BLACKFINCH
GROUP

Consumer Duty Outcomes Review

April 2023

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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

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Product & Services Review

Blackfinch Adapt AIM Portfolios

Product Details

Description of the product	The Adapt AIM Portfolios invest in growing firms listed on the Alternative Investment Market (AIM). Clients have the choice of an Income or Growth portfolio.
Describe the key features and benefits of the product	Clients can hold their AIM-listed shares in an ISA wrapper, making for tax-free dividends with no capital gains tax on investment growth. The portfolios also offer return potential, while targeting IHT relief after two years of holding the investments. Every investment for our clients is checked by a tax specialist at least annually for the likelihood of achieving business relief for inheritance tax purposes. Our partnership with smaller company specialists Chelverton ensures highly diversified portfolios relative to other providers. Clients always retain access to and control of capital and can withdraw funds or leave them invested for growth.
Describe the limitations of the product	Investment in smaller companies on public exchanges can bring greater levels of volatility.

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].

The primary objective for all clients is to achieve inheritance tax relief by investing in Business Relief (BR) qualifying companies. For the Growth portfolio, clients will target a total return commensurate with the risk of investing in a diversified portfolio of smaller but growing listed companies. For the Income portfolio, clients will target a dividend yield large enough to be able to facilitate quarterly dividend payments, or for dividends to be retained and used to pay for fees and reinvestment.

Product Risks

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

- Volatility Risk
- Liquidity Risk
- Tax Risk
- Key Person Risk

Explain how these risks are mitigated

To help mitigate the volatility, all portfolios are appropriately diversified, and have between 20 – 40 investee companies. An equal weighting is also followed at inception of a client's portfolio, to further mitigate volatility risk.

To help mitigate the risk of low liquidity, all investee companies are reviewed regularly regarding liquidity. This includes analysing the last twelve months of trading activity, and scenario testing in a low liquidity environment. Any investee company which poses a material liquidity risk may be removed.

Tax Risk

IHT relief is retrospective, and therefore cannot be guaranteed. However, by limiting investee companies to business activities which we believe qualify for BR helps to mitigate this. All investments are annually reviewed by an independent tax specialist, to give a further level of due diligence to the likelihood of qualification.

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. The AIM team currently has two members, however also has the support of a five person investment committee, as well as our investment adviser Chelverton, helping to mitigate reliance on one team member. All key processes and procedures are documented, so should a new member of staff be required, they will be able to get up to speed and manage the product appropriately.

Identify the risks posed to the target market by the Product

Same as above.

Explain how these risks are mitigated	Same as above.
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

As part of this review a structured test of the project must be undertaken, this test should sample current accounts to enable this section to be completed.

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)	Yes.
Has the product been distributed in accordance with the value assessment findings?	Yes.
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 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*	N/A

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
Is there evidence demonstrating that retail customers can use the product as reasonably anticipated?	We have not been made aware of any business relief denial from adviser firms which have had a client pass away while invested in the product. All withdrawal requests that are received directly are acted upon in an appropriate time.
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	For advised clients, application forms, for the relevant platform or for clients investing directly with Blackfinch, need to be filled out. For non-advised clients, a suitability assessment to be completed, adding friction for clients which do not have an adviser. The client will be made aware of all applicable fees before the point of investment.
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 AIM product are able to contact Blackfinch and make general enquiries. All platforms the product is available on are able to facilitate transfers, with standard fees in place that are not unreasonable. Switching the product, for example from the Growth portfolio to the Income portfolio, will incur trading and dealing costs, but no additional costs above this. There is no exit fee for the product. Transaction costs will be faced on exit, including the 1% dealing charge for direct clients, in line with transaction costs for initial investment and transactions carried out through the management of the product. Blackfinch has a complaints process in place, allowing retail customers to make a complaint, which will be appropriately investigated and resolved.

Findings

Is the product demonstrating a clear set of benefits for its target market [including vulnerable customers]	Yes.
Does the product provide fair value for the target market [including vulnerable customers]	Yes.
Have identified risks of the product been reasonably mitigated and distribution strategies designed to significantly reduce such risks?	Yes.
Is the product allowing identified groups of customers to pursue their financial objectives?	Yes.
Have customers been able to use the full benefits of the product?	Yes.
Is the product design avoiding foreseeable harm as set out in PRIN 2A.2.10 G?	Yes.

Consumer Duty

Price & Value Assessment

Blackfinch Adapt AIM 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) Those with a large ISA investment wanting to mitigate IHT by way of an in-specie transfer
Explain why the target market has been selected	Inheritance Tax relief is possible in a shorter timeframe of two years if eligible investments are made, such as AIM-listed companies.
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, mental or physical)

Identify the drivers of vulnerability in the target market	The following are broad categories which could contribute to a clients vulnerability: • Health • Life Events • Resilience • Capability
Could the customers vulnerabilities impact full/ value use of the product?	The product is accessible to all potential customers.
Do cognitive or behavioral biases of customers impact on the value of the product to the customer?	No.

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.
Do any aspects/limitations of theproduct prevent the average target customer from fully enjoying the product?	The product is only available to advised clients, or, subject to a suitability check, non-advised. This helps ensure the target customer will be investing for the intended purpose of the product.
Does the product allow for comparison to other products in the market?	Yes, through our regularly published factsheets and accessible literature. The product is also reviewed regularly by third party product reviewers, such as MJ Hudson Allenbridge and MICAP.
Does the product allow for easy switching to another provider or product?	Yes, transfers are allowed, and various platforms are available for clients to choose providing continuous access.
Total maximum cost, including all fees / commission payments	1.5%+VAT 1% dealing fee if clients come direct Platform charges apply in some circumstances and depends on the client's platform of choice.
Maximum possible cost of contingent charges [i.e. late payment fees]	N/A

Non-financial costs [i.e. data use by the firm]	N/A
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.	No.
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].	No renewal required.
Taking all of the above into account, explain why the product offers fair value to the target customer	Provides the ability for clients to save a 40% inheritance tax charge in a significantly reduced timeframe of two years, while also offering potential for higher expected returns but with greater expected volatilities vs. other inheritance products from exposure to growing listed companies on the Alternative Investment Market.
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 cost of the Blackfinch Adapt AIM Portfolios, including investment management salaries, software, and direct operational functions (but excluding wider Blackfinch Group resource such as administration and marketing) is currently circa £402,000. This is against annual management charges of around £913,000. Therefore, for each £1 sold in terms of overall income, the cost is 44 pence.
Identify the market rate for the product	The two largest AIM inheritance tax service providers, Octopus and Investec, charge 1.5%+ VAT and 1.5%, respectively, as an annual management charge, providing a fair indication of the market rate. AIM are in line with the current market rate when compared to these two businesses.
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?*	No.

Pricing

Is differential pricing used by the firm and if so explain the objective and justifiable reasons for doing so?	No.
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.
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, this is all outlined in our literature and Terms of Business.
Are there any renumeration arrangements with the distributor which may impact the value customers receive?	No, although Blackfinch can facilitate payment of advice fee if agreed between the adviser and client.
Are proposed distribution arrangements consistent with the value of the product?	Yes.
Explain how the distribution arrangements support the value of the product	Clients are able to use an AIM-listed inheritance tax service through their financial adviser.

Findings

Does the product in its current form offer fair value?	Yes.
Explain why the product provides value for the target market	We provide a differentiated product, inheritance tax relief in a shorter two-year timeframe, and offer clients exposure to smaller growing listed companies.
Explain why the product provides value for the vulnerable customers in the target market	N/A
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

Consumer Duty

Product & Services Review

Blackfinch Ventures EIS Portfolios

Product Details

Description of the product

Blackfinch Ventures EIS Portfolios is a discretionary portfolio management service that aims to provide long-term returns from investments held for a target period of 4–7 years whilst enabling investors to benefit from available EIS tax reliefs.

The Enterprise Investment scheme (EIS) has become a valuable tax planning tool since its launch by the UK Government to encourage investment in start-ups and early-stage companies.

Blackfinch Ventures EIS Portfolios investments are deployed into a diversified portfolio of at least 10 early-stage, high-growth technology companies throughout the UK.

Describe the key features and benefits of the product

The main benefits of EIS investments:

- Income tax relief of up to 30% (on a maximum investment of £1m per tax year), which can potentially be carried back to the tax year before the investment.
- Business Relief: up to 100% Inheritance Tax (IHT) exemption on qualifying investments held for at least two years (and at time of death).
- Capital Gains Tax (CGT) deferral relief (up to three years prior to investment and up to one year in advance).
- Exemption of CGT on investment growth (subject to income tax relief being claimed and retained at time of disposal).
- Offsetting of capital losses on the marginal rate of income tax at time of loss.

The features of the product:

- Investment into high-growth technology businesses, each with a strong founding team, good ESG values, and a product for which they have established there is a large market.
- Investment into at least 10 companies, diversified over stage and technology sector.
- A target (not guarantee) to deploy investments fully within 12 months. *Alternatively*: funds can be deployed fully within a given tax year but in that case the above diversification cannot be guaranteed.
- Potential for high returns (along with high risk) with a targeted base return of 3x over 4-7 years.

Describe the limitations of the product	• Investors are unable to control when they will receive returns from the product, which is targeted between 4-7 years for each investee company, but could be longer. • To qualify for income tax relief and tax-free growth, investors must hold investments in underlying companies for a minimum of three years. • Income tax Relief is available on a maximum investment in EIS schemes of £1m per tax year (plus up to £1m more in Knowledge-Intensive companies – not offered by this product) • Investors must have a sufficient income tax liability to claim the relief • The product is high risk and it is possible that the full investment would be lost.

