BLACKFINCH
INVESTMENTS

# Consumer Duty

# Product & Services Review

*Blackfinch Thrive Corporate Management Service*

# Product Details

*Description of the product*

The objective of this service is to enable business owners to utilise surplus cash within their company whilst staying in control of their capital. This in turn can help shareholders to maintain or reinstate Business Relief ('BR') which can help mitigate inheritance tax liabilities for the company's shareholders. The service offers company shareholders the opportunity to directly lend whilst providing competitive returns of 4%–6% per year (net of all fees) with no upper limit. The Thrive Corporate Management Service deploys surplus cash in a client's company into existing loans within Lyell & Henslow which can help towards the availability of Business Asset Disposal Relief (BADR) for qualifying shareholders. This allows qualifying shareholders to potentially reduce Capital Gains Tax ('CGT') on the sale of the shares or the liquidation of the company.

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*Describe the key features and benefits of the product*

**Strong Risk-Adjusted Returns**

The service targets competitive discrete returns of 4%–6% per annum (net of all fees). During periods of low interest rates and high inflation the service could help a business earn more from surplus cash. This is by potentially exceeding returns offered on cash accounts.

**Ease of Access for Loan Exits**

If a corporate client wishes to exit loans, we will access our network of other lenders and attempt to sell their holdings in loans on their behalf. As an indication rather than guarantee on timeframes, in the past we have facilitated liquidity within two to four weeks.

**Structured Process**

After we receive a corporate client's application pack we start work on their business plan, consulting with them to ensure it fits with their expectations. The establishment process typically takes two to four weeks. After this a business accesses its first loans. We revisit each corporate client's plan with them on each loan expiry.

**Strong Security**

Underlying assets provide strong security to underpin company capital. The assets are transparently valued and security is via a legal charge. We continue to monitor the value of the assets compared with each corporate client's loan position. This ensures that their businesses always benefit from strong security.

**Flexibility**

We know that a business will continue to change and grow. If and when a corporate client has additional surplus cash, as part of the service we can accept further incremental amounts. This is subject to a minimum amount of £10,000.

**Tax Benefits**

Using the service can help shareholders to maintain or reinstate certain tax benefits. These include Business Relief (BR) for Inheritance Tax (IHT) relief and Business Asset Disposal Relief (BADR) for Capital Gains Tax (CGT) relief.

**Business Relief**

If a company holds excess cash, it can lead to HMRC restricting BR available to shareholders on death. This can result in the costly 40% Inheritance (IHT) charge. Through the Thrive CMS, corporate clients can put surplus cash in their business to use through lending activities that should meet the qualifying criteria for BR. This can then enable IHT mitigation on death.

**Business Asset Disposal Relief**

If a corporate client sells their shares or liquidates their company, they will generally need to pay CGT on the net sales proceeds. By using BADR, the amount of CGT payable can reduce to 10%.

**Bespoke Service**

We understand that each company's structure and priorities differ. So, we work extensively with corporate clients to deliver tailored solutions. These are drawn from a bespoke business plan and fits specific company needs.

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*Describe the limitations of the product*

The service can only re-instate or maintain tax benefits, it cannot be used as the sole claim to any tax benefits. Any Businesses must already be BR-Qualifying.

The product only focuses on two areas, asset-backed and property development lending, so could be viewed as slightly lacking diversity.

The service is not regulated by the Financial Conduct Authority, so corporate clients will not receive the relevant regulatory protection when deploying surplus funds in the service.

This is a lending service and therefore the liquidity of the service is dependent on funds being available to 'buy' the corporate clients out of their loans, therefore the service is not as readily realisable as other equities.

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# 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].*

- Corporate clients who want access to & control over their money.
- Corporate clients targeting strong returns of 4-6% .
- Businesses with excess/surplus cash where trading status could be in jeopardy.
- Any business looking for a wider range of opportunities.
- Family investment firms.
- Businesses that might not qualify for Business Relief (BR) or Business Asset Disposal Relief (BADR), due to the amount of surplus cash they hold.
- Businesses that have ceased trading.
- Corporate clients wanting a faster, more cost efficient and simpler process to the traditional lending methods.

