels.
Are there any renumeration arrangements with the distributor which may impact the value customers receive?	We do not have any remuneration arrangements with distributors. We can facilitate charging from financial advisers and this is disclosed to customers.
Are proposed distribution arrangements consistent with the value of the product?	Blackfinch Investments Limited as the manufacturer of these types of solutions will distribute predominantly to registered Financial Advisers and professional intermediaries such as Solicitors and Accountants. This is done on the understanding that any advice given to the client has passed a rigorous due diligence process and an assessment has been made on the suitability, considering the clients attitude to risk and volatility.

Explain how the distribution arrangements support the value of the product	Investors can choose their own financial advisers independently of the product and agree their own fee arrangements for that advice.

Findings

Does the product in its current form offer fair value?	Yes, the costs of the service are in line with the industry norms and the benefits of the services should outweigh the costs for the majority of investors.
Explain why the product provides value for the target market	The product offers the target market a swift 2-year route to IHT exemption, which is the main purpose of the product. Investors will make a huge saving by offsetting any potential IHT liability, as this is taxed at 40%, this will significantly outweigh any costs incurred in investing their money into the Adapt IHT portfolios. Furthermore, investors should also see their investment grow between 3%-5%+ per annum, which should again outweigh any costs that are incurred annually. Finally, the costs incurred will be in line with the industry norm, for the majority of investors.
Explain why the product provides value for the vulnerable customers in the target market	Vulnerable customers can benefit in the same was as the target market and should have no barriers inhibiting them from doing so, due to the policies and training within the company.
If the product is sold as part of a package, does the overall package offer fair value?	N/A
Are there any adverse findings in this assessment?	No
Set out mitigating actions to occur prior to distribution or remedial action to prevent foreseeable harms to current customers	N/A

IMPORTANT INFORMATION