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.
If yes: explain the risks now posed to customers	1. Although apparent from the brochure, there remains a risk that clients may not understand that they cannot control how long they hold investments, and that returns will come at different times from holdings in different portfolio companies. 2. Clients may not understand that valuations are partly subjective, only updated quarterly, can be volatile, and are unlikely to show significant gains in the early years of an investment. 3. Clients may not understand that the product is not suitable for those with insufficient income tax liability to benefit from the full tax relief it offers. 4. Clients may not understand that 4 years' AMC is taken up-front and is retained even if the company fails or exits within 4 years.
Detail mitigating action taken [or to be taken]	1. Add a timeline to the brochure that shows returns from different companies at different times depending on when each exits. 2. Explain the nature of valuations in a separate 'welcome pack' document, provided to clients once they have invested. 3. State this point explicitly in the brochure. 4. Clarify this point in the brochure.
Following mitigating action, is the product still suitable?	☑ Yes ☐ No

Needs and Objectives

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

Investors in the target market will:

Be looking to reduce their UK tax burden within long-term schemes (more than 5 years) – at least to reduce income tax and potentially also inheritance tax and/or capital gains tax.

Have already accumulated a large element of savings and want the potential to generate a high return on part, whilst being prepared and able to bear the entire loss of that part.

Be willing to invest in small unquoted businesses and able to accept the associated long-term illiquidity.

Need financial advice, unless they are Sophisticated Investors who want and are able to assess the risks and potential benefits themselves.

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.

Product Risks

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

Customers may not understand that:

1. They will not be able to control how long they hold the investment; any proceeds will be delivered as and when each underlying investee company achieves an exit, which is initially targeted between 4-7 years but could be longer.
2. The underlying investments are very high risk and it is likely that some will fail completely, with the overall return generated by those (if any) that succeed. Some failures are likely before successful exits.
3. Investment valuations are partly subjective, only updated quarterly, can be volatile, and are unlikely to show significant gains in the early years of an investment.
4. This product is not suitable for those with insufficient income tax liability to benefit from the full tax relief offered by the product.
5. In order to obtain and retain these tax reliefs investments must be held for a minimum of three years - noting that clients do not control the holding period for each underlying investment.
6. They cannot decide or change the investee companies in which their funds are deployed, even if they dislike a business or disagree with our assessment that it meets our criteria, e.g. regarding ESG.

Explain how these risks are mitigated

The risks are mitigated by clear client communication. This needs to come largely through advisers (for Advised clients). Our published Target Market Assessment (TMA) helps direct them to customers for which the product is appropriate, and to avoid sales where it would be inappropriate, but it is also reliant on their own expertise. In addition, our client documentation, especially the brochure help mitigate the potential misunderstandings, and is of particular importance for Direct clients.

1. Is apparent in the brochure and stated explicitly elsewhere, notably in our EIS vs VCT comparison (see 'Liquidity'). However, it could help to illustrate a timeline scenario explicitly in the brochure. And to be clearer that the 4-7 year target exit period is from investment into an individual company, rather than from the client investment into the product.
2. Stated and illustrated explicitly in the brochure – with even our higher return scenario showing 3 of 10 companies failing outright.
3. Information about the method and nature of valuations is provided where relevant with quarterly updates; reporting is stated as being quarterly in the brochure However, the nature of valuations could be stated explicitly in the brochure and/or a welcome pack.
4. Is covered explicitly in the TMA for Advisers but not in the brochure.
5. Is stated clearly in the brochure.
6. It is clearly stated in the KID and brochure that it is a portfolio management service, with a description of how we select companies.

Identify the risks posed to the target market by the Product

1. The capital invested is at risk, the value of the investment may go down as well as up, and investors may not get back the full amount invested.
2. There is no guarantee that the targeted return will be achieved.
3. Changes to the taxation environment or HMRC practice may affect investment returns (tax rates, benefits and allowances are personal to investors and they depend on personal circumstances.)
4. Investee companies may alter and so no longer qualify within the EIS legislation, which could result in the repayment of any tax rebate.
5. The investment will be spread over at least 10 companies. However, the failure of any individual company, which is likely, will have a significant impact on the overall value of the portfolio, and investors should be aware of the concentrated nature of the portfolio.

Explain how these risks are mitigated

Each investment is very high risk and Risks 1 and 2 are mitigated by investing in at least 10 companies as described in Risk 5. It maximises the chance of exposure to successful companies that can deliver a substantial return, while limiting the impact of companies that fail. Care is taken within the portfolio to reduce the correlation of risks affecting companies by diversifying by stage and sector. In addition downside risk with an individual company investment is reduced by the use of "A-Ordinary shares" that carry a priority to return at least the amount invested where there are sufficient proceeds to do so. Finally, loss relief provides some mitigation in the (likely) cases of companies that fail.

However, Risks 1,2 and 5 remain and clients must be aware of these risks, and willing and able to accept them. They are made clear in the brochure, TMA, and other documentation.

Risk 3 depends on the personal circumstances of clients, as well as government policy, and it is important that customers take professional advice or are able to assess their likely future circumstances and the regulatory environment themselves.

For Risk 4, we require each company to have EIS Advance Assurance from HMRC and we also commission an independent PI-backed opinion from tax specialists to confirm that each company is EIS qualifying. We further build obligations into the legal investment documents that requires companies and their foudners to maintain EIS qualification. Nonetheless, EIS compliance is at the discretion of HMRC and the risk remains; it is clearly stated in the brochure and elsewhere.

Identify the risks posed to vulnerable customers by the Product

Some vulnerabilities may make someone unsuitable for the product. For example, the long-term illiquidity of the product would make it unsuitable for those with low financial resilience, such as those likely to have insufficient or erratic income and who may need to withdraw funds on demand.

However, it may be suitable for those with many vulnerabilities, but there would be potential risks:

1. Lack of understanding of the product, whether arising from a long-term condition, low capability, or short-term stress. The risks above relating to the nature and complexity of the product would be particularly relevant.
2. Emotional stress or circumstances making it difficulty (whether realised or not) to make decisions, particularly a long-term decision, given that investing in this product would irreversibly tie up their funds for several years.
3. Life changing events, whether relating to work or a personal life, making it hard to predict circumstances some way ahead, again relevant for what is a long-term product. But noting that such changes in life may equally be a reason for the product to be appropriate, or to prompt a desire to make long-term financial plans.

Explain how these risks are mitigated

In most cases, the risks to vulnerable clients are mitigated with independent, advice from qualified financial advisers who assess the individual client's needs, desires and capabilities.

For advised clients we further mitigate the risk with clear, simple statements about the main attributes and risks of the product, particularly noting the points in the section above on the nature and complexity of the product.

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?	Testing is based on comments and questions from advisers and clients, and on the performance to date of the portfolios in delivering the stated objectives – noting that even the earliest portfolios are yet to reach the lower bound of the target exit period for their companies. A recent exercise looked at the return potential for typical client portfolios made at different times according to a range of scenarios based on the progress made by investee companies. While all are still at an early stage, there remained good potential to deliver the intended targets, albeit with the product's expected high level of risk. On both measures, the product is meeting its objectives so far.
Has a value assessment been completed, and does it demonstrate good value? (separate review document)	See separate document.
Has the product been distributed in accordance with the value assessment findings?	Yes, with the bulk of investments made on the recommendation of financial advisers.
Are communications being used as detailed within the product approval?	Yes, the product is being distributed according to the value assessment and third party reviews.
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?	The number and nature of queries received indicates that in general the target market does understand the product, with the exception of specific minor details, and specific clients. 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, as above noting the opportunity for greater clarity in certain specific details.
Are customers adequately supported after the point of sale?	Yes, information is provided on a regular basis and ad hoc when appropriate, with documents available on a customer portal for those who wish to have this facility, and with responsive customer support for direct clients and advisers who route queries from clients. (Noting that we do not have good visibility of the support provided by advisers to clients.)
Have testing of the actions of distributors been undertaken?	As above, there is little visibility of the actions and support provided by advisers other than through their questions, discussions with them, and very occasional direct contact from advised clients.
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*	Testing indicates the product meets 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
Is there evidence demonstrating that retail customers can use the product as reasonably anticipated?	Based on the questions and comments received from clients and advisers (including positive ones about the quality of communication), and the low number of complaints (2 per year) there is reasonable evidence that retail customers are able to use the product as expected.
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	Retail customers are only permitted to invest if advised or qualify as sophisticated investors, which significantly reduce the risks. With funds deployed as standard over 12 months, and with a default cooling off period before deployment commences, there is usually good opportunity to reverse a decision if it is reconsidered. The number of requests to withdraw funds or applications is low, suggesting overall that there is anyway appropriate friction. A significant number of cases require deployment of funds by the end of the tax year, some of which may come at short notice and waiving the cooling off period. However, this is always driven by client circumstances and at their request; more than 90% are anyway still advised.

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

The product is illiquid. Funds that have been deployed cannot practically be withdrawn or moved – or at least would incur very high additional costs. This is a necessary characteristic of the product that is made very clear up front. As such, (b), (c) and (g) are not feasible. (e) is not applicable.

However, there are examples to demonstrate there are no additional costs for (a), (d), or (f).