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
- Key Person Risk
- Counterparty Risk
- Country and Currency Risk
- Natural Events Risk
- Conflicts of Interest Risk
- Performance Risk

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*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. Loan to Values (LTVs) are expected to be no higher than 75%, which we feel provides some room for any slippage in property prices.

**Market Risk and Competition Risk**

The Service will invest in specific sectors and under specific mandates, and all activities accessed require formal approval from the Investment Committee. New activities including individual development loans 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, in 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 corporate clients 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 inflows.

**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.

**Country and Currency Risk**

As all assets are held in the UK, 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.

**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.

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*Identify the risks posed to the target market by the Product*

No representation is or can be made as to the future performance of the Thrive CMS, or that it will receive the level of returns. The assumptions are assumptions only and these returns may not be realised. Corporate Clients' capital is at risk and the return is not guaranteed.

The value of a corporate client's contribution and the returns they receive are dependent on the performance of the loans in which they participate and the resulting income they earn.

Any changes to the taxation environment or HMRC practice may affect returns. Accordingly, corporate clients will have their own tax position to consider and must take their own independent professional advice in this matter. Corporate clients may be liable to make tax payments on any amounts they withdraw.

Past performance doesn't imply that future trends will follow the same or a similar pattern. Forecasts made in the brochure may not be achieved. There is a risk that clients will not get back the full amount contributed.

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| | Although Blackfinch Investments Limited is authorised and regulated by the Financial Conduct Authority (FCA), the Thrive CMS is not a collective investment scheme and as such, is unregulated. Corporate clients won't benefit from regulatory protection under the UK's financial services regulatory regime including those protections that would apply to a collective investment scheme.<br><br>We will lend to companies on a corporate client's behalf that we reasonably believe qualify for BR. However, we can't give any commitment that each will remain BR-qualifying at all times in the future. The relief is assessed by HMRC, on a case-by-case basis, at the time of death of the loan participant, as part of the probate process. Therefore, it cannot be guaranteed. |
| *Explain how these risks are mitigated* | Blackfinch will only lend to companies that we expect will qualify for BR and we will always obtain professional opinion from our third-party tax advisers.<br><br>All loans are secured on a first charge basis, which potentially puts Blackfinch and our corporate clients at the front of the queue should the companies we lend to become insolvent.<br><br>We have obtained an opinion from a third-party tax expert and they have confirmed their belief is that using this service should assist with the relevant tax reliefs (BR & BADR). |
| *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 decisions. There could be possible barriers that inhibit them from fully understanding the risk or consequences of lending via this service. |
| *Explain how these risks are mitigated* | We have a Vulnerable Customer policy in place and all staff are trained on how to identify and deal with vulnerable customers. |

# Testing

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| *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.<br>We have conducted a review on the fairness of the fees charged to corporate clients, 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 |

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| *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 which provide details on the loans accessed by a corporate client and a valuation on their holdings. |
| *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:*<br><br>*- Cease distribution*<br>*- Mitigate failures*<br>*- Inform distribution chain* | The product is meeting the needs of the target market. |

# Consumer Support

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| *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 corporate customers, who have taken appropriate financial advice in mind. The product is designed to be of benefit to Corporate clients who want access to & control over their money. Corporate clients targeting strong returns of 4-6%. Businesses with excess cash that could be deemed an excepted asset. Businesses with excess/surplus cash where trading status could be in jeopardy. Any business looking for a wider range of opportunities. Family investment firms. Businesses that might not qualify for Business Relief (BR) or Business Asset Disposal Relief (BADR), due to the amount of surplus cash they hold. Businesses that have ceased trading. Corporate clients wanting a faster, more cost efficient and simpler process to the traditional lending. |
| *Is there evidence demonstrating that retail customers can use the product as reasonably anticipated?* | We are yet to be made aware of any unsuccessful Business Relief or Business Asset Disposal Relief. |
| *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 corporate client's adviser will undertake suitability tests on the corporate client before any lending is undertaken. All our product literature contains warnings that advise the corporate client of the potential risks of the service. |

*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 Thrive CMS product are able to contact Blackfinch and make general enquiries as well as specific queries to their investment.

