BLACKFINCH
INVESTMENTS

Adapt IHT Service

Target Market Assessment

Don’t invest unless you’re prepared to lose all the money you invest. This is a high-risk investment and you are unlikely to be protected if something goes wrong. Take 2 minutes to learn more on page 14

Our target market assessments are designed to ensure that you have all the information available to evaluate whether the product or service is suitable to meet your clients’ needs.

Target Market

Client Type

Retail and professional clients.

Clients' knowledge and experience

- An understanding of the type of product being offered.
- Understand the risks involved in investing in illiquid shares.
- Demonstrate a knowledge of, or received tax advice on, inheritance tax (IHT) and the tax-free threshold of £325,000 (fixed until 2031).
- Be aware of the Residential Nil Rate of £175,000 (fixed until 2031).
- Understand the minimum 2 year qualifying period for Business Relief (BR).
- Be aware that whether a product qualifies for BR cannot be guaranteed and that the decision will be made by HMRC, on a case-by-case basis, at the time of death.
- Understand the £2.5 million BR personal allowance and how it may impact the tax relief that they receive.

Client financial situation and ability to bear losses

- Assets likely to be over the Nil-Rate Band (NRB) of £325,000 (fixed until 2031 and therefore subject to IHT.
- Assets including residence over £500,000 (fixed until 2031) assuming there are direct descendants who will receive the main residence.
- The client will need to ensure that they can bear the total loss if the IHT Service does not perform as intended.
- Investors should have no immediate need to access their investment and be comfortable with committing their capital until death in order to keep the investment qualifying for Business Relief purposes.

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

Willingness to invest their capital until death understanding the risks involved

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.

Clients who should not invest (the 'negative target market')

- Those who are happy with the traditional methods of IHT mitigation.
- Those happy to give up control of their capital.
- Those who have assets amounting to less than £325,000 (£500,000 if they have a property to pass down to a direct descendant, limits fixed until 2031) and therefore IHT mitigation is not required.
- Those wanting to gift all their assets to a charity/political party.
- Those who are not comfortable with the risks involved.

Risks

State any risks relevant to the target market

- 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 the investor and they depend on personal circumstances).
- Companies which are invested in may alter and so no longer qualify for BR legislations.
- 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.
- As of April 6th 2026, Business Relief rules have changed. See the Guide to Business Relief for more information.
- Investment must be held for at least two years and still held at time of death 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.

What systems and controls are in place to manage the risks posed by the financial instrument design?

Blackfinch will only invest in companies that we expect will qualify for BR and we will always obtain professional opinions 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 Service client is exposed to four underlying trades through our investee company Buckley Trading Group Ltd. Whilst this gives a limited diversification in terms of number of companies invested in, it should be noted that the company diversifies their underlying exposure to many deals within each trading activity. For example, the renewable energy division comprises over 70 different energy assets.

How is the risk/reward profile consistent with the target market?

RISK

- two years, could be seen as a long time for investments to be held – clients understand that this is the minimum set by HMRC in order to qualify for BR.

- Blackfinch looks to invest in companies that they believe will qualify for Business Relief however this is not guaranteed as the relief is assessed by HMRC on a case-by-case.

- The value of an investment can go down as well as up, the product is aimed at those who are willing to take this risk in order to receive IHT relief.

- 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, this is due to investments being made in small unquoted companies which can be illiquid.

REWARD

- Investors using the product will be those who wish to benefit from IHT relief and preserve their wealth.

- Potential growth (3% - 5% per annum when averaged over a 5 year rolling period, net of charges) of the investment qualifying for up to 100% Business Relief.

- Investments are up to 100% IHT exempt after the 2-year holding period, as long as they are still held at the time of death.

- Focus on giving the client as much control and power over their investment as possible – empowering them as it clearly lists the investment process, the company in which the investments will be made and the percentages in which these investments are made, although this is dynamic and subject to change. Investing in the Adapt IHT Service can be quicker than other more traditional methods of IHT planning such as gifts or trusts – once qualifying shares have been held for two years their value will be exempt from IHT.

  Please refer to the Guide to Business Relief for further information.

Distribution

Is the intended distribution strategy consistent with the identified target market?

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.