Findings

Is the product demonstrating a clear set of benefits for its target market [including vulnerable customers]	Yes, there is clear benefit for the target market, which may well include vulnerable customers.
Does the product provide fair value for the target market [including vulnerable customers]	Yes. The costs are fair compared both to the value provided (noting the high risks that may result in a poor return) and to providers of comparable products.
Have identified risks of the product been reasonably mitigated and distribution strategies designed to significantly reduce such risks?	Yes, notably a clear primary focus on serving clients through independent qualified advisers.
Is the product allowing identified groups of customers to pursue their financial objectives?	Yes.
Have customers been able to use the full benefits of the product?	Yes – as far as can be established at this stage, given that it is a relatively new, long-term product.
Is the product design avoiding foreseeable harm as set out in PRIN 2A.2.10 G?	Yes.

Consumer Duty

Price & Value Assessment

Blackfinch Ventures EIS Portfolios

Target Market

Identify the target market

Retail and professional clients who:

- Are looking to reduce their UK tax burden within long-term schemes (more than 5 years) – at least to reduce income tax and potentially also inheritance tax and/or capital gains tax.
- Have already accumulated a large element of savings and want the potential to generate a high return on part, whilst being prepared and able to bear the entire loss of that part.
- Are willing to invest in small unquoted businesses and able to accept the associated long-term illiquidity
- Have taken and are acting on the recommendation of a qualified financial adviser, or who qualify as Sophisticated Investors.

Detail the characteristics of the target market

Clients' knowledge and experience

Clients will need an understanding of the risks and benefits of the product. In particular, that the investments are high risk and that certain criteria need to be met to meet the tax benefit criteria, including that the underlying investments need to be held for at least 3 years. Ideally the investors should have prior experience of investing and will have taken advice or declared that this is an investment they can afford to lose, and that they have no immediate need to access their investment. They should be aware that the investments are in start-up companies, with high growth prospects but also high risks of not performing.

Clients' financial situation and ability to bear losses

The client will need to ensure that they can bear the full loss if the product were not to perform. They should have a favourable financial position and excess disposable income. Investors should be in a position to lock their money away for several years and should be comfortable with the fact that the investment term is completely outside their control.

Risk tolerance and compatibility of the risk/reward profile of the product with the target markets

Clients must be willing to invest their capital for what is targeted to be 4-7 years but could be longer. They must also understand the high risks involved and that they may not receive back their original investment.

Clients' objectives and needs are covered in the description of the target market above.

Explain why the target market has been selected	This target market has been chosen because these customers will be able to derive most value from the product, including its tax reliefs and long-term potential return, whilst being willing and able to accept its limitations and high risks, including its long-term illiquidity and potential for losing the entire investment.
Identify any characteristics of vulnerability in the target market which may impact the value received by those customers	Vulnerabilities may impair a client's ability to plan or make a decision about the longer-term, or to understand the risks and limitations of the product. However, such vulnerabilities would place them outside the target market. The risk is that potential clients incorrectly believe they are in the target market. But where it is established that they are in the target market, notably where their purchase of the product is on the recommendation of a qualified financial adviser, then they would receive the expected value from the product.
Identify the drivers of vulnerability in the target market	The main drivers of vulnerability that could relate to the target market including: • Health, possibly affecting understanding of the risks and limitations of the product, which may be mitigated by appropriate advice and support, or a lack of clarity about long-term circumstances. • Life-changing events, with similar impacts above, noting that such changes may also be a trigger for potential benefit from the product. • Financial limitations, either in the short or longer term, which would typically place someone outside the target market • Poor communication or ability to understand, that again might be possible to be mitigated by additional support and advice.
Could the customers vulnerabilities impact full/ value use of the product	Vulnerabilities could impact the value received by customers, particularly considering its long-term illiquidity and high risks. However, such vulnerabilities would place the potential client outside the target market, as appropriate understanding, acceptance and capacity for these characteristics are essential elements of that market.
Do cognitive or behavioral biases of customers impact on the value of the product to the customer?	Such biases may affect the decision to select the product, but providing the elements of the target market are satisfied then the customer will still receive the appropriate value from the product.

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, considering the characteristics of the target market, the product will help the target market to achieve its financial objectives.
Do any aspects/limitations of theproduct prevent the average target customer from fully enjoying the product?	No. Understanding the limitations is an important element of the target.
Does the product allow for comparison to other products in the market?	Yes. EIS products can be compared through their published fees and with reference to independent reviewers such as Micap, Churchill and Hardman.
Does the product allow for easy switching to another provider or product?	No. Funds are deployed into illiquid private companies from which it is not practically possible to withdraw funds until the company achieves an exit such as sale or IPO. This is a necessary characteristic of the product in order to secure the EIS tax reliefs.
Total maximum cost, including all fees / commission payments	Excluding adviser and performance fees, the max cost would be: 3% initial + 2% AMC for 4 years only + <~2% ancillary investment fees = ~13% of amount invested The performance fee as 20% of the amount returned above 130% is unbounded, based on the return.
Maximum possible cost of contingent charges [i.e. late payment fees]	None.

Non-financial costs [i.e. data use by the firm]	None.
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.	No, the product is evergreen and does not have a finite lifespan.
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].	The product is long-term, with proceeds being generated at different times and a contract continuing whilst any funds are deployed. When proceeds are returned, it is likely that some clients will reinvest those proceeds. However, others will choose not to, either because their circumstances have changed or in order to diversify risk by investing in an alternative product while they still have funds in this one. Reinvesting proceeds will deliver further tax reliefs, and therefore the value delivered – subject to the high risk of the product – will be expected to be the same.
Taking all of the above into account, explain why the product offers fair value to the target customer	The product offers fair value because in return for the costs, there is the potential for capital gains (tax free), up to 30% income tax relief, up to 100% Inheritance Tax exemption on qualifying investments after two years, and the offsetting of capital losses on underlying investee companies at the marginal tax rate. The tax reliefs more than outweigh the costs (exc. performance fee), and there remains the potential for high returns, albeit with high risk.
Taking all of the above into account, explain why the product offers fair value to vulnerable customers	Vulnerable customers are no less able to obtain value from the product providing they are able, with appropriate advice, to meet the conditions of the target market.

Costs

Total costs for manufacturing the product per unit sold	The total cost of the Blackfinch Ventures EIS and Spring VCT, including salaries, legal, operational and support functions is currently circa £3.1million. This is against annual fees of around £3.71million. Therefore, for each £1 sold in terms of overall income, the cost is 83.6 pence. Dividing the costs pro rata by income between the EIS and VCT would keep the figures in proportion. Therefore for the EIS, for each £1 sold in terms of overall income, the cost is 83.6p.
Identify the market rate for the product	The Micap review indicates that the average initial fee out of 49 EIS products is 3.8%, while the average ongoing fee is 1.9%. Over 4 years, we are slightly cheaper (more significantly thereafter as we charge no AMC after 4 years). The average performance fee is 19% but above an average hurdle of 101.3%
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 final price paid by the customer is competitive in the market as shown above. It is also appropriate to the costs incurred in manufacturing the product, with costs running at 83.6p for each £1 of income. The performance fee is not linked to costs but ensures our alignment with clients in picking investments to deliver the best return for clients.

Pricing

Is differential pricing used by the firm and if so explain the objective and justifiable reasons for doing so?	None.
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.	None.
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]*	None.

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 relevant information is provided through Blackfinch and to advisers, notably including the product brochure and the target market assessment but also including other collateral. See the product review for a more detailed review of the content. BF100 clients additionally get a paper and short presentation on each company in which they are able to invest.
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, distributors including advisers have access to information as described above to cover all these points, including BF100 clients.
Are there any renumeration arrangements with the distributor which may impact the value customers receive?	Advisers are able to charge their own initial and ongoing fees (for 4 years). These fees are at their discretion and reduce the funds invested, hence decreasing the value received. However, the average adviser fees are 0.67% initial and 0.19% ongoing – representing additional costs of just 1.43%. This is reasonable and proportionate given the importance of the advice in assessing clients' individual circumstances as regards the target market.
Are proposed distribution arrangements consistent with the value of the product?	Yes. It is important that, other than with a minority of direct clients who are sophisticated investors, clients receive advice appropriate to their individual circumstances to ensure the product's suitability.
Explain how the distribution arrangements support the value of the product	As above.

Findings

Does the product in its current form offer fair value?	Yes.
Explain why the product provides value for the target market	The product offers the generous EIS tax reliefs to those who can benefit from them, whilst offering the potential for high returns for those who can afford to risk the loss of the capital invested with no liquidity over several years – all criteria in the target market. The costs are reasonable compared to the tax reliefs available and the potential return – with the biggest cost potentially being the performance fee which is directly linked to the value provided to the customer.
Explain why the product provides value for the vulnerable customers in the target market	Vulnerable customers who satisfy the conditions of the target market are no less able to benefit from the product, and will receive the same long-term value.
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

Consumer Duty

Product & Service Review

Blackfinch Spring VCT Portfolios

Product Details

Description of the product

Blackfinch Spring VCT is a Venture Capital Trust (VCT) listed on the London Stock Exchange. It is a generalist VCT focused on investments in innovative growth-stage technology-enabled companies which are on their scale-up journey. It aims to provide long-term returns where shares are invested for at least 5 years, whilst enabling investors to benefit from available VCT tax reliefs.

Describe the key features and benefits of the product

The main benefits of VCT investments:

- Income Tax relief of up to 30% on a maximum investment of £200k per tax year, providing shares are held for a minimum of 5 years.
- Gains on investments are exempt from Capital Gains Tax (CGT) on disposal
- Dividends paid from the VCT are exempt from Income Tax

The features of the product:

- Investment into high-growth technology-enabled businesses, each with a strong founding team, good ESG values, and a product for which they have established there is a large market.
- A growing portfolio that is diversified over stage and tech-enabled sector – of 17 companies by end August 2022 and expecting to expand by adding 5-15 new companies per year, less successful exits or failures.
- Regular dividends of 5% pa targeted from 2024 onwards (not guaranteed), along with the potential for special dividends arising from early or above-target exits.
- A buy-back facility at a discount of 5% to NAV, subject to the availability of distributable reserves and board discretion.

