

Consumer Duty

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:

N/A

- *Cease distribution*
 - *Mitigate failures*
 - *Inform distribution chain*
-

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 the product 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?

No.

If so, is there an added benefit to the service which means the customer is receiving fair value?

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?

No.

Explain the reasons for the difference [i.e. enhanced customer service]

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 remuneration 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

IMPORTANT INFORMATION

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