Where an application is on an execution only basis, we shall assess the investor's knowledge and experience to ensure that the service is appropriate, but the investor shall be responsible for their own investment decisions and we shall not assess the suitability of investments for them in light of their personal circumstances. We reserve the right to reject applications at our sole discretion.

Where an application is made on a non-advised basis, we shall assess the suitability of investment in the Adapt IHT Service for the investor in light of their investment knowledge, investment objectives and risk tolerance.

Please refer to the Terms and Conditions for full details.

Product Design

If collaboration with another entity has taken place during creation, development, issue and/or design then please confirm that their responsibilities have been outlined in a mutual agreement.

Not applicable.

Please confirm how the design of the financial instrument is driven by features that benefit the investor and not by a business model which relies on poor investor outcomes to be profitable?

The fact that Blackfinch offer clients the opportunity to invest across seven underlying trades shows how this product is tailored to the client's needs just as much as the firms, clients are exposed to areas that they may not be able to access by themselves, and as such can benefit from the BR Status that these areas can bring. The shift to dynamic weighting from a fixed allocation is a big improvement for our clients, it allows Blackfinch to adapt to the investment landscape and trends a lot more efficiently, this should mean that we are able to maximise client outcomes by shifting the weighting towards trades that are performing the strongest, when required.

Blackfinch do not work alone in their investments, they work alongside specialist industry experts to ensure clients receive a fair and transparent return.

Are the costs and charges compatible with the needs, objectives and characteristics of 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 Service. Furthermore, investors should also see their investment grow each year, 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.

Do the charges undermine the financial instrument's return expectations, such as where the costs or charges equal, exceed or remove almost all the expected tax advantages linked to a financial instrument?

This is unlikely as the initial fee is 2% of the amount invested after the deduction of initial advisor fees.

This is a one-off payment to cover the costs of establishing the portfolio. In terms of ongoing fees, we no longer charge an annual management charge; the advisor ongoing fee is negotiated between clients and their IFA; and the company servicing fees, which covers all taxation, accountancy, legal and other professional fees, is 1.5% + VAT (charged to the investee companies).

Is charging structure of the financial instrument transparent for the target market, such as that it does not disguise charges or is too complex to understand?

Fees are clearly explained in the product brochure, application form, summary sheets and due diligence document.

Product Testing

Please confirm that a scenario analysis has been carried out and considers the below factors.

1. The risks of poor outcomes for end clients posed by the financial instrument; and

There is a risk that the NAV (Net Asset Value) could fall in value if any of the contracts were to default and therefore the value of the investors' investments could perform badly and provide a return lower than the initial investment.

2. In which circumstances those poor outcomes may occur.

The main risk for investors in the Adapt IHT Service that we see are most likely in the short to medium term still remains theuncertainty of the global economy due to geopolitical conditions.

This should not affect the values of any investments which an investor holds in the Blackfinch IHT Service, in particular the NAV for our IHT Service should not change and we would continue to manage the trading companies as normal.

It would take a fall of circa 40% in the property market before capital losses would likely be sustained in the lending book. What is more likely, as was seen after the EU referendum vote, is that housing developers may pause or delay new projects.

However, we have access to a wide range of property developers and should still be able to match investment inflows to underlying deals as we are such a small part of the market. The rise in interest rates, may also provide us with the opportunity to lend at higher rates to borrowers, and in turn on more favourable terms for ourselves.

As shares held within the IHT Service are unquoted, they are not linked to the London Stock Exchange and are not subject to market sell-offs.

There is also Business Relief risk, and whilst the portfolios are constructed to target the best outcome in terms of mitigating inheritance tax, Business Relief is not guaranteed and granted at HMRC's discretion upon exit.

In conducting the scenario analysis manufacturers must assess their financial instruments under negative conditions covering what would happen if, for example:

1. **The market environment deteriorated.**

If the property market were to deteriorate then there would be a risk if the borrowers were unable to repay and we would then have to recoup capital and interest by way of the first charge guarantee held on the assets. However, it would take a fall of circa 40% in the property market before capital losses would likely be sustained in the lending book and therefore effect the NAV.