Describe the limitations of the product

- To qualify for income tax relief, investors must hold shares in the VCT for a minimum of five years.
- Income tax Relief is available on a maximum investment in VCT schemes of £200k per tax year.
- Investors must have a sufficient income tax liability to claim the full relief.
- The product is high risk and it is possible that the full investment would be lost.
- Shares in VCTs are illiquid, typically with a very limited secondary market. Investors are likely to need to relay on the share buyback scheme, in which shares are bought back at a discount to NAV, and may not always be available.

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). ☑ Yes ☐ No
If yes: explain the risks now posed to customers	1. VCT investors, especially non-advised investors, who only read the brochure and not the prospectus may not realise that product is not suitable for those with insufficient income tax liability to benefit from the full tax relief offered by the product. 2. Direct clients who invest just before an allotment date will not benefit from either independent advice or time to reconsider before shares are issued, and will have reduced friction.
Detail mitigating action taken [or to be taken]	1. State this point explicitly in the brochure. 2. Add a warning and possibly a default cooling off period for direct applications.
Following mitigating action, is the product still suitable?	☑ Yes ☐ No

Needs and Objectives

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

Investors in the target market will:

- Be looking to reduce their UK tax burden within long-term schemes (at least 5 years) – to reduce income tax and potentially also capital gains tax.
- Want diversification in their portfolio.
- Want or be willing to have exposure to small company investing.
- Want a regular tax-free income from their investment.
- Have large amounts of capital and an ability to accept high risk on the portion to be invested in the product.
- Want to invest sustainably in a product that considers Environmental, Social and Governance (ESG) factors.

Vulnerable customers may also have these objectives but it would be more important that they have relevant advice, or are otherwise able to demonstrate their capacity as Sophisticated Investors.

Product Risks

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

Customers may not understand that:

1. Investments made by the VCT are high risk and it is likely that some will fail completely.
2. This product is not suitable for those with insufficient income tax liability to
3. benefit from the full tax relief offered by the product.
4. In order to obtain and retain the tax reliefs investments must be held for a minimum of five years.

Explain how these risks are mitigated

These risks are mitigated by clear client communication. This comes in large part from our published documentation, especially the prospectus, brochure and KID. For advised clients it also comes through the advice and explanations provided by qualified advisers. Our published Target Market Assessment (TMA) helps direct advisers to customers for which the product is appropriate, and to avoid sales where it would be inappropriate, but advised sales are also reliant on their own expertise. More specifically:

1. Is stated explicitly as a risk, for example in the brochure and prospectus.
2. Is covered explicitly in the TMA for advisers and in the prospectus. However, it should also be stated explicitly in the brochure.
3. Stated explicitly.

Identify the risks posed to the target market by the Product

1. Capital is at risk; the VCT invests into small unquoted companies and values may go down as well as up so investors may get back less than they originally invested.
2. There is no guarantee that the target dividends will be made.
3. Changes to the taxation environment may affect investment returns. (Tax rates, benefits and allowances are personal to an investor and they depend on personal circumstances).
4. The VCT will invest in a diverse range of tech-enabled companies. However, the failure of any individual company will have an impact on the overall value of the portfolio, and investors should be aware of the concentrated nature of the portfolio.
5. Shares in VCTs are inherently illiquid and there is likely to be a very limited secondary market in the shares, primarily because income tax relief is only available to those subscribing for newly issued shares. While a share buyback facility is offered, it is subject to board discretion and the availability of distributable reserves, and may therefore not be available when a client wishes to sell shares.
6. The VCT may be unable to maintain its VCT status with HMRC, which could result in the loss of tax reliefs.

(The minimum holding period is covered in the section above, not repeated here.)

Explain how these risks are mitigated

Risks 1 and 2 are mitigated by the VCT investing in a growing portfolio of multiple companies, as noted in Risk 4. It maximises the chance of exposure to successful companies that can deliver a substantial return, while limiting the impact of companies that fail. Care is taken within the portfolio to reduce the correlation of risks affecting companies by diversifying by stage and sector. In addition downside risk with an individual company investment is reduced by the use of "A-Ordinary shares" that carry a priority to return at least the amount invested where there are sufficient proceeds to do so.

However, Risks 1, 2 and 4 remain and clients must be willing and able to accept them. They are made clear in the brochure, TMA and other documentation.

Risk 3 depends on the personal circumstances of clients, as well as government policy, and it is important that customers take professional advice or are able to assess their likely future circumstances and the regulatory environment themselves.

Risk 5 is mitigated by the buyback policy, but noting per the risk that it is not guaranteed at any given time. Again, this risk is made clear in the documentation.

Risk 6 is mitigated by the VCT reviewing the VCT conditions at every regular board meeting, along with forward planning to ensure the conditions are on track to be met a year ahead. An independent tax opinion is commissioned on every investee company before completing the investment, to ensure it is VCT compliant. Whilst the risk is low, it remains, and is highlighted in the documentation.

Identify the risks posed to vulnerable customers by the Product

Some vulnerabilities may make someone unsuitable for the product. For example, the long-term illiquidity of the product would make it unsuitable for those with low financial resilience, such as those likely to have insufficient or erratic income and who may need to withdraw funds on demand.

However, it may be suitable for those with many vulnerabilities, but there would be potential risks:

1. Lack of understanding of the product, whether arising from a long-term condition, low capability, or short-term stress. The risks above relating to the nature and complexity of the product would be particularly relevant.
2. Emotional stress or circumstances making it difficulty (whether realised or not) to make decisions, particularly a long-term decision, given that investing in this product would irreversibly tie up their funds for several years.
3. Life changing events, whether relating to work or a personal life, making it hard to predict circumstances some way ahead, again relevant for what is a long-term product. But noting that such changes in life may equally be a reason for the product to be appropriate, or to prompt a desire to make long-term financial plans.

Explain how these risks are mitigated

In most cases, the risks to vulnerable clients are mitigated with independent, advice from qualified financial advisers who assess the individual client's needs, desires and capabilities.

For advised clients we further mitigate the risk with clear, simple statements about the main attributes and risks of the product, particularly noting the points in the section above on the nature and complexity of the product.

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?	Testing is based on comments and questions from advisers and clients, and on the performance to date of the VCT in delivering the stated objectives – noting that it is not yet at the point it is due to start paying dividends. On both measures, the product is meeting its objectives so far.
Has a value assessment been completed, and does it demonstrate good value? (separate review document)	See separate document.
Has the product been distributed in accordance with the value assessment findings?	Yes, with the bulk of investments made on the recommendation of financial advisers. This tax year to date, ~88% of VCT applications have been advised, rather than direct or execution only.
Are communications being used as detailed within the product approval?	Yes, the product is being distributed according to the value assessment and third party reviews.
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?	The number and nature of queries received indicates that in general the target market does understand the product. In addition, no complaints have been received, and no VCT shareholder has yet to raise any issue at an AGM.
Does testing demonstrate the communications are clear, fair and not misleading?	Yes.

Are customers adequately supported after the point of sale?	Yes, information is provided on a regular basis, with documents available on a customer portal for those who wish to have this facility, and with responsive customer support for direct clients and advisers who route queries from clients. (Noting that we do not have good visibility of the support provided by advisers to clients.)
Have testing of the actions of distributors been undertaken?	As above, there is little visibility of the actions and support provided by advisers other than through their questions, discussions with them, and very occasional direct contact from advised clients.
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 testing indicates the product meets 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
Is there evidence demonstrating that retail customers can use the product as reasonably anticipated?	Based on the questions and comments received from clients and advisers, and the absence of complaints, there is reasonable evidence that retail customers are able to use the product as expected.
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	Retail customers most invest when advised, which significantly reduce the risks. With shares allotted in the VCT only on a handful of dates throughout the year, for all investors there is usually good opportunity to reverse a decision if it is reconsidered, providing good friction. However, direct clients who invest just before an allotment date will not benefit from either advice or the opportunity to reconsider; there will be less friction in this situation. To date only one shareholder has requested a share buyback.

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

The product is long-term and illiquid. It is stated very clearly that withdrawing funds, including to switch to a new product or to transfer to a new product, would result in the loss of income tax relief and would only be possible subject to a secondary sale (unlikely) or a share buyback at a discount to NAV. There are therefore significant costs involved in (b), (c) or (g), but they inherent to the nature of the product.

(e) is not applicable.

However, (a), (d) and (f) are readily possible with no additional cost.

Findings

Is the product demonstrating a clear set of benefits for its target market [including vulnerable customers]	Yes, there is clear benefit for the target market, which may well include vulnerable customers.
Does the product provide fair value for the target market [including vulnerable customers]	Yes. The costs are fair compared both to the value provided (noting the high risks that may result in a poor return) and to providers of comparable products.
Have identified risks of the product been reasonably mitigated and distribution strategies designed to significantly reduce such risks?	Yes, notably a clear primary focus on serving clients through independent qualified advisers.
Is the product allowing identified groups of customers to pursue their financial objectives?	Yes.
Have customers been able to use the full benefits of the product?	Yes – as far as can be established at this stage, given that it is a relatively new, long-term product.
Is the product design avoiding foreseeable harm as set out in PRIN 2A.2.10 G?	Yes.