We do not charge any additional administration costs for the points given.

# Findings

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| *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 corporate 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 corporate clients. |
| *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 corporate clients have been exposed to the target returns of the service and we are not aware of any HMRC refusals. |
| *Have customers been able to use the full benefits of the product?* | Yes- there is evidence that corporate clients have been exposed to the target returns of the service and we are not aware of any HMRC refusals. |
| *Is the product design avoiding foreseeable harm as set out in PRIN 2A.2.10 G?* | Yes |

# Consumer Duty

# Price & Value Assessment

*Blackfinch Thrive Corporate Management Service*

# Target Market

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| *Identify the target market* | Corporate Clients with a large amount of surplus cash in their business that want to use that cash to earn returns and continue benefiting from tax reliefs. |
| *Detail the characteristics of the target market* | • Corporate clients who want access to & control over their money.<br>• Corporate clients targeting strong returns of 4-6% Businesses with excess cash that could be deemed an excepted asset.<br>• Businesses with excess/surplus cash where trading status could be in jeopardy.<br>• Any business looking for a wider range of opportunities.<br>• Family investment firms.<br>• Businesses that might not qualify for Business Relief (BR) or Business Asset Disposal Relief (BADR), due to the amount of surplus cash they hold.<br>• Businesses that have ceased trading.<br>• Corporate clients wanting a faster, more cost efficient and simpler process to the traditional lending methods. |
| *Explain why the target market has been selected* | The main objective of the product is to enable corporate clients/businesses to generate a return on their surplus cash. This could also enable them to re-instate or maintain any tax benefits that might be applicable. |

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| *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.<br><br>• Elderly clients<br>• Dealing with clients who have recently suffered bereavement<br>• Clients who are deaf or hard of hearing<br>• Language Barriers<br>• Mental health issues<br>• Clients whose welfare could be put at risk (financial, metal or physical) |
| *Identify the drivers of vulnerability in the target market* | • Health<br>• Life Events<br>• Resilience<br>• 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

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| *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 corporate clients should be able to generate a return on their surplus cash, whilst possibly re-instating or maintaining tax benefits. |
| *Do any aspects/limitations of the product 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?* | Due to the nature of the service, there are no performance figures published or any comparisons made. |
| *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* | • Initial Fee - 3%<br>• Annual Management charge (AMC) - 0.5% + VAT<br>• Company Servicing fee) - 1.5% + VAT<br>• Over a 10-year holding period the total fees payable equate to 23% of invested capital. (This has been calculated by MI Capital Research Ltd). |

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| *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.<br>The product targets returns for long term inflation, whilst potentially allowing the business to maintain or re-instate certain tax benefits. |
| *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 allows corporate clients to utilise their surplus cash to generate returns whilst potentially allowing their business to maintain or re-instate certain tax benefits. |
| *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

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| *Total costs for manufacturing the product per unit sold* | The total costs figure over the last 5 years is 5.63%. |
| *Identify the market rate for the product* | Over a 10- year holding period, the industry average for fees payable is 22.5%. (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 corporate clients will experience fees that are in line with the current industry average. Our AMC will only be payable if the target return for corporate clients has been achieved. |

# Pricing

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| *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, all literature that would be needed to make an informed decision is either available in our CMS 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 (e.g., BDMs).

*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.

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

# Findings

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| *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 corporate clients. |
| *Explain why the product provides value for the target market* | Corporate clients can generate returns of 4%-6% on their surplus cash, which otherwise may not be 'working' or generating a return that is in line with the current rates of inflation. The surplus cash may also run the risk of certain tax benefits being taken away from the business, utilising the surplus cash should enable these to be maintained. 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 way as the target market and should have no barriers inhibiting them from doing so, due to the policies and training within the company. |
| *If the product is sold as part of a package, does the overall package offer fair value?* | N/A |
| *Are there any adverse findings in this assessment?* | No |
| *Set out mitigating actions to occur prior to distribution or remedial action to prevent foreseeable harms to current customers* | N/A |

***IMPORTANT INFORMATION***