Within renewable energy most of the returns are long-term based 20-year projects with smooth inflation linked revenue. A rise in commodity prices is beneficial in this case as its likely electricity prices will go up and RPI (Retail Price Index) will rise, both of which benefit the service. A fall in commodity prices is offset by the floor prices provided in the FIT (Feed-in Tariffs) export tariffs. The ROC (Renewables Obligation Certificate) projects are almost all in standalone SPVs (Special Purpose Vehicles), meaning that one weak project will not affect another.

2. **The manufacturer or a third party involved in manufacturing and/or the functioning of the financial instrument experiences financial difficulties or other counter-party risk materialises.**

All property development lending is secured on a first charge basis against project assets (usually land and buildings). In addition, personal guarantees are provided by developers, enabling personal assets to be called upon in the event of recourse. Management teams can also parachute in other experienced developers to complete the project if required. Furthermore, our investment management team has experienced developers as full-time staff in the firm that can step in if required.

The renewable energy sector in the UK has seen rapid growth over recent years as the government has incentivised investment in low-carbon energy generation. Our renewable energy sites are all located in the UK. Historically these sites have been underpinned by a 20-year government subsidy which is inflation linked. As subsidies have now ceased for new onshore wind and ground mount solar developments, our energy company is investing in subsidy-free developments, as well as the acquisition of subsidised operational projects. For subsidy-free projects, we anticipate the use of long-term corporate Power Purchase Agreements (PPAs) with suitably creditworthy counterparties, which will act as a 'pseudo' subsidy and therefore retain the strong emphasis on capital preservation.

3. The financial instrument fails to become commercially viable.

In the event that the Adapt IHT Service becomes commercially unviable, we would expect to continue to manage existing clients' portfolios on an ongoing basis until eventual maturity of each client's holding.

4. Demand for the financial instrument is much higher than anticipated, putting a strain on the firm's resources and/or on the market of the underlying financial instrument.

Within the lending business there are enough transactions to cater for an increase in demand, as the traditional banks are not so heavily involved in this area. Blackfinch believes it can build a £400m-£500m property lending book comfortably in the current market without any effect on returns and would indeed benefit from the increased scale.

Conflicts of Interest

Please detail any potential conflicts of interest

The portfolio investee companies may acquire shares in, or assets from, other companies managed by Blackfinch Investments Ltd.

They may also make loans to other entities which are managed by Blackfinch Investments Ltd or in which Blackfinch Investments Ltd has a financial interest.

All loans and transactions will be on an arm's length basis and will be ratified by the non-executive directors of the Blackfinch IHT Service investee company.

Review Date: 04/04/2025

Next Review Date: 03/04/2026

FCA Risks

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the FCA key risks?

1 - You could lose all the money you invest
If the business you invest in fails, you are likely to lose 100% of the money you invested. Most start-up businesses fail.

2 - You are unlikely to be protected if something goes wrong
Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try the FSCS investment protection checker (https://www.fscs.org.uk/check/investment-protection-checker).

Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated firm, FOS may be able to consider it. Learn more about FOS protection (https://www.financial-ombudsman.org.uk/consumers).

3 - You won't get your money back quickly
Even if the business you invest in is successful, it may take several years to get your money back. You are unlikely to be able to sell your investment early.

The most likely way to get your money back is if the business is bought by another business or lists its shares on an exchange such as the London Stock Exchange. These events are not common.

If you are investing in a start-up business, you should not expect to get your money back through dividends. Start-up businesses rarely pay these (https://www.financial-ombudsman.org.uk/consumers).

4 - Don't put all your eggs in one basket
Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

A good rule of thumb is not to invest more than 10% of your money in high-risk investments (https://www.fca.org.uk/investsmart/5-questions-ask-you-invest).

5 - The value of your investment can be reduced
The percentage of the business that you own will decrease if the business issues more shares. This could mean that the value of your investment reduces, depending on how much the business grows. Most start-up businesses issue multiple rounds of shares.

These new shares could have additional rights that your shares don't have, such as the right to receive a fixed dividend, which could further reduce your chances of getting a return on your investment.

If you are interested in learning more about how to protect yourself, visit the FCA's website (https://www.fca.org.uk/investsmart).

IMPORTANT INFORMATION
Blackfinch Investments Limited (Blackfinch) is authorised and regulated by the Financial Conduct Authority (FCA number 153860). Registered address: Meadow Barn, Elkstone Studios, Cheltenham, GL53 9PQ.
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