Consumer Duty

Price & Value Assessment

Blackfinch Spring VCT Portfolios

Target Market

Identify the target market

Retail and professional clients who:

- Are looking to reduce their UK tax burden within long-term schemes (at least 5 years) – to reduce income tax and potentially also capital gains tax.
- Want diversification in their portfolio.
- Want or be willing to have exposure to small company investing.
- Want a regular tax-free income from their investment.
- Have large amounts of capital and an ability to accept high risk on the portion to be invested in the product.
- Want to invest sustainably in a product that considers Environmental, Social and Governance (ESG) factors.

Detail the characteristics of the target market

Investors' knowledge and experience

- Understand the risks involved in investing in illiquid shares.
- Awareness of other tax-efficient products such as EIS and ISAs.
- An understanding of the venture capital trust scheme (VCT) and the threshold of £200,000 for tax relief.
- An understanding that the amount of tax credit received cannot exceed the total income tax liability for the same tax year.
- An understanding that the movement of the VCT NAV is dependent on the performance of underlying investments in unquoted companies.
- Understand the minimum qualifying period of 5 years for the income tax benefit.

Investor financial situation and ability to bear losses

- The investor will need to ensure that they can bear the full loss if the VCT does not perform as intended.
- Investors should have no immediate need to access their investment and be comfortable with committing their capital for a minimum period of 5 years in order to keep the investment qualifying for income tax relief purposes.
- The investor likely has a total income tax liability that exceeds the amount of tax credit they are likely to receive.

Risk tolerance and compatibility of the risk/reward profile of the product with the target market

- Willingness to invest their capital for a minimum of 5 years, understanding the risks involved.
- Willingness to put the entire capital invested at risk.
- High tolerance for risk/reward.
- Financial Advisers must assess their clients' risk tolerance.

Clients' objectives and needs are covered in the description of the target market above.

Explain why the target market has been selected	This target market has been chosen because these customers will be able to derive most value from the product, including its tax reliefs and long-term potential return, whilst being willing and able to accept its limitations and high risks, including its long-term illiquidity and potential for losing the entire investment.
Identify any characteristics of vulnerability in the target market which may impact the value received by those customers	Vulnerabilities may impair a client's ability to plan or make a decision about the longer-term, or to understand the risks and limitations of the product. However, such vulnerabilities would place them outside the target market. The risk is that potential clients incorrectly believe they are in the target market. But where it is established that they are in the target market, notably where their purchase of the product is on the recommendation of a qualified financial adviser, then they would receive the expected value from the product.
Identify the drivers of vulnerability in the target market	The main drivers of vulnerability that could relate to the target market including: • Health, possibly affecting understanding of the risks and limitations of the product, which may be mitigated by appropriate advice and support, or a lack of clarity about long-term circumstances. • Life-changing events, with similar impacts above, noting that such changes may also be a trigger for potential benefit from the product. • Financial limitations, either in the short or longer term, which would typically place someone outside the target market • Poor communication or ability to understand, that again might be possible to be mitigated by additional support and advice.
Could the customers vulnerabilities impact full/ value use of the product	Vulnerabilities could impact the value received by customers, particularly considering its long-term illiquidity and high risks. However, such vulnerabilities would place the potential client outside the target market, as appropriate understanding, acceptance and capacity for these characteristics are essential elements of that market.
Do cognitive or behavioral biases of customers impact on the value of the product to the customer?	Such biases may affect the decision to select the product, but providing the elements of the target market are satisfied then the customer will still receive the appropriate value from the product.

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, considering the characteristics of the target market, the product will help the target market to achieve its financial objectives.
Do any aspects/limitations of theproduct prevent the average target customer from fully enjoying the product?	No. Understanding the limitations is an important element of the target.
Does the product allow for comparison to other products in the market?	Yes. VCTs are readily compared by their NAV per share and dividends paid, both of which are formally announced to the market.
Does the product allow for easy switching to another provider or product?	No. VCT shares are necessarily illiquid and will relinquish the income tax relief if sold within 5 years. There is also a very limited secondary market for VCT shares. The share buyback policy is designed to mitigate these issues and to permit withdrawal of funds where necessary (e.g. to switch to another provider) but it is not guaranteed to be available at any particular time.
Total maximum cost, including all fees / commission payments	The maximum explicit client fee would be 2.5% of the amount invested. Advisers are also able to charge up to 5% initial fee, though the average is just 0.65%. Other fees are charged to the VCT itself, including 2% AMC, up to 0.5% for advisers (average 0.28%) plus other costs charged on; but with costs capped at 3.5% of NAV. In addition there is a 20% performance fee above £1.30 or subsequent high water mark of the performance value per share. There is no theoretical maximum of these fees. The overall costs (inc. initial but exc. adviser fees) in the scenarios modelled for the KID and TMA vary between 3.8% (stress) and 7.6% (favourable).

Maximum possible cost of contingent charges [i.e. late payment fees]	None.
Non-financial costs [i.e. data use by the firm]	None.
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 is expected to continue, and to continue to be available for new clients, subject to the relevant VCT legislation being maintained
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].	Customers have no fixed contract period. However, after the minimum 5-year holding period, they can choose to withdraw their funds; and it is likely that a significant proportion will do so in order to gain the income tax relief of reinvesting in another VCT. Customers may also choose to invest more funds in the Spring VCT in the intervening years but this will depend on their personal circumstances and availability of funds, as well as their preference in keeping investments simpler with one provider, or getting greater diversification by using multiple VCT providers.
Taking all of the above into account, explain why the product offers fair value to the target customer	The product offers fair value because in return for the costs, there is the potential for capital gains (tax free), up to 30% income tax relief, tax-free regular dividends from 2024 and the opportunity for special dividends.The tax reliefs more than outweigh the costs (exc. performance fee), and there remains the potential for high returns, albeit with high risk.
Taking all of the above into account, explain why the product offers fair value to vulnerable customers	Vulnerable customers are no less able to obtain value from the product providing they are able, with appropriate advice, to meet the conditions of the target market.

Costs

Total costs for manufacturing the product per unit sold	The total cost of the Blackfinch Ventures EIS and Spring VCT, including salaries, legal, operational and support functions is currently circa £3.10million. This is against annual fees of around £5.71million. Therefore, for each £1 sold in terms of overall income, the cost is 83.6 pence. Dividing the costs pro rata by income between the EIS and VCT would keep the figures in proportion. Therefore for the VCT, for each £1 sold in terms of overall income, the cost is 83.6p.
Identify the market rate for the product	According to Micap, the market rate for initial fees is 2.5 - 7.5% with an average of 3.25%. At 2.5%, the Spring VCT is therefore right at the bottom of this range, below average. The industry ongoing AMC is 0 – 4.85% with an average of 2.04%, so the Spring VCT is average with its effective rate of 2%; and similarly the average running costs (exc. adviser fees) are 3.0% (range 2.3% to 3.6%) so the Spring VCT is average with its cap at 3.0% The performance fee at 20% is also the most common rate applied in the market.
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 final price paid by the customer is competitive in the market – with fees being average or below average. It is also appropriate to the costs incurred in manufacturing the product, with costs running at 83.6p for each £1 of income. The performance fee is not directly linked to costs but ensures our alignment with clients in picking investments to deliver the best return for clients.

Pricing

Is differential pricing used by the firm and if so explain the objective and justifiable reasons for doing so?	The product offers early bird discounts on the initial fee of up to 1.5%, and a loyalty discount of 1% for existing Blackfinch investors. The latter is a loyalty reward for existing customers, while the former is to keep the product in line with the market, which conventionally drops initial fees in the months leading up to the end of the tax year.
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.	The early bird discount applies to all customers equally and does not discriminate between groups. The loyalty discount applies to existing Blackfinch clients. Costs are lower with this group as there is no need to set up internal records, ID checks, communication infrastructure (such as the portal); and communications can be combined where appropriate with details of their existing portfolio(s). In the market, it is intrinsically fairer to reward a longer-term relationship with lower fees than to attract new customers with low fees and then to try to extract greater profits from established customers later on.
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 relevant information is provided through Blackfinch and to advisers, notably including the prospectus, product brochure and the target market assessment but also including other collateral.
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, distributors including advisers have access to information as described above to cover all these points.
Are there any renumeration arrangements with the distributor which may impact the value customers receive?	Advisers are able to charge their own initial and ongoing fees, up to maxima of 5.0% and 0.5% respecitvely. These fees are at their discretion and reduce the client funds, hence decreasing the value received. However, the average adviser fees are 0.65% initial and 0.28% ongoing. This is reasonable and proportionate given the importance of the advice in assessing clients' individual circumstances as regards the target market.
Are proposed distribution arrangements consistent with the value of the product?	Yes. It is important that, other than with a minority of direct clients who are sophisticated investors, clients receive advice appropriate to their individual circumstances to ensure the product's suitability.
Explain how the distribution arrangements support the value of the product	As above.

Findings

Does the product in its current form offer fair value?	Yes.
Explain why the product provides value for the target market	The product offers the generous VCT tax reliefs to those who can benefit from them, whilst offering the potential for high returns for those who can afford to risk the loss of the capital invested with no liquidity over several years – all criteria in the target market. The costs are reasonable compared to the tax reliefs available and the potential return – with the biggest cost potentially being the performance fee which is directly linked to the value provided to the customer.
Explain why the product provides value for the vulnerable customers in the target market	Vulnerable customers who satisfy the conditions of the target market are no less able to benefit from the product, and will receive the same long-term value.
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

Consumer Duty

Product Services Review

Blackfinch Asset Management

Managed Portfolio Service and Multi-Asset funds

Product Details

Description of the product

The Blackfinch Asset Management investment solutions consist of a range of multi-asset investment options to cater for clients looking to grow the value of their capital over time or provide a specific level of income. A multi-asset investment fund structure is offered as well as a multi-asset investment option hosted via a variety of third-party investment platforms.

Describe the key features and benefits of the product

The investment portfolios will aim to achieve a return in excess of 1,2,3,4 or 5% above CPI, or a net income in excess of 3.5% per annum, over a rolling 5-year basis depending on the selected portfolio. Investors will typically achieve a return higher than that provided by bank deposits, whilst having risk exposure appropriately managed. Although designed to be held over the longer term, the liquidity of the portfolios allows investors to withdraw capital whenever required, without penalty.

Describe the limitations of the product

The product is not designed to generate investment returns that are significantly higher than the stated objectives. The product is marketed that is should be held for a 5 Year+ time frame although access to capital is never restricted for the investor considering the attractive liquidity profile of the product. Investors will need to be comfortable that the value of their investment will fluctuate over time and will at times, show capital losses.

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].

Investors who are seeking to grow the value of their investment over time and in particular, those looking to do so whilst maintaining the 'real' value of their capital over the longer term by outstripping the effects of inflation.

Those who are looking to invest in capital markets over the medium to long term (typically 5 years+) to achieve a total return in excess of the UK Consumer Price Index (CPI), over a rolling 5 year basis. Those looking to invest with a key focus on implementing Environmental, Social and Governance (ESG) factors into their investment portfolio via a positive screening approach. Investors who have access to liquid capital, outside of this investment, to cover any potential unforeseen emergencies. Investors looking to utilise a regular savings plan over the longer term. Investors who have a one-off lump sum to invest over the longer term. Investors who are comfortable with fluctuations in capital value inherent with stock market investing. Those seeking to invest in a multi-asset, globally diversified investment solution. Those who are looking to build up funds within tax efficient wrappers such as Pensions and ISAs. The portfolios are suitable for both inexperienced and sophisticated investors.

Product Risks

Identify the risks posed by the complexity or nature of the product	The capital invested is at risk, the value of the investment may go down as well as up and investors may not get back the full amount invested. There is no guarantee that targeted returns will be achieved. The MPS provides investors with a range of risk rated portfolios depending on their attitude to risk which will have been assessed by a suitably qualified Financial Adviser. The product will not provide solutions for those looking for a high risk/ high return strategy or those seeking to invest in risk-free assets. The product is marketed to advised sales through our client base of professional advisers.
Explain how these risks are mitigated	The diversified nature of the investment product goes some way to address the risk of a permanent loss of capital. It also helps to address volatility risk to the invested capital as the multi-asset investments are expected to display different return profiles at different points in the investment cycle. Nevertheless, there remains a risk to the invested capital which is clearly stated on the marketing and communications documentation.
Identify the risks posed to the target market by the Product	As explained above.
Explain how these risks are mitigated	As explained above.
Identify the risks posed to vulnerable customers by the Product	The risks to vulnerable customers are the same to those that are not classified as vulnerable. Blackfinch recognise the need to potentially illustrate or explain these risks in a different way in the event a vulnerable customer is investing and will work with the distributor to do so where such cases are identified.
Explain how these risks are mitigated	As explained above.

Testing

Is the product meeting the needs and objectives of its target market and vulnerable customers?	Yes. Since inception the investment portfolios have displayed the characteristics that consumers have been led to expect both on the upside as well as the downside.
Has a value assessment been completed, and does it demonstrate good value? (separate review document)	Our multi-asset fund range has had an Assessment of Value carried out with no concerns identified. An AoV is being carried out for the MPS pending a suitable testing design signoff.
Has the product been distributed in accordance with the value assessment findings?	Where applicable to assess, yes. Distribution is largely controlled by the financial adviser in conjunction with their selected third party investment platform of choice. Whilst Blackfinch takes all reasonable steps to ensure the relevant information is provided in a timely manner, we cannot guarantee in all cases the product is distributed in accordance with the value assessment findings.
Are communications being used as detailed within the product approval?	Yes, although it should be noted there can be cases where the distributor may not use communications as detailed in the product approval, which is outside the control of Blackfinch.
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?	Yes.
Does testing demonstrate the communications are clear, fair and not misleading?	Yes.

Are customers adequately supported after the point of sale?	Yes. All investors receive monthly factsheets detailing investment performance as well as a list of underlying assets held and accompanying commentary that covers the macro events impacting markets and any investment activity within their portfolio. Furthermore, the investment platforms of choice will provide the customer with ongoing valuations and transaction statements with regard to their investment portfolio/s.
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*	N/A

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 is specifically aimed at retail customers including those with characteristics of vulnerability.
Is there evidence demonstrating that retail customers can use the product as reasonably anticipated?	The product has been running since July 2018 and since that date, Blackfinch have no reason to believe retail customers cannot use the product as reasonably expected. In certain cases, retail customers have written to express satisfaction over the service and support Blackfinch have provided with regard to the product.
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	Full risk disclosures are provided to the distributor at the start of the business relationship as well as on an ongoing basis. However, investing a client in to the product takes place between the distributor and the selected investment platform which is a process Blackfinch has no control over.

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

Yes. The costs involved are clearly set out from the outset. Blackfinch applies no additional fees at any point of the investor's time with us. General enquiries or requests are not charged as an addition, no switching, amendment or transfer fees are levied by Blackfinch, however these may be levied by the chosen investment platform. There are no barriers to customers contacting Blackfinch directly, however we do urge the customer contacts their financial adviser in the first instance. We have an established complaints process designed to deal with customer complaints in a fair and timely manner.

Findings

Is the product demonstrating a clear set of benefits for its target market [including vulnerable customers]	Yes. Since inception the product has performed as the customers have been led to expect once all applicable charges have been taken in to account. We are pleased to have received direct positive feedback from the target market as well as the distributors involved. Blackfinch are pleased to have met the stated SLAs in terms of investor reporting and communications aimed at supporting the investors on an ongoing basis.
Does the product provide fair value for the target market [including vulnerable customers]	Yes, the benefits set out against the charges and expectations highlight fair value
Have identified risks of the product been reasonably mitigated and distribution strategies designed to significantly reduce such risks?	Wherever possible, identified risks that can be mitigated have been so. The distribution strategy helps to mitigate risk given there is a third-party investment professional also included in the chain along with a regulated investment platform. At each stage of the distribution journey, these parties are provided with the relevant information in a timely manner enabling them to discuss the suitability and risks present to the investor.
Is the product allowing identified groups of customers to pursue their financial objectives?	Not specific groups as the product is suitable for a wide range of customer requirements, categorisations, experiences and objectives. These cannot be easily grouped and defined. However, at a broader level, the product is allowing investors who wish to invest and grow their capital over time whilst retaining liquidity the ability to pursue their objectives.
Have customers been able to use the full benefits of the product?	Yes, there have been no instances where customers have been unable to access or use the benefits of the product since its inception.
Is the product design avoiding foreseeable harm as set out in PRIN 2A.2.10 G?	Yes.

Consumer Duty

Price & Value Assessment

Blackfinch Asset Management
Managed Portfolio Service and Multi-Asset funds

Target Market

Identify the target market	Retail and Professional clients.
Detail the characteristics of the target market	Those who are looking to invest in capital markets over the medium to long term (typically 5 years+) to achieve a total return in excess of the UK Consumer Price Index (CPI), over a rolling 5 year basis. Those looking to invest with a key focus on implementing Environmental, Social and Governance (ESG) factors into their investment portfolio via a positive screening approach. Investors who have access to liquid capital, outside of this investment, to cover any potential unforeseen emergencies. Investors looking to utilise a regular savings plan over the longer term. Investors who have a one-off lump sum to invest over the longer term. Investors who are comfortable with fluctuations in capital value inherent with stock market investing. Those seeking to invest in a multi-asset, globally diversified investment solution. Those who are looking to build up funds within tax efficient wrappers such as Pensions and ISAs.
Explain why the target market has been selected	The characteristics of the investment products are most suited to the target market, especially considering those less sophisticated investors who are looking to achieve superior returns for their investments whist not exposing their capital to elevated risks of a permanent loss of capital.

Identify any characteristics of vulnerability in the target market which may impact the value received by those customers	Vulnerabilities may impair a client's ability to plan or make a decision about the longer-term, or to understand the risks and limitations of the product. However, such vulnerabilities would place them outside the target market. The risk is that potential clients incorrectly believe they are in the target market. But where it is established that they are in the target market, notably where their purchase of the product is on the recommendation of a qualified financial adviser, then they would receive the expected value from the product. Visual impairments which may hinder their ability to review performance data, associated investment commentaries and relevant risk warnings.
Identify the drivers of vulnerability in the target market	The drivers would primarily come from a lack of understanding around the investment objectives and an inability to assess the returns generated and any investment activity on an ongoing basis.
Could the customers vulnerabilities impact full/ value use of the product	The main drivers of vulnerability that could relate to the target market including: • Health, possibly affecting understanding of the risks and limitations of the product, which may be mitigated by appropriate advice and support, or a lack of clarity about long-term circumstances. • Life-changing events, with similar impacts above, noting that such changes may also be a trigger for potential benefit from the product. • Financial limitations, either in the short or longer term, which would typically place someone outside the target market • Poor communication or ability to understand, that again might be possible to be mitigated by additional support and advice.
Do cognitive or behavioral biases of customers impact on the value of the product to the customer?	Not so much the value, but given the product suite offers a range of different portfolios with differing risk and return profiles, then it is reasonable to expect that behavioral biases around the level of risk taken to achieve a desired return could impact on the value of the product delivered to the client.

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. Each investment portfolio has clearly stated investment objectives which are related to absolute return generation over a given period of time.
Do any aspects/limitations of theproduct prevent the average target customer from fully enjoying the product?	No, although it should be noted in most cases the products are accessed via third party investment platforms and we cannot control the full end-to-end distribution experience because of this.
Does the product allow for comparison to other products in the market?	Yes, performance is published regularly and in a public forum, allowing investors to track and compare performance easily.
Does the product allow for easy switching to another provider or product?	Yes, Blackfinch places no restrictions or charges whatsoever on clients wishing to switch. Although it should be noted in most cases the products are accessed via third party investment platforms and the physical switching of assets will be carried out by these platforms.
Total maximum cost, including all fees / commission payments	The maximum Blackfinch Annual Management Charge for MPS on platform is currently 0.35% per annum. For the unitised funds, the maximum AMC is 0.55%. A weighted average of underlying fund costs will also be paid by the client, but Blackfinch receives no benefit from this. Currently (as at 31/12/2022), the highest weighted average underlying fund charge across our portfolio range 0.63%. There are also declared transaction fees for the trading activities which take place within the underlying funds. Currently the highest maximum transaction costs across our portfolio range is 0.19%. Blackfinch receive no benefit whatsoever from these declared dealing fees as they are levied by the underlying fund houses. In addition, there are likely to be adviser charges as well as platform/custody charges, but these vary significantly and are outside the control of Blackfinch.

Maximum possible cost of contingent charges [i.e. late payment fees]	No contingent costs apply.
Non-financial costs [i.e. data use by the firm]	Primarily, data used by the firm consists of aggregated assets under management across the various investment platforms and underlying adviser firms. Data blackfinch receives on the individual underlying clients is extremely limited, often just including the client's name, the product wrapper, the underlying holdings and the portfolio value.
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.	No. All BFAM products are evergreen.
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 the products are evergreen.
Taking all of the above into account, explain why the product offers fair value to the target customer	The target returns are clearly identifiable and relate specifically to maintaining the purchasing power of the invested capital or generating a minimum level of pre-defined income. Risks of the product are clearly stated on client facing literature as well as a standalone document highlighting detailed risk/reward characteristics of the separate portfolios. The charges are clearly identified, and any quoted performance data is done so net of the Blackfinch Annual Management fees, allowing the client to see a fairer reflection of the net investment returns to them.
Taking all of the above into account, explain why the product offers fair value to vulnerable customers	The fair value points referenced above also apply to vulnerable customers. In addition, Blackfinch have the ability to adapt its literature and other elements of our communications channels to cater for customers with certain vulnerabilities.

Costs

Total costs for manufacturing the product per unit sold	The total cost of the Blackfinch Asset Management Multi-Asset Portfolios, including salaries, operational functions, data vendors and support functions is currently circa £348,000. This is against annual fees of around £590,000. Therefore, for each £1 sold in terms of overall income, the cost is 59.0 pence.
Identify the market rate for the product	The market rate or the product can be broken down in to assessing the annual management charges of the investment manager, the weighted average cost of the underlying investment funds within the portfolios and the equivalent costs for multi-asset funds which would also include the legal and administrative costs of operating the fund structures. At present the market rate Annual Management Charges applied to Managed Portfolio Services ranges from c.0.15% to c.0.40% Underlying fund charges for blended solutions (employing both active and passive funds within the portfolios) 0.40% to 0.80%. This places our proposition in the mid to upper tiers of cost compared to the broad market rate.
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?*	No. The cost is toward the upper end of the market scale, but not above it. The service proposition, investor support, due diligence employed in constructing the portfolios provides significant benefits to the end investor.

Pricing

Is differential pricing used by the firm and if so explain the objective and justifiable reasons for doing so?	All BFAM business comes via professional intermediaries. In the event an adviser believes our investment proposition is suitable for a large portion of their client base, then Blackfinch do offer the option to pay an annual management fee which is less than the advertised rate. This lower fee would therefore apply to all clients of that particular advice firm on an ongoing basis. The rationale for offering this is the benefits that such scale brings to Blackfinch in terms of efficiencies meaning we can charge an overall lower rate whilst remaining commercially viable.
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.	As above, the different 'groups' would be classed as adviser businesses who have identified a significant number of clients who suit our investment proposition. We believe this is fair to charge an overall lower Annual Management Charge given the efficiencies of scale to Blackfinch brought about by one firm placing many client investments with us.
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, only in the events outlined above would investors get access to the same product at a lower fee than that publicly stated.

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, in the event where we consider the financial adviser to be the primary distributor of the product (as opposed to the investment platform) then they do have access to all information both at the outset of the relationship and then at least on a monthly basis thereafter.
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, and to assist with the avoidance of doubt, target market assessments are provided to the financial adviser to this point. To aid the consumer in the understanding of the product characteristics we have developed a proprietary risk and returns document to highlight the typical characteristics of each portfolio. In particular this focusses on likely levels of returns, volatilities and drawdowns over various market events. It is made clear to the distributor at the outset, and on an ongoing basis, the level of charges that apply to each portfolio. Our Terms of Business clearly state the responsibilities of the distributor such as obtaining the required information from the end investor to ensure suitability of the product overall.
Are there any renumeration arrangements with the distributor which may impact the value customers receive?	No.
Are proposed distribution arrangements consistent with the value of the product?	Yes, the distribution arrangement is highly transparent and simple.

Explain how the distribution arrangements support the value of the product

The product is distributed via authorised financial planners and their chosen, regulated investment platforms. Financial planners support the value by providing independent, holistic advice to the end consumer that includes discussing the risks of the product and the intended benefits of the product from a return perspective as well as how these can help to achieve the clients' goals. The third-party investment platform supports the value of the product by providing a regulated operational system to facilitate the trading and custody of the assets. This also includes matters like accepting regular contributions or facilitating withdrawals and/or transfers as required as well as providing tax wrappers to hold the product within such as SIPPs and ISAs.

Findings

Does the product in its current form offer fair value?	Yes.
Explain why the product provides value for the target market	The product provides the consumer with clear, relatable investment objectives where performance is easily measured and judged net of fees within Blackfinch's control.
Explain why the product provides value for the vulnerable customers in the target market	The benefits of the above also apply to vulnerable customers. In addition, Blackfinch are committed to using accessible language to enable all consumers to understand the factors impacting the investment as well as any investment activity we have undertaken on behalf of the consumer.
If the product is sold as part of a package, does the overall package offer fair value?	N/A the product in itself is a collective investment vehicle/offering. Other elements relating to the product such as the investment platform will be selected via the financial adviser.
Are there any adverse findings in this assessment?	None.
Set out mitigating actions to occur prior to distribution or remedial action to prevent foreseeable harms to current customers	There are no mitigating actions needed.

Consumer Duty

Consumer Support Review

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 support that may be perceived as a consumer harm.*	No.
Following mitigating action, is the support service still suitable?	N/A

Consumer Support

Has the support service been designed to support retail customers such that it meets the needs of retail customers, ***including those with characteristics of vulnerability?***

Yes, customers have access to support from a Blackfinch BDM and/ or Blackfinch's central Client Excellence function. A retail customer can access support via telephone, e-mail, post or through a F2F BDM meeting with their financial adviser.

Metrics are tracked monthly to ensure an appropriate level of service is offered to customers, this includes tracking:

- Av number of e-mails to address a query
- Number of calls handled
- Number of e-mails handled
- Number of complaints and resolution time

Vulnerable customers can access additional support where a customer has an impairment or change of circumstances e.g. large font statements/correspondence, BDM support at client meetings where a customer's financial circumstances may have changed, multiple channels of communication are available to best suit a customer's personal needs.

Staff training is carried out regularly on a company-wide basis to ensure that all Blackfinch Employees can effectively identify vulnerable customers.

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

Customer onboarding and investment is done on an Advice only basis via an Adviser for 97% of current business. This allows investors to fully understand the features and associated risks for any selected products they are investing in via their adviser.

At point-of-sale Blackfinch asks that the investor confirms they have read and understood the relevant product Brochure, Terms and Conditions and declaration and undertaking. These documents outline in writing the risks associated with their chosen investment and any exit constraints due to market liquidity.

The investor will be required to wet ink or digitally sign our Application Form and return it to us via e-mail, post or online form. This enables an appropriate friction point for customers to read and ensure the investment is appropriate for their needs and risk appetite.

As the Blackfinch Ventures EIS is an illiquid and high-risk product, a cool-down period is offered. Blackfinch will not invest the funds for a minimum of 14 days upon receipt of a completed application form. However, an investor can choose to waive this cool-down period if required. Currently, a cool-down period isn't available for other investments, but due to their liquidity and possible buyback options, client monies can be accessed without undue friction.

Withdrawals can be facilitated on request. Investors must complete a withdrawal form to request this. Upon receipt of the withdrawal form, Blackfinch will review the form and timescales will be confirmed back to the investor and their adviser. Should the investor have the potential for tax relief loss, this is highlighted to them to ensure that they fully understand the consequences of withdrawing their funds.

For non-advised customers, a categorisation form must be completed before a full application can be submitted and accepted by Blackfinch. The categorisation form enables Blackfinch to assess the investor's status and ensure they are suitable for the relevant product. Once the categorisation form has been through the relevant checks and

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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

A Client is able to raise a query or complaint via telephone, e-mail or letter.

- Complaints times and key reasons are tracked to ensure complaints are managed in a timely manner and any recurring themes are reviewed
- Queries are tracked on Hubspot for e-mails – First response within 3 hours and average number of e-mails to resolve an enquiry are metrics that are tracked monthly
- Call handling target is that all calls are picked up within 3 rings, these calls are logged on Salesforce

Amendments or switches are managed via a customer's Adviser to ensure the change is suitable for their needs. Once suitability has been confirmed by the adviser, a request is usually sent over in writing to either the relevant BDM or the Client Excellence team, these could be anything from a change to the adviser's fees or a change to the client's investment choice i.e. they would like to switch from a growth to income model. Upon receiving the request, any documents required will be provided to the adviser and investor, any potential fee changes will also be highlighted. Metrics for E2E fulfillment of Amendments and Switches isn't tracked, this is proposed as an action to ensure we're optimally complying with Consumer Duty and ensuring we deliver great customer service.

Regular reporting, including tax statements allows customers to view the return on their investments (benefit) to ensure this is aligned with expectations and projections. On our CMS, IHT, EIS and VCT products, due to the higher risk nature of the products, Blackfinch share the risk and do not take performance fees until the forecast return is achieved.

For EIS and VCT, income tax certs and EIS3 tax certs are issued post investment to enable customers to claim the tax relief available on these products.

Tax statements are provided on an annual basis to assist investors with their tax returns. These can also be provided on request.

If an investor chooses to close or transfer their account, this can be done via their Advisers or through a direct instruction to Blackfinch. The date of any request to close an investment is logged with a reason code to track the number of investments closed.

Metrics that track E2E closure time for an investment isn't currently tracked, this is proposed as an action to ensure we're optimally complying with Consumer Duty and ensuring we deliver great customer service.

Consumer Duty

Consumer Understanding Review

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.* ☑ Yes ☐ No
If yes: explain the risks now posed to customers	Adapt IHT Ethical Portfolio – what makes it ethical? We do not have a clear explanation of why this product carries the ethical name, when we have a brand promise to deliver ESG in all that we do.
Detail mitigating action taken [or to be taken]	Rename the portfolio.
Following mitigating action, is the product still suitable?	It will be once we rename the product across all materials

Consumer Understanding

(1) A firm must support retail customer understanding so that its communications:

(a) meet the information needs of retail customers;
(b) are likely to be understood by retail customers; and FCA
(c) equip retail customers to make decisions that are effective, timely and properly informed.

(2) A firm must communicate information to retail customers in a way which is clear, fair and not misleading

Standard Achieved?
Yes.

Comments
All content for retail investors is written in plain English, without use of jargon or complex financial language.

Any offers for products which have a deadline, such as discount rates for VCT applications, contain clear and easy to understand explanations of the deadlines.

All product materials carry disclaimers and ensure equal prominence of both risks and benefits to products.

All of the sales team have been asked whether any advisor has given feedback on our materials not being easy to understand or use.

Looking ahead, we are also investing in external benchmarking for our materials, using retail investors as a key demographic, to strengthen our marketing.

In considering the methods of communicating with retail customers, a firm must satisfy itself that the communication channel:

(1) enables the communication of relevant information which retail customers are likely to need in a way that supports effective decision making; and

(2) provides an appropriate opportunity for retail customers to review the information and, where relevant, assess their options.

Standard Achieved?
No.

Comments
Equal prominence is given to both risks and benefits of products, in the same product marketing literature, so that investors do not need multiple items to assess an opportunity and make a decision.

All of our product literature is available to download from our public website, with no requirement to login.

High risk products – IHT and EIS – carry additional risk warnings.

Ethical Portfolio name has been raised several times as it's not explained in any of our literature why it's Ethical. This is a product design issue, but impacts marketing assets.

In supporting the understanding of retail customers through its communications, a firm should:

(1) explain or present information in a logical manner;

(2) use plain and intelligible language and, where use of jargon or technical terms is unavoidable, explain the meaning of any jargon or technical terms as simply as possible;

(3) make key information prominent and easy to identify, including by means of headings and layout, display and font attributes of text, and by use of design devices such as tables, bullet points, graphs, graphics, audio-visuals and interactive media;

(4) avoid unnecessary disclaimers; and

(5) provide relevant information with an appropriate level of detail, to avoid providing too much information such that it may prevent retail customers from making effective decisions.

Standard Achieved?

Yes.

Comments

All of our marketing is prepared in plain English, with no use of technical language or jargon. Where financial language is necessary, we provide plain English explanations of what the language means.

We use large fonts to create clear headings that signpost the information an investor can expect to see in any section of our marketing. This also includes different colours to increase the prominence of the signposting.

We use tables to summarize key product information and graphics such as pie charts to make lengthy tables easier to understand.

We provide relevant information up front and do not include overly long or unnecessarily detailed information.

We provide some updates in webinar format, as well as written format, to appeal to multiple styles of learning (aimed at advisers but nothing to stop retail investors joining). The sales team have also been provided with presentation slides on our products, so can provide supporting training to advisers to help improve product knowledge if required.

Looking forward, we are going to invest in further use of audio visuals and motion graphics/ animations to help make financial products even easier to understand.

In supporting the understanding of retail customers, the firm must tailor communications provided to retail customers, taking into account:

(1) the characteristics of retail customers, including any characteristics of vulnerability;

(2) the complexity of the product;

(3) the communication channel(s) used; and

(4) the role of the firm, including whether the firm is providing regulated advice or information only.

Standard Achieved?

Yes.

Comments

All of our literature is designed with retail investors in mind.

We provide application forms in print friendly formats and also provide online applications for advised investments into VCT, with more products coming soon.

We can make literature available in large print format if required

The majority of business comes via the advised route (97%) so products explained by Advisers, with non-advised only accepted from High Net Worth or Sophisticated investors.

Testing

(1) Where appropriate, a firm must:

(a) test communications before communicating them to retail customers; and
(b) (as set out in PRIN 2A.9) regularly monitor the impact of the communications once they have been communicated, to identify whether they are supporting good outcomes for retail customers.

(2) Where a firm has identified any issues in its communications through PRIN 2A.5.10R(1), it must:

(a) investigate the issue;
(b) correct any deficiencies through:
(i) adapting its communications; and
(ii) (where appropriate) adapting its products or processes, for example its sales processes, if it is aware or ought to reasonably be aware that adapting its communications would not be sufficient in isolation to support good outcomes for retail customers; and
(c) (where appropriate) follow the requirements in relation to remedies and other action in PRIN 2A.2.5R and PRIN 2A.10

Standard Achieved?

Yes.

Comments

All client-facing BDMs have been asked for direct feedback from advisers on any marketing that has been considered hard to use, or has required further explanation.

Additionally we have researched non-sophisticated investors who have no prior experience of our products, asking them to locate key information in order to assess how clearly we communicate. We have also asked for feedback on our designs, including the opportunity for open feedback on how we could improve our materials.

With regard to the firm's role, it would be more appropriate for the firm to:
(1) test communications if the firm is or ought to reasonably be responsible for:

(a) the production of those communications; or
(b) adapting those communications after testing; and
(2) monitor the impact of communications where the firm has direct interactions with retail customers, such as through the provision of customer services (whether outsourced in whole or in part).

Standard Achieved?

Yes.

Comments

All client-facing BDMs have been asked for direct feedback from advisers on any marketing that has been considered hard to use, or has required further explanation.

Additionally we have researched non-sophisticated investors who have no prior experience of our products, asking them to locate key information in order to assess how clearly we communicate. We have also asked for feedback on our designs, including the opportunity for open feedback on how we could improve our materials.

In determining whether testing of a communication is appropriate, a firm should consider factors such as: (1) the purpose of the communication and, in particular, if it is designed to prompt or inform a decision, and the relative importance of that decision;

(2) the context of the communication, its timing, and its frequency (for example, it is likely to be more appropriate to test communications that could impact many retail customers);

(3) the information needs of retail customers;

(4) the characteristics of vulnerability of retail customers;

(5) whether the scope for harm to retail customers is likely to be significant, including if the information being conveyed were misunderstood or overlooked by retail customers; and

(6) whether, to support good outcomes for retail customers, it is more important to communicate information urgently, rather than carrying out testing beforehand.

Standard Achieved?

Yes.

Comments

All client-facing BDMs have been asked for direct feedback from advisers on any marketing that has been considered hard to use, or has required further explanation.

Additionally we have researched non-sophisticated investors who have no prior experience of our products, asking them to locate key information in order to assess how clearly we communicate. We have also asked for feedback on our designs, including the opportunity for open feedback on how we could improve our materials.

(1) A firm should adapt its communications in accordance with PRIN 2A.5.10R (2)(b)(i) to support retail customer understanding if it identifies that:

(a) there are areas of common misunderstanding among retail customers; or (b) retail customers are not experiencing good outcomes, including particular groups of retail customers such as those with characteristics of vulnerability.

(2) For the purposes of PRIN 2A.5.13G(1)(a), if there is a notably different response by retail customers than was reasonably anticipated by the firm or ought to have been reasonably anticipated, including a notably lower response rate, following a communication prompting retail customers to take action, then this would suggest that the communication has not been understood

Standard Achieved?

Yes.

Comments

All client-facing BDMs have been asked for direct feedback from advisers on any marketing that has been considered hard to use, or has required further explanation.

Additionally we have researched non-sophisticated investors who have no prior experience of our products, asking them to locate key information in order to assess how clearly we communicate. We have also asked for feedback on our designs, including the opportunity for open feedback on how we could improve our materials.